

COMPARISON OF TITLE II AS PASSED BY THE HOUSE AND BY THE SENATE

House

Senate

Recommendations

1. Management of Reserve Banks.

Section 201 of the House Bill would amend section 4 of the Federal Reserve Act so that the office of Federal Reserve agent would be abolished and the offices of Chairman of the board of directors and Governor would be combined in a single chief executive to be known as the Governor, who would be appointed annually by the board of directors, his original appointment and his reappointment every three years being subject to approval by the Federal Reserve Board. Upon approval by the Federal Reserve Board, he would automatically become chairman of the board of directors, chairman of the executive committee, and a Class C director of the bank; but, unlike the other Class C directors, he would not need to have been a resident of the district for two years, and he would continue as a Class C director only during his service as Governor, rather than for the usual three year term to which the other Class C directors are appointed by the Federal Reserve Board.

The changes mentioned above would become effective ninety days after enactment of the bill.

Section 201 would amend section 4 of the Federal Reserve Act to provide for a chief executive officer at each Federal Reserve bank to whom all other executive officers and all employees of the bank would be responsible, and who would be known as the President. He would be appointed by the directors of the bank, subject to approval every 5 years by the Board in Washington. No provision would be made for him to be a director of the bank, chairman of the board of directors, or chairman of the executive committee. The office of the Federal Reserve Agent would not be abolished and there would be no change in the existing law which provides that one of the Class C directors appointed by the Federal Reserve Board shall serve as Federal Reserve Agent and Chairman of the board of directors.

Effective immediately

(1) Accept Senate bill with amendment providing for appointment of different persons as Federal Reserve agent and Chairman of board of directors. The Chairman should be a director and Chairman of the Executive Committee.

(2) It is desirable to have Presidents and Vice Presidents appointed and approved every 3 years, instead of every 5 years.

(3) Essential for practical reasons to make effective January 1, 1936.

House

There would be a Vice Governor who, in the absence or disability of the Governor, or during a vacancy in that office, would serve as chief executive officer of the bank and as chairman of the bank's executive committee. He would be chosen in the same manner as the Governor and could be appointed a Class C director. If he was appointed Class C director, he could also be appointed deputy chairman of the board of directors and like the Governor, he would continue as Class C director only during his service as Vice Governor, and he would not be subject to the requirement of two years residence in the district.

Vacancies in the office of Governor or Vice Governor would be filled as provided in the case of original appointments, and for the remainder of the term of the predecessors.

Federal Reserve bank directors, other than the Governor and Vice Governor, would not be permitted to serve more than two consecutive terms of three years each, but present incumbents could serve out their terms.

2. Admission of State Banks to Membership.

Section 202 would amend section 9 of the Federal Reserve Act to permit the Federal Reserve Board, upon the application of an insured nonmember bank, to waive in whole or in part the require-

Senate

There would be a Vice President who, in the absence or disability of the President or during a vacancy in that office, would serve as chief executive of the bank. He would be chosen in the same manner and for the same term as the President.

Similar provision for vacancies in office of President or Vice President.

Omitted entirely.

Omitted entirely.

Recommendations

(4) Provide for more than one Vice President.

Accept Senate provision to conform to above changes.

(5) First choice House Bill. Suggest compromise permitting three full terms.

(6) Essential that this be retained if compulsory membership provision of Senate Bill is retained. Not essential if compulsory membership provision is stricken out.

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ments of section 9 relating to admission to the System. If such a bank was admitted with capital less than that required for the organization of a national bank in the same place and its capital and surplus were not, in the Board's judgment, adequate in relation to the bank's liabilities to depositors and other creditors, the Board could require such bank to increase its capital and surplus to such amount as the Board might deem necessary within such period as the Board might deem reasonable; but no such bank could be required to increase its capital beyond that required for the organization of a national bank in the same place.

**3. The Federal Reserve Board.**

Section 203 would amend section 10 of the Federal Reserve Act so that in selecting the appointive members of the Federal Reserve Board, the President would be directed to "choose persons well qualified by education or experience or both to participate in the formulation of national economic and monetary policies."

Section 202 would change the name of the Federal Reserve Board to the "Board of Governors of the Federal Reserve System", would change the titles of the Governor and Vice Governor to "Chairman" and "Vice Chairman", and apparently would provide for the reorganization of the Board within ninety days after the enactment of the bill. The Secretary of the Treasury and the Comptroller of the Currency would cease to serve on the Board after ninety days from the enactment of the bill; and each present appointive member would

*Qualifications of  
Board Members*

(7) Accept Senate Bill with following changes:

1. Eliminating prohibition against reappointment after serving 14-year term.

2. Making Board members eligible for retirement under Federal Reserve Retirement System.

Would not make concessions to obtain these changes.



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cease to serve after the ninety-day period, or upon the earlier appointment of his successor.

The new Board would consist of seven members appointed by the President, with the advice and consent of the Senate, and serving for fourteen-year terms, with the terms staggered so that not more than one member's term would expire in any two-year period.

The present provision which directs the President, in selecting the Board members, to "have due regard to a fair representation of the financial, agricultural, industrial, and commercial interests, and geographical divisions of the country", would be retained, and a new provision would be added requiring at least two of the members to be "persons of tested banking experience".

A provision would be added requiring that not more than four Board members shall be members of the same political party, and that members of different political parties shall be "appointed alternately as nearly as may be practicable".

(8) Qualifications expressed in House Bill preferable; but would not make concessions to obtain it.

(9) Desirable to eliminate this, but would not make concession to secure elimination.

House

The Governor of the Board would be exempted from the requirement that no two appointive members of the Board may be selected from the same Federal Reserve district.

Upon the expiration of their terms of office, members of the Board would continue to serve until their successors are appointed and have qualified.

It would be made clear that the Governor and Vice Governor of the Board, following their designation by the President, continue as such only "until the further order" of the President.

If the Governor's designation as such should be terminated, he could continue to serve as a member of the Board for the remainder of his term; but if he resigned within ninety days from the date of the termination of his designation as Governor, he would not be subject to the provisions of existing law which prohibit appointive Board members who do not serve out their full terms from holding any office, position, or

Senate

The Chairman would not be relieved of the requirement that not more than one Board member may be selected from any one Federal Reserve district.

Same.

Salaries of Board members would be increased from \$12,000 a year to \$15,000.

Board members appointed after the enactment of the bill would not be eligible for reappointment after serving a full term of fourteen years.

One of the members would be designated by the President as Chairman and one as Vice Chairman of the Board, "to serve as such for a term of four years".

The Chairman would not be relieved of the two-year disability against holding any office, position, or employment in a member bank if he resigned as a member of the Board after his designation as Chairman had expired.

Recommendations

(10) Insist on House provision.

O.K.

(11) Accept Senate provision.

Desirable that this be eliminated.

(12) First choice: House bill.  
Second choice: Term as chairman same as term as member of Board.

(13) Essential to insist on House provision, if first choice on preceding point is adopted.

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employment with a member bank within two years after their service on the Board.

The Board would be required to keep a complete record of action taken by it and by the Federal Open Market Committee on all questions of open market operations and all other questions of policy, and to include in its annual report a full account of all such action together with a copy of the records required to be kept.

(14) Compromise by limiting it to policies.  
Would make no concession to obtain change.

4. Assignment of Duties by Federal Reserve Board.

Section 204(a) would amend section 11 of the Federal Reserve Act to make it clear that the Board may assign to designated members, officers, or representatives of the Board, the performance of any of its duties, functions or services other than the determination of national or system policy, the making of rules or regulations, or the exercise of powers which the Federal Reserve Act requires to be exercised by a specified number of Board members.

Omitted entirely.

(15) House provision desirable but would not make concessions to obtain it.



House

5. Objectives of Federal Reserve Policy.

Section 204(b) would add a new subsection at the end of section 11 of the Federal Reserve Act so as to make it "the duty of the Federal Reserve Board to exercise such powers as it possesses in such manner as to promote conditions conducive to business stability and to mitigate by its influence unstabilizing fluctuations in the general level of production, trade, prices, and employment, so far as may be possible within the scope of monetary action and credit administration. "

6. Open Market Operations.

Section 205 would amend section 12A of the Federal Reserve Act, effective ninety days after enactment of the bill. The title of the Federal Open Market Committee would be changed to the Open Market Advisory Committee; and it would consist of five representatives of the Federal Reserve banks (with alternates to serve in their absences) elected annually by the governors of the twelve Federal Reserve banks. The Committee would elect its own chairman, and would meet upon the call of the chairman of the Committee or the call of the Governor of

Senate

The specific provision would be omitted entirely, but, as indicated below, section 204 would retain in section 12A of the Federal Reserve Act another provision regarding the standard for open market operations.

Section 204 would amend section 12A of the Federal Reserve Act, effective ninety days after enactment of the bill. The Federal Open Market Committee would consist of the seven members of the new Board and five annually-elected representatives of the Federal Reserve banks. One of the five Reserve Bank representatives would be elected by the directors of the Federal Reserve Banks of Boston, New York and Philadelphia; one by the directors of the Federal Reserve Banks of Cleveland, Chicago

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(16) Insist on House provision or similar provision. Suggest following compromise:

"The Federal Reserve Board shall use its powers to maintain sound banking and credit conditions and, so far as banking administration and monetary action may contribute to this end, to restore and maintain full and sustained employment of labor and of the productive capacity of the nation."

(17) First choice:

Insist upon House Bill except provide for selection of five members of Open Market Advisory Committee on regional basis as provided in Senate Bill.

Second choice:

Reduce Board to five members serving for ten or year terms and have Open Market Committee consist of five Board mem-

House

the Board, but meetings would be called whenever requested by a majority of the Committee members of a majority of the Board members.

Senate

and St. Louis; one by the directors of the Federal Reserve Banks of Richmond, Atlanta and Dallas; one by the directors of the Federal Reserve Banks of Minneapolis, Kansas City and San Francisco; and one for the country at large by the presidents of the twelve Federal Reserve banks. An alternate for each representative would be elected in the same manner as the representative. The Committee would meet upon call of the Chairman of the Board or at the request of any three members of the Committee. The present provisions for the meetings being held in Washington, and at least four times a year, would be retained.

The Federal Reserve Board would from time to time prescribe the open market policy of the Federal Reserve System, and it could make changes in the open market policy on its own initiative. However the Committee would consult and advise with, and make recommendations to the Federal Reserve Board from time to time regarding the open market policy of the System; and the Board would have to consult the Committee before making any change in the open market policy on its own initiative. The Committee would aid in the execution of the open market policies and perform related duties prescribed by the Board. All transactions

Recommendations

bers and two Reserve bank governors, all Reserve bank governors to serve in rotation for one year terms. Committee to control all three monetary powers: Open market operations, discount rates and changes in reserve requirements.

Third choice:

Accept Senate plan except reduce bank representation to four by eliminating the one selected at large.

The Committee would consider, adopt, and transmit to the several Federal Reserve banks, "regulations" relating to open-market transactions of such banks and "relations of the Federal Reserve System with foreign central or other foreign banks."



House

of Federal Reserve banks under section 14 of the Act would be subject to regulation, limitation, or restriction by the Board. The provisions of section 12A relating to the Board's power to regulate relations of the Federal Reserve System with foreign central or other foreign banks would be eliminated, but apparently with little effect, since the power to control such relations of Federal Reserve banks would remain in the Board under section 14(g) of the Federal Reserve Act.

Federal Reserve banks would be required to purchase or sell commercial paper, government bonds and other such obligations made eligible for purchase under section 14 of the Federal Reserve Act in the manner and to the extent required to effectuate the open market policies adopted by the Board; and they would be required to cooperate in making such policies effective.

The statement in section 12A that open market operations "shall be governed with a view to accommodating commerce and business and with regard to the general credit situation of the country" would be eliminated. As shown above, another standard would be prescribed for the Board in section 204(b) of the bill.

Senate

Reserve banks would be forbidden to "engage or decline to engage in open-market operations except in accordance with regulations adopted by the Committee".

Present provision would be retained, and no other standard would be prescribed.

Recommendations

(18) Insist on change eliminating any question that banks must comply with open market policy adopted by Board or Committee.

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7. Discount Rates.

In addition to requiring the Federal Reserve Board to consult the Committee before making any changes on its own initiative in the open market policy, section 205 would also require the Board to consult the Committee before making such changes in the discount rates of Federal Reserve banks or the reserve requirements of member banks.

Section 205(b) would amend section 14 of the Federal Reserve Act to require each Federal Reserve Bank to establish every fourteen days, or oftener if deemed necessary by the Board, discount rates subject to review and determination by the Board.

(19) Accept Senate Amendment.

8. Requirements as to Eligibility of Paper for Rediscount.

Section 206 would add a paragraph to Section 13 of the Federal Reserve Act to permit Federal Reserve banks, subject to regulation by the Board as to maturities and other matters, to rediscount any commercial, agricultural, or industrial paper upon the indorsement of a member bank, and to make advances to any member bank on its promissory note secured by any sound assets of such member bank. In effect, this would abolish all technical requirements as to maturity and other matters relating to advances and discounts, and instead give the Board power to regulate such questions.

Section 203 would amend section 10(b) of the Federal Reserve Act so that whenever any member bank has no eligible and acceptable assets available to enable it to obtain adequate credit accommodations at the Federal Reserve bank, any Federal Reserve bank, under rules and regulations prescribed by the Board, ~~would be~~ permitted to make advances to such member bank on its time or demand notes secured to the satisfaction of the Reserve bank. However, such notes would bear interest at a rate not less than 1 percent per annum higher than the highest discount rate at such Reserve bank on the date of such note.

(20) Insist upon House Bill changed as follows: (a) permit advances for periods not exceeding nine months, and (b) strike out "secured by any sound assets of such member bank" and substitute "secured to the satisfaction of such Federal Reserve Bank."

Under no circumstances should this provision be further compromised, as this one of the most essential provisions of the Bill.

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9. Government Obligations and Government  
Guaranteed Obligations.

Section 207 would amend section 14(b) of the Federal Reserve Act to provide that obligations of the United States and those fully guaranteed as to principal and interest by the United States may be purchased and sold by Federal Reserve banks without regard to maturities.

Section 205(a) contains the same provision; but would add a provision limiting purchases of direct government obligations and of government guaranteed obligations to purchases in the open market.

(21) House bill desirable. Understand Secretary of Treasury opposed to Senate provision. If compromise necessary, add proviso permitting temporary accommodations to Treasury for short periods on tax payment dates and other similar dates.

10. Federal Reserve Note Issue Requirements.

Section 208 would amend section 16 of the Federal Reserve Act to remove all provision for specific collateral securing Federal Reserve notes and abolish the present procedure by which they are issued to the banks by the Board through the Federal Reserve agents.

Omitted entirely.

(22) House bill desirable but can be waived.

Instead, Federal Reserve notes would be issued and retired directly by the Federal Reserve banks under rules and regulations prescribed by the Board; and all provision for their redemption would be eliminated, together with all provision for the redemption fund now kept with the Treasurer of the United States for that purpose. Federal Reserve banks would no longer be forbidden to pay out the Federal Reserve notes of another



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Federal Reserve bank. The existing provisions authorizing the Board to impose a tax on Federal Reserve notes outstanding in excess of the gold certificates held as collateral, and to refuse a particular application of a Federal Reserve bank for Federal Reserve notes, would be eliminated.

Federal Reserve notes would remain a first lien on all the assets of the issuing bank. Forty percent reserves in gold certificates would still be maintained against Federal Reserve notes in actual circulation; and thirty-five percent lawful money reserves required to be maintained by Federal Reserve banks against deposits could not include Federal Reserve notes or Federal Reserve bank notes.

Federal Reserve notes received by the Treasurer of the United States from sources other than Federal Reserve banks would be canceled and retired if unfit for further use, and the issuing bank would reimburse the Treasurer of the United States therefor. Federal Reserve notes unfit for further use when received by Federal Reserve banks would be forwarded to Washington, canceled and retired; and if such notes were issued by another Federal Reserve bank, the issuing bank would make reimbursement.

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11. Reserve Requirements of Member Banks.

Section 209 would amend section 19 of the Federal Reserve Act to permit the Board to change the reserve requirements of member banks "in order to prevent injurious credit expansion or contraction"; and to eliminate the necessity for first having a declaration, upon the affirmative vote of five Board members and the approval of the President, that "an emergency exists by reason of credit expansion." The changes could be made for member banks located in reserve and central reserve cities, for member banks not in reserve or central reserve cities, or for all member banks.

Section 206 is the same, except that it would require the affirmative vote of at least five Board members in order to change the requirements; and the Board would be forbidden to reduce the requirements below the present requirements, or to increase them to more than twice the present requirements.

(23) Compromise Amendments.  
First choice:

House bill with increase limited to amount necessary to absorb amount of excess reserves and vault cash existing at the time of increase and provide minimum reserve requirements as in Senate bill.

Second choice:

Senate bill with requirement of five affirmative votes eliminated.

In any compromise that is made insist on elimination of requirement of 5 votes.

(24) Suggested compromise:

Yield to Senate.

Yield to Senate.

12. Real Estate Loans.

Section 210 would make the following changes in the provisions of section 24 of the Federal Reserve Act regarding loans by national banks on improved real estate:

Section 207 contains the following provisions regarding loans by national banks on improved real estate:

(1) The requirement that the real estate upon which such loans are made must be located in the bank's Federal Reserve district, or within 100 miles of the place in which the bank is located would be eliminated.

(1) Present geographical limitations would be retained.

(2) The definition which requires the bank to take the entire amount of the obligation would be eliminated.

(2) Present definition would be retained.

House

(3) The five year limitation on maturities would be eliminated and the limitation to 50 percent of the actual value would be changed to 60 percent of the appraised value. This would not prevent the renewal or extension of existing loans, and the existing exemption of mortgages insured under Title II of the National Housing Act would be retained.

(4) Permissible aggregate of such loans would be changed from 25 percent of bank's paid-in and unimpaired capital and surplus, or 50 percent of its savings deposits whichever is greater, to 100 percent of its paid-in and unimpaired capital and surplus or 60 percent of its time and savings deposits, whichever is greater.

(5) The Federal Reserve Board would be authorized to regulate and limit the making of real estate loans by member banks so as to require the banks to conform to sound practices.

Senate

(3) Loans would be limited to five years and 50 percent of appraised value of property, except that (a) amortized loans could be made in amounts not exceeding 60 percent of appraised value and for terms not exceeding ten years, if installment payments are sufficient to reduce principal at least 50 percent within ten years; and (b) restrictions would not prevent renewal or extension of present loans, and would not apply to mortgages insured under Title II of the National Housing Act.

(4) Same.

(5) Omitted entirely.

Recommendations

Accept Senate provision limiting to 10 year maturity; but insist on change requiring installment payments sufficient to retire entire loan in twenty years, instead of 50 percent in ten years. This very essential and no further compromise should be made on this provision.

O. K.

(25) Suggest following compromise:  
"The Board of Governors of the Federal Reserve system is authorized to prescribe from time to time, within the foregoing maximum limitations, regulations governing the making of real estate loans by member banks, with a view of requiring such banks to conform to sound practices in making real estate loans; and all member banks shall comply with the provisions



House

The provision of section 24 which prohibits national banks from paying a rate of interest on deposits greater than that permitted by law for State banks or trust companies in the State in which the national bank is located would be eliminated.

Senate

Same.

Recommendations

of this section and the regulations, if any, issued pursuant thereto: Provided, however, That this shall not prevent State banks and trust companies from making real estate loans to the extent expressly authorized by specific provisions of State law."

O. K.