

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date November 29, 1945

to Chairman Eccles

Subject: Federal Home Loan Bank

From Mr. Wood and Mr. Chase

Legislation

for file

The bill S. 1592, introduced by Senator Wagner for himself and Senators Ellender and Taft, is entitled "General Housing Act of 1945" and is designed "To establish a national housing policy and provide for its execution." It contains a large number of provisions and proposed amendments to existing law, among which are the remains of the proposals which have been incorporated from time to time during the past several years in bills dealing with the Federal Home Loan Bank System. These provisions are contained in Title III of S. 1592.

We have compared these provisions in Title III with the provisions which were the subject of the Board's most recent letters to Congress regarding the Federal Home Loan Bank legislation and, with three exceptions, all of the principal objections which the Board has made with regard to these bills in the past have now been taken into account and the objectionable features eliminated.

The three exceptions are:

(1) Section 301 is similar in effect to S. 180 except that instead of authorizing Federal associations to invest their funds in any obligation insured under the National Housing Act, they would be limited to obligations insured under Title I or Title II of that Act.

The Board objected previously to the provision which would authorize associations to lend on any obligation insured by the Federal Housing Administration under any existing or future provision of the National Housing Act. This, the Board felt, was not consistent with the character of savings and loan associations as local mutual thrift institutions for home financing, since it could put them into large scale projects (possibly including urban redevelopment) in remote localities. The present bill does not include the provision, contained in S. 180, that the Federal Home Loan Bank Administration shall regulate the investment of associations in F.H.A. loans, and makes it possible for Federal savings and loan associations to invest in insured mortgages on large scale rental housing located anywhere in the United States.

This section would also permit Federal associations to make:

(a) any home mortgage loan which is guaranteed under the Servicemen's Readjustment Act on property within fifty miles of the association's home office;

- (b) equity investments up to 15 per cent of assets in rental housing projects within fifty miles of the association's home office if the earnings on the equity are insured under a new Title VII to be added to the National Housing Act. This investment may be made directly, or it may be made by the formation (either alone or in conjunction with other associations, mutual savings banks, or life insurance companies) of a corporation to operate rental housing projects on which the return is insured under the yield insurance plan. The income of corporations so formed would be exempt from Federal income tax.

Section 302 of S. 1592 has the same effect as section 1 of S. 179, in that it is the companion provision authorizing the Home Loan Banks to discount loans which the associations would be able to make under Section 301.

(2) The Board objected to Section 2 of S. 179 authorizing the Federal Home Loan Banks to expand the base on which debentures could be issued so as to include Government bonds and any secured loans, regardless of the type of security, discounted for member institutions. This provision is contained in section 303 of S. 1592.

(3) Section 306 corresponds to section 2 of S. 810 and reduces the premium rate of the Federal Savings and Loan Insurance Corporation from one-eighth to one-twelfth. We understand that you no longer intend to oppose this change.

The other provisions in Title III of S. 1592 which, as stated above, appear not to be open to the objections heretofore raised by the Board, are as follows:

Section 302(b) permits Federal Home Loan Banks to discount mortgages which have maturities as long as twenty-five years, rather than twenty years, so that associations may discount any F.H.A. home-mortgage loan.

Section 304 provides for annual instead of semiannual examinations of members of the Federal Home Loan Bank System, and was not objected to by the Board.

Section 305 corresponds to section 1 of S. 810 and relates to the payment of dividends by the Federal Savings and Loan Insurance Corporation to the Home Owners Loan Corporation. However, instead of providing for the forgiveness of dividends, to which the Board objected, it provides that future dividends shall be at the same rate

To: Chairman Eccles

-3-

as the interest on the bonds of the Home Owners Loan Corporation. Dividends prior to June 30, 1945 are not forgiven, and are not reduced.

Section 305(b) is the same as section 3 of S. 179 except that the reference to the purchase of Federal Home Loan Bank System debentures by the Treasury has been eliminated. This leaves only the authorization to purchase Federal Savings and Loan Insurance Corporation obligations, and this is not objectionable since that Corporation could not, as a matter of policy, be allowed to fail.

This memorandum deals only with the parts of S. 1592 which relate to the Federal Home Loan Bank legislative proposals which were the subject of the Board's previous letters. Mr. Wood will prepare, as soon as possible, a memorandum on the other features of S. 1592, which is over 100 pages long.