

To Governor Eccles
From Mr. Wingfield, Assistant Counsel

Subject: Proposed amendment regarding admission to membership in the Federal Reserve System of institutions organized as central banks for mutual savings banks.

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The attached memorandum discusses a proposed amendment to the law which would contemplate the admission to membership in the Federal Reserve System of institutions organized as central banks for mutual savings banks.

The amendment would make specific provision for the admission to membership of State banking institutions organized for the purpose of serving as central banks for mutual savings banks in the various States. It would be required that the capital stock of any such institution be wholly owned by at least two-thirds in number of all of the mutual savings banks in the particular State which have deposits aggregating not less than 50 per cent of the total deposit liabilities of all the savings banks in such State. The attached memorandum refers to the fact that an organization of the kind which might be admitted to membership under such an amendment, the Savings Bank Trust Company, New York City, applied for admission to membership and that its application was disapproved by the Board.

In the circumstances, a concise statement of the considerations which influenced the Board in disapproving such application on July 20, 1934, will show the objections to an amendment of the kind referred to.

As indicated above, the Savings Bank Trust Company was organized as a central bank for mutual savings banks in the State of New York. The bank has banking and trust powers and all of its stock is owned by mutual savings banks in the State of New York. The bank does not deal with the public generally but offers to the mutual savings banks which hold its stock general accommodations similar to those offered to commercial banks by the Federal reserve banks, including deposit and loan facilities, custodian facilities for the safe keeping of investment securities, the purchase and sale of securities for savings banks and a general collection service. It also acts as depository of funds by such mutual savings banks which are used to guarantee deposits of the mutual savings banks and it is understood that substantially all of the mutual savings banks in New York State have withdrawn from the Federal Deposit Insurance Corporation.

When it disapproved the application of the Savings Bank Trust Company, the Board called attention to the fact that mutual savings banks themselves are eligible for admission to membership in the Federal Reserve System and that, upon admission, the facilities of the Federal Reserve System are available to such savings banks. The Board also called attention to the fact that, since the relations of

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the Savings Bank Trust Company are principally with mutual savings banks and that it is not engaged in dealings with the public generally, it is not an institution of the kind which it is contemplated would be admitted to membership in the Federal Reserve System. The Board stated, however, that it would be glad to give consideration to applications for membership in the System from any of the mutual savings banks holding stock in the Savings Bank Trust Company or from any other mutual savings bank. 10

The Board gave consideration to the fact that, while the mutual savings banks which hold stock in the Savings Bank Trust Company would require accommodations from time to time at the Federal reserve bank through the Savings Bank Trust Company, such mutual savings banks would not contribute to the strength of the Federal Reserve System through stock subscriptions and reserves in an amount comparable to the strength contributed by State banks and trust companies. In this connection, it was estimated that contributions to the Federal Reserve System through capital stock subscriptions and reserves by the mutual savings banks in New York State involved, if admitted to membership, would be approximately \$158,000,000 greater than the capital stock subscription and reserves of the Savings Bank Trust Company if admitted to membership. It would seem clear that, in such circumstances, the mutual savings banks would not apply for membership if the central bank should be admitted.

Consideration was also given to the fact that, while such mutual savings banks would presumably desire accommodations at the Federal reserve bank from time to time through the Savings Bank Trust Company, the Board would have no supervisory powers or control over transactions of the mutual savings banks but only over the transactions of the Savings Bank Trust Company.

Consideration was also given to the fact that, if the application of the Savings Bank Trust Company was approved, the Board might be presented with applications from other central banking institutions formed for the purpose of financing groups of financial institutions which are not members of the Federal Reserve System, such as mortgage companies, Morris Plan banks and various kinds of financing companies.

After very careful consideration of the matter, the Board declined to admit the Savings Bank Trust Company to membership, and it would seem that the objections to its admission described above would be equally applicable to the proposed amendment.

Respectfully,

B. Magruder Wingfield

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Attachment.

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