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INVESTIGATION OF EXECUTIVE AGENCIES OF THE GOVERNMENT

REPORT

TO THE

SELECT COMMITTEE TO INVESTIGATE THE EXECUTIVE AGENCIES OF THE GOVERNMENT

PURSUANT TO

SENATE RESOLUTION No. 217 (74TH CONGRESS)
A RESOLUTION CREATING A SELECT COMMITTEE TO INVESTIGATE EXECUTIVE AGENCIES OF THE GOVERNMENT WITH A VIEW TO COORDINATION

No. 1

REPORT ON GOVERNMENT FINANCIAL AGENCIES
PREPARED BY THE BROOKINGS INSTITUTION

Printed for the use of the Select Committee on
Investigation of Executive Agencies of the Government

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SELECT COMMITTEE ON INVESTIGATION OF EXECUTIVE AGENCIES OF THE GOVERNMENT

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INTRODUCTION

The number and diverse character of Federal agencies which are concerned with regulating, supplementing, and assisting private financial operations present a challenging problem of governmental organization. Some of them are of long standing and have permanent functions; others are of recent origin and were conceived to meet temporary needs. With the passing of the emergency which called so many of these agencies into existence, the time is propitious for a careful appraisal of the administrative and liquidation problems which now present themselves and of the possibilities of effecting operating economies through a regrouping or reorganization of existing agencies.

The principal agencies whose work falls within the field of this report are listed below:

- Lending agencies:
  - Farm Credit Administration.
    - Federal land banks.
    - Federal Farm Mortgage Corporation.
    - Intermediate credit banks.
    - Production Credit Corporation.
    - Production credit associations.
    - Banks for cooperatives.
    - Regional agricultural credit corporations (in liquidation).
    - Emergency Crop and Feed Loan Section.
    - Joint-stock land banks (in liquidation).
    - Credit unions.
  - Commodity Credit Corporation.
  - Federal Housing Administration.
  - Federal Home Loan Bank Board.
    - Home-loan banks.
    - Home Owners' Loan Corporation.
    - Federal savings and loan associations.
    - Federal Savings and Loan Insurance Corporation.
  - The Reconstruction Finance Corporation.
  - Federal Emergency Administration of Public Works.
  - Export-Import Bank of Washington.
  - Rural Electrification Administration.
  - Electric Home and Farm Authority.
  - United States Railroad Administration (in liquidation).
  - War Finance Corporation (in liquidation).
- Supervisory agencies:
  - Comptroller of the Currency.
  - Board of Governors of the Federal Reserve System.
    - Federal Reserve banks.
  - Federal Deposit Insurance Corporation.

A number of other agencies exercise some incidental lending authority in connection with other more important functions; among these are:

- Resettlement Administration.
- Federal Prisons, Inc.
- Tennessee Valley Authority.
- Inland Waterways Corporation.
- United States Maritime Commission.

The analysis which follows is divided into three major divisions. Part I gives a brief description of the functions and activities of the various agencies, indicating also their interrelations. Part II is devoted first to an analysis of the problem of liquidation of the governmental loans and investments of the temporary institutions, and second to the possible reorganization of the permanent agencies. Part III deals with the bank supervisory agencies.

The agencies included in this report are of five types: (1) Those which extend credit to farmers; (2) those which extend credit to urban home owners; (3) the Reconstruction Finance Corporation, which has made loans to a wide variety of agencies and institutions; (4) miscellaneous lending agencies whose work has been or shortly is to be discontinued; and (5) those which supervise banking and credit. The Tennessee Valley Authority, the Rural Electrification Administration, the Electric Farm and Home Authority, the Inland Waterways Corporation, and the United States Maritime Commission are discussed in other sections of this report. The Resettlement Administration is considered in this section only with reference to its lending activities; other sections of the report dealing with the larger aspects of its work.

GOVERNMENT FINANCIAL AGENCIES

PART I. DESCRIPTION OF CREDIT-GRANTING AND CREDIT-SUPERVISORY AGENCIES

A. Farm Credit Agencies

The principal agencies which extend credit to farmers are the Farm Credit Administration, the Resettlement Administration, and the Commodity Credit Corporation.

I. SUMMARY OF ACTIVITIES

1. *Farm Credit Administration.*—The Farm Credit Administration is a supervisory agency which exercises supervision over the operations of the agencies discussed below. Its authority is centered in the Governor of the Farm Credit Administration.

(*a*) *Federal land banks.*—These are 12 corporations, the stock of which is held in part by the United States Government, in part by the national farm loan associations, and in small part by individual farmers. The banks make 20- to 30-year first-mortgage loans to farmers in amounts not to exceed 50 percent of the value of the land mortgaged, plus 20 percent of the value of improvements. In general the loans are made through national farm loan associations, composed of farmer borrowers, each of whom is required to purchase stock in the farm loan associations to the extent of 5 percent of the amount which he borrows. The associations in turn purchase stock in the land banks. Each bank is controlled by a board of directors and a general agent of the Farm Credit Administration. General supervision over the 12 banks is exercised by the Land Bank Commissioner. The banks formerly issued their individual bonds, but the present practice is to issue consolidated bonds which are the joint obligation of the 12 banks.

(*b*) *Federal Farm Mortgage Corporation.*—In order to provide for emergency mortgage loans on a more liberal basis than that of the regular land-bank loans, including second-mortgage loans, a supplemental fund of $200,000,000 was made available to the Land Bank Commissioner in the Farm Mortgage Act of 1933. Later the Federal Farm Mortgage Corporation was organized with authority to float bonds guaranteed by the Federal Government to secure funds to make such loans. The land banks exchange their consolidated bonds for Federal Farm Mortgage bonds or sell their consolidated bonds to the Federal Farm Mortgage Corporation for cash. The outstanding Land Bank Commissioner loans were all taken over by the Farm Mortgage Corporation, but the term "Land Bank Commissioner loans" is still used to designate the Farm Mortgage Corporation loans. The directors of the corporation are: The Governor of the Farm Credit Administration, the Secretary of the Treasury, and the Land Bank Commissioner. Its lending operations are carried on by the land banks and the Land Bank Commissioner.

(*c*) *Intermediate credit banks.*—There are 12 intermediate credit banks under the supervision of the Intermediate Credit Commissioner. The stock in these banks is all owned by the United States Government, and the board of directors consists of the same persons as the board of directors of the land bank operating in the same district. The banks rediscount short-term agricultural paper held by banks, production credit associations, banks for cooperatives, and in a few cases make direct loans to cooperative associations. Paper is not eligible for rediscount if its length of term is over 3 years; most of the loans rediscounted run for from 3 to 6 months.

(*d*) *Production credit corporations.*—There are 12 of these corporations. Their stock is owned by the United States Government. The membership of the board of directors is identical with that of the land bank of the district. General supervision is exercised by a production credit corporation commissioner. The Production Credit Corporation makes no loans, but supervises the operations of the production credit associations described below.

(*e*) *Production credit associations.*—These are about 600 in number. They are similar in character to the national farm-loan associations, but operate in the field of short-term credit. Their stock is of two classes: Class A, subscribed by the Production Credit Corporation of the district; and class B, subscribed by borrowers in an amount equal to 5 percent of the loans. About four-fifths of the stock is of class A. The directors are elected by the class B stockholders, subject to the approval of the president of the Production Credit Corporation of the district. The loans, which generally run for from 3 months to 1 year, are practically all rediscounted at the Federal intermediate credit banks. An attempt is being made to consolidate the administrative staffs of these associations with those of the national farm-loan associations. In some cases there is a joint secretary-treasurer, and in others there is joint or adjacent housing.

(*f*) *Banks for cooperatives.*—These consist of 12 district banks and the Central Bank for Cooperatives. They are supervised by the Cooperative Bank Commissioner. Each district bank for cooperatives has the same general agent and board of directors as does the land bank of the district. The capital is nearly all owned by the Federal Government, a small proportion being held by borrowers. The loans are of two classes—facility loans, which run for from 5 to 10 years and are intended to furnish permanent working capital and equipment; and commodity loans, which run for from 3 to 9 months and are intended to finance marketing operations. At the close of 1935 the cooperative banks had outstanding $50,000,000 in loans, of which nearly $20,000,000 were held by the Central Bank. Only two of the district banks—those of Berkeley and Spokane—had as much as $3,000,000 of loans outstanding. These two banks and the Central Bank for Cooperatives accounted for over 60 percent of the total volume of business.

(*g*) *Regional Agricultural Credit Corporation.*—These 12 corporations are now in liquidation, having been supplanted by the Production Credit Corporations and associations described above. Their stock is all owned by the Reconstruction Finance Corporation, which defrays their operating expenses. They are supervised by a divisional director appointed by the Governor of the Farm Credit Administration. The volume of loans outstanding on June 30, 1936, was slightly over $36,000,000; the operating expense for the year ending on that date was $2,240,413.

(*h*) *Emergency Crop and Feed Loan Section.*—At the end of 1935 the Farm Credit Administration had 11 regional offices for the administration of emergency loans. The Director of the Crop and Feed Loan Section is responsible to the Production Credit Commissioner. Loans are made under authority of an act of Congress approved February 20, 1935, which authorized the Farm Credit Administration to make loans for the fallowing of land, the production and harvesting of crops, and the purchase and production of feed for livestock. Loans are restricted to applicants who have the necessary land and equipment for cultivating it, or livestock for which feed is required, and who are unable to obtain credit from commercial sources or from Production Credit Corporations. The loans are secured by a first lien on the crop which is to be produced or the livestock which is to be fed.

Loans of this general type were authorized by acts of Congress in certain years beginning in 1918 to meet local emergencies. The scope of the program was greatly enlarged in 1931; for the years 1931 to 1935, inclusive, the average number of loans per year was about 490,000. The peak was in 1933, when 633,586 loans were made; the number in 1935 was 424,216. The average size of the loans made in 1935 was $135. The balance outstanding on December 31, 1935, was about $107,000,000, representing 62 percent of the loans made in 1935, 42 percent of those made in 1934, and 29 percent of those made before that year. The administrative costs incurred in 1935 for 1935 crop loans amounted to $1,753,657, about three-fourths of which was covered by interest collections on the 1935 loans.

In addition to these loans the Emergency Crop and Feed Loan Section administers drought relief loans, authorized by an act of Congress approved June 19, 1934. Most of these loans have been secured by crop liens. These loans were made on very liberal terms, and collections were slow. On December 31, 1935, there were outstanding $65,000,000 out of a total of $72,000,000 loaned in 1934 and 1935. The administrative costs incurred for the 1934–35 operations were $1,527,832.

No drought loans were made in 1935–36, presumably because the responsibility now falls on the Resettlement Administration. The relation between the Farm Credit Administration and the Resettlement Administration lending programs are discussed below in the section dealing with the latter organization.

(*i*) *Joint-stock land banks.*—The organization of these banks was authorized by the Federal Farm Loan Act of 1916, in order to give privately organized companies the opportunity to handle farm mortgages in competition with the Federal land banks. The Emergency Farm Loan Act of 1933 prohibited their making new loans and provided for their liquidation. They are being closed out under the supervision of the Farm Credit Administration. There were 44 banks in existence at the end of 1935 (excluding three in receivership), with $205,000,000 of bonds outstanding and $265,000,000 book value of assets. The latter figure compares with $442,000,000 in assets at the end of 1933 and $337,000,000 at the end of 1934.

(*j*) *Credit unions.*—These are local cooperative credit organizations, urban as well as rural, which make small loans to their members. The stock is subscribed by members, and the organizations are supervised by a sectional director under the supervision of the Governor of the Farm Credit Administration. No loan may exceed $200, and the length of maturity may not be greater than 2 years. As of June 30, 1936, loans outstanding amounted to $3,952,105. For the year ending on that date the unions reported a profit of $85,000, while the administrative expense of the Farm Credit Administration for supervising them was $113,000.

2. *Resettlement Administration.*—This organization is authorized to make rehabilitation loans to farmers who do not qualify for loans through production credit associations or national farm-loan associations. As of October 30, 1936, 384,731 such loans had been made, in addition to 467,064 outright grants. The total amount of the loans was $96,000,000; that of the grants about $19,000,000. These loans include, in addition to standard rehabilitation loans, emergency feed and crop loans, 1936 emergency drought loans, and a number of miscellaneous types of lending, most of them of a character closely akin to relief. The loans are secured by chattel mortgages on property acquired by the borrower from the proceeds of the loan, by assignments of the proceeds of the sale of products, and in some cases by liens on other assets of the borrower, including real-estate mortgages. Loans are also made to community and cooperative associations to establish, refinance, or extend the scope of cooperative facilities and services, and to individuals to enable them to purchase participating rights in community and cooperative associations. The total amount of loans in these two classes is slightly above $1,000,000; these are included in the total shown above.

As was noted in a previous section, the rehabilitation loans made by the Resettlement Administration are somewhat similar in character to those made by the Emergency Crop and Feed Loan Section of the Farm Credit Administration. Both are made only to farmers who cannot get credit from commercial sources or from production credit associations. However, the Farm Credit Administration now serves a somewhat better class of credit risks, loans of a strictly relief character having been left in large part to the Resettlement Administration since its lending activity started. In theory a Resettlement Administration loan is made only to a farmer who cannot satisfy the credit requirements of the Farm Credit Administration, though it is understood that there has been some competition in certain areas and some refunding of Farm Credit Administration loans into Resettlement Administration loans.

The principal differences are, first, that the Resettlement Administration loans are made for the purchase of equipment and for subsistence, as well as for crop and feeding operations; and, second, that the Resettlement loan is part of a larger program which includes farm and home management advice and direct grants for subsistence. Its representatives work out with the farmer a complete plan of farm operations covering a period of years. Instruction in home economics is furnished to farmers' wives. Because of the more intensive type of service rendered, the administrative costs of the Resettlement Administration are very much higher. One field representative of the Farm Credit Administration administers 12 or 15 times as many loans as does a representative of the Resettlement Administration.

3. *Commodity Credit Corporation.*—This Corporation was created in 1933 for the purpose of extending loans to farmers on the security of staple agricultural products held in storage. Its life as a Government agency terminates on April 1, 1937. It has a capital stock of $100,000,000, of which $3,000,000 is owned by the Treasury and $97,000,000 by the Reconstruction Finance Corporation. Additional funds are obtained by borrowing from the Reconstruction Finance Corporation. The bulk of the Corporation's loans have been made on the security of corn and cotton; a small amount has also been lent on turpentine and rosin. The amounts which the Corporation lends per unit of product are fixed by the President of the United States. In some cases loans are placed with commercial banks under commitments from the Commodity Corporation to take them over on demand. A charge of 1 percent is made for such guarantee. On April 10, 1936, the Corporation had outstanding loans of over $296,000,000.

II. ADMINISTRATIVE COSTS

(Year ended June 30)

1. *Farm Credit Administration and subsidiary offices*

	1936		1935	
	Number employees	Administrative expense	Number employees	Administrative expense
Washington operating divisions of Farm Credit Administration:				
Land Bank Division	221	$825,000	284	$946,000
Cooperative Credit Division	83	357,000	58	277,000
Intermediate credit	10	53,000	8	48,000
Production credit	24	135,000	26	152,000
Agricultural Credit Corporation Division	2	4,000	4	10,000
Regional agricultural credit corporations	10	65,000	15	72,000
Federal credit unions	28	114,000	7	26,000
Total, operating divisions	378	1,553,000	402	1,532,000
Emergency crop loans, field and Washington supervision	1,737	4,636,000	1,559	4,860,000
District banks and corporations under supervision of Farm Credit Administration:[1]				
12 Federal land banks	[2] 7,539	[3] 24,863,000	[2] 9,497	33,810,000
Less Federal Farm Mortgage Agency expense		9,123,000		19,899,000
Net		15,740,000		13,911,000
12 Federal intermediate credit banks [4]	[2] 722	2,003,000	[2] 884	2,578,000
12 Production credit corporations [4]	[2] 367	1,798,000	[2] 367	1,406,000
12 cooperative banks	[2] 215	762,000	[2] 191	848,000
12 Regional agricultural credit corporations [4]	990	2,240,000	1,741	3,718,000
Federal Farm Mortgage Corporation [4] [5]		[6] 9,880,000		21,104,000
Less Farm Credit Administration service expense		*516,000*		*619,000*
Total	9,833	31,907,000	12,680	42,746,000
Service divisions of Farm Credit Administration [7]	1,390	3,595,000	1,404	3,714,000
Grand total	13,338	41,691,000	16,045	52,852,000

[1] These figures do not include national farm loan associations and production credit associations under supervision of the Farm Credit Administration.
[2] Includes joint employees of these 4 permanent credit institutions.
[3] For 1935, includes $19,898,552, incurred by Federal land banks as agents of the Federal Farm Mortgage Corporation; for 1936, $9,123,333.
[4] Stock 100 percent owned by the United States.
[5] The Federal Farm Mortgage Corporation's affairs are being conducted on a service basis by the Farm Credit Administration, Federal land banks as agents, Federal Reserve banks as fiscal agents, and the Treasury of the United States.
[6] For 1935, includes disbursements for expenses on a service basis incurred by the Federal land banks as agents, in the amount of $19,898,552; and expenses on a service basis of $1,205,062 incurred by the Farm Credit Administration, Treasurer of the United States, and the Federal Reserve banks on behalf of the Corporation. For 1936, includes $9,123,353 incurred by Federal land banks, and $756,140 incurred by the other agencies mentioned.
[7] Includes financial, research, examination, and legal services.

2. *Resettlement Administration, rehabilitation program* [1]

	1936
Number of employees	8,831
Salary expense	$10,090,688

[1] Includes expenses connected with grants and other rehabilitation activities, in addition to the lending function which is discussed in this section. Comparable data for 1935 not available.

3. *Commodity Credit Corporation*

	1936	1935
Number of employees	84	85
Salary expense	$179,862	$167,704
Total operating expense	$554,827	$330,572

B. Home Loan Agencies

The principal agencies which extend or supervise the extension of credit to urban home owners are the Federal Housing Administration and the Federal Home Loan Bank Board.

I. SUMMARY OF ACTIVITIES

1. *Federal Housing Administration.*—The Federal Housing Administration was established by the National Housing Act (48 Stat. L. 1246), approved June 27, 1934, and amended by various acts in 1935 and 1936. It is directed by an Administrator, who is appointed by the President. Though the Administration is not a corporation in form, it exercises the most important powers of a corporation. Thus the Administrator in his official capacity can sue and be sued in a State or Federal Court, may issue debentures which are guaranteed as to principal and interest by the United States Government, and may pay his administrative expenses without regard to the provisions of law which in general govern the expenditure of public funds. His administrative expenses are paid out of funds made available by the National Housing Act, and do not require specific appropriation from year to year, though this will not be the case under the provisions of existing law after June 30 next. He reports his operating budget to the Bureau of the Budget, but it is understood that this is a voluntary arrangement on the part of the Administrator.

The more important activities of the Federal Housing Administration may be summarized as follows:

Modernization credit loans.—The Federal Housing Administration guarantees loans made by approved banks, building and loan associations, and other financial institutions for repairs and improvements upon real property and the installation of fixed equipment. The total liability of the Administration may not exceed $100,000,000. With respect to loans made by any one institution, the present limit of liability is 10 percent of the total volume of loans made by that institution; on loans made before April 1, 1936, it was 20 percent. The authority to make modernization loans lapses on April 1, 1937. The amount outstanding on June 30, 1936, was $395,882,687. The amount of claims paid under the insurance provisions up to June 30, 1936, was $2,249,035.

Mutual mortgage insurance.—The Federal Housing Administration administers a mortgage insurance fund in connection with the guaranty of real-estate mortgages on nonfarm residential properties. Apartment buildings housing more than four families are excluded. The loans are made by banks, building and loan associations, and other financial institutions, and must have a provision for amortization over a period not to exceed 20 years. The loans insured may not exceed 80 percent of the appraised value of the respective properties, and the total liability may not exceed $200,000,000. The Federal Housing Administration also guarantees mortgages of large-scale housing projects for low-income groups. The total liability limit is $10,000,000. One-half of 1 percent per annum is charged as insurance premium.

As of June 30, 1936, the Federal Housing Administration had 1,283 employees in its Washington office. The number of field offices was 90 and there were 2,337 field employees.

2. *Federal Home Loan Bank Board.*—The Federal Home Loan Bank Board consists of five members appointed by the President. It has supervision of the following agencies: The 12 Federal Home Loan Banks, the Federal Savings and Loan Insurance Corporation, the Home Owners' Loan Corporation, and the Federal savings and loan associations.

(*a*) *Home-loan banks.*—Each of these banks has under it a large number of member associations, including State building and loan associations, and also Federal savings and loan associations of the type described below. The home-loan banks make loans and advances to members on the security either of home mortgages or of United States bonds. Advances are also made to nonmember mortgagees on the security of mortgages insured by the Federal Housing Administration. Funds of the banks may also be invested in United States Government bonds.

The stock of the home-loan banks is in part owned by the United States Government and in part by the member associations. The home loan banks have authority to issue debentures and bonds, which may be either the obligations of the individual bank or consolidated obligations of the 12 banks.

(*b*) *Federal savings and loan associations.*—These are building and loan associations whose common stock is owned by private individuals. The number on November 30, 1936, was 1,106. The United States Government invests in their preferred stock up to a maximum of $100,000 for each association, subject to the provision that the subscription of the Government may not exceed that of the private shareholders. The United States also invests in full-paid income shares. Its total investment may not exceed 75 percent of the total share investment. On July 31, 1936, the investment of the United States in the two classes of stock was $49,213,000, most of it in income stock. The associations are under the general supervision of the Home Loan Bank Board.

(*c*) *Home Owners' Loan Corporation.*—The Home Owners' Loan Corporation was organized to refinance the loans of distressed home owners. The Federal Home Loan Bank Board is the board of directors of the Home Owners' Loan Corporation. The Corporation ceased to accept applications for new loans on June 13, 1936. The total amount of loans closed was $3,093,288,213. The Corporation also had invested $63,142,700 in shares of building and loan associations. The principal task of the Corporation is now the gradual liquidation of the outstanding loans.

The capitalization of the Corporation is $200,000,000, all of which is owned by the United States Government. It has outstanding about $3,000,000,000 of bonds, most of which were issued in exchange for the mortgage obligations of borrowers. For the year ending June 30, 1936, the Corporation reports 2,212 employees in the home office, 5,117 in regional offices, and 10,729 in State and district offices.

(*d*) *Federal Savings and Loan Insurance Corporation.*—The purpose of this Corporation is to guarantee the share liabilities of building and loan associations and similar home-financing organizations. The Corporation has $100,000,000 capital, all of which was subscribed by the Home Owners' Loan Corporation. The members of the Home Loan Board are the directors of the Federal Savings and Loan Insurance Corporation. It is directed by a manager who is appointed by the Board. Federal savings and loan associations are required to insure their shares accounts with the Corporation, and State-chartered building and loan associations are permitted to do so. The maximum amount insured for any one shareholder is $5,000.

The Corporation also has authority to purchase the assets of insured associations or make contributions to restore them to normal operating capacity. The Corporation acts as conservator or receiver of all Federal savings and loan associations in default and may accept appointment as conservator or receiver of a State-chartered association.

The Corporation collects an insurance premium of one-eighth of 1 percent of the share and creditor liabilities of the insured associations. On June 30, 1936, the number of accounts insured was 1,023,511 in 1,363 associations.

II. INTERRELATIONS OF THE FEDERAL HOUSING ADMINISTRATION AND THE FEDERAL HOME LOAN BANK BOARD

Attention is called to the following ways in which the responsibilities and activities of the Federal Housing Administration and those of the Federal Home Loan Bank Board overlap, conflict, or are closely related to one another.

(*a*) *Contacts with mortgage institutions.*—Many of the institutions which have relations with the Federal Housing Administration as present or prospective purchasers of insured mortgages are also members or prospective members of the home-loan bank system. The Federal Housing Administration has an administrative unit which keeps in touch with associations eligible to purchase insured mortgages and makes contacts with other building and loan associations in an effort to promote the mortgage-insurance program. The Federal Home Loan Bank Board receives reports from building and loan associations and keeps files showing the condition of member associations. The 12 home-loan banks also must keep in touch with the activities of all member institutions. The Home Loan Bank Board has a staff of examiners which examines all associations members of the home-loan bank system, and also all insured nonmember associations. The Federal Savings and Loan System has a field force engaged in promotional work, which makes contact with many of the same institutions that are visited by representatives of the Federal Housing Administration.

(*b*) *Appraisal.*—The Federal Housing Administration has a field force for appraisal of properties which are pledged under mortgages accepted for insurance. The Home Loan Bank Board has an appraisal force to appraise properties which are under the lien of mortgages that are pledged with the home-loan banks. It also appraises properties in connection with the examination of building and loan associations and in connection with the foreclosure of mortgages and the management of properties of the Home Owners' Loan Corporation.

(*c*) *Research and statistics.*—The Federal Housing Administration and the Home Loan Bank Board both have large organizations engaged in research and the compilation of statistics in the home-mortgage field. While there is a considerable degree of cooperation and division of labor between the research divisions of the two agencies neither has the full use of the results of research in the other organization and it is impossible to set up a well-organized joint program. Coordination of statistical and research work was one of the objectives in the establishment of the Central Housing Committee. This committee includes representatives of the two agencies under consideration and of other Federal agencies, such as the Resettlement Administration and the Federal Emergency Administration of Public Works, which are active in the construction of homes. The committee's accomplishments in this field are not striking. Little information goes to the Central Housing Committee that has not already been released to the public. Each agency has a large volume of information which it regards as confidential which would be useful to other agencies in the field, but never reaches them.

(*d*) *Field work.*—In the year ended June 30, 1936, the Federal Housing Administration spent $7,359,346 on its field organization, while in the same period the Home Owners' Loan Corporation spent $23,822,531 on its regional, State, and district offices. Moreover, the Home Owners' Loan Corporation has in Washington six assistant general managers supervising the field offices, each having an office staff, while the Federal Housing Administration has five deputy administrators, each with an office staff, supervising its field offices.

(*e*) *Home-building service.*—The Federal Housing Administration gives technical advice in regard to construction plans for all new building financed by guaranteed mortgages. The Home Loan Bank Board has recently announced a home-building service plan for houses constructed under mortgages purchased by approved members of the home-loan banks.

III. ADMINISTRATIVE COSTS

(Year ended June 30)

1. *Federal Housing Administration*

	1936
Number of employees	3,660
Salary expense	$8,023,375
Total operating expense	$11,337,849

(Not in operation for full year 1934–35.)

2. *Federal Home Loan Bank Board*[1]

	1936	1935
Number of employees	278	206
Salary expense	$858,148	$654,124
Total operating expense	$1,040,747	$858,317

[1] Data do not include Home Owners' Loan Corporation and Federal Savings and Loan Insurance Corporation, which are shown separately, nor the 12 home-loan banks.

3. *Home Owners' Loan Corporation*

	1936	1935
Number of employees	18,059	16,958
Salary expense	$29,331,119	$27,854,155
Total operating expense	$35,548,136	$37,426,579

4. *Federal Savings and Loan Insurance Corporation*

	1936	1935
Number of employees	17	10
Salary expense	$40,561	$23,620
Total operating expense	$111,238	$86,546

C. Reconstruction Finance Corporation

The Reconstruction Finance Corporation was organized on February 7, 1932, under the provisions of an act of Congress which provides that it shall have succession until January 22, 1942, unless sooner dissolved by an act of Congress. Its powers to make loans lapses on February 1, 1937. The Corporation is controlled by a board of seven directors, consisting of the Secretary of the Treasury and six others. The capital stock of the Corporation, which amounts to $300,000,000, is owned by the United States Government. The Corporation has issued bonds and notes which are guaranteed by the United States Government. The amount outstanding on June 30, 1936, was $4,281,629,666.67, of which amount $4,030,000,000 was held by the Treasury. The Corporation has 32 field offices and a personnel of 1,635 employees in Washington, and 1,678 in the field offices (as of June 30, 1936).

I. SUMMARY OF ACTIVITIES

1. *Loans to banks and trust companies.*—The most extensive financial operations of the Reconstruction Finance Corporation, aside from allocations to other governmental units, have been those necessitated by the banking crisis of 1933. The advances of the Reconstruction Finance Corporation to banks consist of two items: (*a*) purchases of preferred stock and capital notes and debentures of weak banks, most of which were made in order to prevent failures or to enable banks to qualify for deposit insurance; (*b*) loans to failed banks made in order to facilitate reorganization, or to hasten

the redistribution of funds to depositors. Loans to facilitate reorganization are now made by the Federal Deposit Insurance Corporation.

Of the preferred stock and capital notes and debentures of banks, $688,000,000 was outstanding on September 30, 1936, out of a total of $1,053,000,000 that had been disbursed since the beginning of the program. Since banks are required to retire these securities only over a period of 20 years, this investment will, in the normal course of business, be one of the last items in the portfolio of the Reconstruction Finance Corporation to be liquidated. Other bank loans, on the contrary, are being repaid rapidly, the total outstanding on the date mentioned being $228,000,000, out of a total of $1,966,000,000 which had been disbursed.

2. *Direct loans to industry.*—An item of considerable importance consists of the direct loans to industrial and commercial business, which were authorized by an amendment to the Reconstruction Finance Corporation Act passed in June 1934. These loans are intended to provide intermediate credit to sound borrowers who, for one reason or another, cannot get the credit they need at commercial banks. This service is very similar to one that is offered by the Federal Reserve banks.

3. *Loans to mortgage companies.*—These loans are chiefly for the financing of hotels, apartment buildings, office buildings, and similar structures which on the one hand do not qualify as industrial and commercial businesses within the meaning of the law authorizing direct loans to industry, and on the other hand do not qualify for credit at the home-lending agencies, which in general do not provide for the financing of residential buildings which house more than four families. At present, this business is chiefly concentrated in the RFC Mortgage Co., incorporated in 1935. All the stock of this company, $20,000,000, is owned by the Reconstruction Finance Corporation, and its personnel is practically all made up of employees of the Reconstruction Finance Corporation.

The RFC Mortgage Co. has the following authority: (*a*) To make loans secured by first mortgages on income-producing properties of the types referred to above, where financing is necessary and cannot otherwise be obtained on reasonable terms; (*b*) to make loans, under certain restrictions, to distressed holders of first-mortgage bonds; (*c*) to make first-mortgage loans in aid of the construction of new buildings. The company does not make direct loans to property holders who are eligible for modernization loans or mutual mortgage loans insured by the Federal Housing Administration, but it does purchase mortgages insured by the Administration.

4. *Other activities.*—The scope of the current lending operations of the Reconstruction Finance Corporation is indicated in the following tabulation of disbursements to and collections from governmental agencies during the third quarter of 1936:

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Disbursements and collections of the Reconstruction Finance Corporation during the third quarter of 1936 [1]

Debtor	Disbursed	Repaid
Banks and trust companies [2]	$15,515,978	$164,224,215
Building and loan associations		609,888
Insurance companies	4,000,000	802,269
Mortgage-loan companies	[3] 23,259,058	6,995,086
Credit unions		2,617
Agricultural financial institutions [4]	5,702,740	75,093,061
Railroads	9,202,667	48,374,144
State funds (insuring deposits of public moneys, etc.)		579,059
Fishing industry	21,200	3,261
Industrial and commercial business [5]	7,104,814	1,939,460
Self-liquidating projects [6]	16,232,748	291,647
Repair of damage from earthquakes, floods, etc	620,084	986,869
Drainage, levee, and irrigation districts	5,771,429	103,568
Mining industry	520,000	25,000
Total	87,950,718	300,030,144

[1] Excludes transactions arising from allocations to other Federal agencies.
[2] Includes purchases of preferred stock and capital notes and debentures.
[3] Chiefly to the RFC Mortgage Co. Includes subscription to stock of that company.
[4] Includes Commodity Credit Corporation.
[5] A considerable volume of industrial and commercial lending is included in the data for mortgage-loan companies given above.
[6] These are chiefly loans to municipalities and other local governmental units.

In addition to these lending operations the corporation acts as a financial intermediary in connection with certain operations of other governmental agencies. It purchases securities from the Public Works Administration for resale or collection. Up to September 30, 1936, such purchases had been made in the amount of $451,236,468, of which $310,758,918 had been resold or collected at maturity, leaving a balance of $140,477,550. It pays the expenses of liquidation of the regional agricultural credit corporations and the operating losses of the Federal Housing Administration and its credit losses on modernization (title I) loans.

Reconstruction Finance Corporation funds had been allocated and disbursed to other Federal governmental agencies, up to September 30, 1936, as follows:

Secretary of Agriculture for crop loans	$115,000,000
Capital of regional agricultural credit corporations	20,000,000
Governor of Farm Credit Administration	40,500,000
Regional agricultural credit corporations, for expenses	14,576,843
Secretary of the Treasury to pay for capital of Federal home loan banks	104,542,000
Secretary of the Treasury to pay for capital of the Home Owners' Loan Corporation	200,000,000
Land Bank Commissioner and Federal Farm Mortgage Corporation for loans to joint-stock land banks and to farmers	202,600,000
Federal Housing Administration	44,000,000
Commodity Credit Corporation, purchase of stock	97,000,000
Loans to Commodity Credit Corporation	95,808,924
For direct relief	1,499,998,176
Total	2,434,025,943

A condensed statement of the assets and liabilities of the Reconstruction Finance Corporation as of September 30, 1936, follows:

ASSETS

Loans to nongovernmental agencies:[1]	
Banks and trust companies	$929,976,420
Building and loan associations	3,377,810
Insurance companies	38,384,312
Mortgage-loan companies	149,108,259
Credit unions	298,033
Agricultural financial institutions	35,020,486
Railroads	349,260,577
State funds (insuring deposits of public moneys, etc.)	1,230,271
Fishing industry	620,776
Industrial and commercial business	57,690,456
Self-liquidating projects	[2] 184,417,834
Repair of damage from earthquakes, floods, etc	1,410,681
Drainage, levee, and irrigation districts	61,778,073
Mining industry	1,186,000
Relief advances to State and local governments	295,994,711
Securities purchased from Public Works Administration	140,477,550
Loans and allocations to Federal governmental agencies	[3] 2,434,025,943
Interest on funds allocated to Federal agencies	20,710,323
Preferred stock installment contracts	724,661
Cash	1,055,074
Collateral purchased	3,512,411
Accrued interest and dividends	31,015,075
Furniture and fixtures	542,621
Miscellaneous	2,486,771
Total	4,744,305,128

LIABILITIES

Liabilities for funds held as cash collateral and deposited with bids	3,293,656
Funds held for other agencies	5,941,100
Trust funds	33,687,142
Notes	4,011,749,667
Accrued interest	8,297,118
Stock	500,000,000
Surplus and reserves	141,487,720
Miscellaneous liabilities	39,848,725
Total	4,744,305,128

[1] Includes loans to Federal land banks and joint-stock land banks.
[2] Figure includes loans for financing repair of damage from earthquakes and other disasters in 1933.
[3] See preceding table.

It will be seen that something less than one-half the liabilities of the Corporation are covered by claims against nongovernmental agencies, the other half representing funds which have been disbursed for relief or used for the purchase of capital stock in other governmental corporations, to furnish them funds for loan operations, and to pay their operating expenses. The stock of the Corporation and $3,795,000,000[1] of its notes are owned by the United States Treasury. The notes held by the Treasury are therefore in large part simply a bookkeeping offset against Reconstruction Finance Corporation nominal claims for funds which have been routed through the Reconstruction Finance Corporation and used for relief and other emergency purposes.

[1] As of July 31, 1936.

II. ADMINISTRATIVE COSTS

(Years ended June 30)

Reconstruction Finance Corporation

	1936	1935
Number of employees, Washington and agency offices	3,313	3,470
Administrative expense, Washington and agency offices	$9,097,879	$8,398,904
Expense of custodians	$1,776,679	$2,265,540
Total operating expense	$10,874,558	$10,664,444

D. Banking and Currency Supervisory Agencies

The three agencies which have primary responsibility for the supervision of banking, currency, and short-term credit are the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency. The Reconstruction Finance Corporation and the Secretary of the Treasury also have some authority in this field. We shall present first a summary statement of the activities of the three agencies first mentioned; then a classification of the functions which they have to perform, with notations of the way in which the functions are apportioned among these and other agencies.

I. SUMMARY OF ACTIVITIES

1. *Comptroller of the Currency.*[2]—The Comptroller's Office has five main functions. These are: (*a*) The chartering of new national banks, a task which has been lessened in importance by reason of the fact that the number of banks has been decreasing in recent years, whereas up to the middle twenties the trend was upward; (*b*) examination of national banks and enforcement of laws regulating their activities, which are now probably the most important activities of the Comptroller's Office; (*c*) issuance and redemption of the national bank notes, a task which is rapidly disappearing because of the calling of all the bonds which had the circulation privilege; (*d*) issuance to the Federal Reserve banks of the notes which they issue to the public; (*e*) appointment and supervision of receivers of failed national banks. This last task has been greatly changed with reference to future receiverships, because the law now requires that the Federal Deposit Insurance Corporation shall be appointed receiver of all failed national banks. However, there are still over 1,100 national banks with individual receivers who require detailed supervision. The Comptroller also exercises general supervision over the operations of the Federal Deposit Insurance Corporation as receiver of the banks which have failed since the present arrangement went into effect.

In addition to these duties, the Comptroller serves as a member of the board of directors of the Federal Deposit Insurance Corporation. He compiles operating statistics covering the operations of national banks, as well as the results of liquidation of failed banks, and collects from State banking offices data concerning operations of State banks. He exercises various administrative powers over

[2] For other agencies of the Treasury Department, see chs. III, XII, XIII, and XV.

national banks, including such matters as the establishment of branches, consolidations, retirement of stock, dissolution, and so on.

The Comptroller levies assessments on the national banks to cover the expense of examination, and, with respect to this part of the expenditures of his office, he is not under the supervision of the Budget Bureau nor audited by the General Accounting Office. The expenses connected with administration of closed banks are also reimbursed by the banks, as are part of the expenses connected with the issuance of Federal Reserve notes. Other expenses of the Comptroller's Office are covered out of appropriated funds.

2. *Federal Reserve System.*—The Federal Reserve System consists of 12 Reserve banks, 6,387 member banks (as of Dec. 31, 1935), the Board of Governors of the Federal Reserve System, the Open Market Committee, and the Federal Advisory Council. The capital stock of the Federal Reserve banks is owned by the member banks, but since the dividend is limited to 6 percent (an amount which is always earned and paid), and since the surplus is virtually owned by the Federal Government, the member banks have no financial interest in the operation of the system. The board of directors of each Reserve bank consists of nine members, of whom six are elected by the member banks and three are appointed by the Board of Governors.

The Reserve banks' most important functions arise out of correspondent relations with the member banks. The Reserve banks hold as deposits the entire legal reserves of their members. They are empowered to make loans to members under a variety of prescribed conditions. They also make working capital loans, of not more than 5-year maturity, to industrial or commercial businesses, either through the medium of financing institutions, or directly. In emergencies, when authority has been granted by at last five members of the Board of Governors, they may make direct loans to individuals by discounting secured notes. They are also empowered to purchase in the open market bankers' acceptances and bills of exchange and obligations of the Unitd States and certain other securities. They issue Federal Reserve notes, which constitute the most important element of the paper currency of the country. They examine State member banks and receive condition reports from them.

The Board of Governors of the Federal Reserve System consists of seven members appointed by the President, subject to confirmation by the Senate. The Board is empowered to "review and determine" the rates charged by the Reserve banks on all their discounts and advances, to regulate the amount of credit extended by banks on security collateral, and to fix the maximum rate of interest which may be paid by member banks on time and savings deposits. It also may, with certain limitations, change the requirements relative to reserves to be held by member banks against deposits.

The Federal Open Market Committee, which consists of the members of the Board of Governors and five elected representatives of Federal Reserve banks, controls the open-market operations of the Reserve banks. The Federal Advisory Council is composed of 12 members, one selected by the board of directors of each Federal Reserve bank. This council makes recommendations concerning policies and practices of the Federal Reserve Board and of the Reserve banks.

All of the activities of the Reserve System so far enumerated have to do with the control of the general credit situation, making money abundant and cheap when it is desired to encourage expansion of business activity, and raising rates and making money scarce and dear when restriction is deemed necessary. This is the main function of the Board of Governors of the Reserve System. It is quasi-legislative in character.

The Board and the banks have in addition a number of administrative responsibilities, only a part of which have any necessary connection with the main task. The Reserve banks act as clearing houses and collecting agents for their member banks and as depositories and fiscal agents of the United States. The Board examines the Federal Reserve banks and requires statements and reports from them, and has supervision over their operations. It exercises a considerable range of administrative powers in connection with the relations between member banks and their affiliates; approves or disapproves interlocking directorates involving member banks; passes on applications of State member banks to establish out-of-town branches and on applications of national banks for authority to exercise trust powers, and operates a settlement fund for settlement of balances due between Reserve banks. The Board passes on applications of State banks for membership in the Federal Reserve System, but has no discretion regarding the entrance into the System of any bank which is granted a charter as a national bank by the Comptroller of the Currency.

The expenses of the Board of Governors are met by assessments on the Federal Reserve banks. The Reserve banks derive all their income from their own loan and investment operations. Neither the Board nor the banks come under the supervision of the Bureau of the Budget, and the General Accounting Office does not audit their records.

3. *Federal Deposit Insurance Corporation.*—This is a governmental corporation, its stock being owned jointly by the United States Government and the Federal Reserve banks. The stock is nonvoting and does not pay dividends. The board of directors of the Corporation consists of the Comptroller of the Currency and two appointed directors, one of whom acts as chairman and chief executive officer of the Corporation. The principal function of the Corporation is to furnish insurance to depositors in insured banks, which include all the member banks of the Federal Reserve System and approved nonmember State banks. The insurance covers deposits up to $5,000. The income of the Corporation is derived from two sources (*a*) the interest on investments of about $300,000,000 (U. S. Government bonds), and (*b*) assessments on insured banks, amounting to one-twelfth of 1 percent annually on their total deposits. The operating budget of the Corporation is submitted to the Bureau of the Budget (under an Executive order), but its accounts are not audited by the General Accounting Office.

The Corporation has authority to pass on the admission to the insurance fund of banks not members of the Federal Reserve System, but has no discretion as to the admission of any bank which is accepted as a member bank by the Federal Reserve System, or is chartered by the Comptroller of the Currency as a national bank. The Corporation examines nonmember State banks and receives reports of condition from them. It acts as receiver for closed national banks under the supervision of the Comptroller of the Currency, and may act as receiver for closed State banks, if appointed by the proper

State authority. The corporation has authority to make loans to banks in distress or purchase their assets in order to facilitate a merger with another bank and thus avoid the necessity of liquidation. It compiles statistics of the condition of all insured banks, and carries on a program of research on banking problems.

The Reconstruction Finance Corporation possesses a considerable degree of control over the banking system by virtue of its position as owner of preferred stock. The Corporation's activities in connection with banks are described in the section of this report which deals with our recommendations.

II. FUNCTIONAL CLASSIFICATION

In the following outline we show the relationships of Federal organizations for the control of credit from a different viewpoint, grouping together the agencies which are concerned with a specific function:

1. CONTROL OF THE FEDERAL STATUS OF BANKS

(*a*) *National banks.*—Chartering and forfeiture of charters, Comptroller of the Currency.

(*b*) *Membership in the Federal Reserve System.*—Board of Governors of the Federal Reserve System controls admission of State banks, but has no control over entrance through issuance of charter as national bank.

(*c*) *Membership in deposit insurance fund.*—Federal Deposit Insurance Corporation controls entry of State nonmember banks, but has no control over entry of banks either under national charter or as State member banks. The Corporation may, however, terminate the insurance of any bank. Such action in the case of a national bank leads automatically to receivership proceedings; in the case of a State member bank it leads automatically to suspension of rediscount privileges at Federal Reserve banks.

2. EXAMINATION AND REPORTS

(*a*) *National banks.*—Examined by the Comptroller of the Currency and file reports of condition with him. The Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation also have authority to examine, with the consent of the Comptroller, but in practice accept reports by the Comptroller.

(*b*) *State member banks.*—Examined by Reserve banks and also by State banking authorities; render reports of condition to both these agencies and also to Federal Deposit Insurance Corporation.

(*c*) *Insured nonmember banks.*—Examined by and file reports with the Federal Deposit Insurance Corporation; also State banking authorities.

(*d*) The Reconstruction Finance Corporation sometimes examines banks, by agreement with the bank, when it owns preferred stock of capital debentures, or proposes to buy such securities, though its general practice is to accept reports of the other Federal examining agencies.

(*e*) The Federal Deposit Insurance Corporation is authorized to review the reports of examination of member banks of the Reserve System made by the Comptroller and the Reserve Board, but cannot examine the banks except by permission of the Comptroller, in the case of a national bank, and of the Reserve Board in the case of a State member bank.

3. AID TO DISTRESSED BANKS

(*a*) *Reconstruction Finance Corporation.*—Purchase of preferred stock and capital debentures.

(*b*) *Federal Deposit Insurance Corporation.*—Purchase of assets of insured banks to facilitate merger.

(*c*) *Federal Reserve banks.*—Emergency loans.

4. RECEIVERSHIP AND LIQUIDATION

(*a*) *National banks which failed before the passage of the Banking Act of 1935.*—Receivers appointed by and responsible to the Comptroller of the Currency. (As of Dec. 31, 1936, there were 1,173 such receiverships.)

(*b*) *National banks failing since the passage of the Banking Act of 1935.*—Comptroller of the Currency must appoint the Federal Deposit Insurance Corporation as receiver. Comptroller supervises the activities of the Federal Deposit Insurance Corporation as receiver.

(*c*) *Insured State banks.*—Receiver appointed by State bank authority (possibly in a few States by the courts). In 30 States the Federal Deposit Insurance Corporation may be appointed receiver. As of December 31, 1936, the Federal Deposit Insurance Corporation administered 17 such receiverships.

(*d*) Reconstruction Finance Corporation loans to receivers secured by the assets of uninsured closed banks to hasten distribution of funds to depositors.

5. CONTROL OF GENERAL CREDIT SITUATION

(*a*) *Rediscount rates of Federal Reserve banks.*—Set by Federal Reserve banks, subject to review and determination by the Board of Governors. In case of dispute, final authority has been exercised by the Board of Governors.

(*b*) *Required reserve ratios of member banks.*—Fixed by law, but subject to change, within limits, by the Board of Governors.

(*c*) *Open market operations of Federal Reserve banks.*—Controlled by Open Market Committee, which consists of the members of the Board of Governors and five elected representatives of the Reserve banks.

(*d*) *Relations with foreign central banks.*—Subject to the control of the Board of Governors; usually conducted by the Federal Reserve Bank of New York.

(*e*) *Collateral lending by member banks.*—Board of Governors has special authority. Nonmember banks which make loans to brokers in registered security exchanges must agree to submit to similar regulation.

(*f*) *Margin requirements for advances to customers by stock-exchange brokers.*—Controlled by regulations issued by the Board of Governors of the Federal Reserve System; information necessary for enforcement of compliance is collected by the Securities and Exchange Commission.

(*g*) *Maximum interest paid by banks on time and savings deposits.*—(a) Member banks: Controlled by Board of Governors; (b) nonmember insured banks: Controlled by Federal Deposit Insurance Corporation.

(*h*) *Stabilization fund.*—Controlled by the Secretary of the Treasury, administered by the Federal Reserve Bank of New York.

(*i*) The Secretary of the Treasury also has in reserve the power to enter into agreements with the Board of Governors and the Federal Reserve banks for the purchase of not more than $3,000,000,000 of Government bonds by the Reserve banks from the Treasury; also in the event that the Reserve System declines to enter into such agreement, to issue up to $3,000,000,000 in greenbacks. He can also exert great influence over the credit situation by transferring United States funds between the Reserve banks and depositary commercial banks, or holding them in cash in the Treasury.

6. COMPILATION OF BANKING STATISTICS

(*a*) *Operations of national banks and receivership data for national banks.*—Comptroller of the Currency.

(*b*) *All member banks.*—Board of Governors (data for national banks are drawn from the Comptroller's reports).

(*c*) *All insured banks.*—Data compiled by the Federal Deposit Insurance Corporation, using reports of the Comptroller of the Currency and of the Board of Governors for national banks and State member banks, respectively.

(*d*) *All State banks, including insured banks.*—Comptroller collects data from State banking supervisors, consolidates and publishes them.

(*e*) *Miscellaneous banking and financial data.*—Statistics concerning bank operations collected by a number of agencies are published by governmental agencies. For example, the New York City Clearing House collects clearing data and these are republished in the annual reports of the Comptroller. Federal Reserve Bank of New York collects data on the turn-over of bank deposits and publishes them in its Monthly Review. Data on interest rates collected by various agencies are published by the Board of Governors in the Federal Reserve Bulletin, also information on gold holdings of central banks and other foreign banking data. Data on production and industrial consumption of gold collected and published by the Director of the Mint. The Survey of Current Business publishes banking and financial data compiled by other agencies. The Bureau of Agricultural Economics publishes some data on interest rates paid by farmers.

7. RESEARCH ON PROBLEMS OF BANKING CONTROL AND CREDIT POLICY

(a) Extensive research is carried on by the Board of Governors: by some of the Federal Reserve banks, especially that of New York; by the Federal Deposit Insurance Corporation; and by the Division of Research and Statistics of the Treasury.

8. SHORT-TERM LENDING

(a) *Direct loans to industry.*—The Federal Reserve banks and the Reconstruction Finance Corporation offer a duplicate service in working-capital loans; Reconstruction Finance Corporation also makes mortgage loans of a type not made by the Federal Reserve banks.

(b) *Loans to agriculture.*—See section A above.

9. CURRENCY

(a) *Federal Reserve notes and Federal Reserve bank notes.*—Issued to the Federal Reserve banks and paid out by them. These are obligations both of the issuing Reserve bank and of the United States Government. The credit operations which give rise to the assets back of the notes are supervised by the Board of Governors. The engraving, printing, and issuance of notes are the responsibility of the Comptroller of the Currency, who is reimbursed by the Federal Reserve banks for the expense incurred. The Bureau of Engraving and Printing prepares the notes.

(b) National-bank notes originally issued by national banks under the supervision of the Comptroller of the Currency; now in process of retirement, all the bonds which underlie the notes having been called for payment.

(c) *United States notes.*—Amount fixed by law: redemption and reissuance under control of the Secretary of the Treasury.

III. ADMINISTRATIVE COSTS

(Year ended June 30)

1. *Comptroller of the Currency*

	1936	1935
Number of employees	850	920
Salary expense	$2,446,024	$2,219,703
Total operating expense	$3,248,308	$3,056,678

(For 1935 $2,792,810 and for 1936 $3,017,630 paid from assessments on national banks.)

2. *Board of Governors of the Federal Reserve System*

	1936	1935
Number of employees	345	343
Salary expense	$1,080,125	$995,095
Total expense	[1] $1,881,064	[1] $2,137,242

[1] Includes new building expense; $773,271 in 1935 and $318,567 in 1936.

3. *Federal Deposit Insurance Corporation*

	1936	1935
Number of employees	750	738
Salary expense	$1,817,830	$908,037
Total operating expense	$2,592,288	[1] $1,332,210

[1] For 6 months ended June 30, 1935.

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PART II. RECOMMENDATIONS CONCERNING CREDIT-GRANTING AGENCIES

The proper organization of lending agencies which have ceased, or practically ceased, to make new loans and are engaged simply in the collection of debts due them and the liquidation of securities owned, presents a problem which is very different from that involved in the interrelationships of agencies that have a permanent lending function, or of temporary agencies during the period of their principal lending activity. We shall consider first the allocation among governmental agencies of the work of collecting loans and liquidating investments of types which are no longer being made, or are scheduled for early discontinuance. The organization of the agencies which have permanent credit functions in connection with agriculture will be discussed next; then the permanent home-loan agencies.

A. Liquidation of Temporary Agencies

The two most important agencies which have substantially completed their task of credit extension and are now engaged in liquidation are the Home Owners' Loan Corporation and the Reconstruction Finance Corporation. Other agencies which are in liquidation or, under the provisions of existing law, are shortly to cease lending, include the Commodity Credit Corporation (lending authority expires Apr. 1, 1937), Public Works Administration (lending authority expires June 30, 1937), and the joint-stock land banks and the regional agricultural credit corporations, which are already in liquidation. There may also be mentioned the notes held by the Farm Credit Administration evidencing advances made from the revolving fund created under the Agricultural Marketing Act ($115,712,244.32 on Jan. 31, 1936) and some odds and ends of securities left over from wartime financial activities, such as securities received by the Secretaries of War and of the Navy on account of the sale of war supplies, the assets of the War Finance Corporation, and the railroad obligations acquired under provisions of the Transportation Act of 1920.

It seems obvious that the liquidation of outstanding obligations requires much less specialized ability and experience than does the task of extending credit wisely to institutions whose needs and credit standing vary as widely as do those of the different classes of borrowers with whom these agencies have been dealing. The present is, therefore, an especially appropriate time to consider reduction in number and simplification of organization of lending agencies.

Alternative methods of procedure.—Two alternative lines of procedure suggest themselves. One way to attack the problem would be to set up a comprehensive liquidating agency to which would be assigned all of the assets of the agencies that no longer have any substantial lending function. The sole task of this agency would be to make collections or sell the assets as expeditiously as might be deemed consistent with public policy.

The other plan is to split up the task of collection, and assign to existing permanent agencies such parts of it as are closely related to their tasks, leaving to the central liquidating agency only those assets whose administration does not tie in with the work of a permanent agency.

The most important differences between the two plans concern the liquidation of the Home Owners' Loan Corporation, the joint-stock land banks, the regional agricultural credit corporations, the securities obtained from the use of the Agricultural Marketing Act revolving fund, and the preferred stock of banks.

Under the first plan responsibility for all these operations would fall to the central liquidating agency. Under the second plan the Home Owners' Loan Corporation would remain with the Federal Home Loan Bank Board or, as is suggested below, with a consolidation of that agency and the Federal Housing Administration. Liquidation of joint-stock land banks and regional agricultural credit corporations would remain with the Farm Credit Administration. The central liquidating agency would have the remaining assets of the Reconstruction Finance Corporation, together with the securities held by the Emergency Administration of Public Works at the close of its lending period, and various odds and ends resulting from past lending operations which do not fit in well anywhere else.

To the extent that the task involved is purely one of liquidation, there are economies and other administrative advantages in centering the work in a single agency, and there can be little question that the idea of centralizing the task of liquidation is feasible and desirable, insofar as the business relationships involved are with institutions and individuals which do not have continuing close relations with permanent Government agencies.

On the other hand, in cases where a permanent Government agency exercises continuous supervision over the debtor institutions, and must maintain a field agency in contact with them, we believe that greater economy is likely to be effected by turning over the task of collection to such an agency than through concentrating it in a liquidating agency. Moreover, since the problem is not merely one of getting the Government's money out, but of insuring that the original purposes of the loan are fulfilled, the governmental agency responsible for supervision or support of the debtors has a vital interest in the administration of the collections.

Finally, the plan of liquidating discontinued activities through permanent agencies rather than through a temporary liquidating corporation has the advantage that it minimizes the temptation to the liquidator to prolong the work in order to protect his own job. Observation of receivership and reorganization procedure leads one to the conclusion that this is an important consideration. In any agency which is only a liquidating agency, the better the job the employees do the more quickly they must find other employment. In a permanent agency which has been assigned a temporary task, the same consideration applies to certain employees, but in less acute form. At least the management at the top has more incentive to wind up the temporary jobs and employees engaged in those tasks have some prospect of continued employment in other phases of the agency's work.

We believe, therefore, that the sound principle is to leave with the permanent agencies, or turn over to them, such liquidation tasks as are closely related to their own operations, and to concentrate in the general liquidating agency the collection only of such loans as do not tie in closely with the work of permanent agencies.

Under either plan there must be some general liquidating agency for collecting loans and selling securities of types in which other existing agencies have no special interest. For this work two agencies have been considered: First, the Reconstruction Finance Corporation; and, second, the Reserve banks, acting as fiscal agents for the Treasury. The Reconstruction Finance Corporation already has a personnel experienced in dealing with a very wide variety of types of borrowers, and the contraction or elimination of its lending activities releases personnel which might be employed in the liquidation of assets taken over from other agencies.

However, we believe that there is no real reason for continuing the life of the Reconstruction Finance Corporation as a dwindling agency after its lending operations are over. The Reserve banks are already custodians of its securities and notes and the collateral which has been deposited under them. The work of collection involves constant handling of this material, releasing and exchanging collateral, recording and releasing liens, returning instruments to borrowers, and so on. Much communication and interagency accounting between the Reserve banks and the Reconstruction Finance Corporation is necessary. As was shown above, about one-fifth of the total operating expense of the Reconstruction Finance Corporation consists of payments for custodians' services. The Reserve banks have permanent staffs which are well fitted to undertake the additional responsibilities that would be involved in making the actual collections. Moreover, the work of their staffs has been considerably lightened by the virtual cessation of the rediscounting of commercial paper for banks. They already act as fiscal agents for the Treasury and are familiar with the accounting problems involved in custody of Treasury funds. In a number of cases the regional offices of the Reconstruction Finance Corporation are housed in Reserve bank buildings, so that no space problem would be created in taking over the Reconstruction Finance Corporation's records and such of the Reconstruction Finance Corporation personnel as might be needed.

We recommend, therefore, that the Reconstruction Finance Corporation be speedily liquidated following the cessation of its lending activities, which under present law will take place on January 31, 1937. All its assets except those specified in later sections should be turned over to the Treasury, which would make payment for them in Reconstruction Finance Corporation bonds. Even if it should be decided to continue the lending functions of the Reconstruction Finance Corporation beyond the date now fixed for their termination, we recommend that its assets and liabilities be assigned to the Treasury as indicated above and arrangements for routing funds to Federal governmental agencies through the Reconstruction Finance Corporation discontinued. The Reconstruction Finance Corporation would then act as fiscal agent for the Treasury in making new loans to the public and the Federal Reserve banks in collecting them.

Federal Emergency Administration of Public Works.—The securities of the Public Works Administration should be handled in the manner just suggested in connection with the Reconstruction Finance Corporation, that is, transferred to the Treasury for collection or sale through the Reserve banks. This involves no radical innovation, as present practice is for the Public Works Administration to sell its securities to the Reconstruction Finance Corporation, and the Reserve banks perform custodian service for both agencies. Up to September 29, 1936, $448,000,000 out of a total of $599,000,000 Public Works Administration bond purchases had been sold to the Reconstruction Finance Corporation; $243,000,000 had been resold to the public or collected by the Reconstruction Finance Corporation up to September 1, 1936.

Regardless of the decision as to whether the Reconstruction Finance Corporation or the Treasury and Federal Reserve banks should be the general liquidation agency, the following recommendations are offered concerning the liquidation of certain types of loans through other agencies.

Transfer of preferred stock of banks from the Reconstruction Finance Corporation to the Federal Deposit Insurance Corporation.—The Reconstruction Finance Corporation held on September 29, 1936, $702,151,215.66 in preferred stock and capital notes and debentures of banks.[3] This is by far the largest item in its portfolio, with the exception of advances and allocations to other Federal governmental agencies. This stock was issued in connection with the Government's program for the rehabilitation of the banking structure after the banking holiday of 1933. Since the end of 1934 retirements have exceeded new investments by more than $150,000,000. The banks are required to amortize the investment over a period of 20 years and may retire it more rapidly if they are able to do so without jeopardizing the interests of depositors. Up to September 29, 1936, $364,912,317 had been retired.

It is recommended that this entire investment be transferred to the Federal Deposit Insurance Corporation, the Government purchasing additional stock in the Corporation and retiring a corresponding amount of the Reconstruction Finance Corporation bonds now held by the Treasury. Thereafter all funds collected by the Federal Deposit Insurance Corporation from the redemption of preferred stock and capital notes should be used to retire the Government's investment in Federal Deposit Insurance Corporation stock, except for a reasonable reserve for the purchase of additional preferred stock. Dividends on preferred stock and interest on capital notes and debentures in excess of the direct cost of management of the preferred stock investment should also be used for the retirement of the stock of of the Federal Deposit Insurance Corporation.

The basic reason for this recommendation is that the problem of administration which arises in connection with the preferred stock is not simply one of getting the money, but rather of preventing the soundness of the banks' capital structure from being impaired by too rapid a liquidation. Essentially the whole program of issuance of preferred stock has precisely the same objective as has the program of deposit insurance administered by the Federal Deposit Insurance Corporation. The system of bank examinations now administered by the Comptroller of the Currency, the Reserve banks, and the Federal Deposit Insurance Corporation also has the same objective, namely, that of protecting the monetary supply of the country and the individual interests of depositors against bank failures. The responsibility for the maintenance of bank solvency rests on the banks' supervisory agencies just mentioned.[4] The Government

[3] Capital notes and debentures are issued by State banks in cases where the State law does not permit the issuance of preferred stock. The figure given above includes $13,636,159.59 loans secured by preferred stock.

[4] Pt. III of this report deals with possible redistribution of functions or consolidation of the supervisory agencies.

has invested $300,000,000 in the Federal Deposit Insurance Corporation for the purpose of protecting bank depositors and has made an investment of $700,000,000 in preferred stock of banks through the Reconstruction Finance Corporation for precisely the same reason. Both agencies have to maintain close contact with the banks. While there is apparently satisfactory cooperation between the two agencies, the splitting of the function creates confusion in the minds of the public and a divided responsibility on the part of bank officers. Moreover, on the assumption that the Federal insurance of bank deposits is a permanent arrangement, cases may arise long after the lending activities of the Reconstruction Finance Corporation and other emergency agencies have ceased, where it will be advantageous to purchase preferred stock in banks rather than close them and pay off the depositors. The Federal Deposit Insurance Corporation is the logical agency to exercise this function.

While the Reconstruction Finance Corporation in most cases accepts the examination reports of the Comptroller of the Currency, the Federal Reserve bank, or the Federal Deposit Insurance Corporation, it also maintains an examining staff and makes supplemental examinations, with the consent of the bank concerned, in cases where it is not satisfied with the report of the regular examining agency.[5] The Reconstruction Finance Corporation reports that on June 30 it had 34 employees (with total annual salaries of $165,790) in the Bank Administration Section of its Examining Division. This is a larger number than were employed in reviewing bank reports in the Federal Deposit Insurance Corporation. The figure given does not include the costs of the secretary's office, the treasurer's office, the legal divisions, and the other overhead expenses of controlling Reconstruction Finance Corporation's relations with open banks, nor does it include secretarial and other assistants.[6]

The Federal Deposit Insurance Corporation is empowered to purchase assets of banks to facilitate consolidation and prevent failures and to make loans upon assets for the same purpose. Purchases of preferred stock by the Reconstruction Finance Corporation are frequently negotiated by the Federal Deposit Insurance Corporation or by the Comptroller of the Currency, with a view to restoring solvency. Thus a bank with impaired capital may be taken care of by any one of three procedures. First, the Reconstruction Finance Corporation may purchase preferred stock or capital debentures, in which case the bank goes ahead without change of organization; second, the Federal Deposit Insurance Corporation may purchase undesirable assets, or lend on them as collateral, arranging for the purchase of the acceptable assets by another bank, in which case the two banks are consolidated; or, third, the bank may be closed and the depositors paid off by the Federal Deposit Insurance Corporation. In any case the loss resulting from the deterioration of assets, if the bank does not regain solvency, finally falls on the banks which contribute to the insurance reserve fund of the Federal Deposit Insurance Corporation. And the Federal Deposit Insurance Corporation is the agency which has the responsibility of safeguarding

[5] The Chairman of the Federal Deposit Insurance Corporation said in 1935: "In the capital rebuilding program, in better than 90 percent of the cases they have always taken our examination." (Hearings before House Committee on Banking and Currency, 74th Cong., 1st sess., H. R. 5357, pp. 135–136.)

[6] It does, however, include expense incurred by the Reconstruction Finance Corporation in connection with loans to closed banks, which are recommended for transfer not to the Federal Deposit Insurance Corporation but to the Treasury.

against bank failures, and is best equipped to decide when a given bank is able to retire its preferred stock. Now that the great mass of bank lending operations of a salvage character has been completed, no good purpose seems to be served by separating the functions of lending to effect consolidations from that of lending to avoid the necessity of consolidation or receivership.

Reconstruction Finance Corporation loans to closed banks and receivers.—In the light of the facts set forth above it might seem logical to transfer from the Reconstruction Finance Corporation to the Federal Deposit Insurance Corporation, the loans to closed banks, amounting to over 95 million dollars, now held by the Reconstruction Finance Corporation. Consideration has been given to this suggestion, but in view of the fact that the necessity for such loans no longer exists, in the case of failure of an insured bank, such transfer is not recommended. Recommendation is made elsewhere that the Federal Deposit Insurance Corporation be made receiver for all closed national banks now in receivership. If this recommendation is followed, it seems better that the Federal Deposit Insurance Corporation should not be the holder of the outstanding loans to closed national banks, since there is a possibility of conflict of interest between the holder of the loans as a preferred creditor and the depositors. These notes are therefore included in our recommendations for transfer of assets to the Treasury for collection by the Reserve banks.

Direct loans to industry.—On June 19, 1934, there was passed an act (48 Stat. L., 1105) amending the Federal Reserve Act and the Reconstruction Finance Corporation Act, which authorized both the Reserve banks and the Reconstruction Finance Corporation to make direct loans to industry. The accompanying table presents a comparison of the terms under which the two agencies are authorized to lend.

Legal qualifications and conditions for direct loans to industry, Federal Reserve banks and the Reconstruction Finance Corporation [1]

	Reserve banks	Reconstruction Finance Corporation
Type of business	An industrial or commercial business	An industrial or commercial business, including the fishing industry.
Age of business	An established business	Established prior to Jan. 1, 1934.
Financial status		Solvent, in the opinion of the board of directors of the Corporation.
Credit position	Unable to obtain requisite financial assistance on a reasonable basis from usual sources.	"When credit at prevailing bank rates for the character of loans applied for is not otherwise available at banks."
Purpose of loan	For working capital	For maintaining and increasing the employment of labor.
Maturity of obligation	Not over 5 years	Not over 5 years.
Security required	"On reasonable and sound basis"	"Adequately secured, in the opinion of the board of directors of the Corporation."
Amount of funds available.	$139,299,557	$300,000,000.
Amount of any one loan		Not over $500,000.
Form of transaction	(*a*) Direct loan; or (*b*) discount for or purchase from financial institutions; or (*c*) advance to financial institution on the security of such obligation; or (*d*) commitments with regard to such loans or advances to financial institution; ((*b*), (*c*), and (*d*) require 20 percent participation of financial institution in the risk).	(*a*) Direct loans; or (*b*) loan in cooperation with bank; or (*c*) purchase of participation.

[1] Charles O. Hardy and Jacob Viner, Report on the Availability of Bank Credit in the Seventh Federal Reserve District, p. 30.

It will be noted that there is very little difference in the scope of the direct-loan operations of the two agencies. Businessmen are free to place their applications with whichever agency they think is likely to be more liberal. In a number of cases concerns have applied simultaneously to both, and in other cases applicants who have been refused at one have applied at the other.

On November 18, 1936, the Federal Reserve banks had outstanding $26,859,000 of these advances and had commitments involving an additional $22,138,000. On September 30, 1936, the Reconstruction Finance Corporation had disbursed $65,675,968 on account of these loans, of which $7,985,512 had been repaid, leaving $57,690,450 outstanding.

It seems obvious that the duplication of administrative work in the making of these loans involves unnecessary cost, confusion in the minds of the public, and the possibility of undesirable differences of standards between the agencies. Whether such loans are continued indefinitely or not, the entire function should be concentrated in one place or the other.

Our recommedation depends on the policy of Congress as to the permanent or temporary character of this lending function. If such loans are to be continued indefinitely, we believe that the entire block now held by the Reconstruction Finance Corporation should be transferred, at an appraised valuation, to the Federal Reserve banks. If, however, direct loans to industry are regarded as an emergency type of operation suitable for discontinuance whenever the general program of emergency loans is terminated, they should be transferred to the Treasury and handled by the Reserve banks as fiscal agents, as recommended above, and the making of such loans by the Reserve banks discontinued.

Regardless of whether any of the recommendations made in the preceding paragraphs are adopted or not, we recommend that the industrial advisory committee which now serves in connection with these loans, both at the Reconstruction Finance Corporation and the Federal Reserve banks, be abolished. In this connection the following passage from the report of our Treasury investigation is relevant:

> We are not convinced that the industrial advisory committee is a necessary or desirable feature of the system of Reserve bank, direct lending. This statement in no wise reflects on the ability or public spirit of the individuals who compose the committee which advises the Chicago Federal Reserve Bank. Members of the committee are taking a great deal of interest in their work and giving it a very large proportion of their valuable time. Unquestionably in a number of cases their advice has been extremely helpful. However, the work of the committee is essentially a duplication of the work of the lending officers, and results in an undesirable division of responsibility. It also makes it incumbent on the applicant to plead his cause, if he presents it in person, before two tribunals.
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> The Reserve bank officers whose responsibility it is to see that the funds are disbursed in accordance with the law seem to give to each application that is reported favorably by the industrial advisory committee the same careful scrutiny as they would give if the advisory committee had not already investigated. The bank has, in fact, declined a number of applications which have been favorably recommended by the advisory committee. In the majority of instances this was due to the fact that investigations made by the bank's examining force uncovered facts which had not come to the attention of the advisory committee. In other cases there was a genuine difference of judgment.
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> On the other hand, it appears that when the judgment of the advisory committee is negative, though the case is reviewed by the Reserve bank officials, the finding of the advisory committee carries more weight than when it is

favorable. This is not surprising, since an outstanding unfavorable feature brought out in the report of the industrial advisory committee may suffice to debar the application without further detailed study. To a considerable extent, therefore, the advisory committee, which was intended to bring into the picture a nonbanking viewpoint, and probably to bring about greater liberality, works out as one more hurdle which the applicant must clear. In any case the advisory committee, unless it provides itself with a staff of trained investigators comparable to that of the Reserve bank, cannot be expected to take final responsibility for the decisions.

Moreover, the tendency is for the advisory committee, in dividing up its work, to place the initial responsibility for reporting on a given loan upon that member of a committee who comes from the State or city, or general area, in which the applicant's place of business is located, and in some cases the unfavorable judgment of this one committee member seems to have been nearly decisive. Such an arrangement can easily give rise to the accusation that the decision of the committee is affected by the committee member's political or business connections in the applicant's community. Representatives of the survey came across a considerable number of rumors of this sort. Regardless of the merits of these accusations (and we have no real evidence that there was any basis for them), we believe that such complications would be minimized and the work of the Reserve banks put on a sounder basis if the work of appraising loan applications were unified and professionalized.[7]

Other recommendations concerning certain types of temporary loans are made in sections B and C of this report, which deal relatively with farm credit and home-owners' credit.

B. Farm Lending Agencies

In general the farm-lending program of the Federal Government is well organized, as a result of several years' of effort in the consolidation and coordination under the Farm Credit Administration of the work of miscellaneous agencies. We shall consider first the liquidation of the outstanding farmers' loans of types that have been or are shortly to be discontinued; second, the organization for administration of agricultural credit activities that are relatively permanent. The Farm Credit Administration is charged by law or by Executive order with administrative responsibilities in connection with the following types of loans which are no longer being made: (*a*) Loans of the Regional Agricultural Credit Corporations; (*b*) loans made from the Agricultural Marketing Act revolving fund; (*c*) loans of the joint-stock land banks.

Regional agricultural credit corporations.—These corporations were created by the Reconstruction Finance Corporation and that organization owns their outstanding stock. By the terms of Executive order dated March 27, 1933, all the administrative functions connected with the operation of these corporations, except those relating to expenses, were transferred to the Farm Credit Administration. Because their principal functions had been taken over by the production credit corporations, the regional corporations were placed in liquidation early in 1934. As of December 31, 1935, their loans remained outstanding to the extent of $43,400,186, or 14.1 percent of the amount that had been lent. On June 30, 1936, the amount outstanding had been reduced to $36,026,384. Of the repayments to December 31, 1935, $35,866,363, or 24.4 percent, had been effected through transfer of loans to the production credit associations. The

[7] The same, pp. 37–38. It is perhaps appropriate to point out that the staff member who is primarily responsible for this section of the present report was the Administrator in charge of the survey of the availability of bank credit in the seventh Federal Reserve district and joint author of the report quoted.

Farm Credit Administration collects the loans chiefly through the services of agents who are paid on a per diem basis. For the year ended June 30, 1936, the total administrative expenses was $2,240,000, which was paid by the Reconstruction Finance Corporation.

We suggest that in order to eliminate unnecessary accounting and transactions between agencies, and to facilitate liquidation of the Reconstruction Finance Corporation, the stock of the Regional Agricultural Credit corporations be sold by the Reconstruction Finance Corporation to the Production Credit associations of the respective districts at an appraised valuation; with the Government purchasing stock in the Production Credit Corporation and paying off indebtedness to the Reconstruction Finance Corporation in amounts corresponding to the valuation of the loans.

It would appear that, since the loans are of a character similar to those made by the Production Credit associations, economy might result from the use of the services of the Production Credit associations in the servicing of Regional Agricultural Credit Corporation loans. We are advised that the Farm Credit Administration has already done this to the extent that it seems economical; however, we believe that transfer of the responsibility for the costs of collection from the Reconstruction Finance Corporation to the Production Credit corporations would exert a wholesome pressure in the direction of further efforts along this line.

Joint-stock land banks.—No recommendation is offered concerning the liquidation of these agencies as it seems to be properly located in the Farm Credit Administration.

Commodity Credit Corporation.—We recommend that the liquidation of the Commodity Credit Corporation be placed under the supervision of the Cooperative Credit Division of the Farm Credit Administration, which will be in position to utilize the facilities of the cooperative banks and the Production Credit associations as they may be required to facilitate collections. This division already has charge of the collection of loans made under the Agricultural Marketing Act of 1929, which were still outstanding at the end of 1935 in the amount of $115,858,541. Of this amount, $71,425,775 consisted of loans to the Grain Stabilization Corporation. The remainder were loans to cooperatives. Of the latter, $33,919,345 were classed as "effective merchandising" loans, $8,677,735 were facility loans, and $1,835,686 as commodity loans. These loans are now being administered by the Cooperative Division of the Farm Credit Administration. Agents are sent out directly from the Division to contact the borrowers. There is no separate allocation of funds and no data in the reports indicating the cost of the operations involved.

It has been pointed out that the Farm Credit Administration does not now have facilities and personnel to deal with the sale of commodities involved in dealing with loans without recourse. However, it will not be difficult to absorb these facilities now existing in the Commodity Credit Corporation, and it should be possible to economize materially in the collection of loans from the agencies and areas where the Farm Credit Administration already has extensive facilities for collection and contacts with the borrowers involved. The collection of Regional Agricultural Credit Corporation loans has involved the taking over of a line of grain elevators so that the problem of disposing of properties is already involved in the administration of the loans.

Banks for cooperatives.—Since the intermediate credit banks now rediscount practically all loans made by these banks, consideration has been given to the possibility of amalgamating them with the intermediate credit banks. Part of the work of the banks for cooperatives consists of the making of commercial loans of a type similar to those formerly made by the intermediate credit banks. The remainder, however, consisting on June 30, 1936, of $14,823,672 in facility loans, represents an illiquid type of advance which probably could not be made directly by the intermediate credit banks without impairing their present excellent credit standing. Consideration should be given to the feasibility of reducing the number of these banks. Of the 13 banks, only 3 had outstanding at the end of 1935 as much as $3,000,000 in loans. However, the cost of maintaining the separate organizations is not much greater than would be the cost of branch offices or field representatives of a smaller number of banks. This is true because of the well-developed system of joint facilities and joint supervision which the banks for cooperatives share with the farm land banks, the intermediate credit banks and the production credit corporations.

Emergency crop, feed, and seed loans.—As was noted in part I, the work of this division of the Farm Credit Administration is similar to that of the Rehabilitation Division of the Resettlement Administration. Both make loans on the security of chattels to farmers who cannot qualify for needed credit from the production-credit associations or from commercial banks. There has been, undoubtedly, an undesirable overlapping of activity between them. Nevertheless, there is probably justification for the continuance of crop-loan agencies in both divisions, assuming that it is the policy of the Government to continue a program of the present scope. The Farm Credit Administration crop loans (as distinguished from the old drought loans) are business operations conducted on the basis of reasonable security, though they involve higher risks than local banks are prepared to assume. The Resettlement Administration loan program is closely related to its program of relief grants and rehabilitation. What is needed for the present seems to be a better delimitation of the respective fields, so that there may be no competition, or refinancing of the loans of one agency by advances from the other. Progress appears already to have been made in this direction. We recommend that any future drought loan activities which may be necessary be centered in the Resettlement Administration. We do not believe that the lending activity of the Resettlement Administration could advantageously be transferred elsewhere until the completion of its general rehabilitation work. Nor are we prepared to recommend that the crop loans of the Farm Credit Administration be transferred to the Resettlement Administration until the permanent character of that agency's future organization and work are more settled.

Land-bank commissioner loans.—Consideration has been given to the suggestion that the so-called land-bank commissioner loans made by the Federal Farm Mortgage Corporation be transferred to the Resettlement Administration on the ground of its quasi-relief character. It seems clear to us, however, that the balance of argument is decidely against such action. The bulk of these loans are secured by second mortgages on properties on which a farm-loan bank has a first mortgage. The actual work of collection of a land-bank commissioner loan is done by a Federal land bank, and in many cases it is able to use the facilities of a national farm-loan association for this purpose. Interest and amortization payments on these loans are scheduled to fit in with the farmer's payment on his land-bank loan, and much would be lost, both from the standpoint of the Government and from that of the farmer, if administration of the two classes of mortgage loans were separated.

C. Home Lending Agencies

In another section of this report we have described the home lending agencies of the Government, and have commented on the extent of overlapping and duplication between them. We offer here our recommendations with regard to the future relationships of these agencies. In formulating these recommendations it has been assumed that the functions performed by all these agencies are to be continued with the exception of the Home Owners' Loan Corporation, which is already in liquidation.

Home Owners' Loan Corporation and the Federal Housing Administration.—It was noted in a previous section of this report that in the last fiscal year the Federal Housing Administration spent over $7,000,000 on its field organization and the Home Owners' Loan Corporation over $23,000,000. The work of these field organizations is very similar, and the similarity will grow greater as the Federal Housing Administration grows older and is confronted with a larger volume of defaults on its guaranteed loans. Both agencies have the same problems of property management and resale of properties. Their legal staffs are specialists in the same field of law. Their research staffs collect very extensive data concerning the trend of real-estate values in the same communities. The same questions of policy as to the treatment of delinquent debtors will arise in both agencies. No important public purpose is served by keeping them separate, and we have no hesitation in recommending that they be consolidated.

However, the best method of effecting the consolidation is a question of some difficulty because of certain differences in the character of the assets and the liabilities of the two organizations. The Home Owners' Loan Corporation may direct loans; the Federal Housing Administration guarantees mortgage loans made by approved private lenders. Consequently the Federal Housing Administration has a large and growing contingent liability while the liabilities of the Home Owners' Loan Corporation are direct obligations incurred in raising the funds which it used to make loans. The Home Owners' Loan Corporation owns a portfolio of about a million loans, the great majority of which are believed to be good.

The Federal Housing Administration owns no mortgage loans but comes into the possession of properties which are foreclosed by private agencies. Hence the two agencies have similar problems in the management and disposal of properties. They each engage in effecting the transfer of foreclosed properties of the respective agencies. In the one case the Home Owners' Loan Corporation is the mortgagee while in the other a private agency is the mortgagee and the Federal Housing Administration acquires title after foreclosure, if carried out by a private agency as mortgagee. However, the Federal Housing Administration does exercise some supervision over loans which have not been foreclosed. It receives reports of delinquency and gives advice and assistance to mortgagees in servicing loans that are in arrears.

We have given consideration to a suggestion that the Home Owners' Loan Corporation should sell in the open market, without recourse, such of its loans as command a market, using the proceeds to retire its bonds. If this were done, the remaining work arising in connection with the bad loans could be turned over to the Federal Housing Administration, as a service agency, and the field force of the Home Owners' Loan Corporation consolidated with that of the Federal Housing Administration.

If all the Home Owners' Loan Corporation loans were either good enough to be sold in the open market without recourse and without discount or else bad enough to be foreclosed immediately, this plan would be very satisfactory. The properties taken over could be turned over to the Federal Housing Administration for management and sale. The Home Owners' Loan Corporation would become a mere financial holding company which would pay the costs of administration of its bad loans and gradually pay off its bonds as funds were made available. This arrangement would be similar on a larger scale to that which now exists in the liquidation of the Regional Agricultural Credit Corporation.[8]

In fact, however, an uncertain, and probably large, proportion of the Home Owners' Loan Corporation's loans would fall between the two classes mentioned. They would not find a ready market, neither would they be in default. The collection organization of the Home Owners' Loan Corporation would have to be kept alive in some agency to service these substandard loans until they either rose into the salable class or fell to the class of defaulted loans. There would be a financial gain in the amalgamation of the servicing and property-management work of the two organizations, but there would be no economy in the sale of the good assets, for the simple reason that the Home Owners' Loan Corporation would be able to sell, in general, only those loans on which it was most likely to make a profit and would still have to keep up its overhead and field organizations for collecting the rest.

Moreover, there is considerable doubt as to the willingness of financial institutions to purchase the loans, and it is certain that debtors would resist the transfer. All the Home Owners' Loan Corporation loans were made to borrowers who were, or appeared to be, in distress, and the purpose of the loans was to relieve this distress. Borrowers are certain to feel that they are entitled to somewhat more lenient treatment, if their distress recurs, than they would be likely to get from a commercial lender who had no recourse to the Government. And whatever the merits of this plea, prospective buyers of the mortgages are certain to take it into consideration.

If, on the other hand, the loans are offered under the guaranty of some governmental agency, so that the new lenders and the debtors

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[8] See sec. B above. It will be remembered that the actual work of liquidation is done by the Production Credit Corporations, while the Reconstruction Finance Corporation as owner of the stock of the Corporation pays the costs of administration. Proceeds of loan collections are used to retire the stock.

can hope to compose their differences with the aid of the Government, the loans can probably be sold without difficulty. In that case we see no reason to confine the experiment to the high-grade loans. The whole block, except those foreclosed, or threatening foreclosure, can be sold under a guaranty similar to that offered by the Federal Housing Administration. The servicing, legal, and property-management organizations can then be amalgamated with similar divisions of the Federal Housing Administration.

We recommend, therefore, that the Federal Housing Administration and the Home Owners' Loan Corporation be consolidated, and that the entire block of Home Owners' Loan Corporation loans which are not already in default be insured by the new corporation under a guaranty similar to that given to holders of the so-called title II mutual mortgage loans and then sold in the open market. The new corporation organized to take over the assets and liabilities of the Federal Housing Administration and the Home Owners' Loan Corporation would have an authorized capital regarded as sufficient to meet title I claims (now paid from funds furnished by the Reconstruction Finance Corporation) and any additional claims arising under title II which the equity contributed by the Home Owners' Loan Corporation and the reserve fund of the Federal Housing Administration might be regarded as insufficient to cover. The Treasury could subscribe for an amount regarded as ample to meet title I claims and at a later time increase the subscription if the equity of the Home Owners' Loan Corporation and the title II reserve should prove insufficient to meet all losses arising from the guaranty of mortgages. Since the new corporation would realize a large sum from the sale of Home Owners' Loan Corporation mortgages, the title II plan of issuing guaranteed debentures could be suspended, the mortgage insurance corporation paying off the holders of these foreclosed loans at the time when the properties were taken over. The costs of administration would be greatly reduced by the changes suggested. There would be some loss of profit on the good loans, but there would be an offset in that the entire cost of foreclosure would fall on the buyer of the securities.[9] In spite of this item, buyers could afford to take this risk in exchanging Home Owners' Loan Corporation bonds for guaranteed mortgages since the mortgages bear a much higher rate of interest. Indeed, in many cases these guaranteed mortgage loans might be exchanged for HOLC bonds with some premium on the mortgages.

The funds obtained from the sale of Home Owners' Loan Corporation mortgages would be used for two purposes—first, to provide funds which may be needed to pay off holders of defaulted mortgage loans insured by the Federal Housing Administration, thereby obviating or reducing future issues of Federal Housing Administration debentures; second, to retire Home Owners' Loan Corporation bonds. So far as practicable, Home Owners' Loan Corporation bonds should be taken in exchange for the newly issued mortgages, and any premium obtained would furnish coverage for losses on Home Owners'

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[9] Under Federal Housing Administration guaranty the holder of a mortgage is required to foreclose before he has recourse to the Federal Housing Administration, and his claim for reimbursement of foreclosure costs is subordinated to the Federal Housing Administration's claim against the property for principal and interest.

Loan Corporation loans and protect the Government's equity in the stock of that Corporation.

In summary, the advantages of this plan would be—

(*a*) Elimination of the collection service of the Home Owners' Loan Corporation insofar as good loans are concerned.[10]

(*b*) Elimination of foreclosure costs.

(*c*) Consolidation of the property-management and the loan-servicing divisions of the two organizations.

(*d*) Substitution of private capital for public ownership of a large mass of mortgages, and retirement of a large volume of outstanding bonds.

(*e*) Use of funds derived from the sale of mortgages to provide for future financial needs of the Federal Housing Administration program, thereby avoiding the necessity of simultaneously retiring Home Owners' Loan Corporation bonds and issuing Federal Housing Administration debentures.

(*f*) Consolidation of research activities and legal work of the two agencies.

(*g*) Avoidance of conflicting policies, divided responsibility, and confusion in the minds of the public with respect to the Government's program for the financing of housing.

(*h*) Reduction of general overhead through the elimination of one major governmental unit.

Organization of Federal home lending agencies.—It is not necessary, in order to carry out the recommendation made in the preceding section, that either the Home Owners' Loan Corporation or the Federal Housing Administration should absorb the other. What is suggested is the merger of the Federal Housing Administration and the Federal Home Loan Bank Board into one Federal home-loan agency, to be administered by a board or an administrator, as the Congress might determine. Within this organization there would be a mortgage-insurance corporation which would take over the assets and liabilities of the Federal Housing Administration under its title I and title II guaranty and the assets and liabilities of the Home Owners' Loan Corporation. No new capital stock need be subscribed by the Treasury at the creation of this corporation except to meet title I claims, since the equity represented by Home Owners' Loan Corporation stock and Federal Housing Administration reserves should be sufficient to cover probable losses under title II after the merger. It is important, however, that the new agency should be brought under the supervision of the Federal Home Loan Bank Board or of some other coordinating agency exercising supervision over all the home lending institutions.

[10] The profit on good Home Owners' Loan Corporation loans under the present arrangement will tend to become a vanishing factor from year to year, since a new loss factor will soon appear. As the principal is paid down the profit margin arising from the difference between the interest received on mortgages and the interest paid on bonds will decline by over 6 percent per annum, on an average, because of a similar decline in the unpaid principal. At the same time the number of installments to be collected is always equal to the number of loans. Hence costs of collection will not decline as fast as the profit margin between interest paid and interest received. Service costs will decline to some extent as the number and principal amount of loans declines, but there will soon develop, after the bad loans are foreclosed, a more steady cost of servicing which will not decline as the income from these loans declines. Hence, deficits will steadily increase, especially in the latter half of the life of the Home Owners' Loan Corporation, because the Corporation will not be in a position to replace the principal of loans as it is paid off. This consideration will not apply to institutional buyers of the mortgages, under the plan suggested above, because they will be reinvesting the principal as it is collected.

The reorganization suggested would proceed along lines similar to those which have been worked out in the Farm Credit Administration, where the Federal land banks, the Federal intermediate-credit banks, the banks for cooperatives, and the production credit corporations use common buildings for their field offices and maintain jointly legal staffs, statistical, auditing, control, and accounting services, and are governed by joint boards of directors. Joint service agencies also are maintained in Washington to service the various operating divisions. Coordination of home lending activities under a single supervisory agency would make it possible to amalgamate the legal, accounting, statistical, and research services of the various housing credit agencies, and in the field to consolidate the offices of the Federal Housing Administration with the Home Owners' Loan Corporation and those of the home-loan banks. This would eliminate the present necessity for two separate organizations to keep informed as to the financial condition of building and loan associations, since the proposed home-loan corporation and the Federal Savings and Loan Insurance Corporation would have access to the reports of examination and the files of condition reports of associations which are members of the home-loan bank system. One appraisal division would supervise the appraisal of mortgages insured under the mutual mortgage system and of mortgages offered as collateral at the home-loan banks. A single agency would serve the Federal housing institutions, and they would have full access to the research work done in connection with one another's work, which now is not the case. And a single agency would furnish technical advice and assistance to home builders, which is now offered by the Federal Housing Administration and by the Home Loan Bank Board.

It will be noted that we do not suggest that the work of the home credit agencies should be amalgamated with the home-building program of the Public Works Administration or the Resettlement Administration or any agency which may be set up to coordinate work in the field of housing construction. We have considered suggestions for such amalgamation, but it is our judgment that the work of these agencies in the low-cost housing field is more closely related to that of agencies responsible for relief and improvement of living conditions in urban areas than it is to that of the home credit agencies; hence it is recognized that such projects can be better tied in with some agency responsible for welfare work in urban communities.

RFC Mortgage Co.—To facilitate the operations under titles I and II of the Federal Housing Administration, the RFC Mortgage Co. purchases guaranteed mortgages, both regular home mortgages and large-scale housing mortgages. With the consolidation of the Federal Housing Administration and the Federal Home Loan Bank Board, it is suggested that this function of purchasing or holding guaranteed mortgages be transferred to the home-loan banks. This action would not only facilitate the operations under title II of the National Housing Act but might also be of value in connection with the liquidation of the Home Owners' Loan Corporation. To facilitate such operations by the Federal home-loan banks they should be authorized to issue debentures against insured mortgages as collateral.

If it is desired to continue the making of loans on other types of property which are now made by the RFC Mortgage Co. (chiefly office and commercial buildings and apartment houses with more than 4 families) it is recommended that the RFC Mortgage Co. be transferred to the supervision of the newly constituted Home Loan Bank Board [or Administrator].

D. Summary of Recommendations

1. That the preferred stock of banks be transferred from the Reconstruction Finance Corporation to the Federal Deposit Insurance Corporation, the Government buying stock in the Federal Deposit Insurance Corporation to cover the investment. Payment by the Government to the Federal Deposit Insurance Corporation for new stock, and payment by the Federal Deposit Insurance Corporation to the Reconstruction Finance Corporation for the preferred stock of banks, to be made with Reconstruction Finance Corporation bonds now held by the United States Treasury.
2. That the direct loans to industry, made by the Reconstruction Finance Corporation be sold to the Reserve banks if the latter are to continue making direct loans, or sold to the Treasury in the event that direct loans are presently to be discontinued.
3. That regardless of the disposition made of the outstanding direct loans, if the making of direct loans to industry is to be continued, by either the Reconstruction Finance Corporation or the Reserve banks, the industrial advisory committees be abolished.
4. That the production credit corporations purchase the stock of the regional agricultural credit corporations from the Reconstruction Finance Corporation and the Government purchase stock in the production credit corporations in corresponding amount, payment to be made in both cases in Reconstruction Finance Corporation bonds now held by the United States Treasury.
5. That all the assets of the Reconstruction Finance Corporation, other than those provided for in the recommendations listed above, be transferred to the Treasury, and a corresponding amount of Reconstruction Finance Corporation bonds held by the Treasury be canceled.
6. That the assets of the Reconstruction Finance Corporation be taken over by the Treasury and its outstanding liabilities assumed by the Treasury. In the event that it is desired to continue the Reconstruction Finance Corporation's lending activities beyond the date now fixed for its termination, it is recommended that it make future loans as fiscal agent of the Treasury.
7. That the balance of Public Works Administration loans which has not been taken over by the Reconstruction Finance Corporation be purchased by the Treasury.
8. That the collection of assets taken over by the Treasury under these recommendations be entrusted to the Federal Reserve banks as fiscal agents.
9. That the Commodity Credit Corporation be put under the control of the Farm Credit Administration and its loans liquidated through the Cooperative Credit Division.
10. That the Federal Housing Administration and the Federal Home Loan Bank Board be amalgamated.

11. That in the new agency suggested in the preceding recommendation there be created a new corporation which shall take over the assets and assume the liabilities of both the Home Owners' Loan Corporation and the Federal Housing Administration.

12. That the outstanding loans of the Home Owners' Loan Corporation for which foreclosure is not imminent, be placed under the protection of mortgage insurance of the type now offered by the Federal Housing Administration, commonly known as title II loans, and that these loans be sold to the public.

13. That the funds obtained by this operation be used in part to retire Home Owners' Loan Corporation bonds and in part to create a fund out of which losses on guaranteed loans shall be paid in cash, thereby obviating or postponing the necessity for the further issuance of Federal Housing Administration debentures.

PART III. RECOMMENDATIONS CONCERNING BANKING CREDIT SUPERVISORY AGENCIES

In this section we deal with the relationships between the Comptroller of the Currency, the Federal Reserve System, and the Federal Deposit Insurance Corporation; the three principal agencies which are concerned with the supervision of banking, currency, and credit conditions. In part I we described the organization of these agencies and presented a functional grouping of their activities in this field. Here we offer our recommendations looking toward a more efficient and economical performance of these functions.

It needs little argument to show that the present pattern of banking and currency control is imperfect. There are four bank-examining agencies, when there is need of only one. The Comptroller of the Currency is the executive head of the national banking system, yet such important matters as the control of interlocking directorates under the Clayton Act and permission for national banks to establish branches are delegated to the Board of Governors of the Federal Reserve system. The Federal Deposit Insurance Corporation is the guardian of the deposit insurance fund, but it has no control over the admission of banks to the protection of that fund (except nonmember State banks); neither can it investigate the solvency of a national bank except through the Comptroller of the Currency, or with his consent. The division of responsibility between these agencies, which is obviously the result of historical accident rather than of any consistent plan, makes for inefficiency.

Number of agencies needed.—In planning a redistribution of functions, the first question concerns the number of agencies among which the functions are to be redistributed. We take for granted the continued existence of the twelve Federal Reserve Banks, since they perform functions as correspondents, clearing agencies and depositaries which no other governmental agency is equipped to handle, and since they have statutory functions in the field of credit control which Congress has delegated in part to the member banks of the system, through the provision for private ownership of stock and election of six directors by the member banks. The merits of this arrangement are outside the field of reference of this investigation.

The principal question at issue, therefore, is whether the functions now performed by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation should be performed by three agencies, or two, or one.

We have given careful consideration to the suggestion that the work of these three supervisory bodies should be consolidated in a single agency, an opinion which we find to be supported by many able students of the problem. The principal arguments for complete consolidation, however, have to do with the economic advantages of a unified banking system as against the present system of dual control. Consolidation of the control agencies in Washington would be a long step toward such unification of the banking system. This question involves political and economic issues, more than administrative efficiency and economy. It would be beyond the assigned function of this report to weigh the advantages and disadvantages of such fundamental reform. Our recommendations are made on the assumption that it is the established policy of the United States, at least for the present, to divide the responsibility for bank supervision between the Federal Government and the States, leaving to the commercial banks the choice between State and national charters, and between membership and nonmembership in the Federal Reserve System.

On the other hand, we see no necessity for the maintenance of more than two agencies, one to deal with questions of monetary and credit policy and with the fiscal and other services rendered to the Treasury by the Reserve Banks, and the other to handle, first, the relationships of the Federal Government with State banks, and second, those matters that directly affect both, and can be handled best by a single agency. The most feasible reorganization, therefore, is the elimination of the office of the Comptroller of the Currency, and a reallocation of functions of that office.

Our recommendation that the office of the Comptroller of the Currency be abolished rather than one of the other agencies is based on the conclusion that all the duties of that office can be assigned to other agencies which have closely related functions, whereas the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation both have permanent duties which could not well be transferred to the Comptroller's office. The Board of Governors of the Federal Reserve System exercise quasi-legislative and quasi-judicial functions of a character which as a matter of long-established policy are regularly entrusted to boards representing divergent interests, rather than to single administrators. The Federal Deposit Insurance Corporation could be administered by an executive head instead of a board, but in view of its extensive relations with more than 7,000 State nonmembers we do not believe we could properly recommend that it be absorbed by the office of the Comptroller of the Currency. Such action would be interpreted by State bankers and State banking officials as an attempt to force them into the national banking system.

We shall first discuss in order the various tasks performed by the agencies under review, giving our recommendations as to their place in the proposed new system; then present a summary picture of the new alignment of agencies.

Federal status of banks.—The Board of Governors of the Federal Reserve System controls the admission of State banks to the Reserve system, but has no control over the chartering of national banks. The Federal Deposit Insurance Corporation controls the entry of State nonmember banks into the deposit insurance fund, but has no control over the entry of banks either under national charter or as State members of the Federal Reserve System. We do not believe that either agency should have the power to compel acceptance of a bank by the other.

We recommend that the routine work of charter issuance for new national banks be transferred to the Federal Deposit Insurance Corporation, subject to the provision that no national bank may be chartered without the approval of the Board of Governors of the Federal Reserve System. Likewise, it is recommended that no State bank be admitted to the Reserve System without the approval of the Federal Deposit Insurance Corporation. Cases in which there would be an irreconcilable difference of opinion between the agencies would doubtless be rare, but we believe it is important that neither agency be without control over the composition of its own membership.

Bank examinations.—We recommend that the Federal Deposit Insurance Corporation be given the power to examine all insured banks, whether members of the Federal Reserve System or not, thus consolidating in the corporation all the regular bank-examining work of the Federal Government except the examination of the 12 Federal Reserve banks. The latter function should remain with the Federal Reserve Board.

The question of consolidating the examining forces of the Comptroller's Office, the Federal Reserve Banks, and the Federal Deposit Insurance Corporation has been intermittently a subject of discussion for many years. Unification offers several advantages. First, there would be a considerable economy. While there is no duplication of examinations, there is a duplication of overhead costs in the maintenance of central and regional supervisory offices for three sets of examiners. Travel expense would be lessened if, for instance, a national bank and a State bank in the same town were examined by the same examiner on the same trip. Moreover, there would be a very considerable saving in the expense of reviewing examination reports. At present the reports of the national banks are reviewed in the Comptroller's Office and again in the office of the Federal Deposit Insurance Corporation, while reports of examinations of State member banks are reviewed in the Federal Reserve System and again in the Federal Deposit Insurance Corporation. The Reconstruction Finance Corporation also maintains an examination division which reviews reports of examination furnished by the three regular examining agencies. Occasionally the Reconstruction Finance Corporation also makes supplemental examinations of banks in which it has an investment.

Second, there would be a gain in uniformity of standards of examination. State and national banks are assessed for deposit insurance on the same basis, and it is obviously desirable that the standards of lending and investment policy, insofar as they are set by Federal authority, should be uniform for both classes of banks. The compilation of statistical data from the two sets of reports would be greatly facilitated by unification of the examining system. Moreover, with the unified scheduling of examinations of national banks and State banks that are under common ownership, it would be possible to exercise a more effective check against the possibility of shifting of assets back and forth between banks. Undesirable differences in salary policy between the Federal examining agencies would be ironed out.

These two advantages are independent of the question as to where the unified examination division is to be placed. It is impracticable, however, to carry through the unification in any other agency than the Federal Deposit Insurance Corporation. There are over 7,000 insured State banks not members of the Federal Reserve System which are subject to Federal examination only because they have elected to take advantage of the insurance of deposits which is administered by the Federal Deposit Insurance Corporation. It would be out of the question to place the examination of these nonmember banks in either the Comptroller's office, the Board of Governors of the Federal Reserve System, or the Federal Reserve banks.

As to the member banks of the Federal Reserve System, there may be differences of opinion. But our recommendation that the examination of these banks be placed in the Federal Deposit Insurance Corporation is not based merely on the advantages of unification, but on the fact that examination is more important to the Federal Deposit Insurance Corporation than it is to the Federal Reserve System.

In fact the power to examine insured banks is essential to the proper performance of its duties by the Federal Deposit Insurance Corporation. Under the present system it is practically impossible for the Federal Deposit Insurance Corporation to be certain, in the case of banks which are close to the margin of insolvency, when it should take action to protect the interests of depositors and its own interest as the insurer of the deposits of less than $5,000.

The Federal Reserve banks also have an interest in the examinations, since they exercise a considerable degree of supervision over the member banks, are the custodians of their reserves, and are constantly called on to make loans to members and to collect checks drawn upon them. We believe, therefore, that the Reserve Board and the Reserve banks should have access to the reports of examinations made by the Federal Deposit Insurance Corporation in the case of member banks, and should have the power to make supplementary examinations in cases where the Reserve bank is not satisfied with the result of the Federal Deposit Insurance Corporation examination and needs supplementary information in connection with its lending operations. Special examinations would sometimes be desirable also in connection with applications of nonmember banks for membership in the Reserve System.

It must be remembered that the Federal Reserve System now depends on the examination reports of the Comptroller of the Currency for its information in regard to national banks. The proposed new system would put it in no worse position than it is now except with reference to State member banks, which make up only 1,051 out of a total of 6,390 members. We are informed that it is the present practice of the Reserve System to accept reports of State banking authorities with reference to a considerable proportion of these 1,051 State banks. Since the Federal Reserve Board would have to maintain a small examining division for the audit of the 12 Reserve banks, any special examination of member banks or banks applying for membership, which might be necessary, could be made by examiners detailed from this division. The proposed power to make supplementary examinations for credit purposes is the same as that now possessed by the Reconstruction Finance Corporation. The Corporation, as was noted in a previous section of this report, sometimes makes special examinations in connection with its ownership of preferred stock, but in most cases accepts the reports of the regular examining agencies.

It may be suggested that since a large proportion of the deposits in national banks are uninsured, because held in accounts in excess of $5,000, the Federal Deposit Insurance Corporation is not an appropriate agency to take over the responsibility of the Comptroller's office in regard to examining them. This does not seem to us an adequate reason for leaving the Federal Deposit Insurance Corporation without the power of examination over these banks, nor for maintaining a duplicate examination system. The interest of the Federal Deposit Insurance Corporation is not in conflict with that of the large uninsured depositors; on the contrary they have a common interest in the prevention of unsound lending and investment policies, and in the prompt closing of banks whose assets are being dissipated.

At present, national banks are assessed by the Comptroller for the expense of examinations, while State nonmember banks are examined free by the Federal Deposit Insurance Corporation. Concentration of the examination function in the Federal Deposit Insurance Corporation would make it possible to wipe out this inequality, since the Federal Deposit Insurance Corporation has ample income from investments to enable it to carry this expense. Ultimately the cost falls on the banks either way, since any surplus of Federal Deposit Insurance Corporation investment income over investments goes into its reserve and presumably reduces future assessments. The proposed arrangement would equalize the burden, since at present national banks have to pay examination costs and also pay assessments to the Federal Deposit Insurance Corporation at the same rate as do nonmember State banks, which are not assessed for examinations.

Call reports.—For reasons similar to those given in regard to examinations, we recommend that the Federal Deposit Insurance Corporation collect call reports from all insured banks, on a form approved by the Board of Governors of the Federal Reserve System. The Board of Governors should, of course, have access to the call reports of all member banks.

Receivership and liquidation.—The appointment and supervision of national bank receivers has always been one of the most important activities of the office of the Comptroller of the Currency. Under the provision of the Banking Act of 1935, however, the Comptroller is required to appoint the Federal Deposit Insurance Corporation as receiver for insured national banks. The Federal Deposit Insurance Corporation is also empowered to act as receiver for failed State banks when appointed by the appropriate State authority. Under the provisions of this law the Corporation now is acting as receiver for 6 national and 21 State banks. The Comptroller of the Currency exercises supervision over the Federal Deposit Insurance Corporation as receiver for national banks, but such supervision obviously involves less responsibility and is less necessary than is the supervision given to individual receivers.[11] The Comptroller still has the appointment and supervision of the receivers of about 1,116 national banks which failed prior to the establishment of the present policy. As these receiverships are wound up the functions

[11] The law provides that "the Corporation shall retain for its own account such portion of the amounts realized from such liquidation as it shall be entitled to receive on account of its subrogation to the claims of depositors, and it shall pay to depositors and other creditors the net amounts available for distribution to them." No such power is vested in other receivers of national banks.

of the Comptroller in connection with failed banks will dwindle (over 200 were closed in 1936), while the operations of the Federal Deposit Insurance Corporation in this field will presumably expand as the number of failed insured banks increases.

We recommend that the entire body of receivers of closed national banks be discharged and the Federal Deposit Insurance Corporation appointed as receiver.[12] This change would enable one legal staff and one reviewing and supervisory staff to deal with all problems of receivers. It would also make for uniformity in the handling of receivership problems. This recommendation is submitted partly in view of the fact that we are elsewhere recommending the transfer out of the Comptroller's office of its other chief function; namely, the examination of national banks. Even if there were no direct advantage in concentrating the receivership function in the Federal Deposit Insurance Corporation we do not believe that the maintenance of the Comptroller's office on a dwindling basis merely to clean up the old receiverships would be justified.

Preferred stock of banks.—In a previous section of this report it is recommended that the preferred stock of banks, amounting to about 700 million dollars, be transferred from the Reconstruction Finance Corporation to the Federal Deposit Insurance Corporation, the Government buying new stock in the Federal Deposit Insurance Corporation to finance the transaction. It was further suggested that the proceeds of retirement of preferred stock by banks, together with dividends, in excess of the direct cost of managing the preferred stock investment, be used to retire the Government's stock in the Corporation.

This recommendation we base primarily on the fact that the purpose underlying the purchase of this stock is the same as the purpose underlying the creation of the system of Federal deposit insurance, namely, the prevention of bank failures and the creation of a sound capital structure for banks. The bulk of the issuance of preferred stock was an incident of the program of bank rehabilitation following the banking holiday of 1933, and the establishment of deposit insurance. Some stock is still being issued in cases where examination discloses the existence of an inadequate capital structure. Requests for the issuance of such preferred stock usually arise from the review of bank examiners' reports by the Comptroller and the Federal Deposit Insurance Corporation.

More important than the issuance of new preferred stock is the question of retirement of the stock now outstanding. Some banks which were in no particular need of new capital accepted subscriptions for their preferred stock as part of a general campaign to popularize this type of financing. Such operations were doubtless desirable immediately after the banking crisis in order that there might not arise in the minds of the public the presumption that any bank selling preferred stock was in a bad condition. Some of these banks are desirous of retiring their stock. Others, which were in need of help in 1933, have now gained enough strength to make them desirous of retiring stock more rapidly than the law requires. It seems obvious that the proper agency to pass on the

[12] Of course the Federal Deposit Insurance Corporation would be free to reemploy the receiver as its liquidating agent.

question of whether such retirement is permissible is the agency which is responsible for the maintenance of bank solvency. The Federal Deposit Insurance Corporation has a major stake in the question in the case of all insured banks. We see no advantage in the existing division of responsibility between the Reconstruction Finance Corporation and the bank-control agencies. Since a large proportion of the preferred stock and capital debentures are those of State nonmember banks, it is clear that the Federal Deposit Insurance Corporation is the only one of the control agencies which is fitted to take over the entire block. The Comptroller also has and interest in the case of national banks, and the Reserve System in the case of both national and State member banks, but the primary importance of the question relates to bank solvency, which is the center of the Federal Deposit Insurance Corporation's function.

This recommendation is made regardless of the acceptance or nonacceptance of our recommendation for a general distribution of the assets of the Reconstruction Finance Corporation to other agencies for collection purposes.

Establishment of branches.—The establishment of branches must be approved by the Comptroller in the case of a national bank, by the Board of Governors in the case of a State member bank, and by the Federal Deposit Insurance Corporation in the case of an insured nonmember bank. We recommend that this power be concentrated in the Federal Deposit Insurance Corporation with regard to all insured banks, reserving to the Board of Governors the right to veto the establishment of branches by a national bank or a State member bank. We recommend that primary responsibility be placed in the Federal Deposit Insurance Corporation rather than in the Board of Governors partly because, as with other functions that have been discussed, it is impracticable to vest the power with regard to nonmember banks in any Federal agency other than the Federal Deposit Insurance Corporation, and partly because in the establishment of a branch by a member bank the question of competition with an insured nonmember bank is frequently an important consideration. The issue is more closely related to the principal function of the Federal Deposit Insurance Corporation than it is to the general credit and monetary functions of the Board of Governors of the Federal Reserve System. Nevertheless, it is not desirable that the Federal Reserve System be obliged to accept new branches against its judgment.

Holding company affiliates.—Under the Banking Act of 1933 the Board of Governors exercises certain discretionary powers with regard to the voting of stock of member banks held by holding-company affiliates. It also exercises powers of examination over affiliates of member banks. In line with our recommendation for the concentration of examining functions in the Federal Deposit Insurance Corporation, we recommend that all the powers which the Board of Governors exercises in this connection be transferred to the Federal Deposit Insurance Corporation. We call attention to the fact that the provisions of law in this regard, which apply to State member banks, do not apply to insured nonmember banks.

Interlocking directorates.—Under the provisions of the Clayton Act, the Board of Governors of the Federal Reserve System grants or withholds permission for directors of member banks to serve at the same time as directors of other financial institutions. No similar provision has been made as to interlocking directorates affecting insured nonmember banks. We recommend that the function be transferred to the Federal Deposit Insurance Corporation. We lay no great stress on this recommendation, however, as it is likely that the function can be performed about as well in one place as the other. Our recommendation is based simply on the desirability of freeing the Board of Governors, as far as possible, from purely administrative responsibilities.

Research and statistics.—Extensive research in the field of banking and credit is now conducted by both the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation. It does not appear, however, that there is an undesirable duplication of activity between these agencies. Each has a special need for certain types of information and needs its own research agency to carry them out. Some realignment of tasks would doubtless be necessary if the recommendations of this report are carried out, but this could best be worked out in conference between the agencies.

We suggest that the collection of statistics of world production and consumption of gold, now collected by the Bureau of the Mint, might well be turned over to the Board of Governors, as this task is closely related to statistical work which that agency now performs, and the information is needed largely for use in connection with general credit policy.

We suggest that the Federal Reserve Bulletin be enlarged by the grant of space to the Federal Deposit Insurance Corporation for publication of statistical data which it collects and the results of research in progress. Statistical data are now released separately by the Federal Deposit Insurance Corporation in quarterly condition reports, and valuable research results are published in its Annual Report. Publication in the Federal Reserve Bulletin would enhance the Bulletin's usefulness to students of banking problems, and simplify the filing work of libraries and the bibliographical work of research students. It would also give wider publicity to the research work of the Federal Deposit Insurance Corporation.

Interest rates on time deposits.—The Federal Deposit Insurance Corporation now has authority to fix the maximum rate of interest which may be paid on time and savings deposits by nonmember insured banks, while the Board of Governors exercises the same power with respect to member banks. In line with preceding recommendations, strict logic probably requires that the function be concentrated in one agency or the other, and this would presumably be the Federal Deposit Insurance Corporation, since such authority over nonmember banks can hardly be transferred to the Federal Reserve System. We believe, however, that this authority was intended to be used as an agency of credit control and not merely as a means of safeguarding banks against the weakening of their financial position or by excessive interest payments (or by rates so low as to drive funds out of the banks into other agencies). We are not prepared, therefore, to recommend that the function be concentrated in either agency. We believe, however, that there should be unity of action, not only as to rates fixed but as to the definition of terms and the interpretation of regulations. We recommend that these functions be exercised jointly by a committee of five, two members being designated by each agency, and the fifth being the Secretary of the Treasury or a representative designated by him.

Location of agencies.—If possible, we believe that provision should be made in the new Federal Reserve Building in Washington for the housing of the Federal Deposit Insurance Corporation. This would facilitate communication between the agencies and promote desirable cooperation.

Fiscal services of Reserve banks.—We have recommended elsewhere that certain assets now held by the Reconstruction Finance Corporation and the Public Works Administration be transferred to the Treasury and their collection transferred to the Federal Reserve banks as fiscal agents. (See pt. II, above.)

Currency issuance.—The administrative tasks of the Comptroller's office in connection with the retirement of outstanding national bank notes and the issuance of Federal Reserve notes are recommended for transfer to the Public Debt Service. Since the national banks have deposited funds with the Treasury to cover their outstanding liability for national bank notes, these notes are no longer bank obligations, but Government obligations. The Public Debt Service already looks after the cancelation and reissuance of United States notes, and the retirement of obsolete forms of currency. The saving in expense of operation resulting from the consolidation of the retirement of national bank notes with the handling of United States currency would not be significant if the Comptroller's office were to be continued as a separate agency for other reasons. But the task is a purely administrative one, and there would be no advantage in continuing the existence of the Comptroller's office to take care of this task if its other more important functions were transferred elsewhere. Some supervision of the issuance of Federal Reserve notes by the Treasury is necessary, since these notes are obligations of the United States Government, but the operations involved are of a routine character, since the Board of Governors of the Federal Reserve System is responsible for the policies which result in the issuance of the notes.

Organization plan.—The recommendations which we have offered provide for a reorganized system of Federal supervision of banking and credit, with the following allocation of tasks between agencies:

Board of Governors of the Federal Reserve System:
- Control of discount rates of Reserve banks.
- Control of reserve requirements of member banks.
- Control of security lending operations of member banks.
- Control of margin requirements for brokers.
- General policy-making functions with respect to the Federal Reserve System.
- Research and statistics; publication of Federal Reserve Bulletin.
- Permissive control over admission of banks to the Reserve System, subject to the approval of the Federal Deposit Insurance Corporation.
- Examination of Reserve banks.
- Supplementary examination of member banks as needed.
- Control of interest rates paid by insured banks on time and savings deposits (jointly with the Federal Deposit Insurance Corporation and the Secretary of the Treasury).

Open market committee:
- Security purchases and sales of Reserve banks.

Federal Reserve banks:
- Present powers and duties, with a greatly enlarged volume of fiscal agency work for the Treasury.

Federal Deposit Insurance Corporation:
- Insurance of deposits.
- Control of admission of banks to insurance, subject to the approval of the Board of Governors in the case of national and State members of the Federal Reserve System.
- Examination of all insured banks.
- Receivership of all national banks, and of insured State banks, if appointed by appropriate State authority.
- Ownership of preferred stock of all banks.
- Permissive control over establishment of branches by insured banks, subject to the approval of the Board of Governors of the Federal Reserve System in the case of National and State member banks.
- Administrative functions in connection with affiliate relationships of National and State member banks.
- Control of interlocking directorates of National and State member banks.
- Research and statistics; issuance of reports through the Federal Reserve Bulletin.

Effect of recommendations on Federal Reserve System.—One desirable effect of the recommendations made above, if they are carried out, would be to reduce the volume of administrative work of the Board of Governors of the Federal Reserve System and leave it free to devote more time to the study of credit conditions and the formulation of credit policy. Ever since the creation of the System there has been a tendency for it to absorb administrative jobs, such as the control of interlocking directorates and of the establishment of branches and supervision of holding-company affiliates, which are of a type that before the creation of the System would presumably have been assigned to the Comptroller of the Currency. The reason is obvious; assignment of these tasks to the Board of Governors made it possible to include the State member banks in the scope of the regulations.

A large board is not an ideal body to carry on administrative tasks. Moreover, the policy-making functions of the Board have grown in importance with the increasing public reliance on credit control as a panacea for business ills. We believe that there will be a considerable gain in the effectiveness of the Board's more important work if it is relieved of much of its administrative responsibility. The Federal Deposit Insurance Corporation, on the other hand, has comparatively minor policy functions and can presumably handle additional administrative work without impairing its efficiency for its main tasks.

Summary of Recommendations

1. That the office of the Comptroller of the Currency be abolished.
2. That the responsibility for the issuance of charters for national banks be transferred from the Comptroller of the Currency to the Federal Deposit Insurance Corporation, subject to the provision that no national bank may be chartered without the consent of the Board of Governors of the Federal Reserve System.
3. That no State bank member be admitted to the Federal Reserve System without the consent of the Federal Deposit Insurance Corporation.

4. That the Federal Deposit Insurance Corporation be given authority to examine all insured banks, reserving to the Board of Governors authority to examine Federal Reserve banks, and to make supplementary examination of member banks and of banks applying for admission to the System, when necessary.

5. That the Federal Deposit Insurance Corporation be made receiver of all national banks in receivership, including those which closed before the establishment of deposit insurance.

6. That the Federal Deposit Insurance Corporation purchase the preferred stock of banks now held by the Reconstruction Finance Corporation, the United States Government buying additional stock in the Federal Deposit Insurance Corporation to finance the transaction.

7. That the consent of the Federal Deposit Insurance Corporation be required for the establishment of branches by any insured bank, whether a member of the Federal Reserve System or not; also the consent of the Board of Governors in the case of a member bank, whether national or State.

8. That the powers now exercised by the Board of Governors in regard to holding-company affiliates be transferred to the Federal Deposit Insurance Corporation.

9. That the control of interlocking directorates affecting member banks, now exercised by the Board of Governors under the authority of the Clayton Act, be transferred to the Federal Deposit Insurance Corporation.

10. That the Federal Reserve Bulletin be enlarged by the allocation of space to the Federal Deposit Insurance Corporation for the publication of statistical data and research reports.

11. That the power to fix maximum rates of interest on time and savings deposits of all insured banks be vested in a committee of five, two members being designated by the Board of Governors, two by the Federal Deposit Insurance Corporation, and the fifth being the Secretary of the Treasury or a representative designated by him.

12. That provision be made, if possible, for the housing of the Federal Deposit Insurance Corporation in the new Federal Reserve Building in Washington.

13. That the powers now exercised by the Comptroller of the Currency with respect to the retirement of national-bank notes and the issuance and retirement of Federal Reserve notes be transferred to the Public Debt Service.