

The attached proposal for amendment to the Federal Reserve Act is submitted for consideration as a measure intended as much for the advantage of the Federal Reserve and the banking structure of the country as in the interests of the Mutual Savings Banks and their depositors.

It recognizes the purposes sought to be accomplished by existing national banking statutes and is in harmony with the amendments proposed in the Banking Act of 1935.

The proposed amendment as drafted and attached is intended to extend the privilege of Federal Reserve Membership to one central banking organization in each State where such organization is owned exclusively by the Mutual Savings Banks within the same State, and is under the supervision of the banking supervisory body of that State.

In the State of New York application was made for membership in the Federal Reserve System by and for Savings Banks Trust Company, a trust company organized and operating under the banking laws of the State and under the supervision of the State Banking Superintendent, all of the capital stock of which trust company is owned by all of the Mutual Savings Banks in the State of New York. The trust company's charter powers differ in no respect from those possessed by other New York State trust companies which have, for many years, been stockholders in the Federal Reserve Bank of New York and consequently members of the Federal Reserve System. Savings Banks Trust Company differs from such other trust companies in that it is an instrumentality of the State of New York for the protection of the depositors of the Mutual Savings Banks of the said State during the present emergency. The Trust Company is trustee of the Mutual Savings Banks Fund which insures the deposits of members in New York State. Self imposed limitations confine the use of its facilities to Mutual Savings Banks in this State but thereby the trust company indirectly serves the depositors of such Mutual Savings Banks.

The trust company's application for membership has not been acted upon favorably, and the Federal Reserve Board in deciding not to approve its application stated through the Secretary for the Board, in a letter

dated July 20, 1954 and addressed to the Federal Reserve Agent in New York,  
the following:

"----- The application of the Savings Bank Trust Company has been given careful consideration by the Federal Reserve Board and it is understood that, while it has general banking and trust powers, the trust company was organized as a part of a plan to make additional credit facilities available to mutual savings banks which hold the capital stock of the trust company, that its relations are principally with such mutual savings banks, and that it is not engaged in the business of receiving deposits from or making loans to or otherwise dealing with the public generally. As you know, under the provisions of the Federal Reserve Act mutual savings banks are themselves eligible for admission to membership in the Federal Reserve System, with the approval of the Federal Reserve Board, and upon admission the facilities of the Federal Reserve System are available to them. In the circumstances, the Board is of the opinion that the Savings Banks Trust Company is not an institution of the kind which it is contemplated should be admitted to membership in the Federal Reserve System under the provisions of the Federal Reserve Act, and, accordingly, the Board has decided not to approve its application for membership in the Federal Reserve System.-----"

It is the purpose of the proposed amendment to clarify the Federal Reserve Act in such manner that there may be removed the Board's uncertainty that the Savings Banks Trust Company is an institution of the kind which it is contemplated should be admitted to membership in the Federal Reserve System under the present provisions of the Federal Reserve Act.

The proposal is not inconsistent with the purposes of the Act as presently constituted nor with those of the proposed "Banking Act of 1935". The Federal Reserve Act as amended by the Banking Act of 1935 extends the privilege of Federal Reserve membership to mutual savings banks. The proposed "Banking Act of 1935" contemplates no change in this situation. In

fact, the implications of the new Banking Act confirm the belief that its proponents not only favor the intention of bringing Mutual Savings Banks into the Federal Reserve System but desire to make the rediscount facilities of the Federal Reserve Banks amply available to the savings banks" by bestowing liquidity on all sound assets through making them eligible as a basis of borrowing at the Reserve banks in case of need". Governor Eccles stated in his address at Columbus, Ohio, on February 12, as follows:

"We want to make all sound assets liquid by making them rediscountable at the Reserve banks, and then to use the powers of monetary control in an attempt to prevent the recurrence of national conditions which result in radical declines of national income, in the freezing of all bank assets whether they are technically in liquid form or not, -----".

Mutual Savings Banks are preponderantly mortgage loaning institutions. The policy of admitting them to the Federal Reserve System is established by express provision now in the Act. The intention to extend the rediscount privilege over mortgage loan assets is expressed by the proponents of new amendments to the Act. The attached proposed amendment seeks nothing in this direction that is not already available or proposed to be made available.

The proposed amendment submitted recognizes that the Federal Reserve Board, if it were requested to admit to membership in the Federal Reserve System the Mutual Savings Banks' system of the country, would find it helpful that they had taken intermediate action and had admitted to membership the central banking agencies organized by Mutual Savings Banks. It is hardly reasonable to declare today that the correct policy is to make our savings banks' structure, with its \$10,000,000,000. of deposits backed up to approximately 60% by mortgage loans, an integral part of the Federal Reserve System. The recommendation of Governor Eccles to permit banks to make loans on improved real estate in an aggregate amount up to 60% of time deposits and to make those real estate loans rediscountable at the Federal Reserve is one of the most frequently criticized parts of the

"Banking Act of 1935". What must be the attitude of those critics if effort were suddenly made to secure for the savings banks the individual membership which it is their privilege under the statute to apply for? Who would be right, no matter what the decision might be? Would it not be easier to rearrange, if necessary, the relationships created by having admitted to membership one central banking agency for savings banks than to overcome the consequences of having erroneously admitted or failed to admit to Federal Reserve Membership a great number of individual Mutual Savings Banks?

It is not easy to understand why the Federal Reserve Board would want to take the Mutual Savings Banks into the Federal Reserve System except to provide them with rediscount facilities. It appears from his speech at Columbus, Ohio, that Governor Eccles would not seek such a result except as a means for providing the necessary accommodations to bestow liquidity on the sound assets of the savings banks, even though they be in the form of mortgage loans. Governor Eccles said:

"So far as the investment of savings is concerned, a large degree of local autonomy should be left with the individual bankers. The State should lay down minimum standards to be observed in the interests of protecting savings of individuals, but these standards can only be minima, and chief reliance for the safe investment of the community's savings must rest on the judgment and knowledge of the individual banker".

Savings banks' deposits arise almost exclusively from the lodgment of cash. They represent genuine savings by the people. Savings banks have practically no deposits which arise directly from loans. The savings of the people do not influence credit conditions, but real savings are themselves affected by important credit or monetary changes. Consequently, as Savings banks play no part in the variations of the community's money supply, they do not seem to require the "conscious and deliberate control" advocated by Governor Eccles.

There is little else that a central banking agency can or should do for mutual savings banks except to provide adequate rediscount facilities for emergency aid and supervisory attention to the conservation of the banks' resources and management generally. This, it seems, can best be accomplished through a self-created central agency, having a direct financial stake in the proper management of its constituent parts, such as is Savings Banks Trust Company with its stockholding Mutual Savings Banks, in association by membership with the nation's bank of rediscount, the Federal Reserve Bank.

The proposed amendment submitted herewith would give the Mutual Savings Banks ample access to the emergency rediscounting devices of the Federal Reserve System, with the least entanglement for the System, but with the assurance of close attention by a responsible central agency to the financial management of the entire Mutual Savings Banks structure in each State.

If the proposed amendment under discussion should become part of the Federal Reserve Act, as suggested, it is conceivable that the Federal Reserve Board would eventually be approached by the Mutual Savings Banks in all of the eighteen States having that type of institution. That is a result, however, that need not be feared but should be welcomed. If each of the eighteen States should bring about the organization of a central agency having the powers and responsibilities of that created in the State of New York, in the form of Savings Banks Trust Company, and if each of those central agencies should be admitted to membership in the Federal Reserve System, the way would be prepared to extend the influence of the Federal Reserve Board over all savings banks through the coordination of policies and practices among the eighteen members. At least it seems possible to say that such an approach to the unification of the Mutual Savings Banks system gives better promise of satisfactory results than the effort to bring all savings banks into the Federal Deposit Insurance Corporation and the Federal Reserve System. Moreover, judged from the standpoint of practicability and community interest, a localized admini-

stration is more likely to be successful in bringing about improvement of the mutual Savings Banks system and greater usefulness for the banks than would be a national effort at unification and control.

A final comment should be made as to a fear expressed at the time Savings Banks Trust Company's application for membership in the Federal Reserve System was under consideration in 1934. It was stated that if the trust company's application were approved, the State non-member banks and trust companies in States where few are members would attempt to organize a central banking institution and importune the Federal Reserve board to give membership to such an institution; and that the state non-member banks and trust companies would thereby gain the benefits of Federal Reserve facilities without the responsibilities which accompany individual membership. Such a fear overlooks entirely the fundamental difference between the commercial bank and the mutual savings bank, the former with the power to increase or decrease the supply of credit, the latter only accepting for safe custody and judicious investment the accumulated cash savings of a local community.

The attached proposed amendment is offered simply to suggest the substance for the desired addition to the Federal Reserve Act. It is expected that the drafting facilities in Washington are best equipped to find a suitable place in the Act and appropriate language for the actual amendatory legislation.

PROPOSED AMENDMENT TO THE FEDERAL RESERVE ACT  
Suggested For Incorporation Into Banking Act of 1935

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Any state bank, banking association, trust company, or other banking institution organized under the laws of any state, the capital stock of which is wholly owned by at least two-thirds in number of all of the mutual savings banks in such state having deposits aggregating not less than fifty per cent of the total deposit liabilities of all of the savings banks in such state, may apply for and be admitted to membership in the Federal Reserve System in the same manner and subject to the same provisions and laws as state banks and trust companies, notwithstanding the fact that such state bank, banking association, trust company or other banking institution is not engaged in the business of receiving deposits from or otherwise dealing with the public generally but limits its relations principally with the mutual savings banks which hold the capital stock of such state bank, banking association, trust company or other banking institution, as a part of a plan to make additional credit facilities available to such mutual savings banks.

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