FEDERAL DEPOSIT INSURANCE CORPORATION

Proposal

Power of F.D.I.C. to issue regulations (except those regarding assessments for insurance) to be transferred to Board of Governors. F.D.I.C. to retain its present powers regarding insurance, collection of assessments, rehabilitation and liquidation of banks and cancellation of insurance and to take over from R.F.C. preferred stock in banks and power to purchase preferred stock in banks, independently of any request or approval by Secretary of Treasury. No bank to be insured except with consent of F.D.I.C.

F.D.I.C. to have power to examine banks applying for insurance and, with consent of Comptroller, to make special examinations of insured banks requiring special attention.

Deposits of insured banks in an amount equal to their balances on deposit with the Federal Reserve banks shall be exempted from assessments for insurance.

Discussion

The primary responsibilities of a banking system are two-fold: (1) to safeguard depositors' funds and (2) to furnish adequate credit facilities for commerce, industry, and agriculture. The F.D.I.C. is concerned with the safeguarding of deposits; but it has no concern with the furnishing of adequate credit facilities. Therefore, there is a danger that, if entrusted with bank examination and supervision, the F.D.I.C. in pursuing its single purpose of safeguarding deposits and thereby reducing its own insurance risk, would tend to restrain the extension of credit in times of financial stress and thereby accentuate the processes of deflation.

The Federal Reserve System is concerned not only with the safeguarding of deposits but also with the duty of furnishing adequate credit facilities. With these two purposes in mind, the Federal Reserve System endeavors to prevent over-expansion of credit during periods of business booms and with making credit plentiful when business is on the decline. It is dedicated to the public purpose of contributing to business stability in so far as possible by the means at its disposal. To take away the System's limited authority over bank examinations and supervision and place it with an agency whose policies are guided by entirely different objectives would tend to reduce the System's power to accomplish its objective. To place those powers elsewhere would increase the conflicting factors which frequently make the System's efforts in this direction ineffectual.

As an insurer, the F.D.I.C. should have full power to decide which banks it will insure and to cancel insurance in the manner now provided by law when a bank becomes a poor risk; but the F.D.I.C. should not

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

have power to control or influence a bank's investment or credit policies as long as the bank is a good insurance risk. It is not customary for an insurance company to be given any authority to control the actions of the insured; and to give it such authority would tend to stifle business enterprise in order to protect the selfish interests of the insurer.

When a bank has become a poor risk, the F.D.I.C. should continue to have the power to make loans and purchase assets in order to facilitate the reorganization or rehabilitation of the bank and thus to protect its own risk. It is not proposed to impair this power of the F.D.I.C. On the contrary, it is proposed to enlarge this power by giving the F.D.I.C. the power which the R.F.C. now has to purchase preferred stock in banks; and it is proposed that the F.D.I.C. shall not be required to obtain the consent of the Secretary of the Treasury, as the R.F.C. is now required to do.

As an incident to its powers to determine which risks it will accept and to reduce its losses by rehabilitating banks which have become poor risks, it is proposed that the F.D.I.C. have power to examine banks applying for insurance and banks already insured which require special attention, when the F.D.I.C. is not satisfied with the reports of examination made available by the Comptroller of the Currency or the State authorities.

After a bank is closed, the F.D.I.C. should have full control over its liquidation, in order that it may salvage the bank's assets for its own protection as the largest single creditor. It is proposed to strengthen the F.D.I.C.'s powers in this respect by freeing it from the supervision of the Comptroller of the Currency.

However, the F.D.I.C. should not be given the power to declare a bank insolvent and appoint a receiver for it, lest its interest as an insurer lead it to close banks for its own protection when the public interest requires that every effort be made to keep them open. Therefore, it is proposed that the power to declare banks insolvent and to appoint conservators for them or to turn them over to the F.D.I.C. for liquidation should be retained in the hands of the Comptroller of the Currency.

Since the insurer should not have any control over the business of the insured, it is proposed that the power to issue regulations governing insured banks be transferred to the Board of Governors, which is already the principal bank regulatory agency, except that the F.D.I.C. would retain the power enjoyed by all mutual insurance companies to issue regulations regarding assessments for insurance.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis