

The following is a brief running summary of proposed banking legislation. The bill is to be known as the "Banking Act of 1935." Its principal provisions are:

Title I - Federal Deposit Insurance Corporation  
Amendments.

1. Existing Temporary Funds are merged into the Permanent Insurance Plan, which becomes operative immediately upon enactment of the "Banking Act of 1935."

2. \$5,000 continues to be the maximum insurance protection for each depositor in any bank. Trust funds are insured up to \$5,000 for each trust estate.

3. Maximum limit of assessment of 1/12 of 1% of total deposits is substituted for obligatory stock subscription amounting to 1% of total deposits with liability for repeated assessments thereafter. A uniformly lower assessment may be fixed by the Board of Directors for mutual savings banks.

4. Banks not members of the Federal Reserve System are permitted to withdraw from insurance after notice to their depositors and to the Corporation. Similarly, after adequate notice and after a hearing the Corporation may terminate the insured status of any bank.

5. The Corporation's present right to buy assets of closed member banks is extended until July 1, 1936, to open banks when it will facilitate mergers and avert loss. For this purpose, the Corporation may also make loans to insured banks or guarantee other insured banks against loss in assuming liabilities of insured banks.

6. The proceeds derived from the sale of capital stock of the Corporation may be allocated between capital and surplus in such amounts as the Board of Directors may prescribe, so that in the event of losses exceeding the proceeds of the annual assessments

the Corporation will not be forced to operate with impaired capital. Dividends on capital stock of the Corporation are eliminated.

7. Detailed administrative and technical changes, which seem advisable in the light of the experience of the Corporation, include the following:

- (a) Certain important terms used in the Act have been defined;
- (b) Mechanics of pay-offs have been revised and clarified;
- (c) The Corporation is given the right to require insured banks to maintain adequate fidelity and burglary insurance;
- (d) The standards for determining whether or not banks should become insured are set forth;
- (e) Insured banks not members of the Federal Reserve system are required to make reports of conditions, and the Corporation may order publication of such reports;
- (f) Corporation approval is required before a merger or consolidation of insured banks with non-insured banks, or before a reduction of capital of non-member banks takes place;
- (g) Other miscellaneous changes:
  - i. The use of the words "Deposit Insurance" in the name of a bank is prohibited;
  - ii. Examiners of the Corporation are prohibited from borrowing from insured banks;
  - iii. Criminal provisions are extended to protect all insured banks.

#### Title II - Federal Reserve Act Amendments.

With respect to Federal Reserve Banks:

1. Combine offices of Chairman of the Board of Directors and Governor at each of the Federal Reserve banks, appointments to be made annually by the directors of the bank, after approval by the Federal Reserve Board. Vice-Governors are to be selected in the same manner.

2. No members of the Board of a Federal Reserve bank, except Governor and Vice-Governor, shall hold office for more than six consecutive years.

With respect to the Federal Reserve Board:

3. Change qualifications for future appointive members of the Federal Reserve Board by providing that they shall be persons

well qualified by education or experience or both to participate in the formulation of national economic and monetary policies. The present geographical limitation shall not apply to selection of future Governors. The Governor's membership on the Board shall expire when he is no longer designated as Governor by the President.

4. Increase the salaries of future appointive members to \$15,000 per annum, with compulsory retirement at 70 on \$12,000 pension. Present members to be eligible for retirement at 70. Proportionate pensions will be allowed for service of less than twelve years..

5. The Board shall be empowered to delegate specific powers and duties not involving the determination of national or System policies to individual members of the Board or its representatives.

With respect to credit control:

6. Change Section 12A of the Federal Reserve Act so as to provide for an open-market committee to consist of the Governor and two members of the Board elected annually by the Board, and two governors of Federal Reserve banks elected annually by the governors of the Federal Reserve banks. This committee shall make recommendations about discount rate policies and shall formulate the System's open market policies which shall be binding on the Federal Reserve banks.

With respect to collateral requirements:

7. Any sound asset of a member bank shall be eligible for discount at a Reserve bank, subject to regulations of the Federal Reserve Board, and the Board shall also have authority to prescribe limitations on maturity of advances to member banks.

8. Section 14 is amended so that obligations the principal and interest of which are guaranteed by the United States shall be eligible for purchase by Federal Reserve banks without regard to maturity.

9. Collateral requirements for Federal Reserve notes shall be repealed, and the office of Federal Reserve Agent shall be abolished.

With respect to reserve requirements:

10. In order to prevent injurious credit expansion or contraction, the Federal Reserve Board may change reserve requirements

as to any or all Federal Reserve districts and/or any or all classes of cities, and as to time and/or demand deposits.

With respect to capital requirements:

11. At any time prior to July 1, 1937, the Federal Reserve Board may admit any insured non-member bank to membership in the Federal Reserve System; and may waive the capital requirements for admission; provided that such bank shall comply with all of the regular requirements of members within such time as the Federal Reserve Board shall prescribe.

With respect to real estate loans:

12. Section 24 of the Federal Reserve Act is amended to permit loans to be made on amortization basis for periods of 20 years and up to 75 per cent of value of property. The geographical limitation as to location of real estate is removed. The aggregate amount of real estate loans plus other real estate (except bank premises) is not to exceed 60 per cent of time deposits or 100 per cent of capital and surplus, whichever is the greater. All real estate loans are to be secured by first liens, but second and subsequent liens may be taken to secure debts previously contracted in good faith. The limitations of Section 24 are made applicable to State member banks.

#### Title III - Technical Amendments.

Section 301 exempts "accidental" holding company affiliates from voting permit requirements where not engaged as a business in holding bank stock.

Section 302 provides that member banks need not divorce securities affiliates which are in formal liquidation.

Section 303 (a) makes it clear that the prohibition against security dealers accepting deposits does not prevent banking institutions from dealing in, underwriting, purchasing and selling investment securities to the extent permitted to national banks and does not prevent banking institutions from selling mortgages without recourse. (National banks are limited, in dealing in and underwriting, to Government obligations, general obligations of States or political subdivisions, obligations issued under authority of Federal Farm Loan Act, by Federal Home Loan Board or Home Owners' Loan Corporation.) (b) Exempts business institutions accepting deposits solely from their employees, from examination and publication of reports of condition; and requires private banks to bear expense of their examination when made by Federal authorities.

Section 304 terminates double liability of shareholders of national banks on July 1, 1937.

Section 305 corrects omission of national banks in Alaska and Hawaii from benefit of amendment repealing law requiring directors of national banks to increase their shareholdings.

Section 306 gives Federal Reserve Board power to control connections of officers, directors, and employees of banks with securities companies by regulation rather than by issue of individual permits.

Section 307 (a) eliminates any question of power of member banks to buy or sell stocks solely for the account of their customers and permits national banks to purchase for their own account investment securities not to exceed 10 per centum of unimpaired capital and surplus. (b) Restates existing prohibition against national banks purchasing stock for their own account.

Section 308 requires new national banks to have paid-in surplus equal to 20 per cent of capital, subject to waiver as to State bank converting into national bank.

Section 309 eliminates possibility that present law prevents corporations other than a bank from conditioning transfer of their shares on transfer of bank stock.

Section 310 (a) permits holding company to vote to place bank in voluntary liquidation without obtaining voting permit. (b). Since shares held by bank as sole trustee cannot be voted, same are excluded from determination whether resolution adopted by requisite number of shares. (c) Eliminates any doubt that holding company with voting permit may cumulate its shares as may other shareholders.

Section 311 gives Comptroller discretion to permit converting State bank to carry over sound assets not conforming to requirements as to assets held by national banks.

Section 312 allows Comptroller to delegate manual labor of countersigning bond transfer.

Section 313 permits national bank branches located outside United States to charge interest rate permitted by local law.

Section 314 provides for national banks gradually increasing surplus out of earnings, until equal to capital.

Section 315 extends criminal provisions applicable to member banks to include insured banks.

Section 316 gives Comptroller closer supervision over banks in voluntary liquidation.

Section 317 extends present prohibition on use of word, "national", by banks other than national banks, to include combinations of such word.

Section 318 corrects oversight by requiring member banks to reduce stockholdings in Federal Reserve bank upon a reduction of surplus.

Section 319 requires State member banks to publish reports of condition.

Section 320 places State member banks on parity with national banks as regards loans on government obligations.

Section 321 permits Federal Reserve bank direct loans to private business to be made on adequate indorsement or security, instead of requiring both as under present law.

Section 322. Reference to par value of Federal Deposit Insurance Corporation stock in the "Loans to Industry" Act changed to "amount paid for said stock."

Section 323 (a) authorizes Federal Reserve Board to define "deposit" and related terms for reserve and interest requirements respecting deposits. (b) Permits amounts due from other banks to be deducted from gross deposits, instead of amounts due to banks, in determining reserve requirements. (c) Extends power to regulate payment of interest by member banks to include all insured banks, except mutual savings and Morris Plan banks not members of system. (d) Requires member banks to maintain same reserves against government deposits as against other deposits.

Section 324 permits waiver of reports and examinations of bank affiliates where deemed unnecessary fully to disclose relationship.

Section 325 (a). Extends prohibition against loans and gratuities, to examiners of all insured banks. (b) Extends prohibition against disclosure of confidential information to Federal Deposit Insurance Corporation examiners. (c) Corrects impractical features of law prohibiting loans to executive officers, by vesting certain discretion in the Federal Reserve Board, substituting power of removal from office for present criminal provisions, and extending time within which existing loans must be paid.

Section 326. Excepts affiliates from existing requirements on loans where affiliation arose out of foreclosure by bank on collateral, and excludes affiliate engaged solely in operating property acquired for bank purposes controlled by bank in fiduciary capacity.

Section 327 exempts loans for industrial purposes made with Federal Reserve Bank or Reconstruction Finance Corporation from existing restrictions on real estate loans by national banks.

Section 328 amends Clayton Act to permit Federal Reserve Board to supervise matter of interlocking directorates through general regulations instead of by individual permits.

Sections 329 and 330 bring law governing consolidation of national banks into conformity with that governing consolidations of State and national banks, offer additional protection to dissenting shareholders, but require notice of dissent to be given when vote to consolidate is had.

Sections 331 and 332 extend to Federal Deposit Insurance Corporation protection now given other Federal institutions against misleading use of name and extend to all insured banks law making robbery of member banks a Federal offense.