Chairman Eccles:-

I think this condensed statement by Tierney will be of interest to you.

Jan. 7.

Form F. R. 131

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

CONFIDENTIAL

Office Correspondence

Date February 7, 1938

To Mr. Goldenweiser

From A. B. Hersey

aBH.

Subject: The Federal Home Loan Bank Board's proposals for legislation, January 25, 1938.

The draft of proposed legislation sent by Mr. Daniel Bell to Chairman Eccles for comments, involves five principal elements. These are as follows.

(1) A declaration of findings of fact and of policy of the United States which emphasizes unduly the part played by building and loan associations in mortgage financing and which would place Congress squarely behind the policies of (a) promotion and development of Federal and other associations, (b) increasing the financial resources of the Federal Home Loan Banks, and (c) insuring the share accounts of building and loan associations.

(2) Proposals designed to ensure a market for Federal Home Loan Bank obligations in times of stress. The obligations of the Banks have proved attractive to investors at the present time, as is evidenced by the success of three offerings totalling $78,000,000 in 1937.

These proposals fall into two groups. The first group (see Analysis of Draft Legislation, IA) includes eligibility of the Banks' obligations for Federal Reserve open-market operations, a full guarantee of them by the United States, and further issuance of fully guaranteed HOLC bonds in the future to obtain funds with which to purchase the Banks' debentures. The second group (see IB) consists of milder proposals, placing the Banks' debentures on an equal footing with Federal Intermediate Credit Bank debentures as regards eligibility for 15-day advances to Federal Reserve member banks, and placing them on an equal footing with various other government agency obligations as regards the power of the Secretary of the Treasury to buy and sell them.

(3) <u>Proposals affecting the Federal Savings and Loan Insurance Corporation</u> (see Analysis of Draft Legislation, III). The principal suggestions here are to change the name to "Federal Savings Insurance Corporation", to allow insurance to be paid in cash, and to reduce premium charges from 1/8 to 1/12 of one percent. The first two may be considered as major steps toward placing building and loan associations on a par with banks in the minds of the public, and the last is a favor to insured associations. It would make the premium rate the same as that of the F.D.I.C. Since there is a far smaller amount of uninsured accounts paying premiums in savings and loan associations, relative to the amount of insured accounts, as compared with the banks, this change would leave the Insurance Corporation in a much less favorable position with regard to its contingent liabilities than that of the F.D.I.C. under a 1/12 percent rate.

There are other minor changes in the law proposed, some of which are clearly desirable (see IIIB).

(4) <u>Proposals which give the Federal savings and loan associations new advantages or enlarge their scope of operations</u> (see Analysis of Draft Legislation V). These include (a) a change of name to "Federal Savings Assocations", (b) complete tax-exemption, (c) provisions which would enable the associations to attract funds not only from investors but from national banks and from governmental agencies and non-profit institutions and to

obtain additional long-term funds from the Federal Home Loan Banks, (d) provisions which would permit associations greatly to increase their investments in non-residential mortgages and securities as well as allowing larger loans on residential property. The tax-exemption asked for is no more than that given to national mortgage associations and it is probably desirable to allow associations to invest in large-scale residential projects. On the other hand, the change of name, the attraction of non-savings funds and the expansion of non-residential mortgages and of security investments would tend to make building and loan associations more and more the equivalent of banks.

(5) Amendments to existing law to improve supervision and regulation and to remedy technical defects in the law. These include several very desirable changes. The summary of the proposed legislation supplied by the Federal Home Loan Bank Board states that Section 13, authorizing the Board to obtain reports and to examine and supervise associations, "is probably the most important Section of this bill". Other sections clarify the provisions for administration of insurance, strengthen the requirements for admission to insurance, and facilitate the liquidation of the H.O.L.C. (See Analysis of Draft Legislation, II, IIIB3, IV and VI.)