Governor Eccles

AMENDMENTS TO FEDERAL DEPOSIT INSURANCE ACT

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON BANKING AND CURRENCY

UNITED STATES SENATE

EIGHTY-FIRST CONGRESS

SECOND SESSION

ON

S. 80, S. 2094, S. 2300, S. 2307 and S. 2822

BILLS TO AMEND THE FEDERAL DEPOSIT INSURANCE ACT

JANUARY 11, 23, AND 30, 1950

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AMENDMENTS TO FEDERAL DEPOSIT INSURANCE ACT

WEDNESDAY, JANUARY 11, 1950

United States Senate,
Committee on Banking and Currency,
Subcommittee on Federal Reserve Matters,
Washington, D. C.

The subcommittee met, pursuant to call, at 10:15 a. m., in room 301, Senate Office Building, Senator A. Willis Robertson presiding.

Present: Senators Robertson, Maybank, Douglas, Tobey, and Flanders.

Also present: Senator Bricker:

Senator Maybank. Gentlemen, the meeting will come to order. I just want to make a preliminary statement.

We are very happy and pleased to have you gentlemen down here this morning. I am hopeful that these hearings can be completed at an early date. Unfortunately, the committee room is going to be required for housing hearings for about a week following today's meeting. Therefore, we might have to defer these meetings for another week or so.

I might say that I am very appreciative of the cooperation given me by the Federal Deposit Insurance Corporation and other agencies. And now I am going to ask Senator Robertson, the chairman of the Subcommittee on Federal Reserve Matters, to take over.

I have also asked Senator Frear to come to the committee because of his interest in this and other legislation.

Gentlemen, I am happy to have you here; and I now will ask Senator Robertson to go on from here, and we are hopeful of completing these hearings very soon.

Senator Robertson. There have been referred to the Subcommittee on Federal Reserve Matters two bills relating to the Federal Deposit Insurance Act. The first of these bills is S. 2300, which was introduced by the junior Senator from Ohio, Mr. Bricker, last July, but no hearings were had on it.

The other bill is S. 2822, introduced on January 10, 1950, by the senior Senator from South Carolina, the chairman of this committee, Mr. Maybank.

Without objection, I will have those two bills printed in the hearings at this point in order that all may be advised as to what is being considered today.

(S. 2300 and S. 2822 are as follows:)

[S. 2300, 81st Cong., 1st sess.]

A BILL To amend section 12B of the Federal Reserve Act, pertaining to the Federal Deposit Insurance Corporation

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) paragraph (12) of subsection (c)

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of section 12B of the Act entitled "An Act to provide for the establishment of Federal Reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes", approved December 23, 1913, as amended, is hereby amended to read as follows:

"(12) The term 'deposit' means the unpaid balance of money or its equivalent received by a bank in the usual course of business and for which it has given or is obligated to give credit to a commercial, checking, savings, time or thrift account, or which is evidenced by a certificate of deposit, an officer's check, a certified check, or travelers checks or letters of credit on which the bank is primarily liable, and trust funds held by such bank: *Provided*, That the obligation is payable in the States of the United States, the District of Columbia or any of the Territories or possessions of the United States."

(b) Paragraph (13) of subsection (c) of such section is amended to read as follows:

"(13) The term 'insured deposit' means the net amount due any depositor of an insured bank for deposits and drafts drawn on other insured banks (after deducting offsets) less any part thereof which is in excess of $10,000. In determining the amount due to any depositor there shall be added together all insured deposits in the bank maintaind in the same capacity and the same right for his benefit either in his own name or in names of others. All uninvested trust funds held by an insured bank shall be insured in an amount not to exceed $10,000 for each trust estate and such insurance shall be separate from and additional to other insurance for 'insured deposits' as defined in this section."

(c) Subsection (h) of said section is amended to read as follows:

"(h) (1) Whenever the surplus fund of the Corporation is less than $1,000,000,000 at the end of any calendar year the Corporation shall require each insured bank to file with it within thirty days a certified statement of the amount of its total deposits, as defined in subsection (c) (12), and as shown in the latest report of condition to the Comptroller of the Currency in the case of a national member hank or national nonmember bank, to the Federal Reserve bank of the district in which it is located in the case of a State member bank and to the Corporation in the case of a nonmember bank. The Corporation shall then proceed to restore the surplus fund to $1,000,000,000 by making an assessment on each insured bank. The assessment shall be based on the total deposits of each insured bank as shown in its certified statement. Not more than one assessment may be made annually and the assessment rate which shall be the same for all insured banks shall not exceed one-twelfth of 1 percentum of total deposits as shown on the certified statement. The Corporation shall give each insured bank written notice of the amount of the assessment due and the assessment shall be payable thirty days after the date of such notice. All assessments collected by the Corporation from insured banks in the calendar year 1949 shall be refunded within thirty days after the enactment of this section.

"(2) If an insured bank shall fail to file any certified statement required to be filed by it in connection with determining the amount of any assessment payable by the bank to the Corporation or to pay any assessment due, the Board of Directors of the Corporation shall give written notice to such insured bank that the insured status of such bank will be terminated on a date not less than thirty days subsequent to the date of such notice unless such failure to file a certified statement or to pay such assessment has been corrected prior to the date specified in such written notice. If the insured status of a bank is terminated for failure to file required certified statements or to pay assessments due, notice to depositors shall be given in the manner prescribed in paragraph (1) of subsection (i) of this section."

(d) Subsection (h) of such section is further amended by striking the figure "$5,000" wherever it appears in subsection (9) of subsection (h) and inserting in lieu thereof the figure "$10,000".

(e) Subsection (l) of such section is amended by striking wherever it appears in subsections (2) and (9) the figure "$5,000" and inserting in lieu thereof the figure "$10,000".

[S. 2822, 81st Cong., 2d sess.]

A BILL To amend the Federal Deposit Insurance Act (U. S. C., title 12, sec. 264)

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 12B of the Federal Reserve Act,

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as amended, is hereby withdrawn as a part of that Act and is made a separate Act to be known as the "Federal Deposit Insurance Act".

SEC. 2. The Federal Deposit Insurance Act is amended to read as follows:

"SEC. 1. There is hereby created a Federal Deposit Insurance Corporation (hereinafter referred to as the 'Corporation') which shall insure, as hereinafter provided, the deposits of all banks which are entitled to the benefits of insurance under this Act, and which shall have the powers hereinafter granted.

"SEC. 2. The management of the Corporation shall be vested in a Board of Directors consisting of three members, one of whom shall be the Comptroller of the Currency, and two of whom shall be citizens of the United States to be appointed by the President, by and with the advice and consent of the Senate. One of the appointive members shall be the Chairman of the Board of Directors of the Corporation and not more than two of the members of such Board of Directors shall be members of the same political party. Each such appointive member shall hold office for a term of six years. In the event of a vacancy in the office of the Comptroller of the Currency, and pending the appointment of his successor, or during the absence of the Comptroller from Washington, the Acting Comptroller of the Currency shall be a member of the Board of Directors in the place and stead of the Comptroller. In the event of a vacancy in the office of the Chairman of the Board of Directors, and pending the appointment of his successor, the Comptroller of the Currency shall act as Chairman. The members of the Board of Directors shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any insured bank, except that this restriction shall not apply to any member who has served the full term for which he was appointed. No member of the Board of Directors shall be an officer or director of any insured bank, or Federal Reserve bank or hold stock in any insured bank; and before entering upon his duties as a member of the Board of Directors he shall certify under oath that he has complied with this requirement and such certification shall be filed with the secretary of the Board of Directors.

"SEC. 3. As used in this Act—

"(a) The term 'State bank' means any bank, banking association, trust company, savings bank, or other banking institution which is engaged in the business of receiving deposits, other than trust funds as herein defined, and which is incorporated under the laws of any State, any Territory of the United States, Puerto Rico, or the Virgin Islands, or which is operating under the Code of Law for the District of Columbia (except a national bank), and includes any unincorporated bank the deposits of which were insured on August 23, 1935, under the provisions of this Act.

"(b) The term 'State member bank' means any State bank which is a member of the Federal Reserve System, and the term 'State nonmember bank' means any State bank which is not a member of the Federal Reserve System.

"(c) The term 'District bank' means any State bank operating under the Code of Law for the District of Columbia.

"(d) The term 'national member bank' means any national bank located in any of the States of the United States, the District of Columbia, any Territory of the United States, Puerto Rico, or the Virgin Islands which is a member of the Federal Reserve System.

"(e) The term 'national nonmember bank' means any national bank located in any Territory of the United States, Puerto Rico, or the Virgin Islands which is not a member of the Federal Reserve System.

"(f) The term 'mutual savings bank' means a bank without capital stock transacting a savings bank business, the net earnings of which inure wholly to the benefit of its depositors after payment of obligations for any advances by its organizers.

"(g) The term 'savings bank' means a bank (other than a mutual savings bank) which transacts its ordinary banking business strictly as a savings bank under State laws imposing special requirements on such banks governing the manner of investing their funds and of conducting their business: *Provided*, That the bank maintains, until maturity date or until withdrawn, all deposits made with it (other than funds held by it in a fiduciary capacity) as time savings deposits of the specific term type or of the type where the right is reserved to the bank to require written notice before permitting withdrawal: *Provided further*, That such bank to be considered a savings bank must elect to become subject to regulations of the Corporation with respect to the redeposit of maturing deposits and prohibiting withdrawal of deposits by checking except in cases where such withdrawal is permitted by law on the effective date from specifically

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designated deposit accounts totaling not more than 15 per centum of the bank's total deposits.

"(h) The term 'insured bank' means any bank the deposits of which are insured in accordance with the provisions of this Act; and the term 'noninsured bank' means any bank the deposits of which are not so insured.

"(i) The term 'new bank' means a new national banking association organized by the Corporation to assume the insured deposits of an insured bank closed on account of inability to meet the demands of its depositors and otherwise to perform temporarily the functions prescribed in this Act.

"(j) The term 'receiver' includes a receiver, liquidating agent, conservator, commission, person, or other agency charged by law with the duty of winding up the affairs of a bank.

"(k) The term 'Board of Directors' means the Board of Directors of the Corporation.

"(l) The term 'deposit' means the unpaid balance of money or its equivalent received by a bank in the usual course of business and for which it has given or is obligated to give credit to a commercial, checking, savings, time, or thrift account, or which is evidenced by its certificate of deposit, and trust funds held by such bank whether retained or deposited in any department of such bank or deposited in another bank, together with such other obligations of a bank as the Board of Directors shall find and shall prescribe by its regulations to be deposit liabilities by general usage: *Provided*, That any obligation of a bank which is payable only at an office of the bank located outside the States of the United States, the District of Columbia, any Territory of the United States, Puerto Rico, and the Virgin Islands, shall not be a deposit for any of the purposes of this Act or be included as a part of total deposits or of an insured deposit: *Provided further*, That any insured bank having its principal place of business in any of the States of the United States or in the District of Columbia which maintains a branch in any Territory of the United States, Puerto Rico, or the Virgin Islands may elect to exclude from insurance under this Act its deposit obligations which are payable only at such branch, and upon so electing the insured bank with respect to such branch shall comply with the provisions of this Act applicable to the termination of insurance by non-member banks: *Provided further*, That the bank may elect to restore the insurance to such deposits at any time its capital stock is unimpaired.

"(m) The term 'insured deposit' means the net amount due to any depositor for deposits in an insured bank (after deducting offsets) less any part thereof which is in excess of $10,000. Such net amount shall be determined according to such regulations as the Board of Directors may prescribe, and in determining the amount due to any depositor there shall be added together all deposits in the bank maintained in the same capacity and the same right for his benefit in his own name or in the names of others except trust funds which shall be insured as provided in subsection (i) of section 7. Each officer, employee, or agent of the United States, of any State of the United States, of any county, municipality, or political subdivision thereof, of the District of Columbia, any Territory of the United States, Puerto Rico, Virgin Islands and of any municipality thereof, herein called 'public unit', having official custody of public funds and lawfully depositing the same in an insured bank shall, for the purpose of determining the amount of the insured deposits, be deemed a depositor in such custodial capacity separate and distinct from any other officer, employee, or agent of the same or any public unit having official custody of public funds and lawfully depositing the same in the same insured bank in custodial capacity.

"(n) The term 'transferred deposit' means a deposit in a new bank or other insured bank made available to a depositor by the Corporation as payment of the insured deposit of such depositor in a closed bank, and assumed by such new bank or other insured bank.

"(o) The term 'branch' includes any branch bank, branch office, branch agency, additional office, or any branch place of business located in any State of the United States or in any Territory of the United States, Puerto Rico, or the Virgin Islands at which deposits are received or checks paid or money lent.

"(p) The term 'trust funds' as used in this Act means funds held by an insured bank in a fiduciary capacity and includes, without being limited to, funds held as trustee, executor, administrator, guardian, or agent.

"Sec. 4. (a) Every bank, which was an insured bank on the effective date of this Act, shall be and continue to be, without application or approval, an insured bank and shall be subject to the provisions of this Act.

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"(b) Every national member bank which is authorized to commence or resume the business of banking, and which is engaged in the business of receiving deposits other than trust funds as herein defined, and every such national nonmember bank which becomes a member of the Federal Reserve System, and every State bank which is converted into a national member bank or which becomes a member of the Federal Reserve System, and which is engaged in the business of receiving deposits other than trust funds as herein defined, shall be an insured bank from the time it is authorized to commence or resume business or becomes a member of the Federal Reserve System. The certificate herein prescribed shall be issued to the Corporation by the Comptroller of the Currency in the case of such national member bank, or by the Board of Governors of the Federal Reserve System in the case of such State member bank: *Provided*, That in the case of an insured bank which is admitted to membership in the Federal Reserve System or an insured State bank which is converted into a national member bank, such certificate shall not be required, and the bank shall continue as an insured bank. Such certificate shall state that the bank is authorized to transact the business of banking in the case of a national member bank, or is a member of the Federal Reserve System in the case of a State member bank, and that consideration has been given to the factors enumerated in section 6.

"SEC. 5. Subject to the provisions of this Act, any national nonmember bank, upon application by the bank and certification by the Comptroller of the Currency in the manner prescribed in subsection (b) of section 4 and any State nonmember bank, upon application to and examination by the Corporation and approval by the Board of Directors, may become an insured bank. Before approving the application of any such State nonmember bank, the Board of Directors shall give consideration to the factors enumerated in section 6 and shall determine, upon the basis of a thorough examination of such bank, that its assets in excess of its capital requirements are adequate to enable it to meet all of its liabilities to depositors and other creditors as shown by the books of the bank.

"SEC. 6. The factors to be enumerated in the certificate required under section 4 and to be considered by the Board of Directors under section 5 shall be the following: The financial history and condition of the bank, the adequacy of its capital structure, its future earnings prospects, the general character of its management, the convenience and needs of the community to be served by the bank, and whether or not its corporate powers are consistent with the purposes of this Act.

"SEC. 7. (a) The assessment rate shall be one-twelfth of 1 per centum per annum. The semiannual assessment for each insured bank shall be in the amount of the product of one-half the annual assessment rate multiplied by the assessment base. The assessment base shall be the amount of the liability of the bank for deposits, according to the definition of the term 'deposit' in and pursuant to subsection (1) of section 3, without any deduction for indebtedness of depositors: *Provided*, That the bank—

"(1) may deduct (i) from the deposit balance due to an insured bank the deposit balance due from such insured bank (other than trust funds deposited by it in such bank) which is subject to immediate withdrawal; (ii) trust funds held by the bank in a fiduciary capacity and which are deposited in another insured bank; and (iii) cash items as determined by either of the following methods, at the option of the bank: (aa) By multiplying by 2 the total of the cash items forwarded for collection on the assessment base days (being the days on which the average deposits are computed) and cash items held for clearings at the close of business on said days, which are in the process of collection and which the bank has paid in the regular course of business or credited to deposit accounts; or (bb) by deducting the total of cash items forwarded for collection on the assessment base days and cash items held for clearings at the close of business on said days, which are in the process of collection and which the bank has paid in the regular course of business or credited to deposit accounts, plus such uncollected items paid or credited on preceding days which are in the process of collection: *Provided*, That the Board of Directors may define the terms 'cash items', 'process of collection', and 'uncollected items', and shall fix the maximum period for which any such item may be deducted; and

"(2) may exclude from its assessment base (i) drafts drawn by it on deposit accounts in other insured banks which are issued in the regular course of business; and (ii) cash funds which are received and held solely

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for the purpose of securing a liability to the bank but not in an amount in excess of such liability, and which are not subject to withdrawal by the obligor and are carried in a special non-interest-bearing account designated to properly show their purpose.

Each insured bank, as a condition to the right to make any such deduction or exclusion in determining its assessment base, shall maintain such records as will readily permit verification of the correctness thereof. The semiannual assessment base for one period shall be the average of the assessment base of the bank as of the close of business on March 31 and June 30, and the semiannual assessment base for the other semiannual period shall be the average of the assessment base of the bank as of close of business on September 30 and December 31: *Provided*, That when any of said days is a nonbusiness day or a legal holiday, either National or State, the preceding business day shall be used. The certified statements required to be filed with the Corporation under subsections (b) and (c) of this section shall be in such form and set forth such supporting information as the Board of Directors shall prescribe. The assessment payments required from insured banks under subsections (b) and (c) of this section shall be made in such manner and at such time or times as the Board of Directors shall prescribe, provided the time or times so prescribed shall not be later than sixty days after filing the certified statement setting forth the amount of assessment.

"(b) On or before the 15th day of July of each year, each insured bank shall file with the Corporation a certified statement showing for the six months ending on the preceding June 30 the amount of the assessment base and the amount of the semiannual assessment due to the Corporation for the period ending on the following December 31, determined in accordance with subsection (a) of this section, which shall contain or be verified by a written declaration that it is made under the penalties of perjury. Each insured bank shall pay to the Corporation the amount of the semiannual assessment it is required to certify. On or before the 15th day of January of each year, each insured bank shall file with the Corporation a similar certified statement for the six months ending on the preceding December 31 and shall pay to the Corporation the amount of the semiannual assessment for the period ending on the following June 30 which it is required to certify.

"(c) Each bank which becomes an insured bank shall not be required to file any certified statement or pay any assessment for the semiannual period in which it becomes an insured bank. On the expiration of such period, each such bank shall comply with the provisions of subsection (b) of this section except that the semiannual assessment base for its first certified statement shall be the assessment base of the bank as of the close of business on the preceding June 30 or December 31, whichever is applicable, determined in accordance with subsection (a) of this section. If such bank has assumed the liabilities for deposits of another bank or banks, it shall include such liabilities in its assessment base. The first certified statement shall show as the amount of the first assessment due to the Corporation, an amount equal to the product of one-half of the annual assessment rate multiplied by such assessment base.

"(d) As of December 31, 1949, and each calendar year thereafter, the Corporation shall transfer 40 per centum of its net assessment income to its capital account and the balance of the net assessment income shall be credited pro rata to the insured banks based upon the assessments of each bank during said calendar year. Such credits shall be applied by the Corporation toward the payment of the total assessments becoming due for the semiannual assessment period beginning the next ensuing July 1. The term 'net assessment income' as used herein means the total assessments which become due during the calendar year less (1) the operating costs and expenses of the Corporation for the calendar year; (2) additions to reserve to provide for insurance losses during the calendar year, except that any adjustments to reserve which result in a reduction of such reserve shall be added; and (3) the insurance losses sustained in said calendar year plus losses from any preceding years in excess of such reserves. If such losses exceed the net assessment income in any year, such excess losses shall be restored by deduction made in subsequent years.

"(e) The Corporation (1) may refund to an insured bank any payment of assessment in excess of the amount due to the Corporation or the Corporation (2) may credit such excess toward the payment of the assessment next becoming due from such bank and upon succeeding assessments until the credit is exhausted.

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"(f) Any insured bank which fails to file any certified statement required to be filed by it in connection with determining the amount of any assessment payable by the bank to the Corporation may be compellel to file such statement by mandatory injunction or other appropriate remedy in a suit brought for such purpose by the Corporation against the bank and any officer or officers thereof in any court of the United States of competent jurisdiction in the District or Territory in which such bank is located.

"(g) The Corporation, in a suit brought at law or in equity in any court of competent jurisdiction, shall be entitled to recover from any insured bank the amount of any unpaid assessment lawfully payable by such insured bank to the Corporation, whether or not such bank shall have filed any such certified statement and whether or not suit shall have been brought to compel the bank to file any such statement. No action or proceeding shall be brought for the recovery of any assessment due to the Corporation, or for the recovery of any amount paid to the Corporation in excess of the amount due to it, unless such action or proceeding shall have been brought within five years after the right accrued for which the claim is made, except where the insured bank has made or filed with the Corporation a false or fraudulent certified statement with the intent to evade, in whole or in part, the payment of assessment, in which case the claim shall not be deemed to have accrued until the discovery by the Corporation that the certified statement is false or fraudulent: *Provided, however*, That where a cause of action has already accrued, and the period herein prescribed within which an action may be brought has expired, or will expire within one year from the date this amendment becomes effective, an action may be brought on such cause of action within one year from the effective date of this amendment: *And provided further*, That no action or proceeding shall be brought for the recovery of any assessment on deposits alleged to have been omitted from the assessment base of any insured bank for any year prior to 1945 except that any claim of the Corporation for the payment of any assessment may be offset by it against any claim of the bank for the overpayment of any assessment.

"(h) Should any national member bank or any insured national nonmember bank fail to file any certified statement required to be filed by such bank under any provision of this section, or fail to pay any assessment required to be paid by such bank under any provision of this Act, and should the bank not correct such failure within thirty days after written notice has been given by the Corporation to an officer of the bank, citing this subsection, and stating that the bank has failed to file or pay as required by law, all the rights, privileges, and franchises of the bank granted to it under the National Bank Act, as amended, the Federal Reserve Act, as amended, or this Act, shall be thereby forfeited. Whether or not the penalty provided in this subsection has been incurred shall be determined and adjudged in the manner provided in the sixth paragraph of section 2 of the Federal Reserve Act, as amended. The remedies provided in this subsection and in the two preceding subsections shall not be construed as limiting any other remedies against any insured bank, but shall be in addition thereto.

"(i) Trust funds held by an insured bank in a fiduciary capacity whether held in its trust or deposited in any other department or in another bank shall be insured in an amount not to exceed $10,000 for each trust estate, and when deposited by the fiduciary bank in another insured bank such trust funds shall be similarly insured to the fiduciary bank according to the trust estates represented. Notwithstanding any other provision of this Act, such insurance shall be separate from and additional to that covering other deposits of the owners of such trust funds or the beneficiaries of such trust estates: *Provided*, That where the fiduciary bank deposits any of such trust funds in other insured banks, the amount so held by other insured banks on deposit shall not for the purpose of any certified statement required under subsections (b) and (c) of this section be considered to be a deposit liability of the fiduciary bank, but shall be considered to be a deposit liability of the bank in which such funds are so deposited by such fiduciary bank. The Board of Directors shall have power by regulation to prescribe the manner of reporting and of depositing such trust funds.

"Sec. 8. (a) Any insured bank (except a national member bank or State member bank) may, upon not less than ninety days' written notice to the Corporation, and to the Reconstruction Finance Corporation if it owns or holds as pledgee any preferred stock, capital notes, or debentures of such bank, terminate its status as an insured bank. Whenever the Board of Directors shall find that an insured bank or its directors or trustees have continued unsafe or unsound practices in conducting the business of such bank, or have knowingly

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or negligently permitted any of its officers or agents to violate any provision of any law or regulation to which the insured bank is subject, the Board of Directors shall first give to the Comptroller of the Currency in the case of a national bank or a District bank, to the authority having supervision of the bank in the case of a State bank, or to the Board of Governors of the Federal Reserve System in the case of a State member bank, a statement with respect to such practices or violations for the purpose of securing the correction thereof and shall give a copy thereof to the bank. Unless such correction shall be made within one hundred and twenty days or such shorter period of time as the Comptroller of the Currency, the State authority, or Board of Governors of the Federal Reserve System, as the case may be, shall require, the Board of Directors, if it shall determine to proceed further, shall give to the bank not less than thirty days' written notice of intention to terminate the status of the bank as an insured bank, and shall fix a time and place for a hearing before the Board of Directors or before a person designated by it to conduct such hearing, at which evidence may be produced, and upon such evidence the Board of Directors shall make written findings which shall be conclusive. Unless the bank shall appear at the hearing by a duly authorized representative, it shall be deemed to have consented to the termination of its status as an insured bank. If the Board of Directors shall find that any unsafe or unsound practice or violation specified in such notice has been established and has not been corrected within the time above prescribed in which to make such corrections, the Board of Directors may order that the insured status of the bank be terminated on a date subsequent to such finding and to the expiration of the time specified in such notice of intention. The Corporation may publish notice of such termination and the bank shall give notice of such termination to each of its depositors at his last address of record on the books of the bank, in such manner and at such time as the Board of Directors may find to be necessary and may order for the protection of depositors. After the termination of the insured status of any bank under the provisions of this subsection, the insured deposits of each depositor in the bank on the date of such termination, less all subsequent withdrawals from any deposits of such depositor, shall continue for a period of two years to be insured, and the bank shall continue to pay to the Corporation assessments as in the case of an insured bank during such period. No additions to any such deposits and no new deposits in such bank made after the date of such termination shall be insured by the Corporation, and the bank shall not advertise or hold itself out as having insured deposits unless in the same connection it shall also state with equal prominence that such additions to deposits and new deposits made after such date are not so insured. Such bank shall, in all other respects, be subject to the duties and obligations of an insured bank for the period of two years from the date of such termination, and in the event that such bank shall be closed on account of inability to meet the demands of its depositors within such period of two years, the Corporation shall have the same powers and rights with respect to such bank as in case of an insured bank.

"(b) Whenever the insured status of a State member bank shall be terminated by action of the Board of Directors, the Board of Governors of the Federal Reserve System shall terminate its membership in the Federal Reserve System in accordance with the provisions of section 9 of the Federal Reserve Act, and whenever the insured status of a national member bank shall be so terminated the Comptroller of the Currency shall appoint a receiver for the bank, which shall be the Corporation. Whenever a member bank shall cease to be a member of the Federal Reserve System, its status as an insured bank shall without notice or other action by the Board of Directors, terminate on the date the bank shall cease to be a member of the Federal Reserve System, with like effect as if its insured status had been terminated on said date by the Board of Directors after proceedings under subsection (a) of this section.

"(c) Notwithstanding any other provision of law, whenever the Board of Directors shall determine that an insured banking institution is not engaged in the business of receiving deposits, other than trust funds as herein defined, the Corporation shall notify the banking institution that its insured status will terminate at the expiration of the first full semiannual assessment period following such notice. A finding by the Board of Directors that a banking institution is not engaged in the business of receiving deposits, other than such trust funds, shall be conclusive. The Board of Directors shall prescribe the notice to be given by the banking institution of such termination and the Corporation may publish notice thereof. Upon the termination of the insured status of any such banking institution, its deposits shall thereupon cease to be insured and the

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banking institution shall thereafter be relieved of all future obligations to the Corporation, including the obligation to pay future assessments.

"(d) Whenever the liabilities of an insured bank for deposits shall have been assumed by another insured bank or banks, the insured status of the bank whose liabilities are so assumed shall terminate on the date of receipt by the Corporation of satisfactory evidence of such assumption with like effect as if its insured status had been terminated on said date by the Board of Directors after proceedings under subsection (a) of this section: *Provided*, That if the bank whose liabilities are so assumed gives to its depositors notice of such assumption within thirty days after such assumption takes effect, by publication or by any reasonable means, in accordance with regulations to be prescribed by the Board of Directors, the insurance of its deposits shall terminate at the end of six months from the date such assumption takes effect. Such bank shall be subject to the duties and obligations of an insured bank for the period its deposits are insured: *Provided*, That if the deposits are assumed by a newly insured bank, the bank whose deposits are assumed shall not be required to pay any assessment upon the deposits which have been so assumed after the semiannual period in which the assumption takes effect.

"SEC. 9. Upon the date of enactment of the Banking Act of 1933, the Corporation shall become a body corporate and as such shall have power—

"First. To adopt and use a corporate seal.

"Second. To have succession until dissolved by an Act of Congress.

"Third. To make contracts.

"Fourth. To sue and be sued, complain and defend, in any court of law or equity, State or Federal. All suits of a civil nature at common law or in equity to which the Corporation shall be a party shall be deemed to arise under the laws of the United States: *Provided*, That any such suit to which the Corporation is a party in its capacity as receiver of a State bank and which involves only the rights or obligations of depositors, creditors, stockholders, and such State bank under State law shall not be deemed to arise under the laws of the United States. Except as provided in section 7 (g), 11 (g), and 12 (e), no suit by or against the Corporation shall be allowed unless it shall have been brought within five years after the right accrued on which suit is brought. No attachment or execution shall be issued against the Corporation or its property before final judgment in any suit, action, or proceeding in any State, county, municipal, or United States court. The Board of Directors shall designate an agent upon whom service of process may be made in any State, Territory, or jurisdiction in which any insured bank is located.

"Fifth. To appoint by its Board of Directors such officers and employees as are not otherwise provided for in this Act, to define their duties, fix their compensation, require bonds of them and fix the penalty thereof, and to dismiss at pleasure such officers or employees. Nothing in this or any other Act shall be construed to prevent the appointment and compensation as an officer or employee of the Corporation of any officer or employee of the United States in any board, commission, independent establishment, or executive department thereof.

"Sixth. To prescribe, by its Board of Directors, bylaws not inconsistent with law, regulating the manner in which its general business may be conducted, and the privileges granted to it by law may be exercised and enjoyed.

"Seventh. To exercise by its Board of Directors, or duly authorized officers or agents, all powers specifically granted by the provisions of this Act, and such incidental powers as shall be necessary to carry out the powers so granted.

"Eighth. To make examinations of and to require information and reports from banks, as provided in this Act.

"Ninth. To act as receiver.

"Tenth. To prescribe by its Board of Directors such rules and regulations as it may deem necessary to carry out the provisions of this Act.

"Eleventh. The Corporation is hereby authorized to purchase a building or to acquire a site within the District of Columbia and to construct thereon a building suitable for the use of the Corporation, to be paid for from funds of the Corporation: *Provided*, That the selection of such site shall be subject to the approval of the National Capital Park and Planning Commission, and that the design for such building shall be subject to the approval of the Commission of Fine Arts: *Provided further*, That the facilities of the Administrator of General Services shall be utilized in the acquisition of such site, the preparation of all necessary plans, drawings, and specifications, the making of all necessary contracts, and the supervision of the construction of such building and said Administrator shall provide any other available facilites upon request of the Corporation.

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"SEC. 10. (a) The Board of Directors shall administer the affairs of the Corporation fairly and impartially and without discrimination. The Board of Directors of the Corporation shall determine and prescribe the manner in which its obligations shall be incurred and its expenses allowed and paid. The Corporation shall be entitled to the free use of the United States mails in the same manner as the executive departments of the Government. The Corporation with the consent of any Federal Reserve bank or of any board, commission, independent establishment, or executive department of the Government, including any field service thereof, may avail itself of the use of information, services, and facilities thereof in carrying out the provisions of this section.

"(b) The Board of Directors shall appoint examiners who shall have power, on behalf of the Corporation, to examine any insured State bank (except a District bank), any State bank making application to become an insured bank, and any closed insured bank, whenever in the judgment of the Board of Directors an examination of the bank is necessary. Such examiners shall have like power to examine, with the written consent of the Comptroller of the Currency, any national bank or District bank. Each such examiner shall have power to make a thorough examination of all the affairs of the bank and in doing so he shall have power to administer oaths and to examine and take and preserve the testimony of any of the officers and agents thereof, and shall make a full and detailed report of the condition of the bank to the Corporation. The Board of Directors in like manner shall appoint claim agents who shall have power to investigate and examine all claims for insured deposits and transferred deposits. Each claim agent shall have power to administer oaths and to examine under oath and take and preserve the testimony of any persons relating to such claims.

"(c) For the purpose of any hearing, examination or investigation under this Act, any member of the Board of Directors, any examiner, any claim agent or any person designated by the Board of Directors, is empowered to administer oaths and affirmations, subpena witnesses, compel their attendance, take evidence, and require the production of any books, records, or other papers which are relevant or material to the inquiry. Such attendance of witnesses and the production of any such papers may be required from any place in any State or in any Territory or other place subject to the jurisdiction of the United States at any designated place where such a hearing is being held or investigation is being made.

"(d) In case of refusal to obey a subpena issued to, or contumacy by, any person, the Board of Directors may invoke the aid of any court of the United States within the jurisdiction of which such hearing or investigation is carried on, or where such person resides or carries on business, in requiring the attendance and testimony of witnesses and the production of books, records, or other papers. And such court may issue an order requiring such person to appear before the Board of Directors or member or person designated by the Board of Directors, there to produce records, if so ordered, or to give testimony touching the matter under investigation or in question; and any failure to obey such order of the court may be punished by such court as a contempt thereof. All process in any such case may be served in the judicial district whereof such person is an inhabitant or wherever he may be found. No person shall be excused from attending and testifying or from producing books, records, or other papers in obedience to a subpena issued under the authority of this Act on the ground that the testimony or evidence, documentary or otherwise, required of him may tend to incriminate him or subject him to penalty or forfeiture; but no individual shall be prosecuted or subject to any penalty or forfeiture for or on account of any transaction, matter, or thing concerning which he is compelled to testify or produce evidence, documentary or otherwise, after having claimed his privilege against self-incrimination, except that such individual so testifying shall not be exempt from prosecution and punishment for perjury committed in so testifying. Any person who without just cause shall fail or refuse to attend and testify or to answer any lawful inquiry or to produce books, records, or other papers in obedience to the subpena of the Board of Directors, if in his or its power so to do, shall be guilty of a misdemeanor and upon conviction shall be subject to a fine of not more than $1,000 or to imprisonment for a term of not more than one year, or both.

"(e) Each insured State nonmember bank (except a District bank) shall make to the Corporation reports of condition in such form and at such times as the Board of Directors may require. The Board of Directors may require such reports to be published in such manner, not inconsistent with any applicable law, as it may direct. Every such bank which fails to make or publish any such

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report within such time, not less than five days, the Board of Directors may require, shall be subject to a penalty of not more than $100 for each day of such failure recoverable by the Corporation for its use.

"(f) The Corporation shall have access to reports of examination made by, and reports of condition made to, the Comptroller of the Currency or any Federal Reserve bank, may accept any report made by or to any commission, board, or authority having supervision of a State nonmember bank (except a District bank), and may furnish to the Comptroller of the Currency, to any Federal Reserve bank, and to any such commission, board, or authority, reports of examinations made on behalf of, and reports of condition made to, the Corporation.

"(g) The Corporation may cause any and all records, papers, or documents kept by it or in its possession or custody to be photographed or microphotographed or otherwise reproduced upon film, which photographic film shall comply with the minimum standards of quality approved for permanent photographic records by the National Bureau of Standards. Such photographs, microphotographs, or photographic film or copies thereof shall be deemed to be an original record for all purposes, including introduction in evidence in all State and Federal courts or administrative agencies and shall be proof of any act, transaction, occurrence, or event therein recorded. Such photographs, microphotographs, or reproduction shall be preserved in such manner as the Board of Directors of the Corporation shall prescribe and the original records, papers, or documents may be destroyed or otherwise disposed of as the Board shall direct.

"SEC. 11. (a) The Temporary Federal Deposit Insurance Fund and the Fund For Mutuals heretofore created pursuant to the provisions of section 12B of the Federal Reserve Act, as amended, are hereby consolidated into a Permanent Insurance Fund for insuring deposits, and the assets herein shall be held by the Corporation for the uses and purposes of the Corporation: *Provided*, That the obligations to and rights of the Corporation, depositors, banks, and other persons arising out of any event or transaction prior to the effective date shall remain unimpaired. On and after August 23, 1935, the Corporation shall insure the deposits of all insured banks as provided in this section: *Provided further*, That the insurance shall apply only to deposits of insured banks which have been made available since March 10, 1933, for withdrawal in the usual course of the banking business: *Provided further*, That if any insured bank shall, without the consent of the Corporation, release or modify restrictions on or deferments of deposits which had not been made available for withdrawal in the usual course of the banking business on or before August 23, 1935, such deposits shall not be insured. The maximum amount of the insured deposit of any depositor shall be $10,000: *And provided further*, That in the case of banks closing prior to the effective date of this Act, the maximum amount of the insured deposit of any depositor shall be $5,000.

"(b) For the purposes of this Act an insured bank shall be deemed to have been closed on account of inability to meet the demands of its depositors in any case in which it has been closed for the purpose of liquidation without adequate provision being made for payment of its depositors.

"(c) Notwithstanding any other provisions of law, whenever the Comptroller of the Currency shall appoint a receiver other than a conservator of any insured national bank or insured District bank, he shall appoint the Corporation received for such closed bank.

"(d) Notwithstanding any other provision of law, it shall be the duty of the Corporation as such receiver to cause notice to be given, by advertisement in such newspapers as it may direct, to all persons having claims against such closed bank pursuant to section 5235 of the Revised Statutes (U. S. C., title 12, sec. 193); to realize upon the assets of such closed bank, having due regard to the condition of credit in the locality; to enforce the individual liability of the stockholders and directors thereof; and to wind up the affairs of such closed bank in conformity with the provisions of law relating to the liquidation of closed national banks, except as herein otherwise provided. The Corporation as such receiver shall pay to itself 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. The Corporation as such receiver, however, may, in its discretion, pay dividends on proved claims at any time after the expiration of the period of advertisment made pursuant to the aforesaid section of the Revised Statutes, and no liability shall attach to the Corporation itself or as such receiver by reason of any such payment for failure to pay dividends to a claimant whose claim is

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not proved at the time of any such payment. With respect to any such closed bank, the Corporation as such receiver shall have all the rights, powers, and privileges now possessed by or hereafter granted by law to a receiver of a national bank or District bank and notwithstanding any other provision of law in the exercise of such rights, powers, and privileges the Corporation shall not be subject to the direction or supervision of the Secretary of the Treasury or the Comptroller of the Currency.

"(e) Whenever any insured State bank (except a District bank) shall have been closed by action of its board of directors or by the authority having supervision of such bank, as the case may be, on account of inability to meet the demands of its depositors, the Corporation shall accept appointment as receiver thereof, if such appointment is tendered by the authority having supervision of such bank and is authorized or permitted by State law. With respect to any such insured State bank, the Corporation as such receiver shall possess all the rights, powers, and privileges granted by State law to a receiver of a State bank.

"(f) Whenever an insured bank shall have been closed on account of inability to meet the demands of its depositors, payment of the insured deposits in such bank shall be made by the Corporation as soon as possible, subject to the provisions of subsection (g) of this section either (1) by cash or (2) by making available to each depositor a transferred deposit in a new bank in the same community or in another insured bank in an amount equal to the insured deposit of such depositor and subject to withdrawal on demand: *Provided*, That the Corporation, in its discretion, may require proof of claims to be filed before paying the insured deposits, and that in any case where the Corporation is not satisfied as to the validity of a claim for an insured deposit, it may require the final determination of a court of competent jurisdiction before paying such claim.

"(g) In the case of a closed national bank or District bank, the Corporation, upon the payment to any depositor as provided in subsection (f) of this section, shall be subrogated to all rights of the depositor against the closed bank to the extent of such payment. In the case of any other closed insured bank, the Corporation shall not make any payment to any depositor until the right of the Corporation to be subrogated to the rights of such depositor on the same basis as provided in the case of a closed national bank under this Act shall have been recognized either by express provision of State law, by allowance of claims by the authority having supervision of such bank, by assignment of claims by depositors, or by any other effective method. In the case of any closed insured bank, such subrogation shall include the right on the part of the Corporation to receive the same dividends from the proceeds of the assets of such closed bank and recoveries on account of stockholders' liability as would have been payable to the depositor on a claim for the insured deposit, but such depositor shall retain his claim for any uninsured portion of his deposit: *Provided*, That, with respect to any bank which closes after May 25, 1938, the Corporation shall waive, in favor only of any person against whom stockholders' individual liability may be asserted, any claim on account of such liability in excess of the liability, if any, to the bank or its creditors, for the amount unpaid upon his stock in such bank; but any such waiver shall be effected in such manner and on such terms and conditions as will not increase recoveries or dividends on account of claims to which the Corporation is not subrogated: *Provided further*, That the rights of depositors and other creditors of any State bank shall be determined in accordance with the applicable provisions of State law.

"(h) As soon possible after the closing of an insured bank, the Corporation, if it finds that it is advisable and in the interest of the depositors of the closed bank or the public, shall organize a new national bank to assume the insured deposits of such closed bank and otherwise to perform temporarily the functions hereinafter provided for. The new bank shall have its place of business in the same community as the closed bank.

"(i) The articles of association and the organization certificate of the new bank shall be executed by representatives designated by the Corporation. No capital stock need be paid in by the Corporation. The new bank shall not have a board of directors, but shall be managed by an executive officer appointed by the Board of Directors of the Corporation who shall be subject to its directions. In all other respects the new bank shall be organized in accordance with the then existing provisions of law relating to the organization of national banking associations. The new bank may, with the approval of the Corporation, accept new deposits which shall be subject to withdrawal on demand and which, except

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where the new bank is the only bank in the community, shall not exceed $10,000 from any depositor. The new bank, without application to or approval by the Corporation, shall be an insured bank and shall maintain on deposit with the Federal Reserve bank of its district reserves in the amount required by law for member banks, but it shall not be required to subscribe for stock of the Federal Reserve bank. Funds of the new bank shall be kept on hand in cash, invested in obligations of the United States, or in obligations guaranteed as to principal and interest by the United States, or deposited with the Corporation, with a Federal Reserve bank, or, to the extent of the insurance coverage thereon, with an insured bank. The new bank, unless otherwise authorized by the Comptroller of the Currency, shall transact no business except that authorized by this Act and as may be incidental to its organization. Notwithstanding any other provision of law the new bank, its franchise, property, and income shall be exempt from all taxation now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority.

"(j) Upon the organization of a new bank, the Corporation shall promptly make available to it an amount equal to the estimated insured deposits of such closed bank plus the estimated amount of the expenses of operating the new bank, and shall determine as soon as possible the amount due each depositor for his insured deposit in the closed bank, and the total expenses of operation of the new bank. Upon such determination, the amounts so estimated and made available shall be adjusted to conform to the amounts so determined. Earnings of the new bank shall be paid over or credited to the Corporation in such adjustment. If any new bank, during the period it continues its status as such, sustains any losses with respect to which it is not effectively protected except by reason of being an insured bank, the Corporation shall furnish to it additional funds in the amount of such losses. The new bank shall assume as transferred deposits the payment of the insured deposits of such closed bank to each of its depositors. Of the amounts so made available, the Corporation shall transfer to the new bank, in cash, such sums as may be necessary to enable it to meet its expenses of operation and immediate cash demands on such transferred deposits, and the remainder of such amounts shall be subject to withdrawal by the new bank on demand.

"(k) Whenever in the judgment of the Board of Directors it is desirable to do so, the Corporation shall cause capital stock of the new bank to be offered for sale on such terms and conditions as the Board of Directors shall deem advisable in an amount sufficient, in the opinion of the Board of Directors, to make possible the conduct of the business of the new bank on a sound basis, but in no event less than that required by section 5138 of the Revised Statutes, as amended (U. S. C., title 12, sec. 51), for the organization of a national bank in the place where such new bank is located. The stockholders of the closed insured bank shall be given the first opportunity to purchase any shares of common stock so offered. Upon proof that an adequate amount of capital stock in the new bank has been subscribed and paid for in cash, the Comptroller of the Currency shall require the articles of association and the organization certificate to be amended to conform to the requirements for the organization of a national bank, and thereafter, when the requirements of law with respect to the organization of a national bank have been complied with, he shall issue to the bank a certificate of authority to commence business, and thereupon the bank shall cease to have the status of a new bank, shall be managed by directors elected by its own shareholders and may exercise all the powers granted by law, and it shall be subject to all the provisions of law relating to national banks. Such bank shall thereafter be an insured national bank, without certification to or approval by the Corporation.

"(l) If the capital stock of the new bank is not offered for sale, or if an adequate amount of capital for such new bank is not subscribed and paid for, the Board of Directors may offer to transfer its business to any insured bank in the same community which will take over its assets, assume its liabilities, and pay to the Corporation for such business such amount as the Board of Directors may deem adequate; or the Board of Directors in its discretion may change the location of the new bank to the office of the Corporation or to some other place or may at any time wind up its affairs as herein provided. Unless the capital stock of the new bank is sold or its assets are taken over and its liabilities are assumed by an insured bank as above provided within two years from the date of its organization, the Corporation shall wind up the affairs of such bank, after giving such notice, if any, as the Comptroller of the Currency may require, and shall certify to the Comptroller of the Currency the termination of the new

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bank. Thereafter the Corporation shall be liable for the obligations of such bank and shall be the owner of its assets. The provisions of sections 5220 and 5221 of the Revised Statutes (U. S. C., title 12, secs. 181 and 182) shall not apply to such new banks.

"SEC. 12. (a) Notwithstanding any other provision of law, the Corporation as receiver of a closed national bank or District bank shall not be required to furnish bond and shall have the right to appoint an agent or agents to assist it in its duties as such receiver, and all fees, compensation, and expenses of liquidation and administration thereof shall be fixed by the Corporation, and may be paid by it out of funds coming into its possession as such receiver.

"(b) Payment of an insured deposit to any person by the Corporation shall discharge the Corporation, and payment of a transferred deposit to any person by the new bank or by an insured bank in which a transferred deposit has been made available shall discharge the Corporation and such new bank or other insured bank, to the same extent that payment to such person by the closed bank would have discharged it from liability for the insured deposit.

"(c) Except as otherwise prescribed by the Board of Directors, neither the Corporation nor such new bank or other insured bank shall be required to recognize as the owner of any portion of a deposit appearing on the records of the closed bank under a name other than that of the claimant, any person whose name or interest as such owner is not disclosed on the records of such closed bank as part owner of said deposit, if such recognition would increase the aggregate amount of the insured deposits in such closed bank.

"(d) The Corporation may withhold payment of such portion of the insured deposit of any depositor in a closed bank as may be required to provide for the payment of any liability of such depositor as a stockholder of the closed bank, or of any liability of such depositor to the closed bank or its receiver, which is not offset against a claim due from such bank, pending the determination and payment of such liability by such depositor or any other person liable therefor.

"(e) If, after the Corporation shall have given at least three months' notice to the depositor by mailing a copy thereof to his last-known address appearing on the records of the closed bank, any depositor in the closed bank shall fail to claim his insured deposit from the Corporation within eighteen months after the appointment of the receiver for the closed bank, or shall fail within such period to claim or arrange to continue the transferred deposit with the new bank or with the other insured bank which assumes liability therefor, all rights of the depositor against the Corporation with respect to the insured deposit, and against the new bank and such other insured bank with respect to the transferred deposit, shall be barred, and all rights of the depositor against the closed bank and its shareholders, or the receivership estate to which the Corporation may have become subrogated, shall thereupon revert to the depositor. The amount of any transferred deposits not claimed within such eighteen months' period, shall be refunded to the Corporation.

"SEC. 13. (a) Money of the Corporation not otherwise employed shall be invested in obligations of the United States or in obligations guaranteed as to principal and interest by the United States, except that for temporary periods, in the discretion of the Board of Directors, funds of the Corporation may be deposited in any Federal Reserve bank or with the Treasurer of the United States. When designated for that purpose by the Secretary of the Treasury, the Corporation shall be a depositary of public moneys, except receipts from customs, under such regulations as may be prescribed by the said Secretary, and may also be employed as a financial agent of the Government. It shall perform all such reasonable duties as depositary of public moneys and financial agent of the Government as may be required of it.

"(b) In order to prevent the closing of an insured bank or in order to reopen a closed insured bank, the Corporation, in the discretion of its Board of Directors, is authorized to make loans to, or purchase the assets of, such an insured bank upon such terms and conditions as the Board of Directors may prescribe.

"(c) Receivers or liquidators of insured banks closed on account of inability to meet the demands of their depositors shall be entitled to offer the assets of such banks for sale to the Corporation or as security for loans from the Corporation, upon receiving permission from the appropriate State authority in accordance with express provisions of State law in the case of insured State banks. The proceeds of every such sale or loan shall be utilized for the same purposes and in the same manner as other funds realized from the liquidation of the assets of such banks. In any case where prior to the effective date of this Act, the Comptroller of the Currency has appointed a receiver of a closed na-

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tional bank other than the Corporation, he may, in his discretion, pay dividends on proved claims at any time after the expiration of the period of advertisement made pursuant to section 5235 of the Revised Statutes (U. S. C., title 12, sec. 193), and no liability shall attach to the Comptroller of the Currency or to the receiver of any such national bank by reason of any such payment for failure to pay dividends to a claimant whose claim is not proved at the time of any such payment. The Corporation, in its discretion, may make loans on the security of or may purchase and liquidate or sell any part of the assets of an insured bank which is now or may hereafter be closed on account of inability to meet the demands of its depositors, but in any case in which the Corporation is acting as receiver of a closed insured bank, no such loan or purchase shall be made without the approval of a court of competent jurisdiction.

"(d) Whenever in the judgment of the Board of Directors such action will reduce the risk or avert a threatened loss to the Corporation and will facilitate a merger or consolidation of an insured bank with another insured bank, or will facilitate the sale of the assets of an open or closed insured bank to and assumption of its liabilities by another insured bank, the Corporation may, upon such terms and conditions as it may determine, make loans secured in whole or in part by assets of an open or closed insured bank, which loans may be in subordination to the rights of depositors and other creditors, or the Corporation may purchase any such assets or may guarantee any other insured bank against loss by reason of its assuming the liabilities and purchasing the assets of an open or closed insured bank. Any insured national bank or District bank, or the Corporation as receiver thereof, is authorized to contract for such sales or loans and to pledge any assets of the bank to secure such loans.

"Sec. 14. The Corporation is authorized to borrow from the Treasury, and the Secretary of the Treasury is authorized and directed to loan to the Corporation on such terms as may be fixed by the Corporation and the Secretary, such funds as in the judgment of the Board of Directors of the Corporation are from time to time required for insurance purposes, not exceeding in the aggregate $3,000,-000,000 outstanding at any one time: *Provided*, That the rate of interest to be charged in connection with any loan made pursuant to this paragraph shall not be less than the current average rate on outstanding marketable and nonmarketable obligations of the United States as of the last day of the month preceding the making of such loan. For such purpose the Secretary of the Treasury is authorized to use as a public-debt transaction the proceeds of the sale of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be isued under the Second Liberty Bond Act, as amended, are extended to include such loans. Any such loan shall be used by the Corporation solely in carrying out its functions with respect to such insurance. All loans and repayments under this section shall be treated as public-debt transactions of the United States.

"Sec. 15. All notes, debentures, bonds, or other such obligations issued by the Corporation shall be exempt, both as to principal and interest, from all taxation (except estate and inheritance taxes) now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority. The Corporation, including its franchise, its capital, reserves, and surplus, and its income, shall be exempt from all taxation now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority, except that any real property of the Corporation shall be subject to State, Territorial, county, municipal, or local taxation to the same extent according to its value as other real property is taxed: *Provided*, That any building now or hereafter owned by the Corporation in the District of Columbia and used principally as an office building of the Corporation, together with the land upon which the same stands, and all appurtenances, buildings, and lands used principally in connection therewith, shall be exempt from any and all taxation.

"Sec. 16. In order that the Corporation may be supplied with such forms of notes, debentures, bonds, or other such obligations as it may need for issuance under this Act, the Secretary of the Treasury is authorized to prepare such forms as shall be suitable and approved by the Corporation, to be held in the Treasury subject to delivery, upon order of the Corporation. The engraved plates, dies, bed pieces, and other material executed in connection therewith shall remain in the custody of the Secretary of the Treasury. The Corporation shall reimburse the Secretary of the Treasury for any expenses incurred in the preparation, custody, and delivery of such notes, debentures, bonds, or other such obligations.

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"SEC. 17. (a) The Corporation shall annually make a report of its operations to the Congress as soon as practicable after the 1st day of January in each year.

"(b) The financial transactions of the Corporation shall be audited by the General Accounting Office in accordance with procedures applicable to commercial corporate transactions and under such rules and regulations as may be agreed upon by the Comptroller General and the Board of Directors. The audit shall be conducted at the place or places where accounts of the Corporation are normally kept and all books, records, and documents of the Corporation shall remain in possession and custody of the Corporation. The audit hereby authorized shall be made beginning with financial transactions occurring on and after August 31, 1948. A report of the audit for each fiscal year ending on June 30 shall be made by the Comptroller General to the Congress not later than January 15, following the close of such fiscal year. The report shall set forth the scope of the audit and shall include a statement of assets and liabilities, surplus or deficit; a statement of surplus or deficit analysis; a statement of income and expenses; a statement of sources and application of funds and such comments as may be necessary to inform Congress of the financial condition of the Corporation. Each such report shall be furnished to the Corporation for comment prior to its submission to the Congress. The Corporation shall have twenty days to formulate and transmit its comments on the report to the Comptroller General and the Comptroller General shall include in an appendix to the report such comments as the Corporation may make. On or before August 1 of each year the Comptroller General shall determine whether the General Accounting Office will be able to complete an audit for the preceding fiscal year and report thereon to Congress by the following January 15 and shall send written notification of such determination to the Corporation. In the event the Comptroller General determines that, in respect to any fiscal year, the General Accounting Office cannot complete an audit and make a report thereon to the Congress by the following January 15 and so notifies the Corporation in writing on or before August 1 following the close of such fiscal year, or in the event the Comptroller General shall fail to notify the Corporation in writing on or before August 1 of any year as to his determination relative to the audit for the preceding fiscal year, the Corporation shall be authorized to engage a firm or firms of certified public accountants to make the required audit for that fiscal year. The audit reports of such certified public accountants shall be forwarded to the Comptroller General and the Corporation not later than December 1 following the close of fiscal year for which the audit is made and the Comptroller General, not later than the following January 15, shall forward the report to the Congress together with such comments as he and the Corporation may make on said report. The Corporation shall reimburse the General Accounting Office for the actual cost of any such audit made by that Office and the expenses of audit by any certified public accountants employed by the Corporation under authority hereof shall be paid by the Corporation directly to said firms and organizations.

"SEC. 18. (a) Every insured bank shall display at each place of business maintained by it a sign or signs, and shall include in advertisements relating to deposits a statement, to the effect that its deposits are insured by the Corporation. The Board of Directors shall prescribe by regulation the forms of such signs and the manner of display and the substance of such statements and the manner of use. For each day an insured bank continues to violate any provisions of this paragraph or any lawful provisions of said regulations, it shall be subject to a penalty of $100, which the Corporation may recover for its use.

"(b) No insured bank shall pay any dividends on its capital stock or interest on its capital notes or debentures (if such interest is required to be paid only out of net profits) or distribute any of its capital assets while it remains in default in the payment of any assessment due to the Corporation; and any director or officer of any insured bank who participates in the declaration or payment of any such dividend or interest or in any such distribution shall, upon conviction, be fined not more than $1,000 or imprisoned not more than one year, or both: *Provided*, That, if such default is due to a dispute between the insured bank and the Corporation over the amount of such assessment, this subsection shall not apply, if such bank shall deposit security satisfactory to the Corporation for payment upon final determination of the issue.

"(c) Without the prior written consent of the Corporation, no insured bank shall (1) merge or consolidate with any noninsured bank or institution or convert into a noninsured institution or assume liability to pay any deposits made in, or similar liabilities of, any noninsured bank or institution or (2)

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transfer assets to any nonnsured bank or institution in consideration of the assumption of liability for any portion of the deposits made in such insured bank, and no insured State nonmember bank (except a District bank) without such consent shall reduce the amount or retire any part of its common or preferred capital stock, or retire any part of its capital notes or debentures.

"(d) No State nonmember insured bank (except a District bank) shall establish and operate any new branch unless it shall have the prior written consent of the Corporation, and no State nonmember insured bank (except a District bank) shall move its main office or any branch from one location to another without such consent. The factors to be considered in granting or withholding the consent of the Corporation under this subsection shall be those enumerated in section 6 of this Act.

"(e) The Corporation may require any insured bank to provide protection and indemnity against burglary, defalcation, and other similar insurable losses. Whenever any insured bank refuses to comply with any such requirement the Corporation may contract for such protection and indemnity and add the cost thereof to the assessment otherwise payable by such bank.

"(f) Whenever any insured bank (except a national bank or a District bank), after written notice of the recommendations of the Corporation based on a report of examination of such bank by an examiner of the Corporation, shall fail to comply with such recommendations within one hundred and twenty days after such notice, the Corporation shall have the power, and is hereby authorized, to publish only such part of such report of examination as relates to any recommendation not complied with: *Provided,* That notice of intention to make such publication shall be given to the bank at least ninety days before such publication is made.

"(g) The Board of Directors shall by regulation prohibit the payment of interest on demand deposits in insured nonmember banks and for such purpose it may define the term 'demand deposits'; but such exceptions from this prohibition shall be made as are now or may hereafter be prescribed with respect to deposits payable on demand in member banks by section 19 of the Federal Reserve Act, as amended, or by regulation of the Board of Governors of the Federal Reserve System. The Board of Directors shall from time to time limit by regulation the rates of interest or dividends which may be paid by insured nonmember banks on time and savings deposits, but such regulations shall be consistent with the contractual obligations of such banks to their depositors. For the purpose of fixing such rates of interest or dividends, the Board of Directors shall by regulation prescribe different rates for such payment on time and savings deposits having different maturities, or subject to different conditions respecting withdrawal or repayment, or subject to different conditions by reason of different locations, or according to the varying discount rates of member banks in the several Federal Reserve districts. The Board of Directors shall by regulation define what constitutes time and savings deposits in an insured nonmember bank. Such regulations shall prohibit any insured nonmember bank from paying any time deposit before its maturity except upon such conditions and in accordance with such rules and regulations as may be prescribed by the Board of Directors, and from waiving any requirement of notice before payment of any savings deposit except as to all savings deposits having the same requirement. For each violation of any provision of this subsection or any lawful provision of such regulations relating to the payment of interest or dividends on deposits or to withdrawal of deposits, the offending bank shall be subject to a penalty of $100, which the Corporation may recover for its use.

"(h) Any insured bank which willfully fails or refuses to file any certified statement or pay any assessment required under this section shall be subject to a penalty of $100 for each day that such violations continue, which penalty the Corporation may recover for its use: *Provided,* That this paragraph shall not be applicable under the circumstances stated in the proviso of paragraph (b) of this subsection.

"SEC. 19. Except with the written consent of the Corporation, no person shall serve as a director, officer, or employee of an insured bank who has been convicted, or who is hereafter convicted, of any criminal offense involving dishonesty or a breach of trust. For each violation of this prohibition, the bank involved shall be subject to a penalty of $100 for each day this prohibition is violated, which the Corporation may recover for its use.

"SEC. 20. It is not the purpose of this Act to discriminate in any manner against State nonmember banks and in favor of national or member banks; but the purpose is to provide all banks with the same opportunity to obtain and enjoy the benefits of this Act. No bank shall be discriminated against because its

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capital stock is less than the amount required for eligibility for admission into the Federal Reserve System.

"Sec. 21. The provisions of this Act limiting the insurance of the deposits of any depositor to a maximum less than the full amount shall be independent and separable from each and all of the provisions of this Act."

Sec. 3. The third paragraph of section 709, title 18, United States Code, is amended to read as follows:

"Whoever uses the words 'Federal Deposit', 'Federal Deposit Insurance', or 'Federal Deposit Insurance Corporation' or a combination of any three of these words, as the name or a part thereof under which he or it does business, or advertises or otherwise represents falsely by any device whatsoever that his or its deposit liabilities, obligations, certificates, or shares are insured or guaranteed by the Federal Deposit Insurance Corporation, or by the United States or by any instrumentality thereof, or whoever advertises that his or its deposits, shares, or accounts are federally insured, or falsely advertises or otherwise represents by any device whatsoever the extent to which or the manner in which the deposit liabilities of an insured bank or banks are insured by the Federal Deposit Insurance Corporation; or".

Sec. 4. Section 220, title 18, United States Code, is amended to read as follows:

"Whoever, being an officer, director, employee, agent, or attorney of any bank, the deposits of which are insured by the Federal Deposit Insurance Corporation, of a Federal intermediate credit bank, or of a National Agricultural Credit Corporation, except as provided by law, stipulates for or receives or consents or agrees to receive any fee, commission, gift, or thing of value, from any person, firm, or corporation, for procuring or endeavoring to procure for such person, firm, or corporation, from any such bank or corporation, any loan or extension or renewal of loan or substitution of security, or the purchase or discount or acceptance of any paper, note, draft, check, or bill of exchange by any such bank or corporation, shall be fined not more than $5,000 or imprisoned not more than one year or both."

Senator Robertson. Frankly, I have had no opportunity to examine either of the two bills, but a hasty glance at them indicates that the approach is somewhat different. Senate 2300 seems to be a bill to curtail the assessment of the member banks until the reserve fund falls below a certain sum, $1,000,000,000 I believe, and then the amount necessary will be assessed.

The Maybank bill, S. 2822, evidently has a good many matters in it, because it is 57 pages long. I understand that one of the major features of that bill is to give the banks some relief through what might be called dividend payments on any surplus that may be in the hands of this administrative agency.

The first witness is Hon. Maple T. Harl, the chairman of the Federal Deposit Insurance Corporation. The subcommittee will be glad to hear from Mr. Harl. I will present to him a copy of S. 2300 and let him see if he is familiar with it, realizing, of course, that he came here this morning prepared to testify on the new bill, S. 2822.

Now, Mr. Harl, you may present your testimony in such order as you may see fit.

STATEMENT OF MAPLE T. HARL, CHAIRMAN, BOARD OF DIRECTORS, FEDERAL DEPOSIT INSURANCE CORPORATION, ACCOMPANIED BY H. EARL COOK, MEMBER, BOARD OF DIRECTORS; E. H. CRAMER, DIRECTOR OF RESEARCH AND STATISTICS; L. L. ROBERTSON, ASSISTANT TO CHAIRMAN; AND N. C. BAKKE, ASSOCIATE GENERAL COUNSEL

Senator Maybank. First, Mr. Harl, let me ask you a question—if I may, Mr. Chairman.

Senator Robertson. Yes.

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Senator MAYBANK. As I understand it, you gentlemen of the Federal Deposit Insurance Corporation are now paying considerable rental for your buildings; that is correct, is it not?

Mr. HARL. Yes, sir.

Senator MAYBANK. And as I understand it, as the result of this bill, if it is passed, the Corporation will have its own buildings and will thereby save considerable money.

Mr. HARL. That is right.

Senator MAYBANK. Have you got the figures?

Mr. HARL. Yes, sir; we are prepared to give all the figures.

Senator MAYBANK. I just want to make that clear. The subject has been brought up in the newspapers and a number of people have asked me about it. I understand it will be a good business investment and it will save a lot of money that is now going into rents.

Mr. HARL. That is correct.

Senator MAYBANK. Thank you. I just wanted to make that clear before you proceeded with your statement. Now, will you give us those figures today?

Mr. HARL. Yes, sir.

Senator MAYBANK. Thank you.

Senator ROBERTSON. It would be helpful to me and perhaps to the other members of the subcommittee if Mr. Harl would first tell us in a general way the subjects covered by the bills before us, and then he can proceed to analyze them.

Mr. HARL. In a general way, Mr. Chairman and gentlemen of the committee, there are three major factors to this bill, or I might call them features.

One is the assessment feature.

Senator ROBERTSON. Are you referring now to the bill, S. 2822?

Mr. HARL. S. 2822, the so-called Maybank bill. It has a provision there which follows the 110-year pattern of mutual insurance whereby credit is granted to the insured, in this case the bank, at the end of each year.

Two is the increase of insurance coverage from $5,000 to $10,000.

Three is the simplification of the base for computing assessments.

Now, we realize, Mr. Chairman and gentlemen of the committee, that you are all tremendously busy, and we know that you have had no time to fully analyze this bill. Therefore, we have worked up an explanatory statement for each member of the committee.

Senator ROBERTSON. May I ask you this: Did your agency furnish the technical assistance to Senator Maybank in the preparation of this bill?

Mr. HARL. Any assistance he wanted, we furnished him.

Senator ROBERTSON. Well, then, you did furnish the technical assistance in the drafting of this particular bill?

Mr. HARL. Yes, sir.

Senator TOBEY. Then the bill represents your views, does it not?

Mr. HARL. It does, and we are testifying accordingly.

Senator TOBEY. With reference to S. 2307, did you furnish the technical advice for that bill?

Mr. HARL. That is the Bricker bill?

Senator TOBEY. No; S. 2307 is the Pepper bill.

Mr. HARL. In the case of the Pepper bill and the Bricker bill we were not consulted in any way and knew nothing about them until the bills were introduced, Senator Tobey.

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Senator ROBERTSON. As far as the chairman of this subcommittee is concerned, he got a request from Senator Bricker for the consideration of his bill. But I do not recall seeing the bill of the senior Senator from Florida, Senator Pepper, nor do I recall his asking the subcommittee to consider S. 2307 and frankly I did not know the bill was before us.

However, since it has been brought up before us at this time, I wish to amend my original request and to have that bill recognized and printed in the hearings so that we will have in the record all the bills that have been introduced on this subject.

Senator TOBEY. There is another one, introduced by Senator Butler.

Senator ROBERTSON. There is one that was introduced by Senator Butler, S. 2094. There is also another bill by Senator Langer, S. 80. We will have all those bills printed in the record.

(S. 2307, S. 2094, and S. 80 are as follows:)

[S. 2307, 81st Cong., 1st sess.]

A BILL To remove the limitation upon the maximum deposit insured by the Federal Deposit Insurance Corporation

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 12 (B) (c) (13) of the Federal Reserve Act, as amended (U. S. C., title 12, sec. 264 (c) (13)), is amended to read as follows:

"(13) The term 'insured deposit' means the net amount due to any depositor for deposits in an insured bank after deducting offsets. Such net amount shall be determined according to such regulations as the board of directors may prescribe."

SEC. 2. Section 12 (B) (h) (9) of the Federal Reserve Act, as amended (U. S. C., title 12, sec. 264 (h) (9)), is amended to read as follows:

"(9) Trust funds held by an insured bank in a fiduciary capacity whether held in its trust or deposited in any other department or in another bank shall be insured, and when deposited by the fiduciary bank in another insured bank such trust funds shall be similarly insured to the fiduciary bank: *Provided,* That where the fiduciary bank deposits any of such trust funds in other insured banks, the amount so held by other insured banks on deposits shall not for the purpose of any certified statement required under paragraph (2), (3), or (4) of this subsection be considered to be a deposit liability of the fiduciary bank, but shall be considered to be a deposit liability of the bank in which such funds are so deposited by such fiduciary bank. The board of directors shall have power by regulation to prescribe the manner of representing and of depositing such trust funds."

SEC. 3. Section 12 (B) (l) (1) of the Federal Reserve Act, as amended (U. S. C., title 12, sec. 264 (l) (1)), is amended by striking out the sentence reading as follows: "The maximum amount of the insured deposit of any depositor shall be $5,000".

SEC. 4. Section 12 (B) (z) of the Federal Reserve Act, as amended (U. S. C., title 12, sec. 264 (z)), is repealed.

[S. 2094, 81st Cong., 1st sess.]

A BILL To increase the maximum amount of any deposit or trust fund which may be insured by the Federal Deposit Insurance Corporation under section 12B of the Federal Reserve Act, as amended

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 12B of the Federal Reserve Act, as amended (U. S. C., 1940 edition, title 12, sec. 264), is amended as follows:

(1) By striking out "$5,000" in the first sentence of paragraph (13) of subsection (c) and inserting in lieu thereof "$10,000";

(2) By striking out "$5,000" in the first sentence of paragraph (9) of subsection (h) and inserting in lieu thereof "10,000"; and

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(3) By striking out "$5,000" in paragraph (1) of subsection (l) and inserting in lieu thereof "$10,000".

SEC. 2. The amendments made by this Act shall not apply with respect to insured deposits in any bank closed because of inability to meet the demands of its depositors (as defined in section 12B (l) (2) of the Federal Reserve Act, as amended) prior to the date of the enactment of this Act.

[S. 80, 81st Cong., 1st sess.]

A BILL To increase the insurance protection of depositors in federally insured banks from $5,000 to $15,000

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 12B of the Federal Reserve Act, as amended (relating to the insurance of bank deposits) is amended as follows:

(1) Paragraph (13) of subsection (c), paragraph (9) of subsection (h), and paragraph (9) of subsection (l), respectively, are amended by striking out "$5,000" and inserting in lieu thereof "$15,000".

(2) The third sentence of paragraph (1) of subsection (l) is amended by inserting before the period at the end thereof a colon and the following: *Provided,* That in the case of banks closing after the date of enactment of this proviso the maximum amount of the insured deposit of any depositor shall be $15,000".

Senator ROBERTSON. I assume now that those represent all the bills pending on this subject. Again I want to repeat the only bills that I have been requested to investigate by this subcommittee were the Bricker bill and the Maybank bill.

You may proceed, Mr. Harl.

Mr. HARL. Mr. Chairman and gentlemen of the committee, at the outset I wish to thank the committee on behalf of our Board of Directors for this opportunity to state our views on this most important legislation. May I call your attention to the very splendid statement made by your chairman, Senator Maybank, when he introduced this bill yesterday.

Before beginning my discussion of the bill, I would like to observe that we are now in the sixth year of operation during which there has not been a receivership of an insured bank or financial loss to any depositor. This is a record unparalleled in the financial history of this Nation. It attests the soundness, effectiveness, and value of Federal deposit insurance.

It has not been the policy of the Corporation to come to the Congress repeatedly asking for legislation. This is the first over-all revision of the Federal deposit insurance law in 15 years.

The bill under consideration, namely, S. 2822, rewrites the entire Federal deposit insurance law. We have prepared a detailed statement showing all of the revisions and additions to the present law and the reasons therefor.

As I stated a few minutes ago, I have here copies of the statement for the committee, and I will ask that they be distributed.

Senator ROBERTSON. They may be.

Mr. HARL. Gentlemen of the committee, we have endeavored to take in this each section of the bill, very briefly and in thumbnail manner, so that you can see what the new act provides, and we hope will be of some assistance to you in your analyzing of the bill.

Cognizant of our great responsibilities to the more than 100,000,000 depositors throughout the Nation we devoted months of study to the

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various proposals embodied in this bill. We have materially benefited from the views, opinions, and suggestions of many Members of Congress, several of whom are members of this committee. We have had a great deal of correspondence with individual bankers throughout the Nation; likewise many conferences with representative groups in the banking field, as well as the State bank supervisors, all of which has been most constructive. We, therefore, believe we have had the advantage of a well-selected cross section of opinion and advice on the major provisions of this bill.

By far the most important feature of the bill is the new assessment formula. Questions regarding reduction in the assessment were raised in July 1947 when the Congress was considering the bill to authorize the retirement of this Corporation's stock. At that time, we stated that we would consider the problem when the capital had been fully retired. Since August 30, 1948, when we made the final payment to the Treasury, we have carefully analyzed various proposals for reducing the assessments.

As you all remember, the Treasury advanced $150,000,000 and the Board of Governors advanced $139,000,000, making $289,000,000, which was the original capital of the Corporation. The Corporation paid that back; it returned it in full in the years 1947 and 1948.

Senator DOUGLAS. Mr. Chairman, is it permissible to ask the witness questions while he is making his statement?

Senator ROBERTSON. I will ask the witness if there is any objection or if he would prefer to complete the statement.

Mr. HARL. With due deference to you, Senator Douglas, I would like to complete the statement and have the questions afterward.

Senator ROBERTSON. Then we will proceed that way, if that is agreeable to the Senator from Illinois. We will mark that point and go back to it.

Senator DOUGLAS. Then the Chair would not want to have any questioning of the testimony while it is under way?

Senator ROBERTSON. The witness has stated such preference, and I am, since he has asked for that privilege, granting it to him. It is not an unreasonable request.

You may proceed, Mr. Harl.

Mr. HARL. Any proposal for the reduction of assessments must take into account the question of adequacy of the insurance fund. Our studies do not demonstrate that the fund is adequate. Nor has anyone else, to our knowledge, been able to establish that the deposit insurance fund is sufficient to meet all contingencies. The present insurance fund amounts to about 1.2 billion dollars. To be sure, that sum looks like and is a lot of money. However, when compared with the $150,000,000,000 of deposits, it would seem that the margin of protection is indeed modest.

When the permanent deposit insurance plan was adopted in 1935, the congressional debates emphasized that it was a self-help measure for banks— a mutual insurance fund. Serious concern was expressed in Congress at that time for the preservation of the American banking system. In the course of the great depression of the 1930's discordant voices were challenging free enterprise in the banking business and there were those who questioned the wisdom of our time-honored sys-

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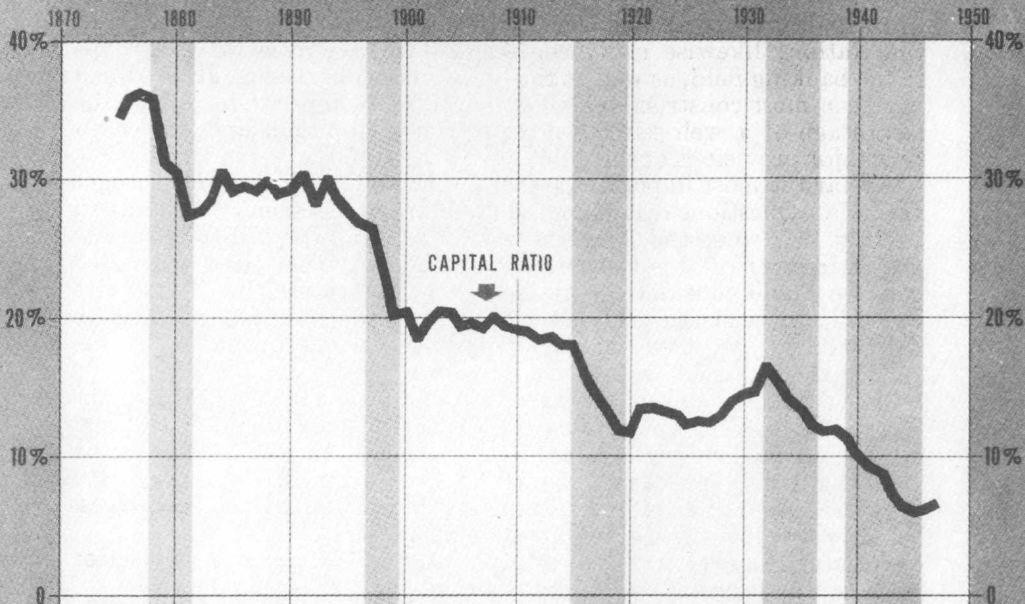
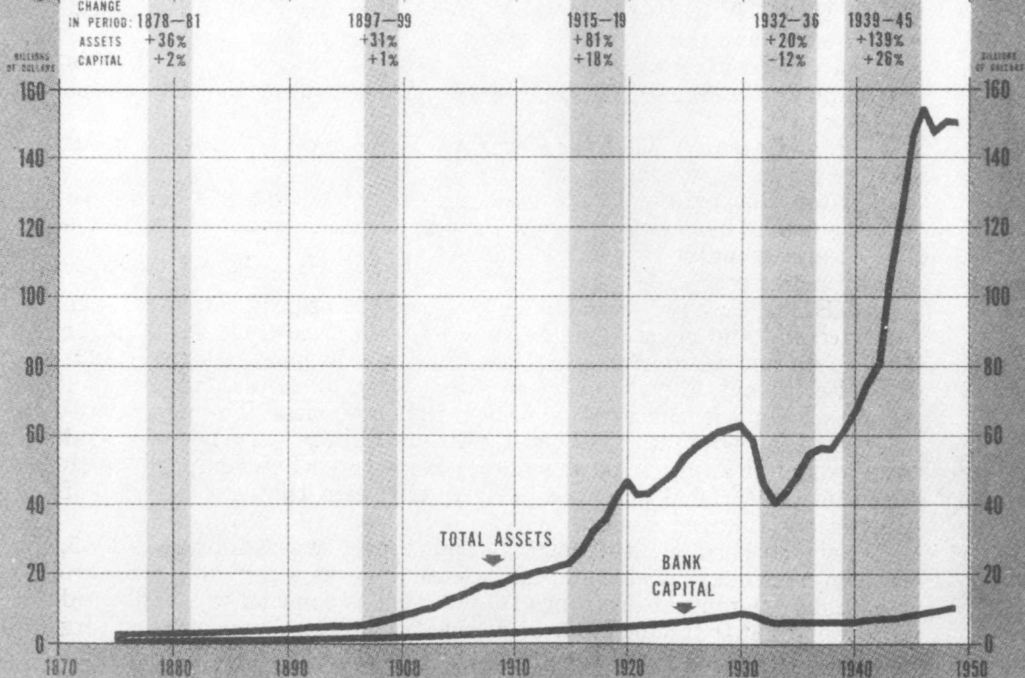
BANK CAPITAL RATIO
ALL COMMERCIAL BANKS, 1875-1949





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tem of dual banking. As you very well know, the survival of the dual banking system in large measure depends on Federal deposit insurance—not as a Government hand-out but as a mutual system sponsored and backed by the Government.

To eliminate or drastically reduce the contribution of banks to the insurance funds would be a departure from the concept of self-help which is a fundamental feature of the Federal deposit insurance system. Increased reliance on Government help is inevitable if the bankers' contribution is reduced beyond reasonable levels. This will invite Government domination of the banking business. It boils down to this—if free enterprise in banking is to continue, deposit insurance must remain predominantly an instrument of self-aid and the banks must be willing to foot the bill. The cost of maintaining a strong mutual insurance fund is indeed a small price to pay for bank solvency, stability, depositors' safety, as well as the historical privilege of freedom in banking enterprise.

The Federal deposit insurance fund is one of the main buttresses of the American system of banking. Adequate capital funds for insured banks are its second line of defense. However, the downward trend in the amount of bank capital is one which cannot be ignored in any discussion of the adequacy of the insurance fund. Over the years the ratio of capital funds to total assets has declined progressively as is shown by the accompanying chart, titled "Bank Capital Ratio, All Commercial Banks, 1875–1949."

On this chart, reproduced on the board here, gentlemen, we have endeavored to show you the declining bank capital for the period 1875 to 1949, or a 74-year period.

(The chart referred to faces p. 22.)

Seventy-five years ago the capital accounts in all commercial banks amounted to about one-third of total assets. Today the corresponding ratio is one-fourteenth of total assets. During this period the average commercial bank has multiplied almost fivefold, the extent of its trading on the equity. Not so many years ago a ratio of 10 percent was considered a minimum. Today the average ratio throughout the Nation is 7 percent. You can very well appreciate our concern for depositors as well as for the banking system when we view this shrinkage in the margin of protection afforded by bank capital along with proposals to drastically reduce the assessments.

The following chart, entitled "Banks Grouped by Capital Ratio," gives a vivid picture of the situation today. Banks are grouped by the size of their capital ratios and the national average is indicated as a point of reference. As might be expected, the bulk of the banks are concentrated around the average. Nevertheless, there are a substantial number of institutions whose ratios are ridiculously low. On June 30, 1949, 312 banks had a capital ratio of less than 4 percent. Many of these banks have resources ranging between $1,000,000 and $10,000,000, but three of them have assets of more than $100,000,000. Clearly the owner-equity in these banks is so thin that it could easily be wiped out in a period of adversity. This is a serious weakness in what should be an element of strength in the banking system.

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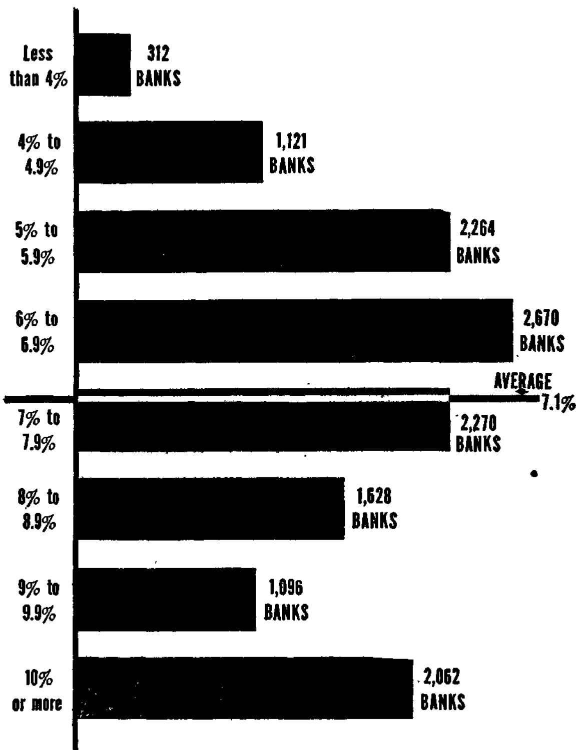
(The chart referred to follows:)



BANKS GROUPED BY CAPITAL RATIOS ALL INSURED COMMERCIAL BANKS—JUNE 30, 1949

The insurance fund has grown to 1.2 billion dollars in 16 years and the Corporation's original capital of $289,000,000 has been repaid. Since the beginning of Federal deposit insurance, deposits have more than tripled. We are convinced deposits will continue to grow—the long-term trend has always been upward. By the same token, the fund should grow proportionately. However, the experience of the Corporation has been limited almost exclusively to a period of favorable economic conditions—a period of heavy losses could drastically curtail the fund.

Prudence counsels the avoidance of any measures that would drastically reduce the amount of deposit insurance assessments or limit the necessary growth of the fund. However, should the Congress decide to reduce assessments, in our judgment, the reduction provided in this bill is the absolute maximum that should be made.

The dividend credit plan in the bill provides that the Corporation, at the end of each calendar year, will deduct from the assessments paid by banks in that year, operating costs, insurance losses, and certain other items such as additions to reserves for losses. Of the net assessment income, 40 percent will be added to the Corporation's capital funds and 60 percent will be available for a pro rata division among the insured banks as a dividend credit applicable on the

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following year's assessments. There is nothing new about this plan. Generally it follows the 110-year-old pattern set by mutual insurance.

The bill also provides for an increase in the insurance coverage from $5,000 to $10,000. This is in accord with the primary purpose of Federal Deposit Insurance Corporation, namely, the protection of the small depositor. When the permanent Federal deposit insurance law was adopted in 1935, the $5,000 maximum provided full protection to 98 percent of the depositors. Owing to the general rise in the price level, the $5,000 limitation now affords full protection for a smaller percentage of depositors than originally. By increasing the limitation to $10,000 the percentage of depositors fully protected will be about the same as in 1935.

Revision of the assessment base is another important provision of this bill. Requirements of the present law have been viewed as a serious handicap by many bankers and they have contended that the benefits gained from allowable deductions are frequently exceeded by the cost of maintaining the necessary supporting records. In other words, too much red tape.

The provisions in this bill for revision of the assessment base will not only simplify the method of computing the assessment, but also will eliminate some of the items now subject to assessment. The banks will benefit from these changes as a result of the reduction of the work in the preparation of the assessment statements. We have endeavored by this particular clause to cut red tape.

In addition to the major provisions I have discussed, there are several other features of the bill I would like to commend to your attention. For example, the Comptroller General is authorized to make a commercial-type audit of the Corporation's financial transactions.

Several changes are made in the authority of the Comptroller of the Currency in respect to national bank receiverships. As you know, the Comptroller of the Currency, Mr. Delano, is a member of our Board of Directors. He is here this morning and I understand he will discuss these changes with you gentlemen of the subcommittee.

In the bill the Corporation is authorized to protect depositors by extending financial assistance to a distressed insured bank for the purpose of restoring it to a sound condition and thus enabling it to continue operations. The present law is limited to situations in which the bank receiving the assistance discontinues operations and merges with another bank.

The Comptroller General has recommended to Congress that the Corporation be given authority to examine all insured banks. This bill will merely eliminate the requirement in the present law that we obtain the prior written consent of the Board of Governors of the Federal Reserve System in order to examine a State member bank. We believe the Corporation, like any other insurer, should have the right to examine any insured State bank at any time the Board of Directors deems it necessary. Under the present law, the Corporation can examine a national bank only with the prior consent of the Comptroller of the Currency. However, the bill does not eliminate this requirement because the Comptroller of the Currency is a member of the Board of Directors of the Corporation and his responsibility as Vice Chairman of the Board assures his consent when, as and if necessary.

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Authority is provided in the bill for the purchase or construction of an office building by the Corporation. At the present time, the Washington offices are in three buildings. As suggested by the chairman of your committee, Mr. Maybank, we are going to furnish the committee with the figures on that so the merits of the suggestion can be better considered.

The payment of insured deposits in cash is expressly authorized by the bill. It has been erroneously asserted that the Corporation may pay insured deposits by means of debentures and scrip. This provision will allay the fears of depositors which may have been aroused by such misrepresentations.

The bill provides that the Corporation's consent be obtained by any State nonmember bank before changing the location of its main office. The law now expressly requires such consent only when branch offices are moved. This corrects an apparent oversight in the existing law.

It so happens that there is not a statute of limitations expressly affecting the Corporation's matters. Therefore, we have written in a 5-year statute of limitations provision to be added to the law.

Provision is made for eliminating the assessment payment by a newly insured bank for the first assessment period in which it is admitted to insurance. This will avoid an assessment on the deposits of an insured bank when they are assumed by a newly organized bank.

The present law authorizes the Corporation to establish a separate fund for insured mutual savings banks and to give such banks a preferential assessment rate. Due to the fact that mutual savings banks have not requested a separate fund or preferential rate, none has been established under the existing authority. These provisions are deleted from the law as unnecessary.

In conclusion, we appreciate this opportunity to present our views. We trust that the little brochure which we handed you a few minutes ago will be of some help to you in analyzing each feature of the bill.

We are available at any time. If any one of the members would like us to come to his offices, we would be glad to do so and discuss any features of the bill. We will be glad to do that for you, and we also will be glad to furnish any statistical data or material of a technical nature which you may desire.

In conclusion, we respectfully urge that no legislation be enacted which will in any way adversely affect the depositors' confidence in the Federal Deposit Insurance Corporation and the banks throughout the Nation. Depositors' confidence, as Senator Vandenberg has stated recently, is the real capital of the Federal Deposit Insurance Corporation.

Senator ROBERTSON. Does that conclude your prepared statement?

Mr. HARL. Yes, sir.

Senator ROBERTSON. The Chair recognizes the Senator from Illinois.

Senator DOUGLAS. As the junior member of the committee, I would be glad to place myself at the bottom of the list.

Senator ROBERTSON. We do not stand on protocol.

Senator DOUGLAS. I am anxious to bend over backward in this matter.

Senator ROBERTSON. Is there anyone else who would like to inquire, first?

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Senator TOBEY. I yield to the Senator from Illinois.
Senator FLANDERS. I yield to the Senator from Illinois.
Senator ROBERTSON. We all yield to the Senator from Illinois.
Senator DOUGLAS. Thank you. That is very gratifying.

Mr. Harl, on page 2 you speak of making final payment to the Treasury on August 30, 1948, when you paid the Treasury out in full for the loans which were advanced.

Do I understand that to be your statement?

Mr. HARL. We paid them for the money advanced.

Senator DOUGLAS. Would that include the interest upon the Government loan which was made?

Mr. HARL. It did not. The law provided that there should be no dividend upon the capital stock.

Senator DOUGLAS. In practice, the Government has made an advance to the FDIC which has not been repaid; namely, the interest on the bonds which the Government issued, but for which it was not reimbursed.

Mr. HARL. It was capital stock, and the law provided by statute that there be no dividend paid on capital stock.

Senator DOUGLAS. Yes, but the Government had to borrow money in order to subscribe to that capital stock and pay interest.

Mr. HARL. The Corporation itself could not pay dividends.

Senator DOUGLAS. I am not saying that you did anything illegal, but I wonder if the impression which was left that the Government had now been completely paid out and incurred no expense whatsoever is completely correct, because the Government has advanced the interest upon the subscription.

Mr. HARL. I stand on the statement. We paid everything the Government advanced by statute.

Senator DOUGLAS. Let me ask this: Has not the Government made a contribution to the FDIC which has not been repaid?

Mr. HARL. I would say this: The Government advanced $150,000,000——

Senator DOUGLAS. But the Government, when it advanced the money, had to borrow $150,000,000 upon which it paid interest, and it continued to pay interest until this sum was returned. Therefore, the Government subsidized the FDIC by the amount of the interest, which was not repaid; is that correct?

Mr. HARL. There is no provision for repayment.

Senator DOUGLAS. I understand. I am not accusing you of doing anything illegal. Is it not true that the Government made an advance which was not repaid, of interest, and therefore that the Government still—I will not say has been a benefactor—but a contributor to FDIC?

Mr. HARL. I would say for every dime the Government has contributed, they have been well repaid.

If you recall the bond sales program, you will find that the banks of this country underwrote these bonds for less than one-tenth of 1 percent. In other words, the banks by having this insurance were able to restore confidence to the public and at the same time we went to the banks and asked them to help us underwrite this war loan, which they did at no expense to the Government.

Therefore, it remains to be seen what it would have cost the Government if they paid the banks to help underwrite these loans, or whether they were repaid by the investment in FDIC stock.

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Senator DOUGLAS. That wasn't the question. It was a simple question. I don't want to be tough on you. Is it not a fact that the Government in order to make its subscription had to borrow money from somebody, and that it paid interest on this money in order to make the subscription to FDIC, and they repaid them on the principal but the Government in the meantime had incurred interest losses which were not reimbursed, and, therefore, in effect, excellently, as you have done, the Government has still made a net contribution to FDIC? That is the question. I don't think you have answered it at all.

Mr. HARL. I think it is a mutually reciprocal matter.

Senator DOUGLAS. Can't we answer these questions "yes" or "no"? Do we have to go through this elaborate fencing?

I would like to have the point cleared up.

Mr. HARL. With due respect to the Senator, I am not fencing. The law said they would buy so much capital stock. The Congress specified that it was common stock without dividends. If the Government borrowed $150,000,000——

Senator DOUGLAS. Didn't they?

Mr. HARL. If they borrowed this $150,000,000——

Senator DOUGLAS. Didn't they ?

Mr. HARL. I don't know what the Treasury position was.

Senator DOUGLAS. When was the FDIC formed?

Mr. HARL. In 1933, and began functioning in 1934.

Senator DOUGLAS. Did we have a surplus of receipts over expenditures at that time? Did we not have a deficit; and when we put the $150,000,000 in we couldn't get it out of the taxes—we had to borrow?

Mr. HARL. The stock was not taken into the Government budget. When they put $150,000,000 in they got $150,000,000 stock.

Senator DOUGLAS. Where did the Government get the $150,000,000? Didn't it get it by borrowing? They paid interest on the $150,000,000 and continued to pay interest until the capital was retired.

Why do we take so much time to develop this simple point?

Mr. HARL. You pay for things rendered either in cash or services; do you not?

Senator DOUGLAS. I am not accusing the FDIC of not rendering service.

Mr. HARL. I am talking about the subsidy to the banks. If the Government had to go out and borrow $150,000,000, for which they bought capital stock, as the law provided—the same people who pass on the budget passed the FDIC law. Why did they put it there expressly? It was written specifically for some reason that there would be no dividend paid. If they borrowed $150,000,000 and paid interest on this money——

Senator DOUGLAS. Didn't they pay interest? Why make it conditional?

Mr. HARL. And then bought $150,000,000 worth of capital stock, in the Federal Deposit Insurance Corporation, the difference there between the $150,000,000 paid and the stock bought is the same as any other investor interest.

If they borrowed this money some place they were out that amount of money unless they received it in services.

Senator DOUGLAS. Let's talk about cash. Assuming the annual interest was around 3 percent at this period on 150 million dollars, that would be 4.5 million dollars a year which the Government would pay

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in interest charges on the bonds. That continued as a subsidy, even though the principal was repaid. Isn't that true? Of course the Government borrowed, and of course the Government paid interest.

Mr. HARL. Another thing is this: This Corporation stands ready to reimburse the Government, or anyone else, provided it is legally authorized to do so.

Senator DOUGLAS. You are ready to pay the interest; is that right?

Mr. HARL. Yes. If we have an obligation we are ready to pay it.

Senator MAYBANK. Congress would have to pass a law.

Mr. HARL. Yes; Congress would have to decide that.

Senator DOUGLAS. That is a possible source of revenue that I had not thought of. This brief conversation, which I at first thought was going to be unprofitable, might yield the Government as much as $40,000,000. I first thought it was love's labor lost. It may turn out there was gold in "them there hills."

Mr. HARL. It is a contractual obligation which the Congress would have to ratify.

Senator DOUGLAS. You would not oppose it?

Mr. HARL. No, sir.

Senator DOUGLAS. You would assist in the drafting of such legislation?

Mr. HARL. Yes.

Senator DOUGLAS. And appear here in support of it; is that correct?

Mr. HARL. Yes.

Senator DOUGLAS. That is fine.

Mr. HARL. I say this: I have never found the banks of this country desirous of evading any just obligation, and I think we would have their support.

Senator MAYBANK. I don't think anybody intimated that the banks would dodge anv just obligation. The question is merely a question for the Congress to act upon.

Mr. HARL. That is right.

Senator MAYBANK. It would be figured out from the year 1933 until when the Treasury was paid in 1948.

Senator DOUGLAS. With the help of Mr. Harl we will try to get the $40,000,000.

Senator ROBERTSON. I would say the Government isn't in so serious a condition as it was in 1893, when Mr. Cleveland had to borrow money from Pierpont Morgan to keep the Treasury operating, although I don't think anybody questions the fact that the Government needs help from some source.

Senator DOUGLAS. Probably we have discovered an obligation which perhaps can be turned into a cash asset. I don't want to intrude——

Senator ROBERTSON. You may continue.

Senator DOUGLAS. I don't want to monopolize the questioning.

Senator ROBERTSON. We have plenty of time.

Senator DOUGLAS. At the bottom of page 2, Mr. Harl, you mention a 1.2 billion dollar reserve to protect the 150 billion dollars of deposits.

That is $150,000,000,000, I take it, of total deposits, not of insured deposits?

Mr. HARL. That is correct.

Senator DOUGLAS. The insured deposits are approximately half this figure?

Mr. HARL. The insured deposits run to about $75,000,000,000.

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Senator DOUGLAS. Or something around 40 percent of the total deposits are insured; speaking of the present figure, $5,000.

Mr. HARL. At the present time there is $62,000,000,000 worth of deposits fully covered, which is 44.8 percent of the deposits insured. This represents 96 percent of the bank accounts.

Senator DOUGLAS. Yes.

Mr. HARL. If we go to the ten thousand we will then insure in full 52.4 of the deposits and 98.4 of the accounts. We are talking there——

Senator MAYBANK. Did you say 52.4?

Mr. HARL. Yes.

We are talking there, Senator, of commercial banks. In the case of insured mutual banks, banks without capital stock—and I think you will be interested in this, Senator Flanders, coming from a section where the mutuals have been very successful—at the present time 93.7 of all accounts are insured. If you go to the ten thousand figure, we will insure 99.7 of the insured mutual savings bank accounts.

At the present time mutual savings banks insured by this Corporation, Senator Flanders, have total deposits of $13,000,000,000, of which we insure better than $12,000,000,000.

Senator FLANDERS. Can you give a figure for the mutual savings banks and for the commercial banks, of the total number of billions that will be insured under the proposed extension to ten thousand?

Mr. HARL. Yes. On the proposed extension, under the proposed extension to ten thousand, we will insure $13,289,891,000 in mutual savings accounts, and in the commercial banks we will insure $72,998,093,000, which roughly is a total of $86,000,000,000.

Senator DOUGLAS. How much of an increase is that over the present total of insured deposit accounts?

Mr. HARL. At the present time in commercial banks, we insure $62,411,242,000, and in the insured mutual savings baks we insure $12,121,851,000.

That would bring the total up to from $78,000,000,000 to $86,000,000,000.

Senator DOUGLAS. An increase of $8,000,000,000 in insured accounts?

Mr. HARL. Correct.

Senator DOUGLAS. An increase of fourteen——

Mr. HARL. $12,000,000,000.

Senator DOUGLAS. $12,000,000,000?

Mr. HARL. Yes.

Senator DOUGLAS. Then your reserve at present is a little less than 2 percent on insured deposits.

Mr. HARL. That is correct, sir. As you know——

Senator DOUGLAS. You would—under the new figure, you would reduce that to about 1.5 percent?

Mr. HARL. Well, the funds there would grow about 40 percent of the net assessment income each year.

Senator DOUGLAS. Yes?

Mr. HARL. Yes.

Senator DOUGLAS. The proportion of reserve is slightly reduced, at least in the initial year, by the proposal?

Mr. HARL. That is right; yes.

Senator DOUGLAS. Now, at present did I understand you to indicate that if a bank is in danger of failing you generally arrange a merger?

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Mr. HARL. Yes. Take in your own community of Lemont, Ill., we had some bank officials who got involved with the village officers in switching bonds, and so forth, as you remember.

Senator DOUGLAS. Members of a different political party, I hasten to say.

Senator FLANDERS. How did the word "Vermont" get into that situation?

Senator DOUGLAS. Lemont. Lest undue suspicion be attached to my party.

Mr. HARL. I didn't know whether or not they were constituents of the Senator.

Senator DOUGLAS. Constituents, but not supporters.

Mr. HARL. Nevertheless, you had the First National and the Lemont National. In the First, they got to taking home a few samples, and so forth, and got the bank involved, and it was a case of closing the bank and having a long, lengthy receivership, or turning the good assets over to the other bank, and we were given the chore of taking up the bad assets, which we did.

In that case there was no cessation in the banking business in the community, no one had his credit curtailed, the depositor woke up the next morning to find out that the First Lemont was in trouble, but his deposits were secure, and safe, and were in the other bank.

Senator DOUGLAS. Let me ask this: Does not this amount in fact to a guaranty of all deposits and not merely of insured deposits?

Mr. HARL. It did in that case; yes.

Senator DOUGLAS. Have you used this in other cases?

Mr. HARL. Within the act we have used it in several cases. Up in Newark, N. J., in the summer of 1948 a judge up there was general counsel of one of the banks, and he became involved to the tune of about $750,000.

In that case, we went in and met with the clearinghouse, and transferred 16,000 accounts to the United States Trust Co., which was the designee of the clearinghouse, and took out the nonacceptable assets and liquidated them. The equity was plowed under, and, strange as it may seem, that deal may come out 100 percent.

Senator DOUGLAS. Isn't this furnishing a precedent? It may well be the correct policy, but isn't it creating a precedent under which in effect there will be a moral obligation upon the Government to protect all deposits and not merely the insured deposits, because if you do this in a period that is not subject to strain, they will say, "How can you discontinue this policy now?" Wouldn't you, therefore, in effect be committed morally to guaranteeing security of all deposits and not merely those under a given figure?

Mr. HARL. We have, perhaps. However, we found out this is the most economic way to handle it from every standpoint.

One other thing: As fast as these banks are examined we have a list of what we call problem banks and semiproblem banks. In other words, we hope to be able to swallow them faster than they develop. The State supervisors work with us. We know the banks we think are a little ill. As a doctor always has a few sick patients—regardless of the penicillin and all those drugs, still you have sick people. Regardless of the FDIC you are always going to have a few sick banks.

Senator DOUGLAS. Well, that raises the inquiry as to what your judgment is. Do you think if we were to have appreciable numbers of

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bank failures we would be able to confine our guaranty of deposits purely to those within the restricted deposit range, or would there be in practice a call for guaranty of all deposits, and that we would be forced to do that?

Mr. HARL. I will make this statement, to which I believe you will take exception: The FDIC in its present status is invulnerable when compared with the situation in 1933, because in addition to our capital we likewise have readily available from the Treasury $3,000,000,000 to meet other contingencies. Therefore, we have at the present time $4,000,000,000 in reserves. In addition to that, over the period since 1934, the banks have added appreciably to their capital structures which at the present time are about $12,000,000,000.

Now, at the time of the difficulty in 1933, they had less than $6,000,-000,000 in capital structures. Therefore, at the present time, with FDIC capital, together with the reserve for contingencies of $3,000,-000,000 plus the capital of the banks, there is available better than $16,000,000,000 to meet any situations.

Senator DOUGLAS. Mr. Harl, in your own chart, which you put on the board, and which is the first chart in your statement, you show that while the capital of the banks——

Mr. HARL. Capital ratio has decreased.

Senator DOUGLAS. The deposits have increased so much more rapidly that the capital ratio has decreased, and from the chart it looks as if it has decreased from 13 to 7 percent, so relatively speaking the banks do not have the good reserve that they had 15 years ago. So it is not a question of absolute capital; it is a question of ratio of capital to deposits.

Mr. HARL. That is correct.

I was comparing our situation, over-all, with 1933, and with the situation today.

The 1933 situation was a culmination of a lot of accrued paper.

Senator DOUGLAS. We fought this battle over once before in the hearings before the Temporary National Economic Committee. I don't want to prolong it. I merely would say that much as we hope that your belief will come true, we are not necessarily sure of it. We might have a great economic catastrophe. I am merely raising the question as to the fact that if that were to happen, whether in practice you would be able to restrict the guaranty to those under five thousand, or ten thousand; whether in practice, by the precedents which you are building up, you would not be compelled to guarantee all deposits, and whether in that event the reserve which you are planning would be adequate.

Mr. HARL. Of course, the loan pattern makes a lot of difference. The loan pattern of the 1930's was brokers' loans. You could buy a share of stock for 10 percent and the broker carried it for 90. We have FHA paper; we have veterans' paper in the banks. So the loan pattern is different.

Senator DOUGLAS. May I turn to this question of bank examination?

As I understand the present arangement, it is that the Comptroller of the Currency examines all national banks; is that right?

Mr. HARL. That is right.

Senator DOUGLAS. The Federal Reserve System examines State banks which are members of the system, and FDIC examines State banks not members of the system?

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Mr. HARL. That is correct.

Senator DOUGLAS. Your proposal is that all State banks shall be examined by FDIC?

Mr. HARL. No, sir; I am proposing—we are proposing, Senator—that we be placed on a par with the Federal Reserve Board. We are asking merely for that authority. The Federal Reserve System has the right to examine any members of the Federal Reserve. For example, the Comptroller examines the national banks, but if the Federal Reserve so desires, they have a right by law to examine those national banks.

We are asking merely that we have a right to examine any bank which is a member of the Federal Deposit Insurance Corporation, the same as the Federal Reserve System has the right to examine any members of the Federal Reserve System.

Senator DOUGLAS. You are asking for the right to examine national banks, too?

Mr. HARL. No, sir; the Comptroller of the Currency is on our Board, he is Vice Chairman of our Board, at the policy level, and in the national banks he is at the administration level, and administers the Bureau of the Comptroller of the Currency. The Comptroller of the Currency attends all of our meetings, and you would find that he is——

Senator DOUGLAS. You think that he can protect the national banks from the possible encroachment of the FDIC inspecting staff?

Mr. HARL. He is part of us.

Senator DOUGLAS. His examining staff is not?

Mr. HARL. That is right.

Senator DOUGLAS. You do not ask that you have the right to examine national banks, then?

Mr. HARL. We merely——

Senator DOUGLAS. Even though they are insured?

Mr. HARL. That would be unnecessary, so long as the Comptroller is a member of this Board.

Senator DOUGLAS. At any rate, you are not asking for it?

Mr. HARL. That is right.

Senator DOUGLAS. But you are asking for the right to examine State banks, members of the Reserve System that are now examined by the Federal Reserve.

Mr. HARL. That is right.

Senator DOUGLAS. Why do you do that?

Mr. HARL. It is fundamental; we think, whether it is fire insurance or casualty insurance, it is fundamental that the insurer has the right to look at his risk. Furthermore, we feel that we should be placed on a parity where we can look at any of our risk, as the law says, when we deem necessary.

In the case of the Federal Reserve, they can if they so desire examine any national bank, and do examine any State member bank.

In other words, the Federal Reserve Board of Governors can examine any member of the Federal Reserve System. We are merely asking parity.

Senator DOUGLAS. But they do not assert that right in the case of national banks?

Mr. HARL. They haven't as yet.

Senator DOUGLAS. That is right.

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Mr. HARL. You might ask the Comptroller if they have ever examined any national banks.

Mr. DELANO. Not to my knowledge.

Senator DOUGLAS. What you are proposing is that you should have the right, you are not proposing to diminish the right of the Federal Reserve to examine.

Mr. HARL. No, sir.

Senator DOUGLAS. But you ask for the right to examine yourself the State banks which are members of the Reserve System.

Mr. HARL. If we deem necessary.

Senator DOUGLAS. If the Federal Reserve System continues to assert its right and you asserted your right, the banks would be subject to dual examination; is that right?

Mr. HARL. There has never been any conflict between us and the Federal Reserve, regardless of what some people say.

Senator DOUGLAS. If you take the bars down and you can come in, doesn't that create the possibility—I would think the probability—of dual examination?

Mr. HARL. Not necessarily.

Senator DOUGLAS. Unless you frighten them off with the threat of this law, and are able to conclude a private agreement.

Mr. HARL. The same thing exists now between the Comptroller and the Federal Reserve. If the Federal Reserve wants to examine a national bank they can do it. They have that right.

Senator DOUGLAS. But they never assert it?

Mr. HARL. That is right.

Senator DOUGLAS. But they have already staked out the ground.

Mr. DELANO. Senator, with regard to the examination of national banks by the FDIC, we have never refused the FDIC permission.

Senator DOUGLAS. But they have never requested it.

Mr. DELANO. Yes; they have. But in very rare instances, and only where it is of assistance to us.

Senator DOUGLAS. Don't they in general have the feeling that it would be impolite on their part to try to inspect national banks, the duty of which is lodged in the Comptroller of the Currency, who happens to be a Vice Chairman of their Board?

Wouldn't that be regarded as sort of a breach of governmental etiquette?

Mr. DELANO. I think it is due to the fact that there was a very close liaison between the two. In a certain sense the FDIC through the eyes of the Comptroller as member of its Board does examine, or does see the examinations of the national banks. I think there is a very close—there is a distinction there. When you sit there all day long, and many days out of the week, with the other members of the Board, you develop a certain understanding.

Senator DOUGLAS. Live and let live, perhaps.

Mr. DELANO. At least, we cooperate.

Senator DOUGLAS. I tried to find in other hearings the proper definition of the word "cooperate" as used in governmental circles, and it seems to be shrouded with ambiguity.

Mr. DELANO. I think that is true. In this case, I use it in the better sense.

Senator MAYBANK. Do you know the Secretary's attitude on the question? Do you know the attitude of the Secretary of the Treasury?

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Mr. Delano. The Secretary is coming up.

Senator Maybank. Yes?

Mr. Delano. I would like to restrict what I have to say to my own office. I would like to have him answer that, if you please.

Senator Maybank. I am glad to hear you say that. I wasn't certain whether the Secretary was coming or not.

Mr. Delano. He told me when he asked me to come up in response to your request that he would be coming up later. So I assume he will speak for the Treasury.

Senator Maybank. That is the reason Senator Robertson and I were concerned about it; because I had not had the opportunity of calling him this morning.

Mr. Delano. I think he intends to testify.

Senator Douglas. In effect, Mr. Harl, you would, I suppose, confine the functions of the Federal Reserve Board to general policy matters, credit and interest rates, rather than the determination of the soundness of assets of banks; isn't that your purpose? And to make the FDIC the examining agency to determine the soundness of assets of all State banks?

Mr. Harl. Very frankly, we merely want to be on a parity basis. This Board has never discussed taking over the examination functions of the Federal Reserve.

Senator Douglas. If you move into this field, isn't it obvious that the possibility of dual examination would be so costly and so vexations to the public that in practice it wouldn't be possible to have both of you inspecting the State banks, members of the System, at the same time? You will either have to recede, or they, and if you carry the fight to them it will be made somewhat embarrassing for them to continue; would that not be the practical effect?

Mr. Harl. The Comptroller General, Mr. Warren, had recommended this provision. That is the situation in a nutshell.

Senator Douglas. We have to make up our own minds.

Mr. Harl. That is right.

Senator Douglas. Great as our respect for Mr. Warren is.

Mr. Harl. That is where it came from. In other words, he made the statement to us, that the insurer should have the right to look at his risk. There is nothing new in this particular situation. As I stated here today, from the inception of the Federal Reserve Act, they have had the right to examine one of their members. We feel that in the spirit of equity we should have the same right. This Corporation has never participated in anything that made a dual examination. For example, in the States where you have State bank commissioners, State member banks and State nonmember banks, we endeavored to do one of two things: We endeavored to either have a joint examination with the State bank commissioner, or by and with his consent to make an independent examination.

Senator Douglas. Would you be willing, then, to agree that you would examine only in those cases where the Chairman of the Federal Reserve Board gives his consent?

Mr. Harl. That is in the law now.

Senator Douglas. That is what you are proposing to change. In other words, while you permit the State banks to hold you off by informal agreement, you now want to change the statute so that the

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Federal Reserve Board cannot hold you off, so that you will have free right of entry to examine all State banks?

Mr. HARL. The law, Senator, provides we can examine now where there is their consent. We can examine a State bank at any time that we please.

Senator DOUGLAS. In practice, you don't do so, if you are satisfied with the State examination?

Mr. HARL. That is right.

Senator DOUGLAS. That is by informal agreement?

Mr. HARL. Yes.

Senator DOUGLAS. Or perhaps a formal agreement; do you sign agreements?

Mr. HARL. No.

Senator DOUGLAS. You have informal agreements.

Mr. HARL. That is right.

Senator DOUGLAS. Would you be willing to conclude a formal agreement?

Mr. HARL. It wouldn't be necessary to make an agreement with anyone with whom we already have an agreement. I would like to call attention to an address made by the Hon. Allen Sproul less than a year ago in which he stated that the examination of banks for the Federal Reserve System was one of their minor functions.

Senator DOUGLAS. I noticed, however, that when the question of the salaries of the Federal Reserve members came up that the figure cited, to indicate that the members of FDIC should have an equal salary with members of the Federal Reserve, was couched in the terms of relative number of bank examinations made by the respective parties.

Mr. HARL. We are asking for the same thing—parity.

Senator DOUGLAS. I would like to raise this final point: If you have the right to examine State banks which are members of the Federal Reserve System, and the Federal Reserve System also has that right, which we would grant by law, the State banks, members of the System, would therefore be exposed to duplicate examination.

I would be prone to think that intolerable from the standpoint of the State banks, having examiners come in upon them twice, and I think in practice what would happen would be the same as if you had two trains on the same single track, rushing toward each other, and either one or the other would have to stop.

I wondered if you wanted to bring the examining authorities into such head-on collision as this proposal would create.

You are proposing that both should have equal rights of inspection, which if asserted would result in duplicate examination.

I apologize for taking so much time.

Senator ROBERTSON. No apologies are in order. It is good of the Senator to develop these interesting phases of this bill.

Does some other member have questions?

Senator FLANDERS. I have one or two questions I would like to ask.

Senator ROBERTSON. Senator Flanders.

Senator FLANDERS. One is to clear up an ambiguity in my own mind, which I am sure is just a personal ambiguity.

On page 5, the fourth line from the second full paragraph, you speak about certain other items, such as additions to reserves for losses. Is not your local capital structure a reserve for losses, and how does this particular item differ from your whole capital structure?

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Mr. HARL. At the time we step into a situation—for example, we have to put in $1,000,000 and take out the questionable assets. At the time we do that, we set up one third of our advance as reserve for that purpose. In other words, we try to set up each situation on its own feet.

Then, when the liquidation is completed, any over and above the reserve goes back into the capital fund, and that is adjusted every 6 months.

In other words, if you took over a bank and had to put up $1,000,000, you set up a reserve of $300,000 odd for that purpose, and if you actually liquidated at 90 percent, you would restore to your capital fund the difference between 66.6 and 90 percent, and that is adjusted every 6 months.

Senator FLANDERS. That removes the personal ambiguity.

Mr. HARL. Our Comptroller adjusts that every 6 months as to loss.

Senator FLANDERS. At the bottom of page 6, the paragraph beginning at the bottom:

> In the bill the Corporation is authorized to protect depositors by extending financial assistance to a distressed insured bank for the purpose of restoring it to a sound condition and enabling it to continue operations.

In what respect is the present law changed with regard to that feature?

Mr. HARL. As you know, in this last depression, for example, in the State of Vermont, every savings bank, every mutual savings bank had to have help except one. That was the Northfield. There is no capital in a mutual savings bank as such. It is a mutual institution. In many of those towns there is only one savings bank.

The situation arose there whereby we could not merge one bank with another because there was nothing to merge. So we worked out an arrangement with the RFC where the RFC took those assets out, and gave them a chance to repay the RFC for the assets, and liquidated them.

As you know, those savings banks now have come back and are very substantial; but if they hadn't had this aid at that time the entire mutual savings structure would have collapsed in your particular State.

We merely want the right, then, to make a loan against those risk assets which are substandard to the institution with the loan to be repaid from such assets, as they can be liquidated and from earnings.

Senator FLANDERS. In substance, what this bill before us proposes in that the operations which were carried on by the RFC in cases of that sort be done by the FDIC.

Mr. HARL. We want the bill so the bank can continue.

Senator FLANDERS. That is the nature of the change in the law?

Mr. HARL. Yes; we would make the bank a direct loan, and take those substandard assets out.

Senator FLANDERS. One or two of the points I had in mind were covered by the questions of the Senator from Illinois.

The next question that I raise is on page 7, the middle paragraph in the page:

> Authority is provided in the bill for the purchase or construction of an office building by the Corporation. At present, the Washington offices are in three buildings.

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I rather question putting that into this bill. It seems to me that that should come under the general appropriations for office buildings. I am merely expressing my own feeling with regard to that. I think it is inappropriate for this bill.

Senator ROBERTSON. It is your idea that that item should be considered by the committee which happens to handle public works?

Senator FLANDERS. That is right. I rather question whether the committee which handles public works would; I think they would raise a question as to the appropriateness of this, and I think the Senate would sustain the objection.

Senator MAYBANK. That is one of the reasons why I raised the question this morning. I was going to get to it when he gave the figures. Of course, this wouldn't be appropriated money. It appears to me that a simple resolution authorizing this through public works would probably be better than in this bill. It doesn't require any appropriated money. Is that correct?

Mr. HARL. Yes.

Senator MAYBANK. Will you give those figures for the record?

Mr. HARL. Yes.

In the first place, the selection of the site shall be subject to the approval of the National Capital Park and Planning Commission, and the design for such building shall be with the approval of the Commissioner of Fine Arts. The preparation of all necessary plans, drawings, and specifications, the making of all necessary contracts, and the supervision of construction of such building shall rest in the Administrator of General Services.

That is on page 26 of the bill. We have tried to surround that with the present requirements for any structure built in Washington by a Government agency.

Senator MAYBANK. The point Senator Flanders makes, and the point I had in mind, was that the authorization should originate in Public Works, where all public building originates.

Senator FLANDERS. Is there any history of authorizations of this sort in this type of bill?

Senator MAYBANK. That I don't know.

Mr. HARL. There are no appropriated funds involved here.

Senator FLANDERS. I don't remember, in my service here in the Senate, of any other case in which authorization was asked for construction in a bill of this sort. That is why I raised the question.

Mr. HARL. I don't know under what basis the Federal Reserve Building was constructed. I do know that on page 26 we placed this in the hands of the Administrator of General Services.

Senator FLANDERS. A final point; it relates to the adequacy of the Reserve, adequacy of your capital.

When the 1929 to 1933 situation was cleared up, the depositors lost about $1 in $30. I think those figures are somewhere nearly right.

Their deposits in 1929 were $58,000,000,000, and I think the depositor lost about 3.3 percent of it before it was cleared up.

Now, of course, 3.3 percent reserve based on that history would obviously be too large, because we would expect the existence and the continued operations and the difference in the loan situation which has just been described.

Mr. HARL. Yes; it is a different pattern entirely.

Senator FLANDERS. Yes.

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It would lead us to conclude that a 3.3 percent reserve was entirely too high. The very existence of FDIC makes it unnecessary to have as high a reserve as that. But is there not some optimum figure which could be expressed in percentages of deposits which you would look forward to as a safe figure?

It seems to me that there should be some judgment on the basis of percentages of the deposits which you would feel were satisfactory as a total for your reserves. I am wondering if you have made any such calculations or come to any conclusions on that in your own mind.

Mr. HARL. We would like to build our capital fund up to where they equal 1 percent of the over-all bank deposits.

Senator FLANDERS. It seems to me that——

Mr. HARL. We think that is reasonable. Don't you think so?

Senator FLANDERS. Just offhand, that would seem to be reasonable.

Mr. HARL. Yes.

Senator FLANDERS. And on the basis of the terms of this bill, in what length of time do you feel that you would build up your reserves to that point?

Mr. HARL. We have projected that.

Mr. CRAMER. We went as far as 15 years.

Senator FLANDERS. It would take about 15 years to reach that 1 percent?

Mr. CRAMER. Longer.

Senator FLANDERS. That raises the question as to whether it is desirable to speed up that process a little. That would be one of the considerations which I would want to take into account in considering this bill.

Those are the only points I wish to raise.

Senator ROBERTSON. The junior Senator from Ohio is not a member, but I invited him to sit in with us, as he is the patron of S. 2300. If he wishes to raise any questions, I will recognize him.

Senator BRICKER. This bill was prepared by Mr. Harl at the FDIC office?

Mr. HARL. Yes.

Senator BRICKER. And it was just submitted to the Congress yesterday?

Mr. HARL. It was introduced yesterday.

Senator MAYBANK. I have been in continuous conference with your office since December.

Mr. HARL. That is right.

Senator MAYBANK. Since last year, as a matter of fact.

Mr. HARL. Yes.

Senator MAYBANK. Before any of these provisions were written down I talked with Mr. Snyder and conferred with everyone. I didn't want the record to show I didn't know all about it.

Senator BRICKER. I am glad to have that in the record.

Senator MAYBANK. I had Mr. Wiggins up here for 2 days; and Mr. Edwards. I didn't want the record to show I got a bill of 50 pages up and threw it in the hopper without having it thoroughly studied. If I had 1 meeting with Mr. Snyder, I have had 10; I have had at least 1 telephone call every day.

Mr. HARL. It goes back, Senator Maybank, we have been conferring with you since before June 3, 1949.

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Senator MAYBANK. Yes. The record shows that. I meăn, last week we had everybody up here. We had bankers from all around.

Mr. HARL. That is right.

Senator MAYBANK. We had Mr. Snyder. All of us. They met in this room——

Mr. HARL. Yes.

Senator MAYBANK. On Saturday.

Mr. HARL. Yes. In fact, as you remember, Senator, on the Saturday before New Year's, the Sunday of New Year's Day, those three holidays, everybody worked straight through.

Senator MAYBANK. Yes. We conferred with the officials from Charleston.

Last Saturday they were here. You were not here last Saturday, but you have been down.

Mr. HARL. Yes.

Senator MAYBANK. I don't want the record to show that the bill was just thrown in the hopper without study.

Mr. HARL. The members of your staff have all been working with us. As we said there in the statement, we have conferred with bankers throughout the country, and so forth.

Senator MAYBANK. Yes. All last week end. Many people came up. We studied the bill thoroughly.

Senator BRICKER. I am glad to know that. The reason I asked the question was because yesterday afternoon I tried to get copies of the bill from the committee, and was unable to do so, and finally I got a copy from the FDIC office.

Senator MAYBANK. Yes; the bill was written recently, but conferences have been going on for a long time.

Senator BRICKER. I had introduced a bill last year and we had no hearings on it, and this bill was introduced yesterday; and we have hearings today.

I don't know yet in what definite respects this bill does differ, except in the assessment features, and some additional features, from the bill introduced last year.

One other question in regard to some of the provisions that have been discussed before the committee; I think that the FDIC should have power of inspection and examination of books in all banks covered by the FDIC insurance.

I would like to ask about the difference in the bill in regard to the National banks and State banks. You ask for power to inspect State banks and only the power to inspect national banks with the authority of the Comptroller of the Currency.

Mr. HARL. That, Senator Bricker, was because the Comptroller is Vice Chairman of our Board. That would indicate, naturally, that he is going to do everything he can, and as a member of our Board we feel that he will be letting us in on all these examinations.

Senator BRICKER. I have no doubt but what the present Comptroller would do that, but in the situation where the Comptroller was adverse to the other two members of the Board, that gives him the veto power on the right of your Corporation to examine national banks; doesn't it?

Mr. HARL. In the history of the Corporation since 1934 there have been other Comptrollers, and I don't think they have ever rejected our request.

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Senator BRICKER. That is true. I don't think the Federal Reserve has ever rejected a request; has it?

Likewise, you haven't had any trouble with State superintendents of banks, have you?

Mr. HARL. No, sir; we have had a fine working agreement. As you know, your own former superintendent of banks in on our board now.

Senator BRICKER. Yes. You have had no difficulty.

Mr. HARL. We are merely asking for parity.

Senator BRICKER. I cannot see why this would be a different rule, applied first to one and then the other, to give the Comptroller of the Currency absolute power to determine whether you have inspection powers in one instance, and give you complete power in another.

I think the same situation should prevail in both situations.

Has the Comptroller any objection to making that rule the same all the way through? Can you see any objection to it?

Mr. DELANO. I have not considered that, Senator.

Senator BRICKER. It may be academic now, but it might be real in the future.

Mr. DELANO. You see, we have such a close working arrangement with the FDIC. Did you know that I am on the board and attend all the meetings? That does generate a working arrangement which is very smooth and very proper.

I have never found any occasion to deny the FDIC the right of entry in any national bank they wanted to go into. Generally speaking, that is an assistance rather than an objection.

Senator BRICKER. Do you feel the Comptroller should have that power, and why?

Mr. DELANO. I think the national banking system, as the main fiscal arm of the Government, should be largely under the control of the Comptroller.

Senator BRICKER. Should be what?

Mr. DELANO. Should be under the control of the Comptroller as supervising agent. I think that they would be jealous of our giving up any privileges that we may have. The national banking system has its own laws, its own traditions, and it has been going, of course, since 1863, supervised by the Comptroller of Currency.

I would not like, as a matter of principle, to assent to any—in open hearing—to assent to any curtailment of the powers of the Comptroller. I don't believe that it is germaine to this particular situation; certainly not as long as I am Comptroller of Currency.

Senator BRICKER. I grant you that, but what is the difference between the rule here and the State Department and in the Federal Reserve?

Mr. DELANO. I think the difference is that, as Mr. Harl has pointed out, I am a member of the Board, and I sit there as Vice Chairman of the Board in his absence, that that promotes and produces a certain liaison, a certain smooth-working arrangement about examinations, which is probably more intimate, more close, and more perfect, than you might get where you are dealing at arm's length with supervisors and with the Federal Reserve. That may seem to be a sentimental thing and an approach that was other than hard logic, but it has worked out that way. The only reason I am not saying that I am perfectly willing to have the FDIC have that authority is that I just feel

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a little anxious not to give the national bankers throughout the country the idea that we are in any way abrogating the privileges and the supervision that we have over their banks.

Senator BRICKER. There is no logical reason for the fact that you are a Comptroller and a good working member of this Board, and very clearly have cooperated all the way through with the Board.

Mr. DELANO. I think it is a little deeper than that; maybe I am wrong. I have that feeling very strongly, that there is a difference.

I think the national banking system is one system. I believe it would be good business if we could get all the State supervisors, also the other primary supervisors, the State banker, all examined by the State supervisors.

Senator ROBERTSON. Will the Senator from Ohio yield?

Senator BRICKER. Yes.

Senator ROBERTSON. The Comptroller has a prepared statement that he will present for the record in approximately 10 minutes. Will the Senator yield and let him get that in now?

Senator BRICKER. I will be glad to. We will have time later for questions.

Senator ROBERTSON. Yes.

Senator BRICKER. I would like to read the bill, and go over the testimony. It seems a bit illogical.

Mr. DELANO. I didn't want the Senator from Ohio to mistake my feeling about the national banking system. I don't want to have the national bankers feel that we are in any way abrogating their privileges and rights. I think they might feel that way.

Of course, the Federal Reserve System has the right to examine national banks. You understand that.

Senator FLANDERS. May I inquire whether there has ever been any friction between the system and your office as to the examination of any particular bank?

Mr. DELANO. No; there has not, Senator. None at all.

Senator FLANDERS. There is a good working arrangement there?

Mr. DELANO. Yes. We do the examination and turn over the examination, of course. It has worked very satisfactorily. As a matter of all intents and purposes, it is the same thing that happens in the FDIC. There is a little matter of sentiment of my agreeing to the abridgment of the Comptroller's power over the national banks, or over their trust in him.

Senator FLANDERS. As a matter of fact, do you not use the examining staff of the Federal Reserve System in many of the examinations of the national banks?

Mr. DELANO. Do we use them?

Senator FLANDERS. Yes.

Mr. DELANO. No; we do not, Senator. We have used our own staff.

Senator FLANDERS. Completely?

Mr. DELANO. Yes.

You see, they use the staffs of the 12 Federal Reserve banks. They don't have a central staff in Washington.

Senator FLANDERS. I know, but do you not use at times members of the staffs of the 12 Federal Reserve banks in your examinations of national banks?

Mr. DELANO. I think they are consulted. I don't think we have ever used them in the examinations, themselves, of the national banks.

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Senator BRICKER. I appreciate, Mr. Chairman, the opportunity to ask these questions. May I express my appreciation to you for the privilege, Mr. Chairman. I would like to have the opportunity at some future time to ask further questions.

Senator ROBERTSON. I will give you that assurance of full opportunity.

Mr. HARL. Our Board of Directors wants to thank Senator Maybank and his staff for the cooperation and long hours they spent with us in the last 6 or 7 months to get this bill out. We appreciate it very much, Senator.

Senator MAYBANK. I might add, for the record, I know my friend from Ohio didn't mean to have us believe that I just introduced the bill offhand.

Senator BRICKER. No.

Senator MAYBANK. I went down to see the President after I had the conferences with Mr. Snyder and everybody.

Senator BRICKER. I just wanted to get it into the record. I made no reflection upon the chairman. I would like to have a hearing on the other bill at some time.

Mr. DELANO. Mr. Chairman and gentlemen of the committee, I am willing to put this statement in the record, if it will save time, and then go to the questions, if that would serve any purpose, because, of course, my statement is very largely a reiteration of the Chairman's statement.

Senator ROBERTSON. Is there any objection to this 5-page statement being printed in the record as though it had been read in extenso?

Senator MAYBANK. I have no objection.

Senator ROBERTSON. The Chair hears none; but tell us in your own words, please, just why you endorse S. 2822.

STATEMENT OF PRESTON DELANO, COMPTROLLER OF THE CURRENCY

Mr. DELANO. Speaking as Comptroller of the Currency and also as Vice Chairman of the Federal Deposit Insurance Corporation, I wish to state that I regard this bill, S. 2822, as a constructive measure and one that should be enacted in its entirety.

The Federal Deposit Insurance Corporation has had 16 years of experience. During these years, the assets of the Corporation have grown to 1.2 billion dollars. Out of the experience of operation during this period, certain desirable amendments and changes have become obvious. The Corporation has returned to the Treasury the capital originally allotted to it, and with the surplus standing at the figure mentioned, it now seems that consideration could properly be given to both an increase in the amount of coverage of insured deposits and also a decrease in the assessment upon the banks. Both of these are treated in this bill within limits which are consistent with the experience of the Corporation and which will provide a major increase in protection for depositors and relief in the cost to the banks. No one, of course, can estimate precisely the responsibilities of the Corporation in case of such economic crises as have taken place in the past.

However, in view of the monetary and credit levels of the present-day economy, as contrasted with the economy of 1933, an increase of

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insurance coverage from $5,000 to $10,000 seems entirely reasonable. This is borne out not only by the total deposits of insured banks, the average size of deposit accounts, and other banking data, but also by the levels of the national income, the cost of living, and other general economic contrasts between 1950 and 1933. I should also mention that in my opinion the increased liability of the Corporation resulting from this broadened insurance coverage would not materially endanger the safety and stability of the insurance system.

In recent years an increasing number of bankers have emphatically expressed themselves in favor of a reduction in the insurance assessment. As I stated before, the fund accumulated by the Corporation now amounts to more than 1.2 billion dollars, and no one can be absolutely certain whether the fund built up by any particular assessment rate will be adequate to meet every situation which the future may present, but after thorough study and consideration the Board of Directors of the Corporation has concluded that the method of assessment reduction embodied in this bill will provide the desired relief with a minimum of hazard to the Federal deposit insurance system.

The plan proposed is flexible and easily operated, and will permit continued growth of the fund, although at a somewhat slower pace. Its details have been fully explained to you by Chairman Harl, and therefore it is sufficient for me to express my belief that the plan is worthy of careful consideration by the Congress, and that I recommend its enactment. I do not believe that its adoption would materially impair the effective functioning of Federal deposit insurance.

As to the more technical features of the bill, probably the most important is the clarification of the assessment base. Under the present law the amount of bookkeeping required of the banks is excessive. An effort has been made in this bill to simplify these requirements and, I think, successfully.

It is our belief that the proposed method of calculating the assessment base constitutes a substantial improvement over the existing procedure. Anything that can be done to simplify the task of computing assessments, not only for bankers throughout the country but also for the governmental agency which administers deposit insurance, is worthy of consideration.

Most of the remaining provisions of the bill, although important, are designed chiefly to iron out wrinkles in the existing law and to make corrections which the Corporation's 16 years' experience indicates to be desirable.

S. 2822 contains a few provisions which relate specifically to the Bureau of the Comptroller of the Currency. In general, these are designed to vest in one governmental agency, rather than in two, the responsibility for liquidating insolvent national banks. Prior to the enactment of Federal deposit insurance, insolvent national banks were liquidated by individual receivers appointed and supervised by the Comptroller of the Currency; in all cases since that time the FDIC has been appointed receiver.

Under the present law, the Comptroller of the Currency continues to be charged with certain supervisory and other functions, even though the receiver is a coordinate governmental agency. Among these functions are approval of claims arising from liabilities not appearing on the books of the closed bank, approval of preferred and

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secured claims and certain types of offsets, authorizing the receiver to seek judicial approval of compromises and sales of assets, approval of expenditures for protection of assets, quarterly review and audit of liquidation expenses, approval of compensation paid to liquidators and their clerks and attorneys, and authorization of distributions to creditors of the bank.

Under this bill the Comptroller of the Currency would be required to designate the FDIC as receiver in all cases, and upon such appointment the Comptroller would cease to have any authority or responsibility with respect to the liquidation. The provisions of the bill which relate to this particular matter are to be found in sections 8 (b), 11 (c), 11 (d), 12 (a), 13 (c), and 13 (d).

In my opinion, this change will be highly desirable. It will avoid duplication of efforts on the part of the two agencies, concentrate authority and responsibility in one agency, and reduce expenses. It is not only unnecssary but very undesirable to have one governmental agency supervise another in its performance of functions of this nature. By depriving the Bureau of the Comptroller of the Currency of these supervisory powers and functions, the bill will contribute to greater efficiency and economy in the performance of an essential governmental function. As Comptroller of the Currency, as well as a member of the Board of Directors of the Federal Deposit Insurance Corporation, I strongly recommend this aspect of the bill as a step in the direction of better discharge of the Government's business.

Permit me to acknowledge the courtesy of this committee in inviting the opinion of the Comptroller's office on this pending legislation.

Mr. Chairman, I, of course, am the ex officio member of the Board, and I have observed the operation of the Corporation in the last 16 years.

During that operation the surplus of the Corporation, its total assets, have increased up to about $1,200,000,000. Also, during that operation there has been a certain change in the economic situation which makes $5,000 coverage somewhat less valuable to the depositors than it used to be. As a matter of fact, the $10,000 coverage at the moment seems to me to be a very consistent thing in the light of what has taken place since 1933 to 1949.

My second point is that there is a very important consideration about this reduction of assessment. I don't believe anybody is wise enough or smart enough to know what pressures or what difficulties the Corporation may encounter in case we have another economic upheaval, which we all hope we are not going to have. But it is there as a potential danger.

So, we have up to this present moment resisted—I say "we"; I am speaking for the Corporation—we have resisted attempts to cut too much into the income of the Corporation.

Now, the Corporation has reached a rather substantial figure. I think the Congress can give very proper consideration to a reduction in the cost to the banks as well as to the raising of this coverage. It is for that reason that we bring before you this formula, which we think protects the Corporation against bad years by providing that dividends of credit on future assessments shall be given only in those cases where there was a good experience of the Corporation.

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There will be a steady growth, we hope, in the surplus and standing of the Corporation financially, and that is in line of practice of all mutual insurance companies, and something that should go on, because it is obvious that as time goes on the Corporataion ought to be growing stronger and not weaker.

We think this formula does that. We offer it in some humility, because frankly, nobody knows where or when the Corporation may have to withstand a severe storm. But there is such a feeling among the bankers of the country—and I think it is largely shared, too, by officials of the Government—that the time has come to give some relief in this case to the banks. So we endorse that. We would like to have you follow this formula, because it seems to us this formula protects the Corporation and gives the relief.

Senator ROBERTSON. I understand that when we insure an account up to $5,000, we take care of 98 percent of all accounts?

Mr. DELANO. It used to be 98. It is about 96 now.

Senator ROBERTSON. About 44.8 of the total deposits.

Mr. DELANO. That is right.

Senator ROBERTSON. If we raise it to $10,000, I understand under existing conditions we would then provide insurance for 98.4 percent of all accounts, and 52.4 percent of total deposits.

Mr. DELANO. That is about right.

Senator ROBERTSON. I read recently in Mr. David Lawrence's weekly paper that the consumer doller is about 3 cents better than it was last year. It is about a 60-cent dollar at the present time, as compared with the average between 1935 and 1939, I believe, the prewar years. But if we take the purchasing power of consumer dollar when this program was started, it undoubtedly would be less than—the present dollar would be less than one-half of what it was in 1933.

Mr. DELANO. I think that is right. I am ad libbing.

Senator ROBERTSON. Food production was at an all-time low, and food is the biggest single item.

Mr. DELANO. Yes.

Senator ROBERTSON. So that doesn't reflect an accurate picture.

Mr. DELANO. I think that is right.

Senator ROBERTSON. But we are inclined to deal in terms that the present dollar is not much more than a 50-cent dollar, because they have so much more money.

Mr. DELANO. I think that is a rule of thumb that is applied.

Senator ROBERTSON. If we increase the coverage to $10,000, will that measurably increase cost of the program, and the assessments that the banks will pay, which they now think is too high?

Mr. DELANO. No; that would have nothing to do with the assessments of the banks.

Senator ROBERTSON. It would have something to do with your potential liability?

Mr. DELANO. Of the Corporation; yes. Potential liability of the Corporation.

Senator ROBERTSON. You make the assessment with the view of protecting your potential liability?

Mr. DELANO. We make it according to law.

Senator ROBERTSON. Yes; but there is a proposal now to change the law.

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Mr. DELANO. That is right.

Senator ROBERTSON. One proposal is to give them a dividend.

Mr. DELANO. Yes.

Senator ROBERTSON. Another is cut down the rate. Then if it isn't enough, try to get it up again.

Mr. DELANO. Yes.

Senator ROBERTSON. I understand that you feel the more prudent plan would be to pay a dividend when you know you have it, but not give them a reduction when you know you will have to have more.

Mr. DELANO. Yes.

Senator ROBERTSON. We have five more minutes.

Mr. DELANO. May I add one other thing?

Senator ROBERTSON. The Senator from Ohio will be recognized.

Senator BRICKER. I have nothing further.

Mr. DELANO. I wanted to say this: In addition to those two things which I have mentioned, which I think are the most primary, the bill results in a very important technical correction; that is in the assessment base. I think that will save the banks money and the Corporation trouble. It is something that has grown out of experience in the 16 years of operation.

There are two things that touch the Comptroller of Currency. One is that in the previous legislation, that gave to the FDIC the—well, let's put it this way: That directed the Comptroller of the Currency to designate FDIC as the receiver of national banks, there was left a little vestigial remainder of supervision by the Comptroller's office over the affairs of the Corporation. It is expensive, and I don't believe we are giving up any important thing in giving up this.

The Comptroller is very glad to have the full responsibility for such receivership vested with the Corporation.

The other is that there was a provision that the receivers for the Corporation should be appointed for all receivers except in certain instances, where laws are broken, and instances where it was a receivership that grew out of something other than inability to pay deposits.

Again, I think that is an unnecessary vestigial remainder. It has never been used. Again I think it had better come out of the law just as a matter of cleansing the statute.

Senator ROBERTSON. The chairman announces that it had been his desire and intention to conclude the testimony of the Government witnesses tomorrow, but he found that this committee room would not be available for that purpose. So the chairman wishes to announce that these hearings will be recessed until Monday, January 23, and the subcommittee will be glad to hear the Secretary of the Treasury and the Chairman of the Federal Reserve Board, if they desire to testify.

The chairman would then like to hear from a representative of the American Bankers Association, a representative of the member banks of the Federal Reserve System, and a representative of the nonmember banks.

There will be no desire on the part of the chairman to shut off any necessary or pertinent testimony, but the Chair calls attention to the fact that this committee handles more legislation than possibly any other committee of the Congress except the Appropriations Committee. We have a very full calendar. It is going to be very difficult for any one committee to monopolize the use of this committee room;

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and if the subcommittee undertook to hear individual bankers from all over the United States, it would probably delay our action to the point where we could not get this bill through the Senate and through the House before adjournment, which in all probability will come this year at the statutory period, on or before July 31. So the chairman expresses the hope at this time that interested bankers, who are opposed to this bill, primarily, will select a limited number of spokesmen to present their viewpoints for the record, and for the consideration of the subcommittee, and the full committee, in order that we may not spend too much time in taking the testimony and have too little time left for action.

The committee will stand in recess.

(Whereupon, at 12 noon, the subcommittee recessed until Monday, January 23, 1950.)

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AMENDMENTS TO FEDERAL DEPOSIT INSURANCE ACT

MONDAY, JANUARY 23, 1950

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
SUBCOMMITTEE ON FEDERAL RESERVE MATTERS,
Washington, D. C.

The subcommittee met, pursuant to call, at 10:10 a. m., in room 301, Senate Office Building, Senator A. Willis Robertson presiding.

Present: Senators Robertson, Maybank, Tobey, and Flanders.

Also present: Senator Frear.

Senator ROBERTSON. Will the subcommittee please come to order. At our last hearing I had inserted in the record the numbers of the bills that had been previously introduced relating to changes in the law on FDIC.

Senator MAYBANK. I would like to ask permission to have filed for the record a letter to me from Senator Arthur Vandenberg, who was of course very much interested in the original FDIC legislation. The Senator could not be here to testify this morning. I was asked to have it put in the record.

Also, one from Mr. George Clark, of the Consumers Bankers Association of Chattanooga, Tenn.

Senator ROBERTSON. Without objection, those two letters will be included in the record at this point.

(The two letters referred to by Senator Maybank are as follows:)

CONSUMER BANKERS ASSOCIATION,
Chattanooga, Tenn., January 18, 1950.

Hon. BURNET R. MAYBANK,
United States Senate, Washington, D. C.

MY DEAR SENATOR MAYBANK: Following up my wire requesting that the Consumer Bankers Association be permitted to testify on the Federal Deposit Insurance Corporation bill:

Five or six members of the Consumer Bankers Association are national banks or members of the Federal Reserve System. However, most of our members who emphasize the consumer credit side of banking to a degree that is unusual of most banks have been discouraged from seeking membership because of an evident lack of knowledge of this form of banking on the part of the Board of Governors and have feared the promulgation of regulations with attention centered on the commercial side that would adversely affect the consumer credit side of banking. Let us keep in mind that consumer credit, while relatively small dollar-wise, nevertheless touches and affects the majority of the citizens and voters of this country in a direct way more frequently and more deeply than any other form of banking.

The validity of these fears has been partially sustained by requests by the Federal Reserve Board in the past for a special and selective form of control of consumer credit beyond and in addition to the quantitatively depressing effect of increased reserves. The excuse offered has been that a great deal of consumer credit was extended outside of the banking structure, which is exactly true, but this excuse overlooks the fact that the depressing effect of increased

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reserve requirements on commercial loans follows through and affects businesses which finance their own installment sales and discourages the purchases of the notes of national finance companies at low rates that prevail.

The Federal Reserve wouldn't dare suggest the establishment of some inflexible ratio of current assets to current liabilities before any business, without regard to what ratios have been found sound for its industry, could be eligible for a loan, and the establishment of some arbitrary maximum limit that such loans could be renewed or remain outstanding. Yet this is a similar sort of straitjacket the Federal Reserve has recommended in the past (and I hope abandoned now) which interferes with the handling of individual financial affairs of the 80 percent of the population and the thirty-odd million families who occasionally or more frequently find the consumer-credit form of banking necessary or useful in acquiring those durable and substantial articles that make up the American standard of living.

For these reasons, the vast majority of the members of the Consumer Bankers Association have retained their status as insured nonmember State banks.

As members of the Federal Deposit Insurance Corporation whose single purpose of maintaining the strongest possible banking structure we applaud, we are vitally concerned that this corporation continue its single-purposed independence and by the thoroughness of its examinations maintain the insurance premium at the lowest possible rate. Since this is a corporation that guarantees the deposits of all banks, it is but elementary reasonable that it should have the power to inquire and satisfy itself through its own responsible representatives of the condition of organizations it insures.

I sincerely cannot comprehend the opposition of the Federal Reserve System to authority for the insuring corporation to examine any insured State bank.

To me this seems to be an entirely reasonable request and after having read the entire bill I do not believe any amendment exempting insured Federal Reserve State member banks should be permitted. I doubt very much that the Federal Deposit Insurance Corporation would deem it necessary to examine all State banks that are members of the Federal Reserve System, but any amendment which would deny the FDIC that right would not appear to be common sense.

These are some of the reasons that I wired you a request for the opportunity to testify on behalf and in support of your bill.

With very best wishes.

Sincerely,

GEO. CLARK, *President.*

JANUARY 18, 1950.

BURNET R. MAYBANK,
Chairman, Senate Committee on Banking and Currency,
United States Senate, Washington, D. C.

MY DEAR SENATOR MAYBANK: First let me thank you for your generous personal references to me when you presented the new FDIC legislation to the Senate. It is true that I am one of the few remaining Senators who participated in launching FDIC. I continue to maintain a deep interest in its welfare and—what is more important—a profound conviction that the maintenance of impregnable public confidence in FDIC is indispensable to our national economy. Our banking record for the past 15 years is eloquent proof of the indispensable importance of FDIC in our national life and of its sound administration. Therefore, I take the liberty of making the following comments on S. 2822 and I shall appreciate it if this letter may be made a part of your hearings on this bill.

I do not, at the moment, pretend to pass upon all of the details of the comprehensive and often technical proposal. But I do want to comment upon the two major changes which it proposes to make in the FDIC concept.

(1) Since FDIC has now fully repaid the Government's contribution to its capital structure and earned a billion surplus, I believe the annual assessments upon member banks can be safely and wisely reduced (contingent upon the maintenance of its present healthy capital structure); and I favor the pending proposal to achieve this result on a "dividend basis" which still preserves the opportunity for enhancing its capital structure. Further justification lies in the fact that such a large proportion of insured deposits are now invested by FDIC banks in Government bonds or carried as cash. It may be added that this

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proposal is not calculated to impair depositor protection under FDIC because the so-called dividends will ordinarily remain in the capital structure of the member banks themselves.

(2) Since the change in assessments will reduce the current income of FDIC, I respectfully assert my conviction that its liabilities should not be, at the same time, heavily increased (as proposed in S. 2822) by doubling the coverage from $5,000 to $10,000 in individual insured deposits.

It is this latter point I wish to stress. To decrease assets and increase liabilities at one and the same time seems to me—I say it most respectfully—as somewhat lacking in the prudence which should govern every FDIC procedure. In the language of the street it "plays both ends against the middle." It moves too rapidly in reorganizing the FDIC concept. It increases FDIC liabilities by a minimum of $12,000,000,000 without compensatory offsets while reducing annual FDIC income by a probable average of 55 percent net. Although fully acknowledging the good faith of this proposal and the persuasive arguments that can be made in its behalf, I earnestly warn against any such wholesale changes in the FDIC balance sheet.

There is no general public demand for this increased coverage. It is chiefly requested by banker demand in some quarters for increased competitive advantage in bidding for deposits. This is a perfectly legitimate incentive and I do not criticize it. But I respectfully submit that the vital FDIC objective is unrelated to bidding for deposits and is confined solely to impregnable protection for the bank deposits of our mass citizenship. This is clearly provided within the present $5,000 limit where 100 percent insurance is already maintained. I respectfully submit that the FDIC position of this "mass citizenship" is actually weakened by extending its protective assets to include additional deposits in the higher brackets. I do not suggest any sort of imminent danger as a result. But I earnestly believe it is a step in the wrong direction.

If we extend the coverage to $10,000, how long will it be before we confront demands for total coverage? Total coverage would virtually socialize our private banking system. It could involve many of the vices which so often wrecked previous well-meaning adventures in this field. Partial coverage (such as we now have) entirely escapes these vices although we fully protect about 98 percent of our depositors. It seems to me that the present proposal, increasing coverage by 100 percent, could be an unfortunate evolution. Particularly in these days of economic flux, when the existing FDIC formula has yet to test itself under major strain, I hope we shall proceed with extreme caution in any FDIC innovations which might affect this incalculably vital supoprt for our economic stabilities. Any doubts should be resolved in favor of a prudent preservation of these precious values.

With warm personal regards and best wishes,

Cordially and faithfully,

A. H. VANDENBERG.

Senator ROBERTSON. The first witness this morning is the Secretary of the Treasury, Mr. Snyder. We welcome you here, Mr. Secretary, and will be glad to hear from you at this time.

STATEMENT OF HON. JOHN W. SNYDER, SECRETARY OF THE TREASURY OF THE UNITED STATES OF AMERICA

Mr. SNYDER. Mr. Chairman, I have a very brief statement I would like to read in the record with your permission.

Senator ROBERTSON. You may proceed.

Mr. SNYDER. Mr. Chairman and members of the committee, the creation of the Federal Deposit Insurance Corporation was one of the important reforms undertaken in the banking legislation of the 1930's. During the depression which followed the market crash of 1929, public confidence in banks was very seriously impaired. The banking system was unable to stand the strain put upon it, and no adequate provision for relief through governmental agencies was

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available. Between 1929 and 1933 the money supply contracted so sharply that monetary stability in general was dangerously shaken.

In the light of this situation the Congress provided deposit insurance as a device for maintaining the confidence of people in the security of their bank deposits, and thus minimizing any threat of wholesale withdrawals of funds. The program was thus set up not only with no actual experience in insuring depositors and very little other data and information on which to develop the bases of the new program, but also in a psychology of panic conditions.

Today our Nation is in a strong financial position. Our ability to maintain a stable economy has met a major test in the reconversion from war to peace. We have accomplished that job with practically none of the weaknesses which undermined our economy after World War I, when we went through a period of riotous speculation comparable in many ways to the stock market speculation of 10 years later. We have learned lessons in avoiding the pitfalls which led to the severe break that followed that speculation. We have learned to protect ourselves against the destruction of public confidence in the credit of the United States—a factor which made that break so severe. So long as we have the wisdom and courage to avoid excesses of speculation and credit expansion, and so long as public confidence in the strong financial position of the United States Government remains unimpaired, our banking system will never have to meet a crisis comparable to that which motivated the Congress in creating the Federal Deposit Insurance Corporation.

The economic lessons we have learned since 1933, and the experience gained in 16 years of operation of the Federal Deposit Insurance Corporation, provide a point of departure for reexamining the deposit insurance program which was not available when the program was originally set up. With no experience to draw upon it was necessary for the Congress at that time to make arbitrary judgments on such matters as the limitation on insurance coverage, the assessment rates to be charged the banks, the bases on which to compute assessments. It is highly proper, therefore, for the Congress to review those judgments in the light of experience and present outlook.

The bill before the committee proposes changes based upon that experience and outlook. On the one hand the bill would double the protection afforded to an individual depositor, and on the other it would reduce costs to the banks by providing relief in the form of dividends. It is my belief that these proposals are based upon a sound analysis of the probabilities. In the fiscal years 1948 and 1949 the Corporation repaid to the Treasury the $289,000,000 originally provided to it for capital. In the 16 years since its creation it has in addition accumulated a surplus of 1.2 billion dollars. With such a steadily increasing surplus, some relief to bankers in their insurance costs seems clearly to be in order. The method proposed in the bill has had the study of the Board of Directors of the Corporation and appears to provide an acceptable method. The increase in insurance coverage appears to conform to general changes in the economy that have taken place since the figure was originally fixed, and does not appear to present a threat to the ability of the Corporation to deal with any crisis which it must meet.

The development of the best method of computing the assessment base is a matter especially dependent upon experience. The process

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provided for in the existing law was necessarily based in large part on guesswork as to feasibility. Experience has indicated the desirability of simplification, which the bill undertakes to provide.

I consider these the major matters which the bill proposes for revision. In addition, the bill would make numerous other changes of a minor character in existing law, in most part changes not of particular interest to the Treasury Department.

In closing, however, I should like to mention two aspects of the bill which I would recommend to the committee for amendment. The first aspect deals with the coordination through the Secretary of the Treasury of the fiscal operations of the Corporation. Up until the time the Corporation repaid its capital furnished by the Treasury, operations such as those involving the purchase and sale of Government obligations for the account of the Corporation under the Government Corporation Control Act were subject to the approval of the Secretary of the Treasury. Since the Corporation has repaid the Treasury for its capital, the Government Corporation Control Act is not applicable, and there is no provision in S. 2822 which would permit the Secretary of the Treasury to coordinate such an operation with the general fiscal policy of the Treasury.

Senator MAYBANK. Do you mind being interrupted?

Mr. SNYDER. No.

Senator MAYBANK. There was quite some controversy about that the first day of the hearing: That the FDIC did pay back the money they got from the Treasury, but did not pay any interest. Senator Douglas discussed that at quite some length. I only mention it so the record can show what he had on his mind on the opening day when Mr. Harl testified.

Mr. SNYDER. There is no controversy in what I am presenting now, because we have since talked to the FDIC, and it is acceptable to be presented to you.

Senator MAYBANK. I wanted you to see what Senator Douglas thought.

Mr. SNYDER. Did you intend to——

Senator MAYBANK. No, but Senator Douglas did.

Mr. SNYDER. The point is that there is no controversy here since we have worked it out with the FDIC, and they are perfectly willing to reinstate that authority of the Treasury Department.

Senator MAYBANK. He could not get here this morning. He must have asked questions for 15 minutes on this the other morning.

Mr. SNYDER. Is there any question?

Senator MAYBANK. No; I wanted you to know what his attitude was.

Mr. SNYDER. Fortunately this matter, since we have prepared this, has been worked out between the FDIC staff and——

Senator MAYBANK. I am not questioning it. The only thought I had was this: Senator Douglas discussed this; with about 15 minutes of questions with Mr. Harl. There is still some $40,000,000——

Mr. SNYDER. It is a little more than that if you are talking about the interest. It is somewhere between 45 and 50 million on the $150,000,000 furnished by the Treasury.

We have simply followed the congressional procedure of the past. If they want it back, all they have got to do is say so.

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Senator MAYBANK. I thoroughly agree with you. He raised the question, that is all.

Mr. SNYDER. I have no feeling on that at all. If Congress wants to order it paid, it is perfectly all right, but we have just been following the regular congressional procedure.

I believe that a statutory provision to correct this situation is desirable. I also recommend that the Corporation be required to carry its banking and checking accounts with the Treasurer of the United States as was formerly required under the Government Corporation Control Act.

Senator MAYBANK. You say "statutory provision." You would put that in this bill?

Mr. SNYDER. With agreement of the FDIC.

Senator MAYBANK. In this bill?

Mr. SNYDER. In this bill.

Senator ROBERTSON. Later repay the 45 or 50 million——

Mr. SNYDER. That is no part of it. That they would have the Secretary of the Treasury coordinate their buying and selling of Government obligations, and that they would deposit their funds with the Treasury of the United States.

Senator ROBERTSON. What is your attitude toward repaying the interest?

Mr. SNYDER. I just got through saying that, Senator. We have just been following the regular congressional procedure there in reference to that matter. If Congress wants it repaid, we are perfectly——

Senator ROBERTSON. But my question was, do you think it ought to be repaid?

Mr. SNYDER. I do not think it makes a great deal of difference one way or the other.

Senator ROBERTSON. You mean you have got plenty of money down there?

Mr. SNYDER. No. But the Treasury has a continuing obligation there to supply money to the FDIC if they ever need it, so if it is in the reserve account or the Treasury account, it is all right with us. If Congress wants it repaid——

Senator ROBERTSON. The $3,000,000,000 is to be borrowed, is it not?

Mr. SNYDER. In the event it is necessary.

Senator ROBERTSON. When they borrow $3,000,000,000, they would not get $3,000,000,000 without any interest, would they?

Mr. SNYDER. The law provides for the payment of interest.

Senator ROBERTSON. I thought you might have some personal opinion.

Mr. SNYDER. I am always happy to get all of the money I can get.

Senator ROBERTSON. You are one of the experts on money business. We thought you could give us some guidance.

Mr. SNYDER. It is purely a matter, I think, for congressional decision. If that is the move you want to make in altering your past policy, I am in perfect accord with it.

Senator ROBERTSON. That will be more than enough to build the Bug's Island Dam.

Mr. SNYDER. The bill would also carry forward and reenact a provision included in the original law authorizing the issuance by the Corporation of tax-free obligations. Such a provision would be contrary

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to the general policy which has intervened, as announced by the Congress in the Public Debt Act of 1941. I would recommend that S. 2822 be made consistent with the general policy in this respect.

These recommendations have been brought to the attention of the Federal Deposit Insurance Corporation, and I am assured there will be no difficulty in working out the details.

With the amendments which I have suggested, I believe the bill will provide a desirable revision in the light of experience and prospects.

Senator ROBERTSON. Mr. Secretary, some days ago, in arranging for these hearings today, I announced that our committee would stay in session all day, if necessary, to hear the witnesses we invited to appear before us today, but I failed to get the consent of the Senate for us to be in session while the Senate was in session. So we either must get that consent when we meet at noon or else members of this subcommittee will have to go back to the Senate floor to answer quorum calls and matters of that kind.

I have some questions about this bill that I want to ask you, and to save time, I hope the other witnesses who will follow you will take note of the questions that I ask you and comment on those questions so that I will not have to go through the detail of asking each witness the same questions that I am going to ask you. They are questions that I think are pertinent to this investigation and on which the subcommittee and the full committee should have the benefit of expert advice.

Is it true that for the past 6 years there has been no receivership of an insured bank nor financial loss to any depositor?

Mr. SNYDER. That, I think, is correct, sir. I do not think we have had—we have had mergers and consolidations and things of that sort. but I do not think there have been any receiverships nor any loss to any depositors.

Senator ROBERTSON. Do you think that splendid record is one that could be safely used in establishing a future policy with respect to the amount to be insured and the assessment to cover anticipated liabilities?

Mr. SNYDER. I think it is an important matter to consider the reasons why that was true. I think you could not take a matter such as this bill up without giving due weight to that historical background.

Senator ROBERTSON. Do you think the time has come to increase the insured amount from $5,000, and, if so, to what amount would you recommend the increase?

Mr. SNYDER. Well, we go along with the recommendations in the bill here, increasing it to $10,000. We feel that the added expense would not be beyond the ability of the Corporation to meet.

Senator ROBERTSON. But you do not qualify in any way your recommendation concerning that provision of the bill that would fix the limit at $10,000?

Mr. SNYDER. I do not.

Senator ROBERTSON. The Federal Reserve Board is now the depository of reserve funds of member banks, makes examinations, discounts their papers, and so forth. Have you given any thought to the question as to the benefits that might be obtained by having the FRB also exercise the functions of guaranteeing deposits?

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Mr. SNYDER. Well, I would have to give some study to that, sir. It never occurred to me that we were going to set up two insurance companies.

Senator ROBERTSON. Now, under section 7 (a) of the bill certain figures are now required to measure deposits in three ways: For report of condition, for establishing reserve requirements, and for the basis of assessment by the FDIC.

Do you think that the Federal Reserve, Comptroller, and the FDIC could, with very little trouble, work out a simple formula to be used for all purposes?

Mr. SNYDER. I think they are working on something like that now. Is that right?

Mr. ROBINSON. I do not think there is any formula, other than that one, under consideration at this time for fixing the assessment base.

Mr. SNYDER. Is there any simpler way in your mind of doing it? Do you mind my referring to Mr. Robinson on that?

Senator ROBERTSON. Not at all. Would the same be true as to rate of assessments and distributions of net assessment income, and also as to authority of various agencies to examine the banks?

Mr. SNYDER. Mr. Chairman, that is a technical question I would have to inquire into. Is somebody prepared on that from the FDIC?

Would you repeat the question, please, Mr. Chairman?

Senator ROBERTSON. Would the same be true as to the rate of assessment or distribution of net assessment income, and also as to authority of various agencies to examine the banks? In other words, could that be mutually worked out without spelling it out in the law?

Mr. BAKKE. We are working out the examination formula—does the question relate to the right to examine banks, or does it relate to the procedure in conducting examination? I do not get the question.

Senator ROBERTSON. Well, let us take the examination of banks. Without writing into the law any change, could it be worked out so that the necessary examinations could be done by mutual agreement of the three agencies that now have the authority to make the examination?

Mr. SNYDER. Are they not doing that? That has already been done.

Senator ROBERTSON. But the law proposes to change that. The law proposes to give the FDIC the privilege of examining any bank at will.

Mr. SNYDER. When it seems necessary, as an insuring agency.

Senator ROBERTSON. Regardless of any other examinations that anybody else might make.

Mr. SNYDER. Upon request.

Mr. OPPEGARD. The Federal Reserve now has the right to examine national banks. They delegate that power and authority to the Comptroller of Currency. We are permitted now to examine State nonmember banks without asking any commissioner. We are permitted to examine national banks with the consent of the Comptroller of Currency, and the State member banks with consent of the Board of Governors of the Federal Reserve System.

We are asking for permission to examine, when we think it is necessary, State member banks without asking for such consent, because we feel we should have the right to look at our risks any time we want to do so, any time we feel it necessary to do so. We do not ask for the—

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we eliminate the consent of the Comptroller, because he sits on our Board, and it is his responsibility as much as it is the responsibility of other members of the Board to permit the FDIC to examine national banks if the Board should so desire.

Senator ROBERTSON. You construe the language of the pending bill to mean that you do not have the right, whenever you see fit, to examine any bank that is now examined by the Comptroller?

Mr. OPPEGARD. We feel, with the Comptroller of the Currency on the Board of Directors of the Corporation, that we can examine a national bank now any time we feel it necessary to do so. We do not feel so, however, with respect to State member banks.

Senator FLANDERS. Have you run into any trouble in that respect?

Mr. BAKKE. We have.

Senator FLANDERS. I wonder if we might have some statement of the nature of that difficulty.

Mr. SNYDER. Could that be done in a memorandum off the record, Mr. Chairman?

Senator ROBERTSON. I think that would be better.

Senator MAYBANK. You do not want it printed?

Mr. SNYDER. I think it ought to be an executive matter.

Senator MAYBANK. Just for the benefit of the committee.

Mr. SNYDER. That takes up a personal matter.

Senator ROBERTSON. You say the Comptroller is a member of your Board. You say you never have made a request on him for examination he has not granted?

Mr. BAKKE. That is right.

Senator ROBERTSON. You say that works very satisfactorily now?

Mr. BAKKE. That is right.

Senator ROBERTSON. Does this pending bill change that to give you the authority to make the examination whether he agrees or does not agree?

Mr. OPPEGARD. No, sir. All the bill does it this: It permits us to examine a State member bank without first requiring the consent of the Board of Governors. That is all it does in that respect.

Mr. BAKKE. May I amplify that by making this statement? As all of us know, the Comptroller is a member of the Board of the FDIC. This question has never come up, because he sits there as a member of our Board, and he consents as a matter of course to our examination of any national bank. But we have had experience in several instances where there has been a desire on the part of the FDIC to make examinations of those banks in the Federal Reserve System where we wanted to have a look at it, and consent has not been forthcoming.

Senator ROBERTSON. How would this change in the law work? Instead of subjecting a bank to dual examinations, and a number of examinations possibly in 1 year, to provide that you would have the authority to examine a State member bank at the same time that the Federal Reserve Board examined that bank?

Mr. BAKKE. What you have in mind is a concurrent examination?

Senator ROBERTSON. That is right. You get access to all the records but you do not have to stop all the work in the bank separately while two different sets of examiners come in any say "Put your books on the table."

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Mr. Bakke. My answer to that proposed arrangement would be we thereby would be getting consent to examine the banks of the Federal Reserve.

Mr. Oppegard. As I understand it, it is not our desire or intention to make regular examinations of State member banks. It is merely in instances where we feel there is a risk of——

Senator Robertson. Again, with deference, I say you have not answered my question. Do you insist on the right to examine a State member bank any time you please, or would the right to examine it along with the examination made by the Federal Reserve Board be sufficient for your purposes?

Mr. Oppegard. I do not think so, for this reason. If they make one examination a year, they might not want to go in at the time we might want to get in for examining our risk.

Senator Robertson. Well, if you have the privilege of examining—what privileges are you asking for in the way of examining banks that you do not now have?

Mr. Oppegard. The only thing we ask for that we do not now have is for permission to examine a State member bank without obtaining the prior consent of the Federal Reserve Board of Governors.

Senator Robertson. How many of them are there?

Mr. Oppegard. About 1,800.

Senator Robertson. Do you propose to build up an examining staff that will rival that of the existing agencies?

Mr. Bakke. No, we would not.

Mr. Oppegard. No, we would—just as I indicated—go in and examine a State member bank when we thought it was in financial distress and we thought an examination was necessary.

Senator Rorertson. If we give you the examining authority that you request, how many new examiners would you have to have?

Mr. Bakke. Very small number, if any.

Mr. Oppegard. I do not think any.

Senator Robertson. You do not think any. How many do you think—because you are making an official record.

Mr. Bakke. I think we would not need any additional examiners.

Mr. Snyder. Mr. Chairman, you know these two gentlemen are from FDIC.

Senator Robertson. Yes. You referred my question to them.

Mr. Snyder. That is right, because that is a technical matter they are interested in. I am not particularly interested in it.

Senator Robertson. It is not too technical to ask you, Mr. Secretary, whether or not you favor subjecting the member State banks to dual examination at any time the FDIC sees fit to make such an examination. That is not very technical.

Mr. Snyder. Well, our national banks are subject to that, and we seem to get along. The Federal Reserve can come in and examine a national bank any time they want to, so I really have no strong feeling about it. It seems a normal thing that an insurance company ought to have the right to examine the insured, but it is a matter to be worked out between the FDIC and the Federal Reserve.

Senator Robertson. Does the Federal Reserve have examiners now make joint examinations with the State bank supervisory authorities as a rule?

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Mr. BAKKE. Yes.

Mr. OPPEGARD. That is correct.

Senator ROBERTSON. And that is done to save the time of the bank employees, is it not?

Mr. OPPEGARD. Yes. In some cases where the State law requires two examinations, if they will arrange it with us we will make one examination, and they will accept our examination for the second examination.

Senator ROBERTSON. These questions indicate I have two thoughts in mind. One is that I do not want to see built up here an unnecessary personnel, because we have just got an overwhelming number in the Government right now, even though the banks are supposed to pay for them from the income of somebody else. The second——

Mr. BAKKE. I was simply going to volunteer this in response to your concern about that, Mr. Senator. And that is the record will definitely show that the FDIC has not been engaged in any empire building. We do not propose to so engage, and I am confident there will be very, very slight increase, if any, in the increase of personnel of examination.

Senator ROBERTSON. Well, I think that is a fair statement. On the other hand, we have been urged to give to the FDIC the same salary that we give to the members of the Federal Reserve Board, on the ground that they are just as important and do just as big work and as important work as the Federal Reserve Board does, and it would only be human nature if anybody would be inclined to question that thing to expand a little bit.

Senator TOBEY. Would you let me interpolate? Why not give them the same salary they give a Senator?

Senator ROBERTSON. They are more important than we are, I believe. Well, I will hurry along with this.

Mr. Secretary, do you approve of the assessment rate formula as outlined, with the 40-percent and 60-percent distribution of net assessment income?

Mr. SNYDER. Yes. We went over that with the members of the Federal Deposit Insurance Corporation Board, and we feel that is a proper approach.

Senator ROBERTSON. That is based on a 1-year experience, is it not?

Mr. SNYDER. Yes, I think that was it.

Senator ROBERTSON. Do you think a better or more equitable method would be to use a 5-year or 10-year record so as to level off the dividends to be returned to the banks?

Mr. SNYDER. I think we ought to try this 1 year for a while and see how it works out.

Senator ROBERTSON. The FDIC has a billion dollars of assets now, does it not?

Mr. SNYDER. Billion, two hundred million.

Senator ROBERTSON. And is it not true the income from those resources are more than ample to pay all the operating expenses?

Mr. SNYDER. Have been so far, I think.

Senator ROBERTSON. And they have that permission, to borrow from you $3,000,000,000 in an emergency, if necessary?

Mr. SNYDER. That is correct.

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Senator ROBERTSON. It is almost inconceivable that we would have such a condition of failing banks that it would wipe out $4,000,000,000 of assets at one time, is it not?

Mr. SNYDER. If we go back and study developing bank crises, we find that there have been sort of slowly developing conditions that can be detected in the early stages. It rarely crashes all at one time.

Senator ROBERTSON. In addition——

Mr. SNYDER. And in such an event, of course, the full assessments would go back on. If the losses in any one year began to exceed the assessment, the curative provision would come into action.

Senator ROBERTSON. In addition, it was pointed out the first day of the hearings that the assets of the bank are about twice what they were during the period of 1933 and 1934 when a good many of them went under. So you have got double strength there, plus this supplemental strength, a total of $4,000,000,000, if necessary.

Now, would it not be true that if you did have a rather bad year and would have to fix your assessment the next year on the basis of that one bad year, it would increase the burden on the insured banks at a period when they could least afford it, although you still have got an ample reserve, as I have just said?

Mr. SNYDER. Well, of course the assessment would never go higher than it is right now, unless you take further congressional action. It would just go back up to what they are paying now.

Senator ROBERTSON. That is true, but the banks have urged us to give them some relief, and that is primarily why we are here today, to work out a plan that would give them some relief and yet keep this system sound.

Mr. SNYDER. That is correct. That is why I am testifying.

Senator ROBERTSON. Why do you think that it would be better for the banks to be put on the experience of 1 year rather than 5 years as to what the next step-up in their assessment would be in the event that the previous year had been a bad year?

Mr. SNYDER. Well, I do not envision, within any prospective immediate future, that you are going to have such a jolt in the banking picture that it would cause them that much of a loss, but I cannot see any particular reason why we should not take it a step at a time and see how it works.

Senator ROBERTSON. Let us take the other side of it. You have got a very fine experience, coming at a time when you are just a little uneasy about inflation because of deficit financing. Is it a good thing, then, to make a tremendous disbursement in the way of a dividend to the banks, which they can then add to their lending power and thus increase, through extension of credit, the inflationary trend?

Mr. SNYDER. Well, I do not think it is going to be that much, that it would upset the inflationary trend one way or the other. It would run somewhere around 60 to 100 million dollars, and I do not think that would start an inflationary spiral in itself.

Senator ROBERTSON. Then you would definitely prefer the 1-year plan to any other plan?

Mr. SNYDER. I have no strong feelings on it. I think it would be better to take the shorter period to start with and see how it works. We are making a move here and changing the procedure, and I cannot see any reason why we should not take it a little slowly.

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Mr. BAKKE. Another reason, Mr. Senator, is this: That the chances are there would not be any substantial difference, based upon recent FDIC history, between the 1-year average and the 5-year average, because our experience has been about the same in the last 6 years.

Senator ROBERTSON. Well, I frankly fail to see the logic of that position. Simply because we for the past 5 years have had conditions that grew out of war spending, I do not think that would necessarily hold true for the next 20 years.

Mr. SNYDER. That is not my statement. I will let Judge Bakke have that statement, but that is not mine.

Mr. BAKKE. We are not supposed to be asking Senators questions.

Senator ROBERTSON. You can testify as you see fit.

Mr. BAKKE. What 5-year period would the Senator have in mind?

Senator ROBERTSON. The previous 5-year period each time.

Mr. BAKKE. Oh, each time. Well, on that I would be inclined to go along with the Secretary. Because of lack of experience up to date, ouside of the last few years, that we should start out with a step at a time and take the 1-year average.

Mr. OPPEGARD. May I add this? The process of problem banks closing is not abrupt. It is a gradual process, as we would work with the banks, it would take a period of time. The only exception would be if there might be defalcations, and that loss is usually covered by bonds. So there is not such a big change from year to year.

Senator ROBERTSON. One final question, Mr. Secretary.

Mr. SNYDER. Mr. Chairman, you have no objection to this informality? We are trying to get to your questions. You asked to speed it up. If you have no objection, we will proceed this way. If you do have, I will ask these gentlemen not to interject any more thoughts, whichever way you want to handle it.

Senator ROBERTSON. At our previous hearing one member of the committee called attention to the fact that this committee does not have jurisdiction of bills relating to public works. There is in this bill authorization for a new building for FDIC. The suggestion at that time was made that we should take that out of this bill, keep it as a strictly banking proposition, and refer the public works part of it to the committee that had jurisdiction of public works.

Senator MAYBANK. Mr. Chairman, I might say I have drawn a separate bill on that, had it done Friday.

Mr. SNYDER. I have no objection to that.

Senator ROBERTSON. Further questions?

Senator FLANDERS. In respect to one of the other bills on this subject before the committee, S. 2300, I was concerned with a provision in that which does not appear in S. 2822. That is, that it set a limit on the total reserves of the FDIC of $1,000,000,000. Nevertheless, I carried in my own mind the point through into this bill. In the bank troubles in the 1930's about 3 percent of the total deposits were lost. Now, we do not expect that to happen again, because the FDIC is not merely an insurance of deposits, but it is perhaps primarily an insurance against runs on banks. So we would not expect under any circumstances as severe conditions to face the country again under FDIC as it faced in the 1930's.

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Mr. SNYDER. And there is one added feature to it, Senator. There would be a more orderly liquidation of assets, because under the old system banks were pushed to liquidate rapidly to get the dividends back to the depositor. Under this system, with the FDIC paying off the depositors, there would be a more orderly liquidation of the assets, and thereby probably bringing in a larger return.

Senator FLANDERS. That seems reasonable. Nevertheless, I asked the FDIC representatives at that time whether they had any percentage of deposits in mind as a maximum to which they might be looking forward. As I remember, the suggestion was made that a maximum of 1 percent of deposits might be a reasonable thing to look forward to.

I then asked how long, with the favorable history of this procedure of 40–60—how long it might take to reach that 1 percent, considering that deposits, presumably, with the growth of business, productive capacity of the country, presuming that there would be an increase in deposits. As I remember it, the statement was made more or less offhand that the point might be arrived at in 5 or 10 years.

That led me to question as to whether the 60–40 subdivision was necessarily the best one; whether the arriving at 1 percent, if that is a reasonable feature, might not be speeded up a little. And so I have questioned in my own mind this 60–40 formula, and wondered whether 50–50, or something of the sort, might not be better in building up to the optimum protection.

Mr. SNYDER. Well, I have no strong feelings about those particular percentages. They look fair and reasonable. When we went over the bill it struck me that that would give an opportunity of maintaining a level of reserves, and that as the FDIC had losses exceeding the total that the assessment would go back up. Therefore, whether it was 40–60 or 50–50, I did not think it made a great deal of difference.

Senator FLANDERS. That was the train of thought that went through my mind in response to that questioning. I think I would be inclined to favor retaining a little bit larger sum in the reserves of the FDIC. That is the only question I have. There is a question, which I think we have already discussed, taking out the provision for the building.

Senator MAYBANK. I suggested on Friday telling legislative counsel to draw a proper bill in connection with the building. And by the way, Mr. Harl sent me all the information that I asked him to put in the record. It shows, of course, they are divided all over town in different buildings. They would save money by it. It would save money.

Senator FLANDERS. The need for it does appear.

Senator TOBEY. Mr. Secretary, perhaps I should not address this to you, but, if not, you will correct me. I saw in either the Wall Street Journal, or the New York Times financial section, a statement about the Manufacturers Trust Co. of New York, looking into the future as to earnings, and so forth; that if certain changes went into effect—I assume referring to this bill—and they got back to 60 percent, that it would increase their figures for last year by $600,000,000. Is that figure outrageously wrong? Did I misread the article, or what is the story?

Mr. SNYDER. I cannot see how it could possibly be any such figure.

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Senator TOBEY. What would it be?

Mr. SNYDER. I do not know about the Manufacturers Trust.

Senator TOBEY. Does anybody have the figures on the Manufacturers Trust?

Mr. SNYDER. They could not reveal it at an open meeting if they did. It would have to be given to you privately.

Senator TOBEY. Has there ever been published a statement of the amount of assessments on the banks of the country in detail? Where does that appear?

Mr. OPPEGARD. You have it in your annual report.

Senator TOBEY. That data I just asked for would be in there, would it not?

Mr. BAKKE. Not the specific dollar amount of $600,000,000 you mentioned.

Senator TOBEY. That $600,000,000 is the amount to be returned to them. What I was asking, where——

Mr. SNYDER. The total dividend would not be much over $60,000,000 would it?

Senator TOBEY. It may have been a printer's error. It amazed me.

Mr. SNYDER. They may have been talking about the banking system as a whole, and it would be about $60,000,000, and they threw an extra nought for size.

Senator TOBEY. Where is there published a statement that members of this committee can see showing in detail or in accurate figures the amount of assesments on the banks under the existing FDIC law?

Mr. BAKKE. That is furnished to the Congress in an annual statement.

Senator TOBEY. When do we get it?

Mr. OPPEGARD. 1948 is available now. The report is not completed for the year 1949.

Senator TOBEY. When will it be?

Mr. BAKKE. I will ask Dr. Warburton. I suppose that would be about a month.

Senator TOBEY. Will you send me down a copy of the 1948 figures so I get it in the morning?

Next question: Up in my State of New Hampshire, possessed of the rare quality of New England independence and thrift, when the FDIC came along, we did not go along. The savings banks up there formed their own association and insured themselves. What other State than New Hampshire has used that same modus operandi?

Mr. OPPEGARD. Massachusetts, New Hampshire, and Connecticut.

Senator TOBEY. Three New England States.

Senator ROBERTSON. Any further questions?

We thank you.

Mr. SNYDER. Thank you, Mr. Chairman and gentlemen.

STATEMENT OF EVANS WOOLLEN, JR., ACCOMPANIED BY EUGENE C. ZORN, JR., SECRETARY, RESEARCH COUNCIL; C. E. BENNETT, CHAIRMAN, COMMITTEE ON FDIC STUDY; AND D. J. NEEDHAM, GENERAL COUNSEL, AMERICAN BANKERS ASSOCIATION

Mr. WOOLLEN. Mr. Chairman, my name is Evans Woollen, Jr. I am chairman of the board of the Fletcher Trust Co. and a member of the subcommittee on Federal deposit insurance study of the Fed-

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eral legislative committee of the American Bankers Association. I am testifying in behalf of that association.

The American Bankers Association appreciates the invitation of the committee to make known its views on the legislative proposals regarding deposit insurance which are now under consideration by the committee.

For many years the association has had a subcommittee on Federal deposit insurance study. It has had the opportunity to work closely with the Federal Deposit Insurance Corporation on questions concerning the operations of the Corporation. The association appreciates the assistance and cooperation which the officials of the Corporation have extended in dealing with problems of deposit insurance, as well as other banking problems.

The interest of the association in the legislation before this committee naturally arises out of the importance of deposit insurance to the many banks which comprise its membership. All banks are aware that any legislation on deposit insurance must have one basic objective—the protection of public confidence in the chartered banking system. It is in terms of this objective that the association is pleased to present its views on the proposals now under consideration.

Prior to treating the specific proposals, however, we would like to set forth a brief summary of the general principles which we believe should guide legislative policy regarding deposit insurance:

1. Any changes in assessments should be equitable for all classes of banks, whether commercial or mutual savings, or city or country banks.

2. The cost of deposit insurance to the banks should be related to the actual loss experience of the fund, except that banks should always pay at least some, if only nominal, amount of assessments.

3. Under no circumstances should the original function of deposit insurance in protecting the great mass of depositors be altered in the direction of total guaranty of bank credit, instead of deposits. In other words, deposit insurance is primarily for the benefit of small bank depositors.

4. Any changes in the deposit insurance system must be examined in terms of their effects upon both the depositors who require the services of banks, and also the banks which must give those services.

In the 16 years of its operation, the Corporation has been able to build up a surplus fund of $1,200,000,000. During this time it has had losses of only $26,000,000. This surplus is far in excess of the amount contemplated when the deposit insurance system was inaugurated. It is a source of great encouragement to know that the growth of the surplus has been such that the Corporation has testified in favor of this legislation which would alter the basis of deposit insurance assessments, and thus provide a means whereby the cost of deposit insurance to the banks can be reduced when the Corporations' loss experience is favorable.

As to specific aspects of S. 2822, as introduced by Senator Maybank on January 10, 1950, the Association submits the following recommendations:

1. Computation of the deposit insurance assessment base. Section 7 (a) greatly facilitates the determination of the amount of deposits

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upon which deposit insurance assessments are to be paid. We recommend enactment of this provision because the present complicated and laborious method of computation has been a source of unnecessary difficulty for insured banks. It is our understanding that the proposed change reflects the results of long and careful study by the Corporation. The adoption of such a provision will result in simplification and clarification of the amount on which assessments are computed.

2. Determination of net assessment income: Section 7 (d) provides for a change in the method of deposit insurance assessments on banks. The basic existing rate of one-twelfth of 1 percent on deposits is retained, but with favorable experience, insured banks are to receive credits against subsequent assessment payments. Such credits are limited to 60 percent of "net assessment income" defined as:

> the total assessments which become due during the calendar year less (1) the operating costs and expenses of the Corporation for the calendar year; (2) additions to reserve to provide for insurance losses during the calendar year, except that any adjustments to reserve which result in a reduction of such reserves shall be added; and (3) the insurance losses sustained in said calendar year plus losses from any preceding years in excess of such reserves. If such losses exceed the net assessment income in any year, such excess losses shall be restored by deduction made in subsequent year.

In general, the proposed change would seem to be sound because deposit insurance assessments would be predicated upon the loss experience of the Corporation. The language of the bill, however, might be clarified to define the terms "reserve" and "insurance losses."

Senator MAYBANK. Have you any suggestion as to how to clarify it?

Mr. WOOLLEN. Yes, sir. It follows.

Current policy of the Corporation is to set up a reserve of one-third against the assets it is required to take over, even though the proportion of annual losses may have been very much smaller. Since the proposed bill does not define reserve or insurance losses, the deductions might be affected drastically by a change in the accounting policy of the Corporation under some future management. In determining "net assessment income," the Corporation should not be permitted to deduct reserves to cover hypothetical losses.

The terms used should be carefully defined by law, so that the words "reserve" and "insurance losses" as contemplated in this section would be specifically related to deposit insurance obligations assumed by the Corporation during the calendar year in connection with banks in which deposit insurance financial aid is provided.

3. Adjustment of deposit insurance assessment credits: In his testimony before this committee on January 11, the Chairman of the Corporation stated:

> We would like to build our capital funds up to where they equal 1 percent of the over-all bank deposits.

It is recommended, therefore, that when the surplus of the Corporation reaches 1.5 billion dollars, an amount which approximates the 1-percent goal sought by the Corporation, provision should be made for adjustment of the percentage of "net assessment income" to be credited to the banks.

We earnestly believe that the deposit insurance fund should not be permitted to grow indefinitely at more than a nominal rate. It

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should be observed that the Corporation currently receives $25,-000,000 of investment income annually which the bill does not take into consideration in the computation of "net assessment income," upon which dividend credits are to be made.

We believe that the banks should always pay some assessments, but that they should be restricted to a nominal amount when assessments are not needed. The first line of defense for the protection of bank deposits is the capital investment in our banks. A moderation of assessments will help to build up bank capital funds.

4. Time of initiation of deposit insurance assessment credits: The wording of section 7 (d) of the proposed bill, S. 2822, as written, leaves some doubt as to when the first assessment credits will be applied. It is presumed that the intention is to initiate such credits during the second half of 1950, based on the Corporation's income, losses, and expenses for 1949.

This section might be clarified as follows:

> As of December 31 each year, the Corporation shall transfer 40 percent of its net assessment income to its capital account and the balance of the net assessment income shall be credited pro rata to the insured banks based upon the assessments of each bank during said calendar year. Such credits shall be applied by the Corporation toward the payment of the total assessments becoming due for the semiannual assessment period beginning the next ensuing July 1. The first such credits shall be based on net assessment income earned in the calendar year 1949, and shall be applied by the Corporation against the semiannual assessment due on or before July 15, 1950.

5. Deposit insurance coverage: Section 3 (m) of the proposed bill provides for an increase in the maximum amount of insurance for each depositor to $10,000 from the present limit of $5,000.

As indicated by the Chairman of the Corporation before this committee on January 11, the change would only increase the proportion of accounts fully covered from 96 to 98.4 percent. The practical effect of this change from the viewpoint of depositors is definitely limited. We do not oppose this limited extension of coverage.

We desire to emphasize most strongly, however, that Congress should not authorize any further extension of coverage beyond $10,000. The deposit insurance system was inaugurated to protect the great majority of individual bank depositors, and not to guarantee bank credit.

6. Penalty for employing a convicted person: We subscribe to the principle that banks should exercise due precautions regarding employment of their personnel, but they should not be held responsible for having employed a convicted person without knowledge of such conviction.

Accordingly, it is recommended that section 19 should be amended to provide that without the written consent of the Corporation, no insured bank shall knowingly employ any person convicted of a criminal offense involving dishonesty or a breach of trust.

7. Advertising limitations: We are in accord with the amendment to section 609, title 18, of the United States Code, as proposed in the bill, which would restrict Federal deposit insurance advertisements to banks insured by the Corporation.

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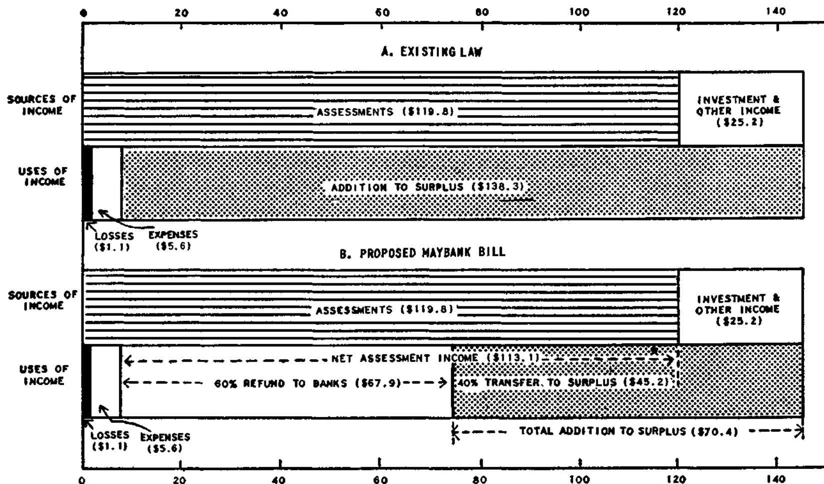
(The chart accompanying the statement follows:)

DISTRIBUTION OF INCOME OF FEDERAL DEPOSIT INSURANCE CORPORATION
UNDER EXISTING LAW COMPARED WITH MAYBANK BILL (S.2822)

(BASED ON DATA FOR YEAR ENDING JUNE 30, 1949)
(IN MILLIONS OF DOLLARS)



A. UNDER EXISTING LAW, BANKS PAID TOTAL ASSESSMENTS OF $119.8 MILLION; ADDITION OF OTHER INCOME AND DEDUCTION OF LOSSES AND EXPENSES RESULTED IN AN INCREASE OF $138.3 MILLION IN SURPLUS.

B. UNDER MAYBANK BILL, BANKS WOULD RECEIVE 60% OF "NET ASSESSMENT-INCOME" (DIFFERENCE BETWEEN TOTAL ASSESSMENTS AT 1/12 OF 1% AND TOTAL EXPENSES AND LOSSES); REFUND WOULD AMOUNT TO $67.9 MILLION, REDUCING ASSESSMENT BURDEN TO $51.9 MILLION, OR 43% OF PRESENT AMOUNT; INCREASE IN SURPLUS WOULD BE $70.4 MILLION.

Senator ROBERTSON. Mr. Woollen, you say that the deposit insurance system was inaugurated to protect the great majority of the individual bank depositors. Is there a provision in the bill that the FDIC make a loan to a solvent bank?

Mr. WOOLLEN. There is a provision that the FDIC may make a loan to a bank in distress. I am not sure that the word "solvent" appears in the bill.

Senator ROBERTSON. Would one of your associates point to the language of the bill on that subject? Can you give us your opinion as to whether that language is improper?

Mr. NEEDHAM. Perhaps counsel for the FDIC should answer that question.

Senator ROBERTSON. I would like for him to explain to the witness what is in there on that subject. I asked the witness an opinion about it. Apparently attention hasn't been called to it.

Mr. OPPEGARD. What was the question?

Senator ROBERTSON. It has been reported to me that the language in here, with which you may aid a bank, is so broad that you could make loans to a solvent bank, and not the one in real distress. What is the language and what is your interpretation of its meaning?

Mr. OPPEGARD. The provision reads that we can make a loan to a bank which is in financial distress, in order to prevent it from closing. We may make a loan directly to a bank to enable it to reopen if it is closed.

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Senator MAYBANK. Section 13 (b) is the section.

Mr. OPPEGARD. To prevent the closing of an insured bank.

Senator MAYBANK. Page 44.

Mr. OPPEGARD. We have made a change.

Senator ROBERTSON. Since the FDIC witnesses wish to take time to be advised of their opinion, I want to ask the witness this question:

Do you think that the language of section 13 (b) which authorizes the FDIC to step in to prevent the closing of an insured bank, is so broad that there is possibility of conflict there with the powers of the Federal Reserve Board, and if so, would it be well to word the section in such way as to permit the FDIC to carry out the purpose of this provision, that is, to assist going banks, and then at the same time avoid assumption of powers now lodged in the Federal Reserve Board?

It is to be noted that that section would apply to nonmember insured banks, also.

Mr. BAKKE. If I may answer that, Senator: If I understand the question correctly, it is the same suggestion that was made by the Federal Reserve Board to the Bureau of the Budget. This language which appears on page 44 of the bill is language that is satisfactory to the Bureau of the Budget.

Senator ROBERTSON. Do you have a copy of the recommendation that the Federal Reserve Board made to the Bureau of the Budget on this bill?

Mr. BAKKE. I think I have it. I don't have it with me. We have the language. There is no——

Senator ROBERTSON. I would like for you to insert that in the record at this point, so that we may know what the Federal Reserve Board said to the Bureau of the Budget when its opinion was requested on this bill.

Mr. BAKKE. Yes, sir.

(The information is as follows:)

FEDERAL DEPOSIT INSURANCE CORPORATION,
Washington, January 27, 1950.

Hon. A. WILLIS ROBERTSON,
Chairman, Subcommittee on Federal Reserve Matters,
Senate Committee on Banking and Currency, United States Senate,
Washington, D. C.

DEAR SENATOR ROBERTSON: On January 23, 1950, during the hearings before your Subcommittee on Federal Reserve Matters on S. 2822, I stated that the language of section 13 (b) on page 44 of S. 2822 is language that is satisfactory to the Bureau of the Budget. The Bureau of the Budget has not yet expressed its views on S. 2822 or any provision therein. The Bureau of the Budget, during a discussion of the bill with me and other representatives of this Corporation, furnished us with a draft of a substitute for section 13 (b) which had been proposed by the Board of Governors of the Federal Reserve System. The proposed substitute reads as follows:

"In order to reopen a closed insured bank or, when the Corporation has determined that an insured bank is in imminent danger of closing, in order to prevent such closing, the Corporation, in the discretion of its board of directors, is authorized to make loans to, or purchase the assets of, such an insured bank upon such terms and conditions as the board of directors may prescribe."

In effect the Board of Governors of the Federal Reserve System has suggested as a qualification of our proposed authority in section 13 (b) to make loans to prevent the closing of an insured bank, the words "When the Corporation has determined that an insured bank is in imminent danger of closing."

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It is the view of this Corporation that section 13 (b) of S. 2822 and the proposed substitute have the same meaning. In order for the Corporation to make a loan under section 13 (b) to prevent the closing of an insured bank, such bank must obviously be in danger of being closed. For this reason we do not recommend the proposed change in section 13 (b).

With kindest regards, I am

Sincerely yours,

NORRIS C. BAKKE.
Associate General Counsel.

Senator MAYBANK. I think we ought to insert section (b) in the record, too; section 13 (b).

Senator ROBERTSON. The whole bill is in the record.

Senator MAYBANK. Yes.

Senator ROBERTSON. Following the insertion of the report of the Federal Reserve Board to the Bureau of the Budget on this bill, Chairman Maybank requests that we print at this point in the record section 13 (b) of his bill.

Without objection, that will be done.

(The section is as follows:)

SEC. 13 (b). In order to prevent the closing of an insured bank or in order to reopen a closed insured bank, the Corporation, in the discretion of its Board of Directors, is authorized to make loans to, or purchase the assets of, such an insured bank upon such terms and conditions as the Board of Directors may prescribe.

Mr. WOOLLEN. Answering the question, Senator, for the association, we had not made objection to that section, and I think there is perhaps a distinction between the proposed powers for the FDIC and the powers resting in the Federal Reserve Board, in that in the latter case it is expected that loans are to be made on sound assets, and this provision aims at the treatment of distressed assets.

Senator ROBERTSON. Are there any further questions?

We thank you, sir.

The next witness also speaks for the American Bankers Association; Mr. Harry Arthur.

Mr. Arthur, will you come around, please, and identify yourself for the record?

STATEMENT OF HARRY ARTHUR, PRESIDENT, SOUTH CAROLINA BANKERS ASSOCIATION

Mr. ARTHUR. Senator, I am Harry Arthur, president of the South Carolina Bankers Association. I am here as a representative, not as the representative, of the nonmember banks of the country. Actually, I am a member of the American Bankers Association, but when you class a small bank of my size as being a representative of the ABA today, I believe it is in error.

I want to support Senator Maybank in his bill.

Senator ROBERTSON. I believe you appeared before us last year?

Mr. ARTHUR. Yes, sir.

Senator ROBERTSON. At that time you indicated you were not altogether in favor of having all State banks brought under the Federal Reserve bank.

Mr. ARTHUR. I am of that opinion. I hope we never get them in.

Senator ROBERTSON. You may proceed.

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Mr. ARTHUR. I approve of the bill in general. I do want to make a few observations.

It is composed of three main provisions, as Mr. Harl said in his testimony. The main thing is assessments. I think they should be higher. I will probably get some questions on that. If I do, I will attempt to answer them, but if Senator Maybank thinks 60 percent is all right, we are going to go along.

I would like to see that changed in committee to a higher figure. I think it could be changed.

Senator MAYBANK. How high would you go?

Mr. ARTHUR. Seventy-five percent, probably. Seventy-five percent would decrease the amount that the Corporation would keep by only $18,000,000. The Corporation is already getting the $25,000,000 that has been referred to. The increase to 75 percent would change it only eighteen.

They would still have the $7,000,000 left over which has not been taken into consideration in the computations.

On the coverage, I am in complete agreement. I think it will meet wide public approval. I think depositors will be gratified at that. Not that so many people have $10,000 in the bank, but it will restore the law to where it was in 1934. At that time we had a 100-cent dollar. Today we have about a 50-cent dollar. At that time the bill covered about 98 percent of the depositors, while today it covers about 96 percent.

This bill brings it back to where you were. We are merely restoring the coverage to where it was in 1934, both as to value of dollar and as to number of depositors covered.

On the third item, the base of assessment, we are enthusiastic. The little banks are in agreement with that. We don't have auditors. We don't have certified public accountants to make up these reports. They are the doggondest things to make out. They are beyond comprehension.

This clarifies it; makes it a simple matter. We are delighted with that one thing. For that reason I am delighted to back the Senator's bill on those three main points.

Senator MAYBANK. How many small banks are in the United States?

Mr. ARTHUR. Over 7,000. In South Carolina with the exception of one or two, we have no big banks.

Senator MAYBANK. How about the West?

Mr. ARTHUR. The West has turned to the chain banks, the far West. There are plenty of little banks in the West and Southwest.

Senator ROBERTSON. Would you say these 7,000 would classify under the general heading of small business?

Mr. ARTHUR. Yes. These 7,000 have only 15 percent of the total depositors of the United States.

Senator ROBERTSON. I understand the President will send a message to Congress soon in which he outlines plans to help small business. What in your opinion would be the best help to small business?

Mr. ARTHUR. The greatest help would be to lower taxes.

Senator ROBERTSON. When the President recommends the tax rate be increased, you don't think that will help?

Mr. ARTHUR. Not if he wants to help little business. If he does, he should change that system where we have to pay 53 percent between $25,000 and $50,000. Most of the little corporations in the United States come into that classification.

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Senator ROBERTSON. The Constitution requires uniformity. It would be strange if the clear meaning of the Congress greatly decreased the tax on what might be called an arbitrary selection while they increased taxes on somebody else.

Senator TOBEY. The Constitution says "to establish justice."

Mr. ARTHUR. Yes. That is right. If they reduce——

Senator TOBEY. Sometimes we forget that; we talk about the general welfare. Let's talk about establishing justice.

Mr. ARTHUR. If they reduce it in the $25,000 to $50,000 class, it would be equitable and not arbitrary, because the big corporation would get the same reduction out of his first $25,000 to $50,000.

Senator ROBERTSON. So you favor increasing it on the big corporation?

Mr. ARTHUR. Not unless you cut expenses. You can't hire a bank clerk in my bank for $3,700 and let him spend $4,200 and expect him to stay solvent. He will be in trouble, and I will be afraid he will abscond, and I will get another man. You must cut expenses; that is one man's opinion and experience.

Senator ROBERTSON. Far be it from me to challenge that philosophy.

Mr. ARTHUR. I am in agreement with the statement that when we build the capital funds to where they equal 1 percent of the over-all deposits, when we reach that point, there should be a revision. Some one said—I believe Senator Flanders—that some witness had testified it would take 15 years to reach this 1 billion, 500 million. I am not an auditor, but if I can figure it, we will reach it in 4 years, at the present rate.

If the Corporation keeps 40 percent, 40 percent of $120,000,000 is roughly $47,000,000, you add $25,000,000 not included, which is roughly $70,000,000; you multiply $70,000,000 by 4, and you have $280,000,000, and in 4 years you will have 1.5 billion dollars.

Senator ROBERTSON. They have to take the operating expenses.

Mr. ARTHUR. That is after the operating expenses have come out.

Senator MAYBANK. Somebody testified to that. Who was it?

Senator ROBERTSON. Mr. Harl.

Mr. ARTHUR. I do think there should be some rebuttal put into the record on a statement made here. I won't take much time. I quote from Mr. Harl's testimony before this committee.

To eliminate or drastically reduce the contribution of banks to the insurance fund would be a departure from the concept of self-help which is a fundamental feature of the Federal Deposit Insurance System. Increased reliance on Government help is inevitable if the bankers' contribution is reduced beyond reasonable levels. This will invite Government domination of the banking business. It boils down to this—if free enterprise in banking is to continue, deposit insurance must remain predominantly an instrument of self-aid and the banks must be willing to foot the bill. The cost of maintaining a strong mutual insurance fund is indeed a small price to pay for bank solvency, stability, depositors' safety, as well as the historical privilege of freedom on banking enterprise.

The Federal deposit insurance fund is one of the main buttresses of the American system of banking. Adequate capital funds for insured banks are its second line of defense. However, the downward trend in the amount of bank capital is one which cannot be ignored in any discussion of the adequacy of the insurance fund. Over the years the ratio of capital funds to total assets has declined progressively as is shown by the accompanying chart titled, "Bank Capital Ratio, All Commercial Banks, 1875–1949."

On this chart, reproduced on the board here, gentlemen, we have endeavored to show you the declining bank capital for the period 1875 to 1949, or a 74-year period.

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Seventy-five years ago the capital accounts in all commercial banks amounted to about one-third of total assets, Today the corresponding ratio is one-fourteenth of total assets. During this period the average commercial bank has multiplied almost fivefold, the extent of its trading on the equity. Not so many years ago a ratio of 10 percent was considered a minimum. Today the average ratio throughout the Nation is 7 percent. You can very well appreciate our concern for depositors as well as for the banking system when we view this shrinkage in the margin of protection afforded by bank capital along with proposals to drastically reduce the assessments.

The following chart entitled "Banks Grouped by Capital Ratios" gives a vivid picture of the situation today. Banks are grouped by the size of their capital ratios and the national average is indicated as a point of reference. As might be expected, the bulk of the banks are concentrated around the average. Nevertheless, there are a substantial number of institutions whose ratios are ridiculously low. On June 30, 1949, 312 banks had a capital ratio of less than 4 percent. Many of these banks have resources ranging between $1,000,000 and $10,000,000, but three of them have assets of more than $100,000,000. Clearly the owner-equity in these banks is to think that it could easily be wiped out in a period of adversity. This is a serious weakness in what should be an element of strength in the banking system, namely, capital ratio.

I don't think he or any of the people on that subject have been practical or have been logical or perhaps—I won't say "wanted to be logical"—but the thing is completely changed.

Why go back 75 years? In the last few days we have heard what has happened in the last 50 years. Go back 50 years if you want to be practical; yes, 75 years ago they were lenders. In my bank, in 1866, they had less deposits than capital. They were lending their own funds.

They argue the ratio of bank capital to the total assets has been sharply down. Capital funds have been doubled since the Corporation was formed; operating earnings now are about three times what they were.

The argument overlooks many facts. During this period from 1934 to the present most banks have written down their investments tied up in fixed assets, and have more of their capital funds available to meet losses. They have sold off their real estate. They marked down their buildings, for tax reasons, they have taken every bit of depreciation possible on their fixtures and every bit of depreciation allowed on the buildings.

As a result, there are much more capital funds, liquid funds, rather, tied up in fixed assets.

The major change is the composition of bank assets today. Bank assets today are made up of what? The major part is United States Government bonds, notes, and certificates. The amount of cash in vaults; that has increased. Banks today on the average have 15 to 30 percent of the total funds in cash. That is not a risk asset. The type of loans—here is an important point—the type of loans now carried by most banks have almost entirely changed their character. Those that are partly and fully insured. We have in the portfolios today—practically every bank in South Carolina and in the Nation—a vast amount of 100 percent FHA loans, which are 100 percent guaranteed by the Government. They are not risk assets. You have GI loans. Our bank made our legal limit. They are in no sense of the word a risk asset. They are 50 percent guaranteed.

We have Federal crop production loans. That is important in the West. It is particularly important in South Carolina. We take every one we can get on cotton. That is classed as a loan. It is call money. We can phone to Atlanta and tell them to sell our certificates, and the cash will be put to our credit that same day. That is 100 percent guaranteed by the Government.

Then you have another major thing today: In the old days a bank would loan you $10,000 on a building for 6 percent. You would come back a year later and they were glad to see you and to renew. All of

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a sudden you had bank trouble. That has changed today, too. No banks make anything but amortized loans. Every month that passes, the collateral gets better, and the risk goes down. That is true on personal loans; automobiles. Every month that passes the risk goes down.

There is still another type of loan. You have your RFC participation loans. We go to the RFC to get the additional protection. They take on 75 percent of the risk. We take on 25 percent of the risk—whatever the proportion might be, at this time; they change the regulations so fast nobody can keep up with them—that is included in the total. If you cut out all those risk assets, those ratios fall apart.

I took the two little banks I happen to be president of. One has $1,895,000 in assets, the other $4,152,000. I broke those down. Taking the $1,800,000 bank, Woodruff State Bank: Cash, $291,000; Government's, $1,178,000; insured loans, $50,000 approximately; total assets, $1,857,000.

Deduct those nonrisk assets and it leaves $343,000. If you take Mr. Harl's example, or comparison, we have only 6 percent—we have a 6 percent ratio.

You deduct those and see what happens. The risk, total actual risk, is 33 percent; instead of 6 percent it becomes 33 percent.

In addition, all the banks in the United States today have set up reserves of their own under the Government formula for losses. It was $500,000,000 as of June 1949. Most banks don't set that up until December 31, 1949. That figure must have grown. This bank has about $7,000 of it. That does not appear in the capital account; it is deducted from loans. That does not appear. It is definitely a reserve; it should be taken into consideration.

Senator ROBERTSON. The banks hold a good many more Government bonds than they did in 1869?

Mr. ARTHUR. Yes; they certainly do. The capital increase of this particular bank has gone up in 3½ years 85 percent.

This other bank has had 1 to 10 percent.

Senator MAYBANK. The banks have State and municipal bonds and notes now that they didn't have, either.

Mr. ARTHUR. That is included. They do hold them, too—a vast amount of them .They don't run to any great percentage. This particular bank, it has cash of $823,000; Governments, $1,500,000; insured loans, $300,000; total, $2,634,000. They have total assets of $4,152,000; risk assets, $1,529,000; capital account, $345,000. Instead of being 1 to 10 that the statistics would say we have, we have 1 to 4—23 percent.

Senator ROBERTSON. Will you turn to the bill? What is your viewpoint about the provision in the bill that the FDIC shall have the privilege of examining nonmember banks at any time?

Mr. ARTHUR. I am not a member, but I think that is a matter to be straightened out among themselves. I don't think it is a matter for two bureaucratic agencies.

From the questions here, I gather somebody has refused the FDIC to make an examination. I got that from the questioning. I think they should have some chance to look at the risk. I am not getting into their fight. I don't think the Federal Reserve will let them

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do it. Once a bureaucrat gets power, he seldom gives it up. They seem to be grasping for more power.

One other thing: In addition, $30,000 of this reserve set-up is not reflected, and its capital account is drawn on 100 percent.

Banks are very anxious to set up reserves. We are building our reserves at a tremendous rate. We are going to build our reserves high enough so we won't have to call on them.

Most of the deposits in the country are not covered by FDIC. They are relying on the capital account of the bank, and the management. We will continue to build our reserve. South Carolina will not let us pay a dividend of over a certain size. We are building our reserves.

One other thing, and I am through: Assets clearly reflect the true situation today. During the excess-profits-tax days, during the present very high tax days, most banks are very, very quickly marking off any loss that looks like a loss to save taxes. We have had closer supervision. The State banks come in at one time; the FDIC comes in at a separate time. We are glad to have them come in. Those two examinations a year act as an audit.

I would prefer to have them come at two separate times. I see no objection to two examinations a year. These assets are definitely better. We have closer supervision. We have eliminated all these substandard bonds today, for tax reasons. We have gotten rid of our old losses.

The reserve picture is anything else than what is shown here. If 1 to 10 was a good thing in the past, 1 to 7 now on this would actually work out to 1 to 10. You take the Central Hanover Bank in New York. That is considered the southerner's bank. We have also considered it that way. They have roughly 1 to 10 on their statement. If you break this down and remove the cash and the Government bonds, they would probably have 1 to 30.

Senator ROBERTSON. Any questions?

Senator FREAR. I gathered from Mr. Arthur that he was in favor of the increased coverage?

Mr. ARTHUR. Yes.

Senator FREAR. And you said that at the end of 4 years the FDIC would probably have reserves of 1.5 billion dollars. I assume you were taking those figures from the losses that have accumulated to date of approximately $26,000,000.

If the coverage is increased from $5,000 to $10,000, do you anticipate that the losses of FDIC will increase proportionately?

Mr. ARTHUR. If they did, it would be 2.4 percent. It would be so little——

Senator FREAR. The question was, Do you think they would increase proportionately?

Mr. ARTHUR. No, sir; I do not.

Here is a chart, if you want it in the record. We have figured it out. It will come in in 1955, instead of 15 years.

Senator ROBERTSON. Are there any further questions? We thank you.

The next witness is Mr. Henry A. Kingman, of the National Association of Mutual Savings Banks.

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STATEMENT OF HENRY A. KINGMAN, PRESIDENT, NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS, ACCOMPANIED BY FRED N. OLIVER, OF THE NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS

Mr. KINGMAN. Mr. Chairman and members of the committee, my name is Henry S. Kingman. I am president of the Farmers and Mechanics Savings Bank of Minneapolis. I am appearing here on behalf of the National Association of Mutual Savings Banks, of which association I am president during the current year.

I wish to thank you on behalf of the mutual savings banks for the opportunity to appear and state our views on this legislation. I shall cover two or three of the more important features of the bill in my statement, and I will ask my colleague, Major Oliver, to comment on other features of the bill. There will be no duplication in our testimony.

The association represents the mutual savings banks of this country. Substantially all of the savings banks of the country are members of the association. My recollection is that the membership represents between 98 and 99 percent of the deposit liability of these banks. Mutual savings banks, as their name indicates, are mutual institutions; they have no capital stock; all of the assets belong to their depositors; the banks are operated solely for their depositors; the earnings available for distribution are paid to the depositors either in the form of interest or dividends.

Most of them are old institutions, some having been organized as early as 1816. They are traditionally known as repositories for small savers, accepting for safekeeping their savings and for investment to produce income to them giving primary consideration to the safety of the investment. Their investments, with the exception of one or two States, are regulated by State law in order to provide assurance of maximum safety for the funds of small savers which are being held for a rainy day or for some specific purpose.

There are 531 mutual savings banks doing business in 17 States, but the majority of them are located in the New England States, New York, New Jersey, Maryland, and Pennsylvania, with a few located in the States of Ohio, Indiana, Minnesota, Wisconsin, Washington, and Oregon. These banks had on November 30, 1949, deposits in the aggregate amount of $19,065,000,000, with 18,510,000 deposit accounts as of June 30, 1949. The average deposit per account for all the savings banks amounts to $987.58. The average account varies in some of the States.

For example, in New Hampshire the total deposits as of November 30, 1949, amounted to $274,202,000, with total deposit accounts of 322,000 and an average deposit per account on June 30, 1949, of $813.25. In Vermont the total deposits aggregated $83,962,000, with 108,000 deposit accounts, and an average deposit per account on June 30, 1949, of $768.30.

The above statistics indicate the great number of small savers served by the mutual savings banks and the importance of these institutions to the average small saver. I neglected to say that the aggregate assets of the mutual savings banks is over $21,000,000,000 as of November 30, 1949. I believe my own bank is typical. The Farmers

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and Mechanics Savings Bank of Minneapolis was founded in 1874. It had deposits as of January 1, 1949, of $150,772,068, with 184,243 depositors, with assets of $163,339,704. The average deposit per account was a little over $818.

The bill here under consideration has been carefully studied and reviewed by representative savings bankers. It was studied by a special committee of savings bankers, known as our committee on Federal deposit insurance, and subsequently by the executive committee of our association, both of which committees unanimously instructed me as the head of the association to appear and support the program as sponsored by the Federal Deposit Insurance Corporation as reflected in S. 2822. We think the bill as a whole should be enacted. It represents a constructive approach to one of our most important problems.

The most important features of the bill are those provisions with reference to assessments and the method of adjusting the assessment which would result in a substantial reduction in the contributions required of the insured banks. As representatives of small savers, we certainly do not want the insurance fund reduced to the point where it does not provide reasonable protection to our depositors. My understanding is that the fund now amounts to substantially 1.2 billion dollars, and the earnings alone from this fund are at the rate of around $25,000,000 annually, which will obviously increase as the fund increases. Thus, from that source alone, the fund is being built up each year by the addition of the earnings.

The present deposit liability of the banks is, I understand, around $150,000,000,000. The present assessment rate of one-twelfth of 1 percent will produce aggregate assessments on this deposit liability of $120,000,000. After making allowance of approximately $10,000,000 for cost of operation, losses, and so forth, there remains $110,000,000 annually, and 40 percent of this amount, or around $45,000,000, is retained to increase the fund. At this rate, the fund would increase at least $70,000,000 a year, and would build up the fund during the next 5 years by the addition of $350,000,000 as a minimum.

The question of whether or not the present fund is adequate is one of judgment. We rely, in part, at least, on the mature judgment of the officials of the Corporation. But among our people there has been a feeling that the present fund is large enough, and that perhaps the amount which could be made in the way of an adjustment on the assessment might very well be increased from 60 percent to some higher percentage, perhaps 75 percent.

Senator ROBERTSON. Will you yield for a suggestion there?

Mr. KINGMAN. Yes.

Senator ROBERTSON. You have credited total assets all of the income, but you make no allowance for the possibility that we may run into a bad period in which some of those assets would be taken to meet liabilities.

That is correct; is it not?

Mr. KINGMAN. Yes; but this is supposed to be a net figure.

Senator ROBERTSON. I know, but it is based on a very favorable past record.

Mr. KINGMAN. That is right.

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Senator ROBERTSON. You may proceed. I wanted to point that out.

Mr. KINGMAN. Yes.

We say this for the reason that we believe that in great part the importance of Federal deposit insurance is the psychological effect on the depositors rather than the size of the fund. I believe Senator Flanders touched on that a few moments ago.

However, we are not making a point on the question of the amount of the adjustment to be made, accepting, as I have already said, the good judgment of the officials of the Federal Deposit Insurance Corporation as to the wisdom of substantial accretions to the fund.

In this connection our institutions are in a different position than stock institutions. As our institutions are mutual, any reduced amount paid by the way of assessment will inure eventually to the benefit of the small savers. The assessment should be no greater than is necessary to produce a reasonable degree of safety for the deposits of the country. Any reduction in the assessment will enable our banks to further strengthen their already sound position and will eventually permit, we believe, a somewhat larger distribution of earnings to the small savers who need these funds.

I repeat that the savings banks are wholeheartedly in favor of this reduction in assessment, believing it is for the best interests of the small savers that they represent.

The second important feature of the bill from our point of view is the provision which would increase the insurance coverage from $5,000 to $10,000. We believe that the small saver is primarily the one to be protected by Federal deposit insurance. I have examined some statistics which have been prepared dealing specifically with the effect of this increase as it relates to the small saver in our savings banks. These statistics were computed on the basis of the insured mutual savings banks in relation to their deposit liability as it existed on September 30, 1949, the latest statistics available on the subject.

On the basis of a maximum coverage of $5,000, as the law now stands, I find that 90.4 percent of the aggregate deposits were insured and that 93.8 percent of the accounts were fully protected. On the basis of the maximim coverage of $10,000, as proposed in this bill, the aggregate amount of deposits which would be insured in the insured mutual savings banks would be increased to 99.1 percent, and the accounts which would be fully protected would be 99.7 percent. These statistics indicate to me that from the standpoint of the small savers of the country, the increased coverage is desirable and is adequate.

I might add that many of the States by statute have indicated that mutual savings banks can accept limited amounts. In New York State, for example, they cannot accept more than $7,500 per account. In the State of Minnesota it is limited to $10,000. In the State of Washington, $7,500. It is obvious a $7,500 limit would merely insure these accounts up to 100 percent.

There are three of four other features of the bill in which our mutual savings banks have an interest. I have asked my colleague, Major Oliver, to comment on those.

I wish to thank the committee for their patience and courtesy in listening to my statement.

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Senator ROBERTSON. Are there any questions?

Senator FLANDERS. I have one question of arithmetic which is not important, but on page 2, in the middle of the page, you speak of deposits in the aggregate amount of $19,000,000,000, plus, with 18 million-plus accounts, and say that the average deposit, or account amount to $987.

When I divide 18,000,000 into $19,000,000——

Mr. KINGMAN. You are right.

Senator ROBERTSON. The witness will have the privilege of correcting it.

Mr. KINGMAN. Yes.

Senator ROBERTSON. Mr. Oliver, we will be glad to hear you. We will have to recess at 12 o'clock.

Mr. OLIVER. My name is Fred N. Oliver. My office address is 110 East Forty-second Street, New York City, and I am associated with Mr. Henry S. Kingman in appearing for the National Association of Mutual Savings Banks.

As stated by Mr. Kingman, we were directed by the appropriate committees of the association to appear and state the views of the mutual savings banks on this bill. I will cover features of the bill which have not been covered by Mr. Kingman and, consequently, there is no duplication of testimony.

At the outset, I should like to say that since the organization of the Federal Deposit Insurance Corporation in 1934, I have been closely in touch during this 16-year period with officials of that Corporation in connection with various problems affecting the savings banks. I have had an unusual opportunity to observe and appraise the functioning of that organization. Our banks have great respect for the excellence of management, the devotion to duty and the intelligence and discrimination with which the officials of the Corporation have performed their duties. They have administered the law with great impartiality and have been diligent in watching troublesome situations which occasionally arise and in correcting them before any trouble occurs.

I mention this because I think the method by which a mutual fund of this character is administered and the careful scrutiny which they exercise over the insured risks has a bearing on the adequacy of the fund, and the proposals which they are making in this bill.

I should like to mention first a provision which relates only to mutual savings banks. In the present law the Corporation may in its discretion set up a separate fund for mutuals and, if it does so, the capital assets of the Corporation are liable for losses. The capital stock has now been retired. The Corporation has never exercised this power nor have the mutual savings banks requested the Corporation to do so. The present law is impracticable in that there is no provision which would allocate a portion of the present permanent fund to a separate fund for mutuals, if established.

The bill would eliminate this provision. Our association has considered this proposal and is in agreement with it, and I have been authorized to say there is no objection to this elimination.

There are two provisions of the bill which in our judgment are also important because they have a bearing on the adequacy of the fund and the propriety of reduced assessments. Both of these provisions

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deal with the broad proposition that it is the function of the Corporation to protect the depositors as a whole by maintaining the integrity of the fund and to see that the insured banks are in a sound condition.

The first of these provisions to which I have reference is contained in section 13 (b). The present law permits loans to an insured bank or the purchase of assets of such a bank only in the case of the merger or consolidation of an insured bank with another insured bank.

The bill would amend this provision in a most desirable way and authorize the Corporation to make loans to or purchase the assets of an insured bank in order to prevent its closing or in order to reopen the bank, if closed.

If a situation develops, the Corporation should have power to take corrective steps and to prevent trouble in a proper situation by giving temporary financial assistance rather than closing the bank or requiring it to merge with another insured bank with a resultant loss to the Corporation.

It seems to us that this provision, to be exercised only in a proper situation, is a most constructive one. It is designed to prevent trouble rather than to pay off the depositors or to require the merger of the bank with another one. We can see no possible objection to this provision.

I was interested in Senator Robertson's discussion of that. I am certain that if the intent was not to permit the FDIC to make loans to solvent banks and if there is any ambiguity, I assume that there would be no objection to clarifying it.

Senator MAYBANK. I wondered about that provision. I didn't see how it could possibly be done except in case of an emergency.

Mr. OLIVER. That was the intention. Rather than letting a bank get bankrupt and forcing the Corporation to lose, this is to prevent bankruptcy. It is to try to tide them over. It is a very feasible provision. I can't see any possible objection if it is limited, as suggested by the Senator.

Senator ROBERTSON. Certainly, this discussion will make the intention of the Congress clear on the subject.

Mr. OLIVER. I should think so.

Senator MAYBANK. I noticed that section particularly. I was assured that the language would cover it. What it said was what it meant.

Mr. OLIVER. Yes.

Under the present law, the Corporation may examine State member banks of the Federal Reserve System only with the consent of the Federal Reserve Board. The proposed subsection 10 (b), now section (k) (2), would eliminate the requirement that written consent of the Federal Reserve Board must be had before the Corporation may examine a State member bank. This is the controversial point which you have just been discussing.

This likewise in our judgment is an essential change.

Senator ROBERTSON. You mean necessary.

Mr. OLIVER. Yes.

The mutuals, with three exceptions, are not members of the Federal Reserve System. This System was devised for commercial banks and is not adapted for use by the mutual savings banks whose sole function is to invest safely the funds of the small savers.

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We favor strongly the provision because we are interested in preserving the integrity of the mutual fund. As Chairman Harl has stated, "it is fundamental that the insurer have the right to inspect the risk" and this right should be without limitation. Some other agency should not have the power to veto the decision of the Corporation to inspect one of its risks. If a weak situation develops, the Corporation may be required to move fast without the possibility of delay on differences of policy.

It may be necessary in such a situation for the Corporation to send its examiners into the particular insured bank frequently to be certain that the conditions of the bank are improving. The Corporation has the financial risk and there should be no restrictions on its right to make an examination of a State member bank when in its judgment such examination is necessary.

The Federal Reserve does not have the financial responsibility. We certainly don't subscribe to any theory, in response to your suggestion, Mr. Senator, that there should be no unnecessary duplication in examinations. I assume that it would not be the policy to make unnecessary examinations, except when a weakness develops, such as I have indicated.

Another provision which we regard as important is to be found in section 3—page 56 of the bill—which would amend the third paragraph of section 709, title 18 of United States Code, so as to enlarge the definition of false advertising.

Senator FLANDERS. May I inquire there: In what respect is advertising false?

Mr. OLIVER. I think I try to develop it here. If I don't do it adequately in my statement, I will pick it up afterwards, Mr. Senator.

We particularly refer to the clauses relating to advertisements to the effect that deposits or shares are insured or guaranteed by the United States or that deposits or shares are federally insured.

Senator FLANDERS. Oh, yes; it is the use of the words, "United States."

Mr. OLIVER. Yes; or that they are federally insured. The point is that member banks of the Federal Deposit Insurance Corporation have specific instructions as to their advertising. They do not say they are federally insured, because that is a half-truth. This is really a mutual fund. But they say "We are members of the Federal Deposit Insurance Corporation." We think all agencies who take funds of the small saver who has been induced to make a deposit or buy shares, on the strength of the fact that it is insured by the United States Government or by the Federal Government, I think is entirely wrong. I think the Congress should protect them, as far as it can.

Senator FLANDERS. That clears the matter up.

Mr. OLIVER. Yes.

Advertisements of this character are misleading, particularly to a small saver who is investing his life savings and who should not be misled by representations of this type. Instances of this are quite numerous. The most extreme situation has been developed in some of the larger eastern cities where western associations have employed brokers as solicitors for the sale of their share accounts, and these brokers advertise in the prominent papers to the general effect that 3 percent or more is paid on share acounts with an association which is federally insured.

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I have brought with me a number of copies of advertisments of this character which the committee may inspect, if it so desires.

This concludes our testimony on the substantive features of the bill which from our point of view are most important. I have not attempted to discuss the purely technical changes contained in these proposals.

Senator ROBERTSON. Thank you.

This afternoon the committee will hear Mr. Potts, speaking for the Reserve city banks, Mr. DuBois, of the Independent Bankers' Association, and then the hearings will be recessed until next Monday, at which time we expect to hear again from the Comptroller of the Currency on some matters he wishes to present, and possibly Mr. Lee Wiggins, who has been very much interested in the whole program; and perhaps the Chairman of the Federal Reserve Board, in view of the fact that I asked a representative of the FDIC this morning to put in the record the report that the Federal Reserve Board made to the Budget Bureau when this bill was cleared for action in the Congress.

The committee will now stand in recess until 2 this afternoon, in this room.

(Whereupon, at 12 noon, the hearing in the above-entitled matter was recessed until 2 p. m., of the same day.)

AFTERNOON SESSION

Senator ROBERTSON. The committee will please come to order.

Senator MAYBANK. I ask unanimous consent to put into the record suggested wording covering deductions in computing net assessment income.

Senator ROBERTSON. Without objection, it is so ordered.

(The information is as follows:)

SUGGESTED WORDING COVERING DEDUCTIONS IN COMPUTING NET ASSESSMENT INCOME AS DEFINED IN S. 2822, SEC. 7 (D)

(2) additions to reserve established by the Corporation to cover possible losses arising out of deposit insurance obligations assumed by the Corporation during the calendar year in connection with banks in which financial assistance is provided by the Corporation.

(3) the insurance losses sustained in said calendar year in connection with banks in which financial assistance is provided by the Corporation.

Senator ROBERTSON. The first witness is Mr. Frederick A. Potts, of the Philadelphia National Bank.

We are glad to have you with us, Mr. Potts.

Mr. POTTS. Thank you.

Senator ROBERTSON. You may proceed.

STATEMENT OF FREDERICK A. POTTS, PRESIDENT, PHILADELPHIA NATIONAL BANK

Mr. POTTS. Mr. Chairman, my name is Frederick A. Potts. I am president of the Philadelphia National Bank, and I am here as a member of the Reserve City Bankers Association.

The association did not have time to get together, so I am not speaking officially for them, but I am purely here as a member of that association.

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I thought before starting I would like to tell you a little about the association. It was founded in 1912. The membership consists of 437. They have a top membership of 450. There are 215 banks represented in that membership, and they come from 53 cities. As of September 30, 1949, the deposits represented by the members in the association were just under $57,000,000,000. In other words, approximately one-third of the deposits in the country.

The membership requirements are that the individuals taken in have to be top executives in their respective banks. There are no glad-hand artists in that group.

The members have to be located in a Reserve city, and the banks in question have to be correspondent banks. I hope I have made myself clear.

The Federal Reserve Board designates the cities which are termed "Reserve cities."

Senator ROBERTSON. You remind me of the Republican slogan in 1896 when in the last 3 weeks of the campaign they put $10,000,000 behind McKinley and said "$10,000,000 can't be wrong."

Mr. POTTS. Very good.

Mr. Chairman, I have no printed statement. I thought I would come here informally, as an individual, to give you my ideas, which I think mirror at least a percentage of the membership in the Association of Reserve City Bankers, and then will expose myself to any questions you may have.

To my way of thinking, the idea of the Federal Deposit Insurance Corporation is basically sound. It protects the individual deposits, and at the same time it also makes for stability in the economy as a whole. It eliminates panic shifting of funds, and conceivably it actually eliminates the withdrawal of funds from the monetary supply, itself.

If the FDIC continues to maintain public confidence as it has in our monetary system, I think that the FDIC will truly have achieved its purpose. Up to the present the public has never questioned the adequacy of the FDIC fund.

I am substantially in accord with this viewpoint.

As the Secretary of the Treasury testified this morning, I think it was in reply to your question, Mr. Chairman, he said that he thought that a billion plus the call on the Treasury for an additional $3,000,000,000 certainly ought to take care of the situation, except during panic times such as the 1930–33 era.

I subscribe to that, also. Some people, though, seem to feel that the size of the fund, percentagewise, to total deposits, is not large enough. In other words, there is about seven-tenths of 1 percent covered at the present time. However, here I am just going to briefly repeat a little bit of what Mr. Arthur so ably presented this morning, which is to the effect that when you consider what are exposures, you will find the situation is quite different today than it was heretofore. There are only $50,000,000,000 of risk assets in the entire deposit structure. That deposit structure is now $153,000,000,000. Substandard assets out of those risk assets are only one-half of 1 percent, which is a small figure, you will agree.

Those substandard assets in 1939 were 5 percent. Government securities in the banking structure today are 40 percent of the total

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assets, and that compares with only 8 percent back in 1929. Likewise, loans are only 28 percent of our total bank assets, and that compares with 55 percent in 1939. That whole situation has changed relatively, and the banking structure today is in a pretty strong spot. Losses, of course, are a matter of record. I won't go into that.

We know that during the 1930–33 period actually one-half of all the losses took place at that time. During 1948 I think there were only $368,000 of losses during the entire year.

I think, philosophically, what should be considered is that the ultimate liquidity of deposits, that is 100-percent coverage, is basically not properly the task of an insurance fund. Sometimes I feel that we forget that, and what with the figures and the details, we overlook the fact that fundamentally an insurance fund is not a fund to take care of 100-percent coverage.

From my standpoint, the time is definitely propitious for a reduction in the assessment. As to the amount, many formulas have been proposed. The ABA had one. There have been several others. Federal Reserve, likewise. But I will certainly go along with what is now included in Senator Maybank's bill, with this one exception: I feel that interest income or the income from investments should be included in that base. It is a figure of $25,000,000 or $26,000,000, and I can't see any real reason why that should be excluded.

In the annual report of the FDIC for '48, which Judge Bakke didn't have with him this morning, it is stated that the surplus of the Corporation is now a mutual fund. Checking back I have found out—this goes over 100 years—that the mutual savings banks have always included investment income in their figure from which they declare their dividends or pay their interest to depositors. With a 40–60 formula as included in the bill now, and including the investment income of $25,000,000 or $26,000,000, the increase in the FDIC fund for the year would be $67,000,000, not including losses.

So, if you are working, or if it seems feasible to work up to a fund of 1 percent of total deposits, it wouldn't take too long to reach that figure.

Senator MAYBANK. How long do you figure it will take?

Mr. POTTS. 1954.

Senator MAYBANK. The statement was made it would take 15 years.

Mr. POTTS. I wouldn't go along with that. I feel very strongly that we would achieve the 1.5 billion dollars in 1954 with this 40–60 formula, including investment income in that picture.

Senator ROBERTSON. Would you recommend we change the language to include the interest on their assets as a part of this?

Mr. POTTS. I would, sir; yes.

Other features of the bill, I think, are very fine, indeed.

The various definitions have been set forth with clarity. Perhaps I might make one suggestion: That has to do with section 1, the "B. B." end of it, it is on pages 11 and 12 of S. 2822, and that is when the Board of Directors of the FDIC sits down to define the terms, "cash items," "process of collection," "uncontrolled items," that at that time they ask several of the operating men of the banks to sit down with them and come to a definite decision on the various definitions.

I think it would be very constructive, myself.

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Then on page 15, No. 2, there is a certain amount of ambiguity from my standpoint. It says:

additions to reserve to provide for insurance losses during the calendar year, except that any adjustments to reserve which result in a reduction of such reserve shall be added.

I think the question mark is, What are these additions to reserve to be? In other words, who decides them? It strikes me that the FDIC could pick any figure, including that as reserve, and in that way up or down the various types, which the banks do pay into the fund per se.

The increase in coverage from five to ten thousand is quite in line with increased deposits, with cost-of-living increases, and also in line with the present trend of our economy, in general.

I would, however, deplore the possibility of a precedent being established that would permit the juggling of this coverage figure according to trends. I think once you move out of a certain situation, that it seems easier the second time so to do. And if there is any caution that I have, it is with or in connection with that increase in the coverage of deposits.

Primarily, the function of the FDIC is to protect the small depositors. Any covearge over the $10,000, of course, would help to mitigate today's premium on what I would call good bank management.

Senator ROBERTSON. If we move from $5,000 to $10,000 it ought to be known that that is the ultimate to which we are going.

Mr. POTTS. That is right. My fear is having gone that far, it will be a trading basis, and they will say "Why not go up to $25,000?" Under 10 you have total depositors covered to the extent of 98.4 percent.

Senator ROBERTSON. So far as the chairman is concerned, he hopes the committee will join with him in covering that in our report, that in recommending this change, it is, as far as we can anticipate, the final move, and not have bills introduced each year asking us to get it up to $15,000, another to get it up to $20,000, and so on.

Mr. POTTS. That is right. That really ends my statement, Mr. Chairman, or thoughts, that I had regarding the matter.

This morning you asked some questions which I would be glad to try to answer.

Senator ROBERTSON. I would like for you to do so.

Mr. POTTS. In other words, you mentioned as to whether or not we thought the Federal Reserve bank should be mutually liable for insurance, the same as the FDIC, and to that I answer definitely no.

I think it would be a mistake. It is not the function of the Central Bank to at the same time insure deposits.

Senator ROBERTSON. Well, I got a little confused, myself, on the question. What I really intended to ask was whether we separate these functions, having the Federal Reserve Board take care of the banks under them, and the FDIC take care of the other.

Mr. POTTS. I see.

Senator ROBERTSON. But I just threw that out without indicating any opinion. You think it should be handled as now under one agency?

Mr. POTTS. I do.

Senator ROBERTSON. All right.

Mr. POTTS. I think it would be dangerous to do it otherwise. With respect to the examination of the State member banks, I represent a national bank, and a great percentage of the members of the association are likewise national banks.

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My thought is that it is a matter for the Federal Reserve and the FDIC to decide for themselves, but I do think that wherever we can, shall I say, minimize the Government agencies coming into banks, either in the way of examinations or in the way of other types of activities; that it would be advisable to minimize that fact.

Senator ROBERTSON. Now, may I ask this question: Is it true that banks now have to make three call reports?

Mr. POTTS. Generally speaking, Mr. Chairman, we do have three call reports.

The Federal Deposit Insurance Corporation has usually taken or has accepted as their figures the call reports of the Comptroller of the Currency. It has been only within recent years that the FDIC has sent in their own auditors and examined banks individually.

Senator ROBERTSON. It wouldn't be necessary to put that subject in legislation, but would it be helpful if those three agencies got together on a unified call?

Mr. POTTS. It would be, indeed, because again it follows along my trend of thinking, where we can minimize the nuisance value, why, it would help a great deal. I can't see any reason for increasing that nuisance value here, either.

Senator ROBERTSON. Senator Frear.

Senator FREAR. On that, why are the FDIC examiners now examining your banks; you say they hadn't been up until now, within the last few years, and are now coming in. They had been previously taking the statement from the Comptroller.

Why aren't they now taking it?

Mr. POTTS. I have never asked Mr. Harl that question, Senator Frear. It is a statement of fact, however.

I think the reason is that there has been some misunderstanding regarding terms in the authority. In other words, what constitutes a deposit liability, and also it concerns the matter of float between banks.

Senator FREAR. Misunderstanding between who?

Mr. POTTS. Between how the FDIC advisers hold a certain definition or authority should be interpreted, and what the banks have interpreted it to be.

Senator FREAR. I see.

Back in the early part of your testimony you were talking about the one-half of 1 percent loss. Was that on the $50,000,000,000, or the $153,000,000,000?

Mr. POTTS. That would be on the $50,000,000,000 of risk assets.

Senator FREAR. You also stated some fear of what might happen to the Government banking system if we go above the coverage of $10,000. Did I understand you correctly?

Mr. POTTS. When I say "fear," I mean I said there would be a fear in my mind, certainly, that the premium on good bank management today would be cut down.

In other words, a very good reason for bank management to keep up on their toes is the fact that their large depositors watch them pretty closely. If, let's say, the coverage increases from there on and there is insurance from zero up, or from $1 to $25,000, then they are not going to be bothered with watching the accounts.

Senator FREAR. Yes.

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Mr. POTTS. I call it a premium on good banking.

Senator FREAR. Yet you do not express fear of increasing it from $5,000 to $10,000. When the over-all coverage is from 5 to 30 percent, why not leave it at $5,000?

Mr. POTTS. I would go along with that. If I had a choice, I would say why not keep it where it is.

However, there are certain factors in the economy that I did mention. Loans have expanded, cost of living has increased. Those factors when taken in connection with insurance coverage conceivably might mean that insurance coverage ought to be increased by 50 percent, too.

Senator ROBERTSON. It is true, isn't it, that in terms of the dollar we had in 1933 when this law was first adopted, we are now dealing with 50-cent dollars?

Mr. POTTS. I have heard we are dealing in 60-cent dollars, but I think 50 cents is more accurate.

Senator ROBERTSON. Well, 60-cent dollars represented the average period from 1935 to 1939, before the war. I was speaking about 1933.

Mr. POTTS. Yes; that is right.

Senator ROBERTSON. Any other questions?

Mr. POTTS. Mr. Chairman, if there are no other questions, I wish to thank you for giving me the opportunity to come here and testify before you.

Senator ROBERTSON. I can understand why the board of directors of your bank selected a young man to head it.

Mr. POTTS. Thank you.

Senator ROBERTSON. The next witness is Mr. Ben Dubois, of the Independent Bankers' Association.

STATEMENT OF BEN DUBOIS, SECRETARY, INDEPENDENT BANKERS ASSOCIATION

Mr. DUBOIS. Mr. Chairman and gentlemen of the committee, my name is Ben Dubois and I live in Sauk Center, Minn. I am president of the First State Bank of Sauk Center. Sinclair Lewis in his Main Street referred to our town as Gopher Prairie. Frankly, it isn't a large place. I am secretary of the Independent Bankers Association. I am here representing the association. The Independent Bankers' Association is an organization of country banks, therefore, the small banks. The association operates in the first 11 of the 12 Federal Reserve districts, and its membership extends into 40 States. Our total membership is in excess of 2,800. It is a grass-root organization, and it came into being in hopes that an organization of its kind would be helpful in preserving our old system of independent banking.

The Federal Deposit Insurance Corporation has been a powerful instrument in the perpetuation of independent banking. It has put the small bank on a par with the large bank in the eyes of the average depositor. Its psychological effect has been tremendous. It has stabilized banking in a marked degree. The act that brought the Corporation into existence was probably the most important bank act ever legislated. The Corporation has been helpful indeed in establishing independent bank to continue in spite of the trend toward small independent bank to continue in spite of the trend toward banking concentration.

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When the Federal Deposit Insurance Corporation was established, much doubt was expressed as to its ability to do the things that it was supposed to do. Certain States had tried insuring deposits and the attempt met with failure. Fortunately FDIC came into being after the banks had gone through a house cleaning and their assets were relatively sound. The Corporation started with an adequate capital, the economy was on the upgrade, the Corporation was intelligently managed, losses were relatively small, and the insurance fund continued to grow.

During these prosperous years since the Corporation came into existence bank deposits have grown tremendously, and naturally the liability of the Corporation increased with the deposits. It was deemed wise by the management to keep the assessments at the original figure so that the insurance funds would somewhat keep apace with added liability.

In the eyes of many bankers, the insurance fund has now reached the point where it might be permissible to decrease the amount of annual premium; also, in view of the fact that deposits have increased tremendously, that the coverage be increased. This bill before us, S. 2822, provides for the doubling of the insurance per depositor and provides for a logical and safe way of reducing premium dependent upon losses that may occur.

I want to say that Mr. Arthur is in total disagreement with me in my next statement. I am stating it as a personal opinion.

Since 1934, the deposits in the banks have more than tripled. It is my personal opinion that it would be wise to triple the coverage; in other words, raise this coverage per depositor from $5,000 to $15,000.

I notice, too, from the testimony that I appear very much in the minority.

Some of the metropolitan banks, feeling strength in their enormous size, would like to see the premium waived as long as the Corporation has a fund in excess of a billion dollars. We have never felt sorry for these banks in the payment of their premiums. The Banking Act that established FDIC did away with the payment of interest on demand deposits. Correspondent banks used to pay 2 percent on country-bank balances.

The elimination of this interest more than recompensed the big bank for the premium on FDIC insurance, and it looks as though the premium paid by the metropolitan banks really came out of the little banks.

Of course, the small banks of the country are fully aware of the benefits derived from the Federal Deposit Insurance Corporation. The confidence that the Corporation has established among depositors has stabilized banking in a way that is highly beneficial to banks, regardless of size, and also to the whole economy.

This bill modernizes the original act with ideas derived from years of actual experience. That feature of the bill permitting the insurer to examine his risks without the necessity of consent from some other authority appears logical. Adequate examination powers are essential when the insurance coverage is increased and the premiums are reduced. Simplifying the method of calculating assessments is certainly helpful to bankers. In many other detailed provisions this bill is constructive.

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It is our opinion that the bill constitutes a sound legislative proposal. We believe that its passage will be beneficial to banking in general, and will be well received by depositors.

We want to assure the committee of our appreciation of this opportunity to appear before you.

Senator ROBERTSON. Are there any questions?

We thank you very much.

The next witness is Mr. Syd J. Hughes, of the Consumer Bankers Association.

We are glad to hear from you, Mr. Hughes.

STATEMENT OF SYD J. HUGHES, ON BEHALF OF THE CONSUMER BANKERS ASSOCIATION

Mr. HUGHES. Mr. Chairman, my name is Syd J. Hughes, of the Industrial Bank of Commerce of New York City. Through the courtesy of this committee, I am appearing on behalf of my associate members of the Consumer Bankers Association.

Insofar as the dollar resources of the members of the Consumers Bankers Association may be used as an instrument in measuring their quantitative importance to the American system of banking, their stature is not a commanding one.

But weighed on the scales of human values—of human resources in contradistinction to dollar resources—their significance, if I may say so with proper humility, has contributed one of the vital chapters to the history and the evolution of American banking.

Its membership is composed of banks throughout the Nation whose functional emphasis has rested upon the individual man and woman, upon the American home, the American family, and their highly individualized problems, hopes, and aspirations.

These consumer banks—a descriptive appellation used only for purposes of identifying their primary function from those banks largely concerned with the Nation's problems, manufacture and distribution—these consumer banks have deposits in the aggregate of approximately $1,000,000,000.

But a fact which may prove of pertinence to this committee is their record of having served more than 15,000,000 people—most of them family heads—and of having established patterns and principles which in recent years have been adopted by more than 12,000 banks of all kinds.

These statistics are submitted not for purposes of capitalizing upon an opportunity for a little gratuitous advertising, but solely to amplify the observation that whatever significance may be attached to my remarks must be adjudged in the light of what we believe this vast experience has imported to us in philosophical and practical awareness of the more intimate aspects of the country's banking characteristics.

It was with an almost explosive gust of pleasure that we first read and fully comprehended the full range of beneficial implications and constructive objectives in Senator Maybank's measure to amend the Federal Deposit Insurance Act.

Here we have a bill that not only pursues the traditional and commendable congressional policy of erecting ever-stronger safeguards around the custody of the family's reserve fund—a reserve fund of savings so precious in adversity and so dynamic to the Nation's economy when channeled into a higher standard of living—here we

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have a bill that also extends certain specific and immediate tangible benefits to the banker himself.

That is enormously refreshing.

Seriously, Senator Maybank has conceived, and Chairman Maple Harl of the Federal Deposit Insurance Corporation, the Honorable Preston Delano, Comptroller of the Currency, have endorsed so unreservedly, an extremely important amendment to the most important piece of banking legislation of our times.

While there have been laws and regulations of profound and far-reaching technological composition, such as the powers extended over securities trading and the power to adjust bank reserve requirements, these powers, necessary and vital as they are, are in the realm of the abstract, the complex, and the incomprehensible to the average depositor in the average bank.

To the average depositor, the provisions of the Federal Deposit Insurance Act are one of the few things about the little-understood business of banking into which he can get his teeth.

And in a way, all of those other powers, as magnificent as they are in their complex grandeur, are only as workable, only as valid, and only as impregnable as they exist in direct ratio to the confidence of the American people in their system of banking.

Shake that confidence, impair that faith, unloose the economic dislocations following wholesale collapse of the confidence of the American people in the security of its banking system, and all those other great powers become fodder for the wastebasket.

And the foundation of that confidence, that faith, and that vital sense of emotional security is the Federal Deposit Insurance Corporation.

We in the Consumer Bankers Association regard this bill of amendment as an inevitable and logically progressive refinement of the original act which has long since passed its adolescence of trial and error and evolved into the maturity of sound and tried experience.

The realistic recognition of Senator Maybank, of Chairman Harl, and the Honorable Preston Delano, of the basic element of flexibility in the adjustment of semisocial legislation under changing times and changing conditions, demonstrates their high degree of sensitivity to the basic well-being of the public and the national economy.

Certainly the fact that the $5,000 of 1935 is the $10,000 of today is self-evident without extensive embellishment.

The recommendation to extend the coverage of insured deposits from $5,000 for each account to $10,000 is a natural sequence to the steadily rising economy since 1935 to the present national income of more than $200,000,000,000.

We know that this peacetime income, inconceivable in magnitude only half a generation ago, has been distributed over a much broader base, its recipients and beneficiaries are, to an unprecedented number, the multitudes.

We see this in the astronomical figures of individual savings accounts, in personal deposits in demand accounts, in the continued purchase and retention of United States savings bands, in the enormous equities in life insurance and the all-time peak investments in homes and in the contents and possession of those homes.

The increase in maximum coverage to $10,000 is a further strengthening of that supremely important public confidence—and a further buttressing of that confidence without additional cost to the individual

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taxpayer or to the Government deficit or to the banks—another manifestation of its desirability.

As a matter of more than minor importance to the stabilization of bank deposits which in turn means a sounder administrative and operating policy for the insured bank, I would like to take the liberty of citing some operating matters familiar to the bank with which I am associated in New York City.

New York City—no less than thousands of smaller cities, towns, and villages—has not forgotten the ravages of the bank failures of the early 1920's and the depression year of the 1930's.

Even if the present generation was prone to forget, the older generation has immortalized the financial catastrophes of those years into the permanency of family legend, with frequent reminder and frequent recounting in painful detail.

It might be debatable in some minds as to whether the impact of a bank failure strikes its greatest devastation among the rural dwellers or the urban dwellers. There is, however, no doubt in the mind of the urban dweller.

In the great metropolis where he is helpless to supply even the most elementary of human essentials without his job or without his reserve of savings, he is truly a lost and abandoned soul.

Perhaps that is why, in New York City, we have encountered in recent years, as average deposit balances have risen, a new management problem of some importance. That problem stems from the practice of "switching or spreading balances."

That simply means that in many instances, when a depositor's balance exceeds the $5,000 insured maximum, he shifts the surplus to another bank and that becomes one of what must be millions of multiple deposits.

That is a magnificient tribute to the efficacy of the Federal deposit insurance but, as said before, it does not contribute to the stability of over-all balances.

While the Industrial Bank of Commerce has a well diversified proportion of business and commercial accounts, the largest percentage of its lendable assets is invested in various types of individual fiancing, or consumer credits whose maturities may range from 12 months to 24 months, or longer.

Our dependence on time deposits therefore becomes of far more than academic importance.

At the time of our most recent examination by the Federal Deposit Insurance Corporation we had 68,592 depositors with balances of $62,273,952. Of this total in balances, including some Federal, State, and municipal funds, 80 percent was covered by the $5,000 insurable maximum.

This may seem, and is in most respects a gratifying condition, and it further reflects the basic nature of our bank as a "people's bank," particularly when we range beside this high ratio of insured deposits, a loan portfolio exceeding $50,000,000.

Here again this latter figure epitomizes a policy of community usefulness and diversification of activity, for approximately 75 percent of these credits are in the category of individual or consumer loans.

However, within the last 2 years, we have experienced a loss in time deposits, or savings accounts, and while this loss has been more than offset by increases in demand deposits, or deposits subject to

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check, we are not satisfied with this trend away from our traditional role in the community.

Conversations with depositors at the time of withdrawal plus the use of a mailed questionnaire, had disclosed a disturbing number of depositors who are switching or spreading their balances in excess of $5,000.

At the time of our last Federal Deposit Insurance Corporation examination when the examiners developed deposit figures between the $5,000 and $10,000 brackets, we had on deposit $3,578,872 in this category, a substantial amount when related to the size of our bank, an amount vulnerable and exposed to this switching or spreading.

Some of our withdrawals have been due to recent differentials in rates of interest paid by other banks and to the usual multitude of other reasons, but we have satisfied ourselves that deposit balances in the $5,000 to $10,000 brackets have been consistent targets of those seeking full insurance protection.

It might be observed that the same experience is true in other banks and that we would receive our proportionate share of this general tendency to spread the protection of insurance, but we have only 13 offices in a city that has 63 mutual savings banks alone, not to mention hundreds of other banks and their branches with time deposit facilities.

It might be contended that the wider distribution of deposits among a greater number of banks lessen the concentration of risk from an insurance viewpoint, and that it affords a fairer means of deposit acquisition for the banker himself.

This would be a reasonable assumption if the lending policies and methods of all banks were uniform and standardized. In practical application under our present system and philosophy of free enterprise, it tends to penalize the aggressive bank, alert to its local responsibilities and obligations, while the indolent bank, or the superconservative bank profits in the lethargy of its bond account income.

If the people and the Congress decide that its banks are merely to become repositories for Government bonds, with an absolute minimum of credit exposure—possibly looking to the Government itself for this phase of our economy—that is one thing.

If we are to continue to expect of our banks that they shall exercise their first allegiance to the industries, the businesses, and the people within the community from which they draw their substance, that is another thing.

Some banks have a ratio of cash and bonds to total resources as high as 75 percent. Others have the exact inverse of this ratio with loans amounting to as much as 75 percent of their resources.

We, in our association, subscribe to the principles of aggressiveness, flexibility, sensible liberality, and just plain, unromantic hard work. We feel that the flow of deposits should be encouraged, whenever possible, and feasible in the direction of banks so committed.

As to the dividend credit recommended in this bill by which banks would be refunded a percentage of their insurance assessment, I am bereft of the eloquence incumbent upon the occasion.

There is no need to itemize here the constant and mounting conflict between operating costs against operating income . To an institution content to rest largely upon its investment portfolio, the problem is minimized.

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To the bank who conceives its fundamental obligation to be that of funneling the community's accumulated deposits back to the people for their common improvement, and then for the expansion and general betterment of the community, every dollar of additional operating income, every dollar of economy, is not just a dollar of profit but a dollar whose proportionate share will go toward strengthening the capital structure of the bank and for further reinforcing the security of its depositors.

We accept the credit dividend without further quibbling.

There is another important clause in this bill which the membership of our association believes to be imperative as well as logical and equitable. That is the permissive authority for the Federal Deposit Insurance Corporation to examine State banks who are members of the Federal Reserve System.

Only a few of the banks in the Consumer Bankers Association, although they are located in 31 States and the District of Columbia, are members of the Federal Reserve. Naturally, they are vigorous defenders of the dual banking system and all that such an independent system signifies.

We, who are chartered as State banks, are therefore subject to examination both by the State supervisory authorities and the Federal Deposit Insurance Corporation. In our experience this has not resulted in duplication. The FDIC has developed arrangements for joint or alternate examinations. The one complements the other and the efficiency, thoroughness, and ultimately the constructive recommendations of the Federal Deposit Insurance examining officials is a necessary supplement to the State examination.

We can see no valid or strongly defensible reason why a State bank, which is a member of the Federal Reserve, should not be subject to the same examining processes of the Federal Deposit Insurance Corporation as the State bank which is not a member—if the Federal Deposit Insurance Corporation should deem it necessary.

The mere fact that examination reports by Federal Reserve authorities and those of the Federal Deposit Insurance Corporation are interchangeable is, in our opinion, insufficient reason to deprive the Federal Deposit Insurance Corporation of the authority to examine its own member banks without the express permission of another Federal agency.

There is already enough power reposed in the Federal Reserve, and as any examining authority will acknowledge, an adequate examination often and properly goes beyond these statistical factors and ratios which may appear on a balance sheet.

It is not drawing upon the imagination to conceive of situations where certain competitive advantages could accrue to the State bank not subject to the regulations and the judgment of the examining authorities of the Federal Deposit Insurance Corporation.

We had a specific instance in our bank in New York, not of great operating importance in itself, but certainly of importance as an illustration of the principle involved, when the chief examiner of the Federal Deposit Insurance Corporation gave it as his opinion that we were in violation of a certain interpretation of the insurance act.

A competing bank directly across the street, as a member of the Federal Reserve and therefore not subject to Federal Deposit Insurance Corporation examination without special dispensation, was carrying on the same practice for which we were questioned.

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While we suspended our procedure pending a further hearing and ruling by the Federal Deposit Insurance Corporation, the competing bank continued without interruption, although we have reason to believe the Federal Reserve had been apprised of the matter.

This was not an issue to jar loose the cornerstone of the bank, but it did definitely bring into focus the fundamental inconsistency of a situation whereby two banks, both members of the Insurance Corporation, were subject to separate examining authorities.

New York State has an insurance commissioner whose examining officials supervise all insurance companies and their adjuncts. It would be just as consistent to segregate that examining authority among several other departments of the State as it is in this instance. Yet the State would consider it slightly on the ridiculous side if its insurance examining authority was to be so diluted and so diffused.

If my remarks appear to bear an excessive devotion to conditions in New York City, and the affairs of my own bank in particular, it is only because I am more factually familiar with my local terrain. However, our association as a whole is aware that, to a greater or lesser degree, these conditions prevail in many localities.

In conclusion, I again want to thank the chairman of this committee, and its members, for their patience and their courtesy; it has indeed been a privilege to appear before you.

Senator ROBERTSON. Are there any questions?

Senator MAYBANK. I would like to ask this question:

As to the increase: you think this bill is sufficient to care for that?

Mr. DUBOIS. I do.

Senator MAYBANK. You don't think the bill needs to have any more?

Mr. DUBOIS. So far as we can see into the future, in our best judgment we think it is adequate. Particularly with the borrowing authority which the Corporation now has.

Senator MAYBANK. Thank you.

Senator ROBERTSON. Are there any further questions?

We thank you.

That ends the hearings for the day.

Senator MAYBANK. We might put in the record the final report of FDIC on December 31, 1948. If I understood the FDIC representative this morning, it would be another month before the 1949 report is out.

That is, insert only a part of the report; just this part signed by Mr. Harl, with the statement of assets and liabilities.

Senator ROBERTSON. Without objection, it is so ordered.

(The information is as follows:)

DECEMBER 31, 1948, REPORT TO INSURED BANKS—FEDERAL DEPOSIT INSURANCE CORPORATION

[Reading time: 14 minutes]

To banks insured by the Federal Deposit Insurance Corporation:

The Board of Directors of the Federal Deposit Insurance Corporation is pleased to submit a report relating to the activities of the Corporation for the 6 months ended December 1, 1948, and for its 15 years of operation. The report also includes a statement of the assets and liabilities of the Corporation as

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of December 31, 1948, and of changes in the number of operating insured banks and branches during the past year.

RETIREMENT OF CAPITAL STOCK

In 1945 and again in 1946 the Corporation recommended the enactment of legislation which would provide for the retirement of its capital stock. The Congress accepted this recommendation and approved on August 5, 1947, Public Law 363, which directed the Corporation to retire its capital stock by paying to the Secretary of the Treasury the amount originally received in the form of capital subscriptions. This program, which was initiated in the last half of 1947, was completed on August 30, 1948, when the directors of the Corporation made the final payment to the Secretary of the Treasury. The capital stock of the Corporation was retired and canceled as follows:

Payments into miscellaneous receipts of the Treasury, fiscal year 1948, pursuant to Public Law 363	$266,695,250.41
Payments into miscellaneous receipts of the Treasury, fiscal year 1949, pursuant to Public Law 363	20,677,589.31
Credit allowed (cancellation of stock), fiscal year 1949, pursuant to Public Law 813	1,926,717.27
Total, capital stock originally issued	289,299,556.99

In retiring its capital stock the Corporation was given credit for expenses it had incurred in connection with administration of Federal credit unions. This was provided in Public Law 813, approved June 29, 1948. Under that law supervision of Federal credit unions, which had been the responsibility of the Corporation since May 16, 1942, was transferred from the Corporation to the Federal Security Agency. The credit received by the Corporation included $1.3 million expended in excess of fees collected for administration of Federal credit unions throughout the period and the unexpended balance of $0.6 million on July 28, 1948, of funds allotted to administering the Federal credit union activities for the fiscal year ending June 30, 1949.

INCOME AND EXPENSE

Total income of the Corporation for the 6 months ended December 31, 1948, amounted to $73.8 million. All net administrative expenses and other charges for the period totaled $3.0 million, leaving net income of $70.8 million. During this period income consisted of assessments of $59.6 million, interest earned on securities of $11.6 million, and income from other sources of $2.6 million, including the recovery of the cost of administration of the Federal credit unions.

Figures covering the income and expenses for the year ended December 31, 1948, and for the entire 15 years of operation are summarized in the accompanying table.

Income and expense Federal Deposit Insurance Corporation Jan. 1, 1934–Dec. 31, 1948

[In thousands of dollars]

	6 months ended Dec. 31, 1948	12 months ended Dec. 31, 1948	15 years ended Dec. 31, 1948
Assessments	$59,593	$119,227	$904,315
Net income and profits from securities	11,644	24,779	238,826
Other income	2,608	2,803	5,583
Total income	73,845	146,809	1,148,724
Deposit insurance losses and expenses [1]	373	363	25,916
Administrative expenses and other charges	2,663	5,295	56,957
Total expense	3,036	5,658	82,873
Net income	70,809	141,151	1,065,851

[1] During the period Jan. 1 to June 30, 1948, there was a credit of $10,690.02 arising from adjustment of reserves on assets purchased from closed insured banks. This amount, subtracted from deposit insuranc osses and expenses during the period July 1 to Dec. 31, 1948, $373,338.79, leaves a balance of $362,648.77 foe the calendar year ended Dec. 31, 1948.

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CLOSED INSURED BANKS

During the latter half of 1948, three insured banks, with total deposits of $11 million, required the financial aid of the Federal Deposit Insurance Corporation. These banks were merged with other insured banks in their localities or were reorganized. All the depositors were fully protected from loss and there was no interruption to banking services in any community. These were the only insured banks which required financial aid during the year.

Throughout the 15 years of Federal deposit insurance, 407 insured banks became involved in financial difficulties serious enough to require receivership proceedings or merging with another insured bank through the facilities of the Corporation. Estimated deposit insurance losses resulting from advances to protect depositors in these banks were $24.3 million and nonrecoverable expenses incident thereto were $1.6 million. It is estimated that depositors' losses will be less than $2 million on the $523 million of deposits in the 407 banks closed during the past 15 years.

The disbursements of the Corporation in connection with closed banks have been, of course, much larger that its losses. Total disbursements amounted to $311.2 million. Of this amount $87.1 million represented payments made or pending to 300,000 depositors in 245 insured banks placed in receivership with deposits protected to a maximum of $5,000; $1.2 million, purchases from receivers of 68 of these banks to facilitate the termination of the receivership; and $222.9 million, disbursements for loans or purchases of assets to assist in the merger of 162 weak or insolvent insured banks with about 1,000,000 depositors.

NUMBER OF OPERATING INSURED BANKS

At the close of 1948 the deposits of 13,612 banks were insured by the Federal Deposit Insurance Corporation. This represented a net increase of 15 during the year, all of which occurred during the first 6 months. In fact, the number of insured banks at the end of the year was smaller by one than at the middle of the year. During the year 62 new banks and 33 operating noninsured banks were admitted to insurance. Mergers and absorptions resulted in a decrease of 72 banks. Eight banks were placed in voluntary liquidation.

The number of offices operated by insured banks increased much more rapidly than the number of banks. At the close of the year insured banks were operating 18,027 offices, an increase of 210 over the number at the beginning of the year. Increases in the number of offices occurred in about three-fourths of the States. The largest increases were: 23 in California, 14 in Ohio, 13 in North Carolina, 12 in New York, 11 in Massachusets, and 10 in Utah. In three States, New Jersey, North Dakota, and Wisconsin, the number of offices decreased by one or two, while there was no change in 10 States.

FIFTEEN YEARS OF DEPOSIT INSURANCE

While the number of insured banks has varied but little during the 15 years of deposit insurance, their total assets and deposits have increased fourfold. Most of this increase occurred during the war years, for it was not until 1939 that bank totals recovered their predepression peak. During the three postwar years deposits have declined slightly and at the end of 1948 amounted to a little over $150 billion. However, in the postwar years deposits of business and individuals continued to grow; the decline in the total was almost entirely due to the drop in deposits of the United States Government. These trends are indicated in the chart on the inside back cover.

The expansion in bank assets and deposits during this period was a necessary instrument in the Nation's economic development. Since most of this growth occurred under wartime conditions, which required an unusual degree of public financing, the increase in bank assets was accompanied by a notable shift in their composition. United States Government securities comprised about one-fourth of bank assets during the 1930's. This proportion rose sharply during World War II, and at the end of the war United States Government securities constituted well over one-half of total bank assets. They still made up about 40 percent of banks assets at the end of 1948.

The steady improvement in the quality of bank assets represents one of the most significant advances of the 15-year period. During the mid and late thirties, banks improved their portfolios under the prodding of supervisory authorities. Even so, substandard assets amounted to about 5 percent of total assets in 1939; thereafter they declined steadily during the war. In the last 2 years substandard

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assets have increased slightly, but in 1948 they comprised only about one-half of 1 percent of total assets.

The single factor most responsible for the improvement in the over-all quality of bank assets has been the growth in bank holdings of United States Government securities. Improvement in the quality of assets was also fostered by more effective cooperation between the banks and the supervisory authorities and the general up-trend in business during the period. At the same time, the closing of weak and insolvent banks has served to improve the quality of the assets of banks generally.

The increase in bank deposits and deposits between 1943 and 1948 has far outdistanced the growth in bank capital. While deposits quadrupled, capital doubled, rising to a little over $11 billion at the end of 1948. The ratio of capital to total assets consequently declined, from 14 percent in 1934 to 7 percent at the end of 1948. Similarly the ratio of capital to risk assets has declined over the period from 26 percent in 1934 to 20 percent at the end of 1948. Retention of earnings, practically the sole source of increase in bank capital in recent years, does not promise any rapid strengthening of the banks' capital position.

As a result of these developments, the potential burden upon the Federal Deposit Insurance Corporation has been greatly enlarged in recent years. The resources of the Corporation have not, however, been proportionately strengthened. Indeed, at the end of 1934 capital and surplus of the Corporation amounted to 0.73 percent of deposits, and at the end of 1948, 0.70 percent.

While bank capital is essential as a margin to absorb ultimate losses, it is not in a form readily available to protect depositors. Through the Federal Deposit Insurance Corporation the banks are able to bring their mutual resources to bear where and when needed. The Corporation has power to borrow up to $3 billion from the United States Treasury to meet extraordinary demands. It hopes, however, that all demands can be met by the funds mutually paid in by insured banks.

The relatively small demands made upon the resources of the Corporation during its 15 years of operation cannot be regarded as indicative of future requirements. Throughout this period, only 407 banks had financial difficulties serious enough to require receivership proceedings or a forced merger with another insured bank through the facilities of the Corporation. It is estimated that ultimate losses on the $523 million of deposits in these closed banks will be about $26 million. Although the improvement in bank management and the underlying support to banking afforded by this Corporation contributed to this remarkable record, the primary factor was the expansion in the Nation's economy during the period.

The major contribution of the Corporation during the past 15 years has been its share in raising banking standards. The Banking Act of 1935 defined the factors to be considered in admitting a bank to insurance and these have been explored carefully before the approval of an application for insurance. Most bank supervisory authorities have been equally careful in granting bank charters. The Corporation, in conjunction with other Federal and State banking authorities, has sought to discourage unsafe and unsound banking practices and violations of the law by operating banks.

The Corporation has not, however, merely followed a negative course. It has worked with banking associations and individual bankers to encourage sound policies and practices. In periods of economic recovery and high business activity it has demonstrated its ability to protect depositors from losses and to liquidate the assets of closed banks with maximum recovery to the Corporation. It has been effective in preventing runs on neighboring banks in instances in which the financial difficulties of a bank have become generally known while it continued in operation. It has been aided during the 15 years of its existence by rising values; there has been no period of business depression severe enough to test the resources of the Corporation.

By the order of the Board of Directors:

MAPLE T. HARL, *Chairman.*

WASHINGTON, D. C., *February 23, 1949.*

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Federal Deposit Insurance Corporation, statement of assets and liabilities, Dec. 31, 1948

ASSETS

Cash on hand, in transit, and on deposit	$2,285,883.81	
U. S. Government obligations at cost (purchased at face value) and accrued interest receivable	1,066,056,021.46	
		$1,068,341,905.27
Miscellaneous receivables		4,471.74
Assets acquired through bank suspensions and mergers (less collections):		
Subrogated claims of depositors against closed insured banks	$5,414,439.64	
Net balances of depositors in closed insured banks pending settlement or not claimed, to be subrogated when paid—contra	27,959.30	
Loans to merging insured banks, to avert deposit insurance losses, and recoverable liquidation expenses	4,009,535.29	
Assets purchased from merging insured banks, to avert deposit insurance losses, under agreements to return any excess recovery to selling banks	6,982,842.68	
Assets purchased from merging insured banks and receivers of closed insured banks to avert deposit insurance losses	58,366.12	
	16,493,143.03	
Less—Reserve for losses	12,896,663.08	
		[1] 3,596,479.95
Furniture, fixtures, and equipment		1.00
Deferred charges		84,244.10
Total assets		1,072,027,102.06

LIABILITIES

Current liabilities:		
Accounts and assessment rebates payable	$367,325.01	
Earnest money deposits and collections in suspense	438,398.16	
Net balances of depositors in closed insured banks pending settlement or not claimed—contra	27,959.30	
		$833,682.47
Deferred credits		4,530,476.37
Special reserve for undetermined losses in purchases of assets from merging insured banks		790,000.00
Reserve for deposit insurance expenses		22,042.31
Total liabilities		6,176,201.15

[1] Assets acquired through bank suspensions and mergers:

Disbursements	$311,202,682.88
Recoveries	283,257,988.49
Remainder	27,944,694.39
Less—Losses incurred and reserves for losses	24,348,214.44
Net book values	3,596,479.95

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Federal Deposit Insurance Corporation, statement of assets and liabilities, Dec. 31, 1948—Continued

CAPITAL [2]

Surplus:		
Balance June 30, 1948		$994,812,727.67
Add adjustments applicable to periods prior to July 1, 1948		229,196.58
Balance June 30, 1948, as adjusted		995,041,924.25
Surplus for the 6 months ending Dec. 31, 1948:		
Additions:		
Deposit insurance assessments	$59,592,895.64	
Interest earned on Government obligations	11,644,339.28	
Other interest received	1,285,517.67	
Reimbursement of net cost of administration of the Federal Credit Union Act from May 16, 1942 to July 28, 1948	1,302,049.37	
Other income	20,527.52	
	73,845,329.48	
Deductions:		
Deposit insurance losses and expenses	373,338.79	
Administrative expenses	2,654,160.67	
Furniture, fixtures, and equipment	8,853.36	
	3,036,352.82	
		70,808,976.66
Total capital [2]		$1,065,850,900.91
Total liabilities and capital [2]		1,072,027,102.06

[2] Capital stock issued to the United States in the amount of $150,000,000 and to the Federal Reserve banks in the amount of $139,299,556.99, has been retired in accordance with the provisions of Public Laws 363 and 813, approved Aug. 5, 1947, and June 29, 1948, respectively.

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Changes in the number of operating insured banks and operating branches of insured banks, United States and possessions Dec. 31, 1947, to Dec. 31, 1948

Type of change	All banks	Commercial banks				Mutual savings banks [1]
		Total	Members Federal Reserve System		Not members Federal Reserve System	
			National	State		
BANKS						
Number of banks, Dec. 31, 1948	13,612	13,419	4,991	1,924	6,504	193
Number of banks, Dec. 31, 1947	13,597	13,403	5,005	1,915	6,483	194
Net change	+15	+16	−14	+9	+21	−1
Additions—total	95	95	14	7	74	
Previously operating banks becoming insured [2]	33	33		1	32	
New banks insured at close of period	62	62	14	6	42	
Reductions—total	80	79	30	17	32	1
Merged with financial aid of FDIC [3]	2	2		2		
Mergers and absorptions (without FDIC aid)—net decrease	70	69	30	15	24	1
Voluntary liquidations	8	8			8	
Successions and changes in classification—net change			+2	+19	−21	
BRANCHES						
Number of branches, Dec. 31, 1948	4,415	4,283	1,965	1,232	1,086	132
Number of branches, Dec. 31, 1947	4,220	4,096	1,870	1,181	1,045	124
Net change	+195	+187	+95	+51	+41	+8
Additions—total	215	207	100	55	52	8
Branches of previously operating banks becoming insured	4	4			4	
Branches opened	211	203	100	55	48	8
Reductions—branches discontinued	20	20	8	6	6	
Changes in classification—net change			+3	+2	−5	

[1] Includes 3 mutual savings banks members of the Federal Reserve System.
[2] Includes 6 successors to operating noninsured banks.
[3] In addition, 1 national bank was succeeded by another national bank with financial aid of FDIC.

Senator ROBERTSON. As previously announced, the hearings will be recessed until 10 o'clock next Monday morning.

(Whereupon, at 2:45 p. m., the hearing in the above-entitled matter was recessed until 10 a. m., Monday, January 30, 1950.)

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FEDERAL DEPOSIT INSURANCE ACT AMENDMENTS

MONDAY, JANUARY 30, 1950

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
SUBCOMMITTEE ON FEDERAL RESERVE MATTERS,
Washington, D. C.

The subcommittee met, pursuant to recess, at 10 a. m., in room 301, Senate Office Building, Senator A. Willis Robertson presiding.

Present: Senators Robertson, Maybank, and Douglas.

Senator MAYBANK. Senator, if you will go ahead, please? I appreciate the fact that you have two other meetings.

STATEMENT OF HON. HUGH BUTLER, UNITED STATES SENATOR FROM THE STATE OF NEBRASKA

Senator BUTLER. Mr. Chairman, members of the committee, I appreciate the opportunity of appearing before you today. I shall take only a minute.

I simply want to endorse those provisions of S. 2822, the Maybank bill, which provide for increasing the coverage under Federal Deposit insurance from $5,000 to $10,000. It happens that on June 16 of last year I introduced a bill, S. 2094, which provided for that change. Since that time I have received many letters from bankers all over the country endorsing the change.

It seems to me that this change should be made, if only because our dollars today will buy only about half of what they would when the Federal Deposit Insurance Corporation was originally set up. For that reason alone, if for no other, I believe the coverage should be increased.

From my correspondence, I judge that it is primarily the smaller country banks that are anxious for this change. It seems that under the present system a good many depositors maintain part or all of their funds in the city banks at some distance, perhaps, from their homes. In other words, the present system is draining funds out of the country where they are needed, and putting them in the bank centers where they are not needed so much. I believe it is important to keep these funds as near home as possible, so that they will be available for development of local and small-town business.

I have not yet taken the time to study all the other provisions of S. 2822, so I am not in position to comment on them. I merely wanted to take this opportunity to endorse this one change, and to say that I am happy to see that it is included in S. 2822.

I am also happy to note that S. 2822 includes a provision providing for return to the insured banks of a portion of the insurance fee,

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in the form of a dividend to them out of the receipts by FDIC. I also want to endorse that provision.

Mr. Chairman, I appreciate the opportunity of being here for a few minutes for two or three reasons. One is that I had the honor of being a member of this committee for several years. I found the work very interesting.

Senator MAYBANK. We certainly miss you.

Senator BUTLER. Thank you.

Senator MAYBANK. You believe that provision for returning a portion of the insurance fee in the form of a dividend to the insured banks is a better provision than just cutting a certain amount?

We thought it would be better in case something should happen, and it would be difficult to raise it back.

Senator BUTLER. That is right.

Senator MAYBANK. You think that can be done and also the increase in coverage?

Senator BUTLER. Yes, sir.

Senator MAYBANK. And also you have studied it as a member of this committee for years.

Senator BUTLER. Yes.

This has been a short statement, one reason being that I have two other committee meetings. I must be at at least one of them.

Senator MAYBANK. We certainly appreciate your coming.

I told Senator Robertson that I would go ahead.

Senator BUTLER. Thank you very much. I have had a lot of very pleasant sessions in this committee room.

Senator MAYBANK. Thank you.

Senator ROBERTSON. The chairman of the subcommittee has received from the Chairman of the Federal Reserve Board a prepared statement with exhibits, amounting to 27 or 28 pages, and he told me over the telephone that he was perfectly willing to have this statement inserted in the record in lieu of a personal appearance here this morning. Is there any objection to filing that statement?

The Chair hears none. It will be inserted in the record at this point.

(The statement is as follows:)

STATEMENT OF THOMAS B. MCCABE, CHAIRMAN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

I am happy to have the privilege of submitting to this committee the views of the Board of Governors of the Federal Reserve System on S. 2822. The Board is in essential agreement with the general purposes of this proposed legislation and is gratified that the bill is receiving careful study and consideration by your committee.

The insurance of bank deposits is today an integral part of our banking organization and its efficient functioning is a matter of vital interest to the Federal Reserve. The System is charged with primary responsibility for monetary and credit policy in the national interest and this responsibility affects the entire banking system as well as the nonbanking financial community. Furthermore, the Federal Reserve has a direct concern for the welfare of its member banks which hold 85 percent of the deposits of the commercial banking systems and support to a corresponding degree the deposit insurance program.

Responsibility for monetary and credit policy in our American tradition cannot be discharged effectively without a strong and profitable private banking system. Deposit insurance contributes to confidence in our banking mechanism by the assurance it gives to small depositors of the availability of their funds.

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We believe that the Federal program of bank deposit insurance has made a notable contribution to banking stability. We further feel that the principal provisions of S. 2822, if enacted, will constitute a distinct improvement in the program.

During the past year, your committee has on several occasions requested the Board's views on bills dealing with the insurance of bank deposits. In response to a request relating to S. 80, a bill to increase deposit insurance coverage from $5,000 to $15,000, the Board in March 1949 advised your Chairman that the questions of insurance coverage, reduction of assessments and revision of the basis for assessments were interrelated and that a change in coverage should not be considered without regard for the other aspects of the program. The Board also reported that it had instituted a study of the insurance program for bank deposits with a view to placing itself in position to respond to such further inquiry as the committee might wish to make.

During the period in which the Board's study was conducted, we received requests for views on bills S. 2094, S. 2300, and S. 2307. In addition, we were asked by Senator Douglas, chairman of the Subcommittee on Monetary, Credit, and Fiscal Policies of the Joint Committee on the Economic Report, for our views on what changes in the bank deposit insurance program would further the effectiveness of general monetary and credit policies. With respect to such requests, we stated that in view of the primary responsibility of the Federal Deposit Insurance Corporation in this field, the Board of Governors was hesitant about offering specific suggestions without having the benefit of the Corporation's views concerning desirable changes.

A preliminary draft of the Board's study was completed by its staff in late August 1949. In early September the Board circulated copies of this draft for review and comment to the presidents of the 12 Federal Reserve banks, the members of the Federal Advisory Council (the membership of which consists of one active banker from each of the 12 Federal Reserve districts), and the Chairman of the Federal Deposit Insurance Corporation. Following this circulation, a number of comments and suggestions were received from the Federal Reserve banks and the Federal Advisory Council. A revised draft was prepared in the light of these comments and suggestions. A copy of this draft was sent to the president of the American Bankers Association.

The comments received from the Federal Reserve banks and the Federal Advisory Council indicated some difference in judgment as to the desirability of increased insurance coverage but a strong consensus as to the desirability of reducing the assessment burden on banks.

The Board reviewed the revised staff study and was in general accord with the suggestions therein presented with respect to increased insurance coverage, reduced assessments, and simplification of procedure by which individual banks compute assessment liabilities. The revised study was then circulated again to the interested parties mentioned above for further suggestion or comment. Replies recently received from the presidents of the Federal Reserve banks indicate general concurrence with the Board's position. However, we did not have the benefit of an expression of the views of the Federal Deposit Insurance Corporation before we received a copy of the bill.

At this point, I should like to offer for the record a copy of the Board's study. The study is primarily directed to a review and analysis of the coverage and assessment aspects of bank deposit insurance. I hope that it will be useful to your committee in its further consideration of S. 2822. You will note that the conclusions of the study, arrived at independently, agree in principle and objective with the proposals set forth in this bill with respect to insurance coverage and assessments. In making the study available, it is not my thought to present an alternative approach, but merely to give your committee the benefit of our painstaking examination of this complex subject.

The bill, S. 2822, would modify the insurance program in two principal ways by (1) increasing deposit insurance coverage from $5,000 to $10,000, and (2) reducing the net cost of deposit insurance to insured banks. It would also simplify the manner in which the assessment liability is computed. In the light of the conclusions reached in the Board's study, I am pleased to say that the Board feels that these proposals are a step in the right direction and urges that they be given prompt consideration. I have a few comments to make on the proposals.

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BANK DEPOSIT INSURANCE COVERAGE

(Sec. 3 (m))

There are arguments for no increase in insurance coverage as well as arguments for a much more substantial increase than is proposed. Those favoring an increase in coverage are not in agreement as to the desirable amount of the increase. Extending coverage from $5,000 to $10,000 appears to the Board to be reasonable and a good compromise of the conflicting views.

ASSESSMENT BURDEN

(Sec. 7 (e))

The Board believes that experience, the size of the deposit insurance fund, and the financial condition of the banking system justify a reduction in the burden on banks of insurance assessments. We would suggest that consideration be given to determining the dividend in a manner which will make it less subject to fluctuation from year to year.

The use of average loss experience over five or more years instead of the loss experience of the preceding year for assessment purposes would moderate fluctuations in the dividend rate. This would keep the net assessment burden on banks more stable and would avoid the adverse effect of a sharp increase in the net assessment burden in the event of widespread banking difficulties concentrated in a period of economic reaction.

A more stable net assessment rate would also reduce any tendency, on the part of the speculative elements of the financial community, to use changes in the dividend rate as an index of the soundness of bank stocks as well as the banking system.

SIZE OF FUND

We have noted that the bill does not indicate in any way what a desirable size of the fund might be. If the size of the fund is not to be increased indefinitely without regard for probable adequacy, there should be some provision designed to retard its further growth after it reaches a desired magnitude in relation to total deposits or, even better, in relation to total deposits minus cash assets and Government securities.

AMOUNT OF ASSESSMENT RELIEF

The Board believes that relief from the existing assessment burden should be more liberal than is provided for in this bill. Investment income should be included in computing net income and the dividend rate should be higher than 60 percent of the combined net income. We have come to this conclusion on the basis of the present size of the insurance fund, the availability of other resources to supplement it when necessary, and the potential losses which may be realized from bank holdings of risk assets. Respecting the availability of other resources, it should be borne in mind that the existing authority of the Corporation to borrow up to $3,000,000,000 from the Treasury is continued in the bill. Furthermore, the broad powers of the Federal Reserve banks to provide credit to the commercial banking system will make it easier for banks to meet the demands of their depositors if a period of strain should arise in the future.

The suggestion was also made during the hearings on the bill that the authority of the Corporation to set up reserves be more carefully defined, and the Board is in agreement with that suggestion.

We think that the various changes which have been outlined above would improve the provisions of the bill which relate to deposit coverage and assessment.

There are two other provisions of the bill, however, to which we take particular exception, namely, section 13 (b) relating to loans and section 10 (b) relating to examinations.

FDIC LOAN AND ASSETS PURCHASE POWERS

(Sec. 13 (b))

The bill proposes to eliminate the requirement in the present law for a merger or consolidation in those cases in which the Corporation believes that a distress

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situation can best be taken care of by loans or by purchasing assets. The loan or asset purchase approach is frequently preferable to the more involved and at times more costly process of receivership and liquidation. The restriction in the present law may at times prevent effective action in relieving distressed situations without liquidation. The Corporation should certainly have adequate powers to deal with distress cases and the Board favors the removal of this restriction.

The provisions of the bill with respect to the circumstances under which such loans may be made, however, are not altogether clear, and the language might at some future time be interpreted to permit the Corporation to embark upon the general business of lending to banks. It is understood that this power is intended to pertain only to distress cases which could not be handled by normal banking processes. In order to make clear that this is the case, we recommend that the provisions of section 13 (b) be revised as follows:

"In order to reopen a closed insured bank or, when the Corporation has determined that an insured bank is in imminent danger of closing, in order to prevent such closing, the Corporation, in the discretion of its Board of Directors, is authorized to make loans to, or purchase the assets of, such an insured bank upon such terms and conditions as the Board of Directors may prescribe."

EXAMINATIONS

(Sec. 10 (b))

Section 10 (b) would give the Federal Deposit Insurance Corporation power to examine, without the consent of the Board of Governors, the State member banks of the Federal Reserve System. It would, however, continue the requirement that the Corporation obtain the written consent of the Comptroller of the Currency in order to examine any insured national bank.

The Board opposes this change. It is unnecessary and no sound reason has been advanced to indicate its need. It would lead to confusion and to increased overlapping and duplication in the examination and supervision of banks. It would act as a deterrent to State bank membership in the Federal Reserve System. It would be an inappropriate way of dealing with the realinement of Federal bank supervisory authority.

LACK OF NECESSITY

If the committee were to study the practices of the Federal bank examination and supervisory agencies it would find, I am sure, that the proposed extension of power is not necessary to the effective discharge of the insurance functions of the Federal deposit insurance system. As indicated in replies to the Douglas questionnaires, the Federal bank supervisory agencies now follow substantially uniform examination practices and standards and use similar report forms. As a matter of course, Federal Reserve examination reports are made available freely to the Corporation.

On the first work day of each week the Federal Reserve Board's Division of Examinations, which reviews and coordinates the examination work of all the Federal Reserve banks, sends to the Examination Division of the Federal Deposit Insurance Corporation a memorandum giving the names of State member banks whose examination reports have been received by the Board during the previous week. The Corporation calls for these reports as it wants them, extracts from the reports such information as it wants for its own files, and then returns the examination reports to us. It is our understanding that a similar procedure is followed in the case of insured national banks examined by the Office of the Comptroller of the Currency. Thus the Corporation has the most recent information on every insured bank in detail.

Unusual deterioration in asset condition, defalcations, and like adverse matters developed by our examining representatives are brought by our review examiners, informally and promptly, to the attention of the review examiners of the Federal Deposit Insurance Corporation. The review of such reports is given priority by us so as to make them available to the Corporation as promptly as possible. The Corporation furnishes to the Board's Division of Examinations periodic lists of State member banks classed as problem cases by the Corporation. Significant information concerning such banks, received between examinations, is transmitted to the Corporation.

The Corporation also furnishes the Board's Division of Examination with copies of memoranda setting forth the analysis by its review examiners of the

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condition of State member banks considered as problems on the basis of current examinations. Despite the fact that the reports involved have been analyzed and reviewed at the Reserve banks and by the Board's Division of Examinations in Washington, photostatic copies of such memoranda received from the Federal Deposit Insurance Corporation are sent to the vice president in charge of examinations in the appropriate Reserve bank with the request that the Board be advised of further developments. As previously indicated, when any such information is received it is relayed to the Federal Deposit Insurance Corporation either by telephone or memoranda.

In view of the foregoing, I feel that the Federal Deposit Insurance Corporation is currently informed on the condition of State member banks and, therefore, that nothing would be accomplished by any change in the law giving the Corporation power to examine such institutions without the consent of the Federal Reserve Board.

Whenever the Corporation has felt that special circumstances have warranted a separate examination of a State member bank it has requested permission of the Board of Governors to make such an examination. A review of the cases reveals that the present provision of law has not hampered the Corporation in the discharge of its insurance responsibilities and that the proposed extension of power is unnecessary.

A statement was made to your committee by a representative of the Federal Deposit Insurance Corporation that there have been several instances in which the Corporation has requested consent of the Board of Governors to make examinations of State member banks, and in which the Board's consent has not been forthcoming. We do not know of any instances of this kind and, accordingly, on January 25, we requested the Corporation to furnish us with a list of such cases. Up to this time, however, we have not been furnished with any such information.

The Board's records show that 115 requests for consent to make examinations of State member banks were received from the Corporation. Of these not one was refused, 110 were granted, and in five cases the requests were withdrawn or dropped.

INCREASED OVERLAPPING AND DUPLICATION

We have 48 State and 3 Federal bank supervisory agencies. Among them they supervise about 14,500 banks. In spite of the existence of so many agencies remarkable success has been achieved in coordinating and standardizing bank examination procedures and supervisory policies so as to minimize duplication and reduce the burdens and costs of examination.

In order to minimize duplication, Congress provided for examination by the Federal Deposit Insurance Corporation of only those insured banks not otherwise subject to Federal examination and supervision, and for the requirement of written consent from the appropriate Federal agency before the Corporation could examine independently any bank otherwise subject to Federal examination. The bill would eliminate this provision with regard to the 1,900 State member banks with less than $40,000,000,000 of deposits but not with regard to the 5,000 national banks with nearly $80,000,000,000 of deposits.

Such a change after 16 years of experience with existing law could be interpreted as congressional approval of increased activity in this field. By the very nature of the bureaucratic process the change would lead to more Federal examiners, more examinations, more conflicts, more confusion, and more burdens on State member banks.

While the Federal Reserve has authority with respect to national banks comparable to that being requested for the insurance corporation with respect to State member banks, for years the Federal Reserve has relied exclusively on the examinations of the Comptroller of the Currency. We have not found it necessary to exercise this authority In fact, if the purpose of this section of the bill is to assure "parity" among Federal supervisory agencies, as has been suggested in testimony before the committee, this can best be achieved by requiring the written consent of the Comptroller of the Currency for examination of national banks by the Federal Reserve instead of by providing for duplicate Federal examination of State banks.

DETERRENT TO STATE BANK MEMBERSHIP

The proposed change would expose State member banks to examination by two Federal agencies in addition to examinations by State authorities. The addition

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by the Congress of another independent Federal examining authority would constitute an obstacle to State bank membership in the Federal Reserve System and I have been advised by presidents of the Federal Reserve banks would lead to withdrawals from the System. As a result, the effectiveness of Federal credit and monetary policies would be weakened.

INAPPROPRIATE WAY OF REALINING FEDERAL SUPERVISORY AUTHORITY

I should like to emphasize the Board's opinion that realinement of bank examination and supervisory functions of the three Federal bank supervisory agencies is not a matter which should be dealt with in a piecemeal fashion or as an incident to a bill designed primarily for other ends. The Board feels that, should the Congress wish to deal with the problem of organization and functioning of the Federal bank examination and supervisory establishment, it should do so only after a careful study by the Banking and Currency Committees for the specific purpose of determining the advisability of legislation in this field.

CONCLUDING COMMENT

In conclusion, I should like to reemphasize the Board's strong sympathy for the objectives of this proposed bill relating to the insurance coverage, the payment of dividends, the assessment base, the simplification of the assessment computation, and the liberalization of the loan and asset purchase powers of the Corporation. We question whether any of the other provisions of this bill are essential at this time. There has been only a very short period within which to examine all of the provisions in detail. It is quite possible that, on further study of the detailed provisions of the bill, we would have additional suggestions to make and, if so, we hope the committee will permit us to do so.

ASSESSMENTS AND COVERAGE FOR DEPOSIT INSURANCE

(Staff study prepared for the Board of Governors of the Federal Reserve System)

MEMORANDUM—STAFF SUGGESTIONS FOR DEPOSIT INSURANCE REFORM

To: Board of Governors.
From: Senior Staff.

Submitted herewith is a comprehensive study of the Government's deposit insurance program, prepared by the Banking Section of the Division of Research and Statistics in response to the Board's action, taken on March 11, 1949, requesting such a study. The study was circulated in preliminary draft to members of the Board's senior staff for criticism and comment. The present and final draft is a revision based on the many suggestions received from senior staff members.

A major question to which the study is directed is whether the present benefits of insurance—i. e., level of insurance coverage—can and should be increased at this time.

The senior staff concurs in the conclusion reached in the study that the answer is in the affirmative. Staff viewpoints differ on how far public policy should go in raising present insurance coverage. There is a consensus, however, that the Board could properly favor an increase in deposit coverage to at least $10,000 considering the sharp increase in the general price level, the average level of income, and bank deposits since prewar years. The coverage might reasonably be as high as $25,000 in view of these changes and at the same time recognize the conflicting arguments for limited and full (or substantially full) coverage of deposits.

Another major question with which the study is concerned is whether the present assessment burden on banks can safely be modified at this stage. The senior staff concurs with the conclusion reached that the answer to this question is in the affirmative. The senior staff also concurs with the conclusion that a downward revision of assessments, resulting in increased bank earnings, would greatly strengthen the position of the supervisory authorities in their efforts to encourage the progressive increase of bank capital.

Of the several alternatives for effecting such moderation, the senior staff favors the statutory formula suggested by the study which would relate the rate of assessment to average loss experience over the previous 10-year period, and be geared to maintain a maximum reserve fund of about 3 percent of total deposits, less cash assets and Government securities, of insured banks. This formula would allow the fund to decline in periods of banking difficulty without

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a sharp rise in assessment rates, leaving the rebuilding of the fund at higher assessment rates to more prosperous periods. A formula along such lines would be reasonably consistent with the one suggested by the American Bankers Association, but would not have the rigidity and procyclical effect of that organization's proposals.

An alternative regarded favorably by some staff members is a discretionary authority for the bank supervisory authorities to vary the assessment rate within prescribed limits according to certain statutory criteria. This alternative raises difficult problems of administrative responsibility and does not seem likely to receive support from the banking community.

A technical revision in the method of calculating the assessment base that has merit and, in the staff's opinion, should be strongly favored by the Board, is to make consistent the definitions of deposits for insurance and for reserve and call report purposes. The procedures for calculating the deposit base for each bank could be simplified by using deposits as reported for selected dates instead of the daily average of deposits now used.

The study considers possible changes in the assessment base that effect some reduction in the assessment burden on insured banks. The staff concurs that such methods are a circuitous means of accomplishing the end of a moderation of the assessment burden; generally speaking, they are not favored.

Attachment.

ASSESSMENTS AND COVERAGE FOR DEPOSIT INSURANCE

SUMMARY OF CONCLUSIONS

After 15 years of operations, the FDIC has accumulated from assessment receipts and other earnings an insurance fund of more than 1 billion dollars. With this huge reserve fund increasing rapidly (and considering the drawing fund of 3 billion dollars which the Corporation has with the Treasury), it is appropriate to reexamine the whole matter of public policy with regard to deposit insurance.

The basic question is whether, for all practical purposes, the existing reserve fund for deposit insurance is now large enough. The answer indicated in this study is that the fund is now approaching such a size.

Three further questions therefore need consideration: first, whether the present benefits of the insurance should be increased; secondly, should a revised assessment formula be established that would moderate the assessment burden on insured banks; and thirdly, could both of these steps be taken at this time. The conclusions of this study with respect to these questions are in the affirmative and are set forth below:

Increase in deposit coverage.—At present deposit insurance is extended on all deposit accounts but with a maximum coverage for individual accounts of $5,000. With this coverage, about half of the total dollar amount of bank deposits are insured; in small banks where the accounts tend to be small, the proportion of deposits insured is relatively high; in large banks, where most of the large deposits are held, the proportion of deposits insured is relatively small.

The principal objection to an extension of deposit insurance coverage is based on the belief that the watchfulness of large depositors helps to promote sound banking practices. It is felt by some observers that any substantial increase in coverage, especially to full deposit coverage, would result in an inevitable encroachment by supervisory authorities on bank management responsibilities.

On the other hand, the weight of argument is in favor of some increase in the coverage of deposit insurance. Added coverage may help in achieving more fully both of the major objectives of deposit insurance—protection of the individual depositor and promotion of stability in the economy as a whole through protection of the money supply and maintenance of public confidence in banks. The sharp increase in the general price level, average level of incomes, and bank deposits since prewar has made the existing coverage less adequate than it was 15 years ago. Expanded coverage would also prove of advantage to smaller banks in getting and retaining larger deposit accounts and further would correct in part the unevenness of the insurance burden relative to statutory coverage as it is presently distributed among large and small banks.

As the FDIC currently functions, great emphasis is placed on keeping "trouble" banks in active operation through reorganization and mergers rather than

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allowing them to be closed and paying off promptly just the insured depositors. This method of operation has been found to be cheaper to the FDIC and has the great advantage of protecting communities against the depressing effects of bank failures. If the present fund is adequate to support an operating procedure of this kind at current levels of insurance coverage, there is no reason for thinking that it would be less adequate at higher levels of coverage.

Moderation of the assessment burden.—If the deposit insurance reserve is not to be increased indefinitely without regard for probable adequacy, the present scheme of insurance assessment must be revised at an early stage. Furthermore, a downward revision of assessments, resulting in increased bank earnings, would greatly strengthen the position of the supervisory authorities in their efforts to encourage the progressive increase of bank capital.

Some reduction in the assessment burden could be effected by permitting deductions from the assessment base for vault cash and reserves against deposits, and perhaps for other riskless assets such as short-term Government securities. A combination of such allowances, at the present assessment rate, would reduce premium payments about $40,000,000. This approach, however, to the problem of moderating the assessment burden on insured banks is a circuitous way of accomplishing what might better be done directly.

The burden on banks of the insurance assessment could be moderated in direct fashion by lowering, at least for extended periods, the assessment rate. One proposal, supported by banker groups, would provide for the establishment of a statutory formula for an automatic scale of assessments, based on the previous year's losses, to range from a nominal assessment up to one-twelfth of 1 percent. This plan, however, would have a procyclical impact on banks in that it would provide for raising rates sharply in periods of banking difficulties and dropping rates rapidly as conditions became favorable.

It would be preferable to moderate the assessment burden through some alternative formula which would minimize the procyclical effect by providing for an automatically varied premium rate under a statutory formula allowing the fund to decline in periods of banking difficulty without a sharp rise in assessment rates, and leaving the rebuilding of the fund to a more gradual process. The present level of the fund would be maintained over the long run, but the formula would not place banks under additional strain in periods of banking difficulties by raising premium rates abruptly. A formula along these lines would be entirely feasible. For this purpose, the rate of assessment could be related to average loss experience over the previous 10-year period. Either the reserves of more than $1,100,000,000 that have now been accumulated could be considered a maximum, or provision might be made for tying the maximum size of the fund to the volume of deposits to allow automatically for any future substantial growth in deposits.

Still another way of making provision for lowering the present assessment burden would be to give to the Corporation authority, after consultation with other agencies such as the Federal Reserve Board and the Secretary of the Treasury, to vary the assessment rate within statutory limits. It is doubtful, however, whether such an arrangement would offer any important advantages as against the formula proposed.

Whatever action may be taken to moderate the assessments burden on insured banks, there is a need for technical changes to simplify the procedures for computation of the assessment base such as use of deposists as of selected date instead of the daily average of deposits, and to make consistent the definitions of terms used in determining the volume of deposits for insurance assessment purposes and for reserve and call report purposes.

Timing of above reforms.—The above reforms in deposit insurance program—an increase in coverage and provision for easing the assessment burden on banks—are sometimes considered as mutually exclusive alternatives. The conclusion of this study, however, is that both major steps could be taken concurrently, and that early legislative action for this purpose would be appropriate.

Since the establishment of a national system of deposit insurance, there have been numerous suggestions for its amendment, some reaching the status of bills before the Congress. In general these proposals fall into two groups: Those favoring an increase in the amount of deposits insured, and those favoring decreases in the base or rate of assessment. Some proposals incorporate elements of both groups; larger deposit coverage with a reduction in the assessment rate and/or base.

Renewed interest in the whole subject of deposit insurance has been stimulated by the size of the insurance fund and the rate at which it has been increasing

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in recent years. It has been possible for the Federal Deposit Insurance Corporation to build the insurance fund to more than $1,100,000,000, while repaying the $289,000,000 contribution to capital made originally by the Treasury and the Federal Reserve banks. Currently (at present deposit levels) assessments are adding more than $100,000,000 a year to the fund. Interest from invested funds and other income more than pays for operational costs and current losses. In 1947, $38,000,000 was added to the fund from this source alone.

The powers granted to the Corporation permit loans on and purchase of assets for the purpose of amalgamating distressed banks with stronger banks. These powers have provided the Corporation with a very effective alternate procedure for dealing with banks in difficulty. This alternate procedure has resulted in much smaller losses than would have come from outright liquidation proceedings and consequently required less recourse to the insurance funds.

INTEREST OF THE FEDERAL RESERVE SYSTEM IN DEPOSIT INSURANCE

As the agent primarily responsible for monetary stability, the Federal Reserve System is vitally interested in the functioning of an insurance program which has as its primary objective the removal of one of the prime causes of monetary instability. Deposit insurance is potentially one of the more important reforms directed to greater monetary stability by the banking legislation of the 1930's. In essence, these banking reforms aimed at preventing a repetition of the wholesale destruction of the money supply that occurred between 1929–33. To that end the Board of Governors, among other things, was authorized to vary reserve requirements within certain limits, and to prescribe margin requirements on listed stocks the Federal Reserve banks were authorized to grant credit on any sound bank asset, and provisions for the issuance of Federal Reserve notes were liberalized.

It will be noted, however, that these changes in System powers, while providing the necessary elasticity in the banking system to cope with adverse conditions, deal only indirectly with one of the casual factors which in the past have greatly aggravated cyclical developments, namely, panic conditions among depositors. Deposit insurance is the instrument set up to prevent that considerable part of a liquidating process which is due to the panic withdrawal of funds by the general public.

System interest in possible changes in deposit insurance arises also from another feature of the deposit-insurance plan. Under the existing arrangement, member banks pay a disproportionate share of the insurance cost. The assessment base is total deposits less cash items in process of collection, and each bank pays roughly in proportion to the amount of its total deposits, regardless of how much of these deposits are covered by insurance. Since insurance coverage is limited to amounts of $5,000 or less, and the large accounts are in larger banks, it is generally true that the larger the bank the smaller the proportion of its deposits covered. Member banks have about 85 percent of the total assessment on commercial banks for deposit insurance. Yet member banks tend to run larger in size than nonmember banks, with the result that only about 37 percent of member bank deposits are covered as compared with about 72 percent for nonmember insured banks.

The Federal Reserve has a further interest in deposit insurance because of its effects on ability of banks individually to strengthen their capital accounts. Assessments constitute a considerable drain on bank earnings, thus hindering banks in their attempt to improve their individual capital positions. A decrease in assessments resulting in increased bank earnings would materially aid banks in attracting outside capital and in increasing their capital directly through retained earnings.

This study explores the three basic elements of deposit insurance—coverage of insurance, assessment base, and rate of assessment—in order to make available pertinent information and consideration that should be taken into account in working out basic changes in the present arrangements.

THE NEED FOR DEPOSIT INSURANCE

The economic importance of deposit insurance stems from the fact that liabilities of banks are essentially demand liabilities to the public and that these liabilities constitute the country's principal means of payment, i. e., check money. All too often in our history panic shifting of funds from one bank to another and eventually panic withdrawals of funds by the public from the banking system

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have forced the banks to liquidate assets at most unfavorable times. Distress calling of loans and forced liquidation of securities by banks and bank borrowers have led to widespread bank suspensions and to a drastic destruction of the principal part of the money supply—bank deposits.

Deposit insurance is useful in correcting these unfortunate periodic experiences from two major closely related viewpoints—that of the individual and that of the Nation. From the individual's standpoint, deposit insurance provides protection, within limits, against the banking hazards of deposit ownership. But the major virtue of deposit insurance is for the Nation as a whole. By assuring the public, individuals and businesses alike, that their cash in the form of bank deposits is insured up to a prescribed maximum, a major cause of instability in the Nation's money supply is removed. Preservation of public confidence in the banks makes for stability in the level of bank deposits and for stability in the economy as a whole.

BACKGROUND OF PRESENT LAW

Federal insurance of bank deposits grew out of the widespread bank failures of the 1920's and early 1930's. The Federal Deposit Insurance Corporation was established by the Banking Act of 1933, with amendments by the Banking Act of 1935.

There was little experience and information on which to base a scheme to insure bank depositors against loss. Rates of assessment, the assessment base, and insurance coverage all had to be determined more by current judgment than on the basis of actuarial experience. In fact, such experience as was available—various State deposit insurance funds—was so unfortunate that, had it been used, insurance rates might well have been prohibitive.

In recommending the present rates and base, the FDIC had some data on annual rates of loss to depositors for the period beginning 1863. As eventually revised, covering the period 1863–1940, these data show that annual losses to depositors from bank suspensions ranged from less than 0.01 percent of all deposits in operating banks to slightly more than 2 percent. It is estimated that about two-thirds of the total losses to depositors in closed banks over the 76 years occurred in 12 particular years, 1873, 1875–78, 1884, 1891, 1893, and 1930–33. About half of the total loss was in the 1930–33 period.

Present assessment rate

The statutory assessment rate was set as follows: Total losses to depositors in closed or suspended commercial banks for the period 1863–1933 were estimated at about 2.7 billion dollars, excluding assessments of about 500 million dollars from bank stockholders (actual loss about 2.2 billion dollars), or an average annual rate of one-fifth of 1 percent of deposits in operating banks. Deposit balances not exceeding $5,000 were estimated to have accounted for approximately three-fourths of these losses. The annual average rate of assessment necessary to have covered losses on these deposit balances would have been about one-seventh of 1 percent of total deposits (less cash collection items) in operating banks. It was assumed that banking reforms would eliminate repetition of the so-called crisis years mentioned earlier in which losses to depositors were heavy. Losses in the noncrisis years were one-twelfth of 1 percent for all deposits in active banks. The rate then is the equivalent of closed bank losses against all deposits in the noncrisis years.

Present assessment base

The statutory assessment base selected for Federal insurance of deposits was total deposits plus trust funds less cash items in the process of collection. This base was selected despite the fact that many banks would have essentially full coverage out of the common fund whereas others, mainly the larger banks, a large proportion of whose deposits would represent large accounts, would have a considerably smaller proportion of their deposits insured. It was thought that the indirect benefits from deposit insurance for larger banks fully justified their more than proportionate assessment contribution.

Limitation of insurance to deposits of $5,000 and under

The limitation of Federal deposit insurance to bank deposits of $5,000 and under was frankly designed to insure the mass of depositors with small accounts. With this limitation on coverage, about 98 percent of depositors were fully insured. As a result of the increase in the average size of deposits in recent years, the proportion has fallen slightly to about 96 percent at present.

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Merger versus receivership procedure

There are two procedures by which the Corporation may protect the deposit holders of insured banks in financial difficulty. One is an advance or purchase of certain assets by the Corporation to facilitate assumption of the deposit liabilities of a weak or insolvent bank by another bank in the same or nearby community. The other is to act as receiver for an insolvent bank, paying off insured deposits. The merger method has been much more widely used in recent years. This method is clearly superior on several counts—ordinary business has not been disrupted by an interruption of banking services; all depositors have been protected; depositor losses to be met by the Corporation have been less severe; and undesirable repercussions on neighboring banks and communities have been held to a minimum.

THE RECORD—1934–47

Bank suspensions as well as bank-deposit losses have been small since Federal insurance of deposits was established. Over the period of more than 13 years, 1934–47, only 404 banks have required assistance. As is shown in table 1, 245 were placed in receivership and 159 were merged with other banks. Losses to the Corporation in these operations were about $26,000,000. Actual losses to depositors were less than $2,000,000 for the entire period.

TABLE 1.—*Amount of deposits and losses in insured banks placed in receivership or merged with the financial aid of the Corporation, 1934–47*

Item	Total	Banks placed in receivership	Banks merged with financial aid of FDIC
Number of banks	404	245	159
Amount of deposits	$512,223,000	$109,603,000	$402,620,000
Estimated loss by depositors	$1,865,000	$1,865,000	----------------
Estimated loss to FDIC	$26,014,000	$14,619,000	$11,395,000

Source: Annual Report of Federal Deposit Insurance Corporation for 1947, p. 14.

Precisely how much influence deposit insurance has had in this excellent record and how much must be credited to other factors cannot be determined. The entire period of the Corporation's existence except for a part of the years 1937–38 was one of rapidly expanding bank credit, generally rising prices, and expanding business activity. The violent bank upheaval of the early 1930's undoubtedly removed from business most banks not structurally sound or economically necessary, resulted in a drastic housecleaning of many banks which survived, and provided a good deal of hard-won experience for individual bankers. Bank supervision has also improved greatly as a result of the experience in the 1930's. Financial developments, too, particularly the enormous and continuous growth of the public debt over the period to 1946 and the stabilization of the Government security market by the Federal Reserve System have permitted banks to acquire a larger proportion of liquid assets than was the case in earlier years.

IS THE PRESENT INSURANCE FUND LARGE ENOUGH?

No one can say exactly what the size of the FDIC surplus fund should be if it is to be fully adequate to meet any contingency. It is not feasible to apply rigorous actuarial principles to bank-deposit insurance to determine precisely the size of the insurance reserve fund that is needed. Historically losses to depositors through bank closings have been concentrated in particular periods of economic upheaval. These losses could not have been forecast either as to timing or amount. On the basis of the generally recognized principle that most bank assets are sound, assuming integrity of management, losses to depositors or to an insurance fund should be low providing there is time and opportunity to liquidate the bank assets in an orderly fashion. Under such conditions, an insurance fund of the present size should be more than adequate to take care of ultimate losses.

When public loss of confidence in banks becomes a major factor, however, a larger fund is needed in order to pay off depositors and hold assets until conditions are proper for their liquidation, and for this reason the

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FDIC now has a drawing fund available from the Treasury of $3,000,000,000 and authority to issue debentures to the public and borrow from the RFC. If confidence is fully undermined, then no reasonable fund would be large enough to meet liquidation problems arising from panic withdrawals of deposits. But provision for ultimate liquidity of deposits is basically not properly the task of an insurance fund; it is the responsibility of the central bank—i. e., the Federal Reserve System. Under the legislation of the thirties, the System is in a greatly strengthened position to discharge that task.

At present the insurance fund is very large and is growing rapidly. At the end of 1948 it was about $1,100,000,000, an amount approximately equal to the total reported losses of all depositors in the 1930–33 period. Assessments paid by all insured banks are currently about $120,000,000 a year, as is shown in table 2. Of particular interest is the very large current income from investments. Almost a quarter of a billion dollars has been added to the insurance fund from this source. This sum is almost three times the total expenses of the Corporation since its beginning, and more than nine times the deposit-insurance losses and expenditures since 1935. Moreover, while the Corporation's expenses have tended to remain relatively constant, income from investments has tended to increase at a rapid rate. The investment income, of course, is in addition to assessments.

TABLE 2.—*Income and expenses of the Federal Deposit Insurance Corporation since beginning operations*

[In millions of dollars]

Year	Income			Expenses			Net income added to surplus
	Total	Deposit insurance assessments	Investment and other income	Total	Deposit insurance losses and expenses	Administrative expenses	
1933–48	$1,148.7	$904.3	$244.4	$82.8	$25.9	$57.0	$1,065.9
1948	146.8	119.2	27.6	5.7	.4	5.3	141.2
1947	157.7	114.4	43.3	5.7	.2	5.5	152.0
1946	130.9	107.1	23.8	4.6	.1	4.5	126.3
1945	121.2	93.7	27.5	4.0	.1	3.9	117.2
1944	99.5	80.9	18.6	3.9	.1	3.8	95.6
1943	86.7	70.0	16.7	4.5	.2	4.3	82.9
1942	69.4	56.5	12.9	4.4	.5	3.9	65.0
1941	62.0	51.4	10.6	4.4	.7	3.7	57.6
1940	55.9	46.2	9.7	8.5	4.9	3.6	47.4
1939	51.2	40.7	10.5	11.7	8.3	3.4	39.5
1938	47.8	38.3	9.5	5.5	2.5	3.0	42.3
1937	48.1	38.8	9.3	6.2	3.5	2.7	41.9
1936	43.8	35.6	8.2	5.1	2.6	2.5	38.7
1935	20.7	11.5	9.2	5.5	2.8	2.7	15.2
1933–34	7.0		7.0	4.4	.3	4.1	2.6

Source: Annual Report of the Federal Deposit Insurance Corporation for 1947, p. 28, and FDIC Report to Insured Banks, Dec. 31, 1948.

The fund was set up for paying off ultimate losses of bank deposits to depositors in amounts of $5,000 or less. Actually the Corporation has two functions and uses the fund in both. First, it is a liquidating or merger agency and secondly, it is the insurance agency which absorbs losses arising out of its liquidating activity. As a liquidating agency, it acts as a receiver, pays off insured depositors as fast as claims can be proved, and attempts to realize on assets of liquidated banks. It is, however, only the difference between the realized value of the assets and the amount paid to meet depositors' claims that needs to be absorbed in its insurance function.

The liquidating function requires the availability to the FDIC of a large amount of money. Bank assets cannot be liquidated overnight; indeed, public policy might and probably would require that such assets should be held for gradual liquidation, particularly in the event of wide-scale suspensions. It was to meet this need that the FDIC was given a $3,000,000,000 drawing fund at the United States Treasury and authority to issue debentures to the public and to borrow from the RFC. On the other hand, the size of the fund needed for the insurance function—and this is the fund that should be provided out of assess-

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ments and investment income—is related only to the losses (over and above those covered by bank capital) that would be sustained in the final liquidation of assets.

Those who believe that the insurance fund is not now large enough have called attention principally to the decline in the ratio of bank capital to bank assets, to a recent increase in substandard assets, and to the danger of rising losses from defalcation by bank employees. The decline in the ratio of bank capital to bank assets has been substantial. During the twenties and in the middle thirties, member bank capital averaged between 11 and 14 percent of total member bank assets. After 1938, and particularly during the early war years (1939–43) this ratio declined sharply to about 6 percent, and since 1944 has risen slightly to 7 percent as of April 1949. Most of the asset expansion since 1938, however, has been due to larger bank holdings of United States Government securities which are free of credit risk. The ratio for member banks of capital to risk assets is currently considerably higher than in the twenties, although below the level of the thirties and war years, both periods when bank lending operations were abnormally curtailed. In 1947 and 1948, banks added to their capital at about the same rate as they increased their risk assets, and so the ratio of capital to risk assets has remained about unchanged.

Available statistical evidence does not indicate that any significant deterioration in the quality of bank assets has occurred in recent years. According to an FDIC report to insured banks, dated February 23, 1949, there has been a steady improvement in the quality of bank assets over the past 15 years. In 1948 the volume of substandard assets was only about one-half of 1 percent of total assets, slightly more than 2 years ago but very much less than in 1939, when they comprised 5 percent of total bank assets. Further evidence of a significant quality improvement in bank assets since 1933 is given in table 3. United States Government securities now represent about 40 percent of total assets of insured banks as compared with 8 percent in 1929, and 28 percent in 1939.' This is true despite a record-breaking increase in loans in the past several years. Loans as a whole have decreased in relative importance from about 55 percent in 1929 to about 28 percent in 1948 of bank assets.

TABLE 3.—*Assets of insured banks for selected years—Percentage distribution*

	1920 [1]	1929 [1]	1933 [1]	1939	1947	1948
Total assets	100.0	100.0	100.0	100.0	100.0	100.0
Loans	58.1	54.4	37.9	26.7	24.6	27.6
For purchasing securities	14.7	21.1	13.6	2.6	1.3	1.5
Real estate	2.8	6.6	7.0	6.6	6.1	6.7
Business				9.3	11.8	12.4
Agriculture	40.6	26.7	17.3	1.7	1.0	1.8
Other				6.5	4.4	5.2
Investments	17.9	20.3	36.7	35.5	50.2	46.2
U. S. Government securities	8.4	8.0	21.5	24.7	44.5	40.3
Other securities	9.5	12.3	15.2	10.8	5.7	5.9
Cash assets	18.6	19.0	19.1	34.7	24.2	25.0
Reserves with Federal Reserve banks	5.5	4.9	7.9	18.4	11.7	13.4
Cash in vault	1.8	1.2	1.4	1.7	1.4	1.3
Balance with other banks	5.4	4.8	6.5	11.6	6.4	5.9
Cash items in process of collection	5.9	8.1	3.3	3.0	4.7	4.4
Other assets	5.4	6.3	6.3	3.1	1.0	1.2

[1] Percentages refer to member bank data only.

What the table cannot show is improvement in risk quality of the loan portfolio. For example, although real-estate loans represent almost identical proportions of total assets in 1948 and in 1929, provisions for amortization plus the fact that much of the real-estate loan portfolio is guaranteed by Federal agencies put these loans in a much-improved risk category. Moreover, improved risk quality applies in varying degrees to other categories of the loan portfolio.

Defalcations were an important or controlling factor in the difficulties of five (and perhaps 6) of the total of seven banks whose depositors the Corporation was called upon to protect in 1945, 1946, and 1947. The problems that arose were related to the fact that fidelity protection was not in keeping with the risks and

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responsibilities involved. While defalcations have been an important cause with the very few banks that have experienced difficulties recently, they can scarcely be considered of large enough general importance to place the present deposit insurance fund in jeopardy. In any event, the remedy is greater bank fidelity coverage, not a larger deposit insurance fund.

Effect of reduced assessments on bank capital accounts

Reflecting the large increase in bank deposits in relation to capital since prewar years, banks generally have been under continuous pressure from supervisory authorities to strengthen their capital positions through reinvesting earnings and through sales of additional capital stock. From a long-range point of view, the steady strengthening of bank capital positions is necessary if banks are to function effectively in financing expansion of American business. The shares of many banks are now selling at a discount from their liquidating values. As a result, these institutions are finding it difficult to sell additional stock at prices considered attractive to bank management.

A reduction of FDIC assessments from one-twelfth to one-fiftieth of 1 percent would amount to about $90,000,000, or about 12 percent of bank net profits in 1948. An increase in bank profits of this amount should enable banks to plow back more earnings into capital accounts and to float new issues of capital stock at more satisfactory prices. Such an increase in bank earnings, moreover, would greatly help the supervisory authorities in their efforts to encourage banks to increase their capital.

Can the assessment rate safely be cut?

In view of the size of the insurance fund at the present time, the answer to this question is believed to be in the affirmative. The question of what kind of a formula might be used to effect such a cut is considered in following sections.

Can the insurance coverage be increased?

Some discussions of the status of deposit insurance have been predicated on the assumption that either the assessment might be cut or the coverage of deposit insurance could be increased. These two courses of action, however, are not necessarily mutually exclusive. In the following section it is suggested that extension of the coverage of deposit insurance might strengthen rather than weaken the adequacy of the present fund by increasing public confidence in banks. Further, it is not true as a practical matter that the insurance liabilities of the FDIC would be much if any increased by an increase in coverage, say to $10,000 or even to $25,000. The Corporation now in fact tends to protect all deposits through its merger procedure described in a preceding section.

PROPOSALS RELATING TO INSURANCE COVERAGE

With respect to deposit insurance coverage, three types of proposals have been made. First, there are those who hold that the present coverage is adequate and that there should be no change. Secondly, it has been suggested that all deposits should be insured. Thirdly, bills now pending in Congress would double or triple the coverage of deposit insurance. The advantages and disadvantages of these alternatives are discussed below.

No change in coverage

Arguments for no change in deposit insurance coverage generally fall into one of the following three broad categories:

1. The fund is not large enough to meet the potential liabilities arising out of increased coverage.

2. In an independent unit banking system such as ours, it would not be advisable to increase insurance coverage because the policing influence that large depositors exert for the promotion of sound banking practices would be removed and the role of the bank supervisory authorities would be correspondingly expanded.

3. The banking legislation of the thirties corrected the deficiencies in the banking system which gave rise to large deposit losses and depositor panic and in consequence no insurance at all is really needed. Thus, no increase in insurance coverage is required.

The question whether the fund is large enough now to support increased coverage was discussed in a previous section, with the answer in the affirmative.

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The second objection to a change in coverage of deposit insurance is in part based on the feeling that such extension would result in placing a "premium on bad banking." That is to say, if full deposit insurance coverage were in effect, it would tend to lift the influence that watchful, large depositors may have over the loan and investment and other policies of bankers. Even if deposit insurance were increased to some amount greater than $5,000 but less than full coverage, a smaller group of individuals than now would be concerned with the safety of their deposits and consequently with the solvency of their banks.

It is difficult to evaluate in specific terms the extent of this kind of influence. Undoubedly, bankers are restrained, in many cases, from going heavily into certain types of credit in part by the knowledge that some large depositors are following closely the bank's lending and investing policies and may withdraw their funds if disturbed by a movement of the bank into more risky assets. "Conservative banking," under full or substantially increased coverage might no longer be a competitive asset in competition among banks for accounts of large depositors. Competition might rather be intensified in the service fields. It is conceivable that service competition might prove so costly as to influence banks into much riskier credit policies. With a significant expansion in deposit coverage it is therefore argued that the scale of bank supervision would need to be materially enlarged.

Lastly, extension of deposit insurance is sometimes opposed on the grounds that it is not needed because the banking reforms during and since the mid-1930's, legislative and otherwise, have largely corrected weaknesses in the banking system which engendered depositor loss and depositor panic in the past. Two fundamental reforms in banking practice illustrate specifically lessons learned from the experiences in the last depression which have been used to strengthen the banking system against future difficulties. An agreement between bank supervisory agencies in 1938 represents a change in the concept of appraising bank assets from a basis of liquidating value to a going-concern basis of value.

For example, high-grade bonds are valued at the lower of book or amortized cost and loans are classified only on the basis of some question in regard to payment. Under this arrangement bank supervision should help to prevent forced liquidation of assets rather than contribute to such liquidation. A second major improvement in banking practice has been the growing tendency under the prodding of supervisory authorities in establishment of adequate reserves against losses. This trend was greatly stimulated by the recent ruling of the Bureau of Internal Revenue (mimeograph 6209) under which banks are permitted to establish such reserves out of income for tax purposes. The authority given to the Federal Reserve to lend on any sound bank assets is also cited as a measure that vastly increases the capacity of the banking system to meet demands for funds made on it. It is one point of view that because of these banking reforms deposit insurance is no longer needed. However, the existing insurance plan is generally recognized as being a part of the warp and woof of our present day banking and elimination is not usually recommended by those holding this view. But neither is expansion considered necessarily desirable.[1]

As to full deposit insurance coverage, the case rests basically on the thesis that the primary function of deposit insurance is to preserve stability in the money supply and thus to contribute to general economic stability, and that the lessons of past financial crises show that extension of insurance to cover all deposits is essential to the full accomplishment of those objectives. With respect to this thesis, the following points are made, which are developed in subsequent paragraphs:

1. More than half of the dollar amount of all individual and business depositors are in noninsured accounts. Large rather than small depositors historically have exerted the main pressure on banks' liquidity positions.
2. Many deposits of more than $5,000 are small business balances, loss of which would result in economic distress to individuals and the community.
3. Substantially full deposit coverage already is provided in actual practice, although the stabilizing value of this is not taken full advantage of.
4. Although reforms in banking and in the economy as a whole, supplemented by experience joined in the last depression, reduce the probability of another prolonged major depression, and the quality of bank assets and banking practices in general appear to be much better than in any previous period of modern banking

[1] A somewhat different interpretation of the interrelationship between deposit insurance and the banking reforms of the 1930's is given in the following section.

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experience, full coverage of deposit insurance is a needed extension in the banking field to round out the necessary precautionary measures.

Subsidiary arguments for full deposit insurance coverage are made on grounds of equity as among large and small banks and as among large and small depositors.

Federal Reserve surveys of ownership of demand deposits indicate that about two-thirds of demand deposits held by businesses and individuals are in balances of $10,000 or more. More than half are in balances of $25,000 or more. Unfortunately, there are no current estimates of balances of $5,000 or less, but it seems probable that as much as 75 percent of all private demand deposits are in accounts in excess of $5,000. Reinforcing this evidence that the bulk of demand deposits are in the large accounts is the FDIC's most recent (1945) survey. According to this survey only $28,700,000,000 of the $71,800,000,000 (about 40 percent) of demand deposits were insured as compared with $25,200,000,000 of $28,100,000,000 (about 90 percent) of time and savings deposits.

If the contention that lack of confidence in periods of economic adversity induces extensive withdrawals of funds and forced liquidation of assets with consequent destructions of bank deposits is valid, then lack of confidence of large depositors could bring about deposit declines of sufficient magnitude to force widespread liquidation of bank assets even if insured depositors held their funds in banks intact. In the 1930–33 recession, according to the findings of a study by the staff of the Board of Governors of the Federal Reserve System, deposit withdrawals by large rather than small depositors appeared to have exerted the main pressure on banks' liquidity positions.

The study covered a large sample of banks with deposits of from $1,000,000 to $40,000,000 (about half of the total amount of deposits in closed banks in this period were in banks of such size). It was found that a presuspension decrease in deposits of 70 percent took place in the balances of demand deposit accounts of $100,000 and over. Although demand accounts of $25,000 and over accounted for only 28 percent of the total demand accounts on the date from which deposit losses were measured, reductions in the balances of accounts of this size accounted for 43 percent of the total reduction in demand accounts.

It was further observed that the magnitude of the percentage decrease in balances tended to decline successively with each smaller-size deposit class. Reductions in the balances at the lower limit—accounts less than $500—were about 6 percent.

Finally, the most important factor in explaining differences in the instability of deposit balances in times of stress was found to be the size of account. Other factors, it appeared, such as type of deposit (demand or time), residence of holder (local or nonlocal), or type of holder (business or personal), seemed to be of comparatively minor importance.

One of the arguments for not moving to full deposit insurance coverage given in a previous section is that such a step would remove the influence which uninsured depositors may now have in enforcing good-banking practices. On the other hand, it may be pointed out that the restraint exercised by large depositors may now have in enforcing good-banking practices. On the other hand, it may be pointed out that the restraint exercised by large depositors is not the only factor tending to enforce good-banking practices. Apart from those restraints from the law and bank supervision, bank stockholders, especially large stockholders, whose equity in the bank is in the front line to meet lossses under full, partial, or no deposit coverage, can be expected to exercise some vigilance over their investments. In both instances, however, it is possible that both depositor and stockholder influence may be relatively weak in a period of boom activity when bank credit is expanding rapidly, and relatively strong (although not necessarily favorable when the same person is the large borrower) in periods of downturn when the outlook is unfavorable and bankers are already on guard against anything but the soundest ventures.

Indeed, the strengthening of such influence at the peak and during the downturn of the cycle, while "good business" for those concerned for the individual bank, has had harmful effects on the economy as a whole.

In summary, the contention is that the usefulness of deposit insurance both in maintaining confidence and in maintaining the quatity of the circulating medium may be significantly limited by the present restricted coverage. In other words, while there may be serious risks of encouraging widespread loose banking by relieving the banks of a large part of their concern over the stability of deposits, there are also serious risks for the banking system in leaving the large

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depositor as the source of main liquidation pressure in times of great financial strain.

It may be true that the burdens of bank supervisory agencies would increase significantly with a rise to full deposit coverage. Some would say that the supervisory role would need to expand so much that it would tend to encroach significantly on the field of management.

Another argument that is advanced for the extension of deposit insurance is that over the period of its existence substantially full coverage of all depositors has in fact been provided without, however, the effects of such coverage being widely understood and appreciated. Since its inauguration the Corporation has either acted as receiver for, or caused to be merged with other banks, 404 banks with total deposits of $512,000,000.

Losses on uninsured deposits included in this amount have totaled less than $2,000,000. This means that liquidation of assets of these banks by the Corporation either through the receivership route or by merger has resulted in practically full coverage of deposits, irrespective of size.

It may be noted that this experience probably does not cover adequately the larger banks of the country. On that point, however, it is extremely unlikely that the large banks holding the bulk of large deposits would be permitted to close in view of the drastic experience of the mid-1930's. In effect then, large depositors in these banks enjoy 100-percent coverage without the economy gaining the stabilizing effect which would result from official recognition of that fact.

Still a third argument is that small business needs the protection of full deposit coverage. It is quite probable that the acccounts of many small businesses run over $5,000 and particularly so after the significant increase in the general price level. The Federal Reserve survey of demand deposits shows that over 52 percent of noncorporate—this is, small business—accounts are in the $10,000-and-under class.

Losses in this type of deposit might result in even greater economic distress to the community through unemployment and so forth than would result from loss of deposits to individual small-deposit holders. In addition, small-business failures involve a great social loss to the Nation.

Another case for extending the deposit coverage has been made by arguing that such extension is a desirable complement to the banking and monetary reforms of the mid-1930's. Legislative reforms were made to deal with the shiftability (liquidity) of bank assets, of which liberalized provisions for extension of Federal Reserve bank credit through lending or open-market operations and for the issue of currency are the most pertinent.

Bank supervisory practices have been modified and strengthened in a way that should remove some unstabilizing factors that were important in past periods of financial crisis. These positive actions provide elasticity in the credit structure and give some assurance that the public may hold its cash balance either in deposits or in currency, with equal assurance as to its availability. In creased coverage of deposits by insurance is said to be needed to put this particular banking reform on a par with these other measures for financial stability.

The matter of equity as among large and small banks is also advanced as a subsidiary argument for extending insurance coverage to all deposits. Banks holding large deposit accounts pay full assessment on these accounts, whereas only a small fraction of the funds are insured. On the other hand, those banks having primarily small accounts are insured practically up to the total volume of deposits on which they are paying assessment. For example, member banks, which tend to have most of the large accounts, hold about 85 percent of the commercial bank deposits and pay about 85 percent of the total assessment paid by commercial banks for deposit insurance. But only 37 percent of member-bank deposits are covered by insurance. Nonmember insured commercial banks, holding about 15 percent of total deposits and paying about 15 percent of the annual assessment, have 73 percent of their deposits covered by insurance.

The equity problem as among banks is not necessarily as sharp as the foregoing statistics might indicate. It can be said that as a practical matter the larger banks are fully insured now, both in consequence of the FDIC merger policy and because it is unlikely in view of past experience that the larger banks would be permitted to fail as a matter of public policy.

Related to the equity problem is the disadvantage resulting from limited deposit coverage suffered by country banks in competing with larger banks in neighboring urban centers. Many large business concerns with branch operations in country areas as well as medium-sized and large local industries prefer now to keep minimum balances in local banks. The reason for this is said to be that

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larger well-established banks have a competitive advantage over local banks only because of their size. This particular competitive advantage would probably be lessened if deposit coverage were increased or if all deposits were covered.

Another subsidiary argument advanced for increased or full coverage has to do with the inconvenience created for some depositors by limited insurance coverage. Depositors with cash holdings of over $5,000 who desire the protection of full deposit coverage (because of the historically greater risk of holding deposits in small banks) are seriously inconvenienced by the necessity of dividing their accounts among several banks, some of which may be many miles away. Needless to add, the smaller banks feel that they are discriminated against by a limited insurance coverage which induces depositors to divide deposits between banks.

The case for increasing deposit-insurance coverage to some amount larger than $5,000, say to $10,000 or $25,000 rests on much the same grounds as those discussed for full coverage. In addition, however, an extension of deposit insurance can be justified on the basis of the significant rise in the general price level and the increase in the amount of deposits in the hands of the public over the 14 years since the inauguration of deposit insurance in its present form.

The wholesale price index has more than doubled since 1935 while deposits have risen fourfold. The number of depositors fully covered has declined from over 98 percent of all deposit accounts to about 96 percent. Probably there is a substantial number of accounts that are completely covered only because depositors, perhaps at considerable inconvenience, have split their accounts.

Most of the arguments made against full coverage do not apply with as much force to an extension of limited coverage. In particular, such extension would not remove the "healthy" influence large depositors are said to have on the quality of bank practices.

As to proposals for changes in assessment rate and base, most suggestions to lower or suspend the rate on, or change the base for, deposit insurance stem from the fact that the present fund is probably of adequate size and that investment income from it alone is currently more than adequate to meet current losses and expenses. Modification or reform of the insurance system is also proposed on grounds of equity. Most proposals aim in the general direction of giving relief to the larger banks where a relatively small proportion of deposits is insured under the present law in relation to assessments paid.

As to relief to insured banks through possible changes in assessment base, there are several methods by which the present assessment base could be reduced so as to relieve insured banks of some part of their current insurance assessment. There is, however, only one method by which the present system can be made proportional—namely, that banks be assessed only on those deposits that are fully insured.

If the present limit in coverage were kept, this method would reduce total assessments by more than 55 percent. Most of the decrease in assessment resulting from adoption of a rigidly proportional base would, of course, redound to the benefit of those banks holding the larger accounts.

A valid although not necessarily compelling objection to such a step, however, is the proposition mentioned in an earlier section to the effect that all deposits at the larger banks are under official protection, since it is unlikely that the banks holding the larger deposits would be permitted to fail as a matter of public policy.

There are other adjustments that have been suggested to reduce assessments by narrowing the assessment base for banks in general. One method would permit bank holdings of United States Government securities to be used as a deduction from the assessment base. To the extent that banks hold Government securities an equal amount of deposits may be said to be backed by riskless, liquid assets—a form of insurance. It is estimated that with such an assessment base member banks would be paying about the same proportion of assessments as under that now used. In some respects, however, this method leaves much to be desired.

One effect of this method would be to raise the effective interest yield to banks on Government securities in accordance with the assessment rate authorized, at present by one-twelfth of 1 percent. Placing an added, fixed premium on Government securities and thus encouraging banks to acquire and hold them, might prove undesirable particularly at times when monetary and debt-management authorities would be using their influence in an opposite direction. However, if the deductible securities were confined to bills, certificates, and notes, some

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advantage might result in that some banks might be less disposed to shift from short-term to longer-term securities in certain periods in order to profit from higher yields and capital gains.

Another method sometimes suggested is to permit deductions from the assessment base equal to the amount of bank reserves and vault cash holdings. Bank reserves and cash in effect perform an insurance function in their own right. Member banks would profit by about $20,000,000 a year at present deposit levels if this assessment base were used. As in the preceding method, however, member banks would pay about as large a proportion of total assessments as under the present rate.

Another possible way to reduce the assessment burden via a smaller assessment base would be by deducting from the base the amount of public funds on deposit. These deposits usually require pledges of Government securities and in this manner tend to have already the status of insured deposits. Member bank assessment would be reduced by about $6,000,000 under this procedure.[2]

An assessment base could be developed which would incorporate features of proposals mentioned above. From the present base of total deposits less cash items (the latter deducted to avoid double counting of deposits) two additional deductions might be permitted.

(1) Vault cash and reserves—presumably they cover deposits of an equal amount, dollar for dollar, and no liquidating problem is involved.

(2) Short-term Government securities.

Table 4 shows the estimated effect of such a change in base on the assessment income of the Corporation in 1948. Note that it would provide an income to the FDIC of $78,000,000 (assuming no change in the assessment rate) over and above the net income from investments, or roughly equal to three times the total deposit insurance losses met by the Corporation since 1935.

This assessment base would thus cut the present deposit insurance charges to member banks by about one-third. It would reduce the charges to both member and nonmember banks by about the same percentage. It appears that almost any feasible scheme for changing the base and/or the rate would have little effect in reducing the disproportionately large share of the assessment now carried by member banks in relation to coverage. Presumably, however, member banks would be interested in an absolute reduction of their dollar assessments even if it did not reduce the proportion of the total assessment that they pay.

There is one general and telling objection to the "narrowed assessment base" approach to the problem, namely, that the method is a circuitous way of arriving at a goal better attained more directly. Furthermore, this approach tends to complicate rather than to simplify deposit insurance mechanics. If reform of the existing deposit insurance program is desirable, it would seem much better to accomplish it by means that eliminate rather than enlarge the program's technical complications.

As to redefinition of the assessment base, even if there is no basic change made in the assessment base to effect a reduction in the insurance burden on banks, it has been argued than an effort ought to be made to simplify the assessment procedures and definitions. For computation of the deposit base, deposits for some selected dates could be used instead of a daily average of deposits as at present. The assessment base could be left for definition by the FDIC (in consultation with the other Federal bank supervisory agencies) in such a manner that deposits for call report purposes, for reserve purposes, and for assessment purposes would be identical, and that the definitions of cash items allowable as deduction from deposits for both reserve and assessment purposes would be identical.

At present an effort apparently is made to define deposits for assessment purposes in a manner consistent with deposits insured, disregarding the limitation on the amount insured. For this reason trust funds in the trust department are included in the assessment base by the statute itself, even though such funds are not treated as deposits for reserve purposes nor for the purposes of the call report.

Drafts drawn on correspondent banks are, by ruling of the Corporation, regarded as deposits for assessment purposes, though not for reserve or call report purposes. It would be helpful if the items involved in the base formula were

[2] The question as to whether interbank deposits should be included in the assessment base and whether these deposits should be insured is relevant here. For purposes of this discussion, interbank deposits have tentatively been taken to be in the same category as other deposits, just as they are under the present insurance law.

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defined in such a way that they could be identified with corresponding items in the call report, as is now done in the case of reports submitted for reserve purposes. This would simplify preparation of reports for assessment purposes, as well as the auditing of such reports by the FDIC. The definitions probably ought not, however, be written into the law in precise terms; rather, the FDIC ought to be empowered to define deposits and the various deduction items authorized by law in a manner consistent with reserve reports or call reports.

TABLE 4.—*Insurance assessments under present plan and with credit given for cash, cash reserves and bills, certificates, and notes, Dec. 31, 1948*

[In millions of dollars]

	All insured commercial banks	Member banks	Central Reserve city		Reserve city banks	Country banks
			New York	Chicago		
Deposits for assessment purposes	133,900	114,800	22,100	5,900	42,700	44,100
Rate time base (assessment)	112	96	18	5	36	37
Deposits less reserves, vault cash, and bills, certificates, and notes	93,300	79,500	14,200	3,900	29,100	32,300
Rate times base (assessment)	78	66	12	3	24	27
Reduction in assessment	34	30	6	2	12	10
Percentage reduction	30	31	33	40	33	27

As to relief for insured banks by possible changes in the assessment rate, the present rate of one-half of 1 percent could, of course, be lowered by congressional action to any griven rate with a proportional reduction in the assessment burden on insured banks. Action to cut the rate by three-fourths (to one forty-eighth of 1 percent) would yield on the present base an annual income of over $25,000,000 which is about equal to total losses paid by the Corporation in the past 13 years. If the insurance reserve fund were gradually drawn down to what was considered a dangerously low level at this rate, an increase could be made later on the basis of congressional review and determination.

A proposal has been advanced for moderating the assessment burden by gearing the assessment rate automatically and inversely to the size of the insurance fund. That is to say, the rate would decrease after the fund had reached a given (the present) level and would increase after the fund had fallen below a given level. This proposal has one important disadvantage—it is procyclical in effect. The fund would only be reduced by virtue of the fact that a number of banks are in difficulty.

If this situation were sufficiently widespread to reduce significantly the insurance fund, this would be the best evidence that there was under way a Nation-wide pressure on bank liquidity. To raise rates under these circumstances would add a further demand on bank liquidity, and would aggravate rather than relieve the situation.

By the same logic, the fact that the fund was increasing in some period probably would reflect a high level of economic activity in the country with characteristic increased profits to most businesses including banks. These are the circumstances when banks could best afford to pay a higher assessment and to rebuild the fund.

Another proposal for moderating the assessment burden which involves an automaticity almost identical with the foregoing provides for varying the rate in accordance with the loss experience of the previous year and allows for an annual increase in the fund of $25,000,000 from assessments and income from investments. Income from investments which has been running about $25,000,000 would, of course, be considered before the assessment requirement would be computed.

The proposal recommends that the assessment rate be allowed to vary from a minimum of one ninety-sixth of 1 percent to a maximum of one-half of 1 percent of the present deposit base. The proposal actually spells out only in more detail the suggestion for an assessment rate varying inversely with the size of the fund. Like the other, it would have a procyclical effect.

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TABLE 5.—*Illustration of alternate methods of computing assessment for deposit insurance for insured commercial banks*

[In millions of dollars]

Year	Losses assumed [1]	Assessment as computed by formula based on—			
		Losses of preceding year [2]		Average losses of preceding 10 years [3]	
		Dollar amount	Percent of total depotits [4]	Dollar amount	Percent of total deposits [4]
1950	150	13	0.010	13	0.010
1951	300	111	.083	13	.010
1952	150	111	.083	40	.030
1953	350	111	.083	54	.040
1954	10	111	.083	107	.080
1955	5	111	.083	94	.070
1956	5	111	.083	94	.070
1957	5	111	.083	94	.070
1958	5	111	.083	94	.070
1959	5	13	.010	94	.070
1960	5	13	.010	94	.070
1961	5	13	.010	67	.050
1962	5	13	.010	40	.030
1963	5	13	.010	27	.020
1964	5	13	.010	13	.010

[1] Assumptions based on loss experience of 1930 and after.
[2] Formula suggested by certain banker groups, except that provision for yearly increase in reserve fund of $25,000,000 is not made.
[3] Formula suggested in this memorandum.
[4] For purposes of simple computation, the deposit base assumed unchanged over the years.

Relief to banks from the present burden of assessment could be made through an automatic statutory formula for regulating the assessment rate that would not be subject to these objections, or at least not with the same force. A moving average of insurance losses over a period, say 10 years, could be used as the basis of automatic rate adjustment. Some procyclical effect would still remain but its amount would be greatly moderated. Table 5 illustrates the point. Deposit losses roughly comparable to those experienced in 1930 and after are assumed to occur over the 15-year period 1950 through 1964.

Note that during the period of large deposit losses the maximum permissible assessment under the previous year loss formula would be required from banks at the very time the banking system is undergoing the greatest liquidity difficulties.

Under the moving-average method, however, 2 years of heavy losses would be taken with no increase in assessment and the rise thereafter in the rate would be small. Indeed, under the conditions assumed, in only 1 year during the cycle would the rate go as high as one-half (0.08) of 1 percent.

Rebuilding of the fund would be more concentrated in years of small loss experience, when banks are best able to do so. In dollar amounts, during the 4 years of large deposit losses, banks would have been assessed $346,000,000 under the moving-average method. It will be noted, however, that despite the smaller initial increases in assessments the integrity of the fund would be maintained over the years by the moving-average method just as with the previous loss method, providing of course that average loss rates under both plans over a long period of time do not exceed the maximum assessment rate.

It is probably desirable to make automatic provisions for expanding the maximum size of the fund should deposits increase. Provision for accomplishing this may easily be written into the assessment formula. Under any of the above automatic plans, of course, statutory limitation of the maximum assessment rate would help to limit the procyclical effect.

A minimum assessment is usually suggested for any plan of flexible rates because it is believed that the insurance should not be free if for no other than psychological reasons. This minimum assessment rate is generally put at some very nominal rate, say one-fiftieth or one-hundredth of 1 percent. However, it may be that an assessment of such small proportions (at one-hundredth of 1

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percent, only $13,000,000 for all participating banks under conditions assumed in table 5) might prove unduly irritating to banks without compensating benefit.

On grounds of equity as among banks newly insured banks should be required to bear for a period of time the assessment rate of one-half of 1 percent which other insured banks have carried. This arrangement, however, would not involve much of an addition to FDIC receipts and would create serious administrative difficulties. Furthermore, it might not be in the public interest since it could discourage banks from FDIC membership.

On the basis of the considerations discussed above, an automatic statutory formula for determination of the assessment rate which would provide for immediate relief of the assessment burden on banks, which would have little procyclical effect, and which would relate growth of the fund to the volume of total deposits at insured banks would be as follows: [3]

Assessments equal average of recorded losses over preceding 10 years, provided that the assessment rate shall never be in excess of one-half of 1 percent or less than one-fiftieth of 1 percent of the assessment base, except that if the insurance reserve fund were greater than 3 percent of the total deposits, less cash assets and United States Government securities, of insured banks, the minimum permissible rate would be one-one hundredth of 1 percent.

Some flexibility for administrative discretion could be introduced into the deposit insurance assessments. One method would be to permit the FDIC to vary the rate within statutory limits, after consultation with the Board of Governors of the Federal Reserve System and the Secretary of the Treasury. Such authority should be subject to statutory criteria. This might include size of fund, amount of losses, level of reserve requirements, and so forth, as well as the state of industrial, commercial, and agricultural activity. It has been argued that since the existence of the Corporation has been largely confined to periods of increasing activity on all economic fronts, the past loss experience of the Corporation does not provide adequate statistical evidence as to future adequacy of the size of the fund or the level of assessment rates.

Proposals for administrative discretion with respect to the assessment rate, however, do not contemplate authority to raise the rate above the present level of one-half of 1 percent. Accordingly, with this maximum, the possibility of exceptionally high losses contemplated by proponents of administrative flexibility could probably be covered just as effectively by an automatic formula such as has been suggested as by discretionary authority. If the maximum rate should prove inadequate, the matter of assessments would in any event need to be fully reviewed again by Congress.

Appendix A. Five-Year Average Assessment Formula

In the body of this study, an assessment formula based on a 10-year moving average of losses to the Corporation was suggested. An alternative method using a moving average of 5 years is compared with the 10-year average method in table 6. Use of the 5-year period results in a more rapid increase in assessment rates during the period of heavy bank deposit losses than does the 10-year method. Assessments also decline more sharply after the period of heavy deposit losses is past. With the loss experience assumed, the assessment under the 5-year average plan are also greater at their peak than with the 10-year average plan. Both plans would rebuild the fund over the full period illustrated, but the 5-year average plan would tend to concentrate more of this rebuilding in the period of banking crisis.

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[3] An alternative possibility would be to keep the assessment rate at the present one-twelfth of 1 percent and make dividend allowances on the basis of the principles reflected in the formula.

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TABLE 6.—*Comparison of the use of a 5-year and a 10-year moving average for computing assessment for deposit insurance for insured commercial banks (based on loss experience, 1930 and after)*

[In millions of dollars]

Year	Losses assumed	Assessment as computed by formula based on—			
		Average losses of preceding 5 years		Average losses of preceding 10 years	
		Dollar amount	Percent of total deposits [1]	Dollar amount	Percent of total deposits [1]
1950	150	13	0.010	13	0.010
1951	300	34	.026	13	.010
1952	150	93	.070	40	.030
1953	350	111	[2].083	54	.040
1954	10	[2] 111	[2].083	107	.080
1955	5	[2] 111	[2].083	94	.070
1956	5	[2] 111	[2].083	94	.070
1957	5	104	.078	94	.070
1958	5	75	.056	94	.070
1959	5	27	.020	94	.070
1960	5	27	.020	94	.060
1961	5	27	.020	67	.050
1962	5	27	.020	40	.030
1963	5	27	.020	27	.020
1964	5	13	.010	13	.010

[1] For purposes of simple computation, the deposit base was assumed unchanged over the years. Excess of interest over current expenses assumed to average $10,000,000.
[2] Using the suggested upper limit of 1/12 of 1 percent.

Senator ROBERTSON. At our last meeting we were told that the Comptroller of the Currency wanted to have some further statement inserted in the record. Is there anyone here on behalf of the Comptroller of the Currency this morning?

(No response.)

Senator ROBERTSON. They were called in open court, and didn't appear.

Our next witness will be Mr. A. L. M. Wiggins.

Before you testify, Mr. Wiggins, if you have no objection, I regard you as an expert witness, and there may be some who read this record who are not so familiar with your qualifications as are the members of this subcommittee. I would therefore like for you to outline the Government positions you have held, and what private positions you have held in the banking field.

STATEMENT OF A. LEE M. WIGGINS, CHAIRMAN OF THE BOARD, THE BANK OF HARTSVILLE, HARTSVILLE, S. C.

Mr. WIGGINS. Mr. Chairman, I have been in the banking business as a country banker most all of my life, in a small town in South Carolina.

I was president of a bank for many years, and during that period I became president of the South Carolina Bankers Association and later president of the American Bankers Association.

In 1949 I resigned all of my private business connections, which included merchandising, manufacturing, banking, and so forth, and came to Washington as Under Secretary of the Treasury. I occupied that position for 18 months.

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Upon leaving that position, I became chairman of the board of the Atlantic Coast Line, and the Louisville-Nashville Railroad. I am also chairman of the Committee on Reorganization of the State of South Carolina, currently. That is a thumbnail sketch.

I might say, Mr. Chairman, that while I was Under Secretary we undertook some reorganization work in the Treasury, and secured approval of the Congress for a management reorganization of the Bureau of Internal Revenue, just about the time I left the Treasury; and we set up a Committee on Management Reorganization of the Bureau of Internal Revenue, of which I continue to be the Chairman, and technically, I am assistant to the Secretary of the Treasury, primarily for the purpose of serving as Chairman of the Committee on Reorganization of the Bureau of Internal Revenue.

I might add that the position is one of interest and love and honor, and without compensation. I might also add that what I say today does not represent necessarily the views of the Treasury Department because I do not speak for them, but represent my own personal views on this Senate bill 2822.

Senator MAYBANK. For the record, last June I had a bill that I had drawn up in April or May which I was going to introduce. You heard about it. You called me from New York, if I remember, and asked me to hold it up until you could talk to me. You thought it was a matter of great importance that we get a bill that we could all go along together on: The banks, members of the committee, members of the FDIC, and the members of the Federal Reserve. That was not quite a a year ago.

Since then we have had a good many conferences; not on the particular bill, but on the issues incorporated in the bill.

Mr. WIGGINS. That is correct.

Senator MAYBANK. At least 15 or 20 over the period of a year.

Mr. WIGGINS. That is right.

Senator MAYBANK. I just wanted to have the record show all of that; that I had worked on this thing with you and other people for such a long time.

Thank you.

Senator ROBERTSON. You may proceed, sir.

Mr. WIGGINS. Mr. Chairman and members of the committee, I have read a stenographic transcript of the hearings before this subcommittee on S. 2822 and will limit my presentation to items on which questions have been raised or differences of viewpoint have been expressed.

My approach to this legislation is from the standpoint of preserving the highest degree of public confidence in our banking system and in the Federal Deposit Insurance Corporation as the insurer of bank deposits, primarily the deposits of people of small means.

The greatest asset of the banks of this country is the confidence of the American people in the integrity of our banking system, the management of the institutions, the adequacy of protection afforded by the capital funds of the banks and the effectiveness of supervision by State and Federal governmental agencies.

In addition thereto, there is unqualified confidence in the insurance of individual deposits up to the present limit of $5,000. It is a fair

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statement to make that at no time in the history of banking in this country have banking assets been of a higher quality, has bank management been better, nor has supervision of banks by State and Federal authorities been more effective. Added to all this has been the remarkable record of the Federal Deposit Insurance Corporation.

Who would have believed in 1933 that this Corporation could guarantee the deposits in banks up to $5,000 per deposit account and at the end of 1948, 15 years later, would have sustained actual losses from such guarantee for the entire period of less than $25,000,000, or that during the 5-year period ending December 31, 1949, there would have been no loss to any depositor in any insured bank?

During the 16-year life of the Federal Deposit Insurance Corporation, through December 31, 1949, it has not only repaid to the Government the entire capital originally invested of $289,000,000, but has accumulated a surplus of 1.2 billion dollars.

The phonomenal success of the Federal Deposit Insurance Corporation during the 16 years of its existence is further attested by the fact that the directors of the Corporation and the heads of other departments and agencies of Government directly interested in banking, now with one accord, recognize that in view of the large accumulation of surplus, there is no justification for further additions to surplus to the extent that is provided under present law.

The basic question raised under S. 2822 is what additions to surplus in average years would be appropriate for the future. There are many who believe that no further additions to surplus are necessary. The authors of the original deposit insurance acts in the House believed that only a small fund should be accumulated, but that provision should be made for larger contingent assessments against the banks if and when needed. In the Senate, the FDIC legislation as passed provided that when the net funds of the Corporation reached $500,000,000, no further assessments should be levied. This provision was stricken out in the free conference, but it was generally recognized by most of the authors of the deposit insurance legislation in both Houses that after a period of trial and experience, the whole question of additions to surplus and rate of assessments should be reexamined with the idea of reducing the cost of deposit insurance to the banks.

With the large rise in bank deposits during the war years, there were many friends of Federal deposit insurance who believed that when the funds of the Corporation reached $1,000,000,000 there would be no further additions to surplus, as long as the funds exceeded $1,000,000,000. There were others, however, who believed that the Government was entitled to repayment of the capital which it had contributed and that this should be done before there was any reduction in assessments.

The Treasury Department supported that view and Congress passed legislation providing for the return of Government capital as fast as surplus funds were available to the FDIC, provided that the capital and surplus of the Corporation should not be reduced below $1,000,000,000. This repayment was completed during 1948 and, in the meantime, the surplus of the Corporation has risen $200,000,000, to a total of 1.2 billion dollars at the present time.

There are those who believe that the present surplus of 1.2 billion dollars is adequate for any contingency and particularly since the

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Corporation has authority to borrow from the Treasury up to $3,000,-000,000, if needed.

It is my view that while the present resources of the FDIC are adequate for any contingencies that may arise in discharge of the deposit insurance obligations of the Corporation, the conservative view or providing a moderate continuing addition to surplus should prevail. The question is how much these additions should be.

A simple proposal would be for the Corporation to add to its surplus its investment income which runs approximately $25,000,000 per year. Then provide that all expenses, losses and determined reserves for losses should be charged again assessment income and that all net assessment income above expenses, losses, and determined reserve for losses should be refunded to the banks. A good case can be made for this proposition.

However, it appears to many who are deeply interested in the continuing fine record of the Insurance Corporation that an annual addition to surplus in normal years might well be something more than $25,000,000. I go along with such a viewpoint.

It is my deliberate conclusion from a study of the history of deposit insurance throughout the life of the Corporation and from an intimate and personal contact with its affairs during a recent period that it might be well, as a first step, in revising the cost of deposit insurance, to support a plan that would result in a total addition to surplus in normal years from all sources of around $50,000,000.

Therefore, I am satisfied that the plan of refunding assessments by way of dividends as provided in this bill, properly might provide that such additions to surplus of the Corporation should be limited to 25 percent of the net assessment income of the preceding year, after all expenses, losses and determined reserves for losses have been deducted.

May I point out that I am deducting expenses, losses, and what I designate as determined reserves for losses. That is my understanding, from conversations with the FDIC, that in effect that is what they mean on page 16 of their bill, section 7 (d), where it says, in defining net assessment income, it means total assessments which become due during the calendar year, less operating costs and expenses of the Corporation for the calendar year, such additions to serve to provide for insurance losses during the calendar year.

I interpret that to mean, and understand, that they mean in effect what I mean when I say determined losses. We both mean that reserves against the assets already acquired. Not reserves against some future possible contingency. I want to make that point, because I have used a slightly different expression, but the intent and purpose in my statement is consistent with the intent and purpose in the bill as recommended by the FDIC.

Coming back to the addition of 25 percent of the net assessment income after deducting expenses, losses, and determined reserve for losses, based on the 1949 operations for the Corporation, the net effect of the 25 percent retention of net assessment income would result in an addition to the surplus of the Corporation of $28,250,000 which, added to the investment income of the Corporation of $25,000,000, would yield a total addition to surplus for the year of $53,250,000.

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In case the Corporation should suffer severe insurance losses in any year, even to the extent of losing more in 1 year than it has lost in the entire 16-year history, there would be in that year, after the payment of such losses, an addition to surplus from net assessment income of $22,000,000 which, added to the investment income of $25,000,000, would result in a net addition to surplus in such a year of disaster of $47,000,000.

I believe, therefore, that a provision for a dividend refund of 75 percent of net assessment income and a retention by the Insurance Corporation of 25 percent will be more than adequate for the needs of the Corporation and is on the conservative side.

Furthermore, each annual addition to surplus of $50,000,000 will increase the investment income of the Corporation by $1,000,000 per year. This means that the income of the Corporation from this source will be increased $1,000,000 the first year, $2,000,000 the second year, and so on year after year. In 5 years the additional income from investing the annual additions to surplus will amount to $15,000,000, and will continue to multiply thereafter.

There has been some discussion as to whether or not the base on which the dividend credit is made should be the result of the previous year's operation or the result of a moving average of the past 5 years or 10 years. For simplification of the determination of the amount of the dividend and for practical purposes, I think the preceding 1 year's experience is most desirable.

A case might be made by some for using the average of several years on the theory that, in case the Corporation had a bad year, the dividend to the banks in the following year would be reduced at a time when the banks would prefer to receive a larger distribution. This, of course, is correct; but the amount involved in terms of the effect on total bank earnings, bank reverses, and bank deposits, is relatively too little to have any serious financial, economic, or other impact.

I think we should avoid the complications of a moving average formula in determining dividend credits and relate the amount of such credits to the operations of the preceding year. Never again will the governmental supervisory authorities permit our banking system to get in a weakened condition that will come to a climax in a single year; but, if losses develop, banks will be required to absorb them currently from year to year.

It is my conviction that by tying the amount of the assessment refund to insurance losses of the Corporation for the preceding year, if there should come a year in which such losses were heavy, with an immediate reduction of dividend credit to the banks there would be greater interest on the part of banks throughout the country and of the supervisory agencies in correcting the situation promptly.

With reference to the return of the original capital of the Corporation to the Treasury, the question has been raised as to whether or not the Insurance Corporation should also pay into the Treasury an amount equivalent to interest on these funds from the date of the original payment of the capital to the date it was returned to the Treasury. It would seem to me that this question might well be answered in terms of the general policy of the Federal Government with respect to the return of Government capital invested in other Governmental corporations and agencies.

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In many cases, the Government invested capital in Government corporations and agencies many years ago but has not as yet received the return of the original capital. My own feeling is that, whenever the Government finds it desirable in the public interest to set up an agency or a corporation and provide the capital therefor, the Government should require the return of the capital after a reasonable period of operation, without interest. This period of time would permit a test of the soundness of the operation. After such reasonable period of time, if the corporation or agency does not return the capital to the Treasury, such Government corporation or agency should begin to pay interest on the Government capital.

I have advocated this same policy with respect to Government agencies in other fields. My conclusion, therefore, is that to require the Federal Deposit Insurance Corporation to pay interest on the capital of that Corporation provided by the Government from the time it was originally paid in would be inconsistent with the policies of Government with respect to other Government corporations.

It was brought out in questions addressed to some of the witnesses that the Treasury Department could well use any income it might receive by way of interest on the capital used by the FDIC. I think we agree that the Treasury would be happy to receive additional income from almost any source. Appropriately, it might be pointed out that under the dividend formula for assessments in this bill the Treasury will receive from the banks in additional income taxes more than $25,000,000 a year, and under the formula I have proposed the tax received would be in excess of $32,000,000 per year.

Senator MAYBANK. That is the difference in the 40 and 25.

Mr. WIGGINS. That is right.

This increase in taxes arises from the fact that all payments of FDIC assessments at present are deductible as expenses, and a reduction in such assessments will produce an added taxable income.

Senator MAYBANK. Did you hear Senator Butler's testimony?

Mr. WIGGINS. No.

Senator MAYBANK. He talked about a lot of this money being drained out of the smaller banks. He didn't use the expression "drained," but the deposits were taken from smaller communities. Is that correct?

Mr. WIGGINS. Yes; that is correct.

Senator MAYBANK. Wouldn't this indirectly give assistance to small businesses in smaller communities?

Mr. WIGGINS. Decidedly so; and I make that point later on.

The Chairman of the Insurance Corporation in his testimony expressed the desire to build up the surplus of the Corporation to an eventual 1 percent of total deposits or approximately 1.5 billion dollars on the present total of deposits. While there is no experience basis that would set any specific percentage as an ultimate objective, we should give weight to the suggestion of the Chairman as one arising from his experience and study of the affairs of the Corporation.

Inasmuch as the present surplus of the Insurance Corporation is 1.2 billion dollars, the additional amount required over a period of years to reach that objective, assuming a present level of bank deposits, would be $300,000,000.

If the Corporation retains 25 percent of the net assessment income as I have suggested, plus all investment income, it would require

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approximately 6 years for the surplus fund to reach 1.5 billion dollars. If the Corporation retains 40 percent of the net assessment income as provided in the draft of the bill under consideration, it would require a little over 4 years for the surplus to reach 1.5 billion dollars.

In view of the fact that Chairman Harl has set as the ultimate objective the accumulation of a surplus equal to 1 percent of total deposits, it would seem proper that the Congress should at that time reexamine the schedule of assessments and dividends with a view to a further reduction in the rate of accumulation of the surplus.

In the testimony of the Chairman of the FDIC, he presented figures and tables showing the historical relationship of bank capital to deposit liabilities of all commercial banks. As a further contribution to the considerations of the adequacy of bank capital from the standpoint of the insurer of deposits, it might well be pointed out that there is no loss to the insurer of deposits in a bank whose assets are sound.

I believe there is a general agreement that the assets in the banks during the past few years represent the highest degree of soundness and liquidity in the history of banking.

Of the total assets of all commercial banks on December 31, 1948, amounting to 155.6 billion dollars, more than two-thirds of this total is represented by cash and governmental obligations. As a capital cushion for the remaining $48,000,000,000 assets of commercial banks, there are capital funds of more than 10.5 billion dollars, or more than 20 percent of the total of such assets.

Senator MAYBANK. How do you think those funds compare with the proportion of capital funds in 1934?

Mr. WIGGINS. Well, the chart submitted by the FDIC gives the facts, and figures, but I am talking here about the capital funds, and their adequacy to support the assets of banks other than cash and Government securities.

Senator MAYBANK. The capital funds have been increased?

Mr. WIGGINS. Yes.

Senator MAYBANK. Materially?

Mr. WIGGINS. Yes. I make that point in just the next sentence.

Furthermore, it might be pointed out that in the last 2-year period the banks of this country have added to their capital accounts an amount equal to the entire surplus of the FDIC. In other words, the banks have added to the capital accounts in the last 2 years slightly over 1.2 billion dollars, which is a further cushion for the insurer.

With every increase of bank capital funds, there is a corresponding decrease in the contingent liabilities of the Deposit Insurance Corporation.

While bank earnings have been modest, these figures show that a conservative policy of retaining a high proportion of such earnings to further augment the capital structure of the banks has been generally followed. Supervisory authorities have been vigilant and should continue to be in insisting that individual banks with inadequate capital in terms of the amount and character of their assets should continue to supplement their capital funds.

Questions have been raised as to the desirability and effect of increasing the insurance coverage from $5,000 to $10,000 per deposit account.

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I am fully convinced that a raise in coverage on accounts from $5,000 to $10,000 is consistent with the original objectives of the deposit insurance in providing protection for the vast numbers of depositors of relatively small means and, in particular, individuals and proprietors of small business. Appropriately, it has been brought out that $10,000 coverage today is relatively no greater than $5,000 coverage in 1934. The higher price level today makes it necessary for proprietors of small business to have larger amounts of bank deposits to carry on their business than it did 16 years ago.

I fully approve the increased coverage from $5,000 to $10,000, not only for that reason but as a service to large numbers of people who have accumulated savings in excess of $5,000, as well as for the purpose of helping the operations of some 8,000 to 10,000 small country banks that serve primarily people in moderate means. The increasing number of bank accounts having balances in excess of $5,000 and not in excess of $10,000 creates just the type of problem that the Federal Deposit Insurance Corporation was set up to meet.

The increased liabilities of the Insurance Corporation resulting from an increase in the coverage from $5,000 to $10,000 is far less than might be supposed. The actual increase in coverage is about 11.5 billion dollars, or approximately 15 percent. The increase is less than 8 percent of total bank deposits. I do not consider this increase in the insurance liability of the Corporation of sufficient size to imperil the adequacy of the surplus already accumulated.

The percentage increase in number of accounts covered by the increase from $5,000 to $10,000 is only 2.4 percent, bringing the number of accounts fully covered to a percentage of 98.4 of all accounts, which is approximately the same percentage in number of accounts originally covered under the $5,000 limit in 1934.

I agree fully that we should drive a stake at the limit of $10,000 in coverage, because in doing so we achieve the objective of providing full deposit insurance coverage to the preponderant majority of bank depositors whom deposit insurance was primarily designed to protect. We are merely recognizing the developments of recent years in which it requires approximately twice as many dollars in bank balances to serve the same operation as was required in 1934.

Question has been raised as to the desirability of section 13 (b) of S. 2822, which provides:

> In order to prevent the closing of an insured bank or in order to reopen a closed insured bank, the Corporation, in the discretion of its Board of Directors, is authorized to make loans to, or purchase the assets of, such an insured bank upon such terms and conditions as the Board of Directors may prescribe.

It will be noted that the authorization to make loans to or purchase the assets of an insured bank by the Insurance Corporation is for the purpose of preventing "the closing of an insured bank or in order to reopen a closed insured bank." In my opinion, this authority is highly desirable and in no way conflicts with the powers of the Federal Reserve System to make loans to or rediscount paper of member banks.

This authority is for emergency use only and gives the Insurance Corporation a facility with which, at a time that it may find a bank in serious difficulty, it may act promptly with the objective of preventing, if possible, a bank's closing.

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Senator ROBERTSON. May I interrupt you there?

Mr. WIGGINS. Yes.

Senator ROBERTSON. The Federal Reserve Board thought that that language wasn't clear enough. You would have no objection to making it absolutely clear that it was to do just what you said it was intended to do; would you?

Mr. WIGGINS. Not at all, but to me the language is specific, because it says it can make these advances or purchase the assets only for the purpose of preventing "the closing of an insured bank or in order to reopen a closed insured bank."

Now, what further protection you could wrap around it, I don't know, but it seems to me to be clear that that is the objective.

Senator MAYBANK. Did you read the language?

Mr. WIGGINS. I read the language of the bill.

Senator MAYBANK. The Federal Reserve language, too?

Mr. WIGGINS. This is the language in S. 2822.

Senator MAYBANK. May we have the exact language read?

Senator ROBERTSON. Here is a substitute I may read as proposed by the Chairman of the Federal Reserve Board:

(d) Whenever an insured bank, in the judgment of the Corporation, is in imminent danger of insolvency, and such action will reduce the risk or avert a threatened loss to the Corporation and will facilitate a merger or consolidation of such insured bank with another insured bank or where such action will facilitate the sale of the assets of a closed insured bank to, and assumption of its liabilities by, another insured bank, the Corporation may, upon such terms and conditions as it may determine, make loans, secured in whole or in part by assets of such insured bank threatened with insolvency or such closed insured bank, which loans may be in subordination to the rights of depositors and other creditors, or the Corporation may purchase any such assets or may guarantee any other insured bank against loss by reason of its assuming the liabilities and purchasing the assets of such insured bank threatened with insolvency or such closed insured bank. Any national bank or district bank, or the Corporation as receiver thereof, is authorized to contract for such sales or loans and to pledge any assets of the bank to secure such loans.

I want to correct the record by saying this did not come from the Federal Reserve Board—and when I read it I didn't think it did—but I did instruct the clerk to examine the complaint, if you may so call it, of the Federal Reserve Board, about the language you have quoted in the bill as not being drawn tight enough to limit it to the way you said it should be limited, and to revise that if necessary, and this is what he has prepared.

Mr. WIGGINS. I would oppose that which you have just read.

Senator ROBERTSON. If you would get the memo that was filed in the record, we would know the exact language. That memo had been sent to Senator Maybank by the Federal Reserve Board.

Senator MAYBANK. Either the Board or the Comptroller of the Currency.

Mr. WIGGINS. It is my opinion, Mr. Chairman, that this proposed amendment as you read it is entirely too restrictive to enable the FDIC to move in and accomplish the results that are desired.

I haven't seen it before; I haven't heard it before, but as you read it, I would say that the FDIC in case of a bank that was threatened with——

Senator MAYBANK. Will you yield for a moment? I was going to call attention to the statement which the Federal Reserve bank sent

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down today. This is their recommendation; the chairman might also read that one.

Senator ROBERTSON. This is official, from the Federal Reserve Board, and it is a part of the statement of the chairman. This is the language he suggests for 13 (b):

In order to reopen a closed insured bank or, when the Corporation has determined that an insured bank is in imminent danger of closing, in order to prevent such closing, the Corporation, in the discretion of its Board of Directors, is authorized to make loans to, or purchase the assets of, such an insured bank upon such terms and conditions as the Board of Directors may prescribe.

Mr. WIGGINS. I see no particular objection, Mr. Chairman, to that language, except for the word "imminent". I don't think the FDIC ought to wait until the last moment of a bank's possible failure to move in.

I don't think they should wait until it is that imminent. I think that when in their opinion there is a deficiency of capital that is moving toward insolvency, I think that is the time for them to move in.

Senator ROBERTSON. What is the language in the original bill?

Mr. WIGGINS. The original bill says that:

In order to prevent the closing of an insured bank or in order to reopen a closed insured bank, the Corporation in its discretion—

and so on.

Senator ROBERTSON. That gives no test at all. Read that language again, and see what conditions will exist. That is the point that Mr. McCabe raised.

Mr. WIGGINS. It leaves it to the discretion of the Board of Directors of the Insurance Corporation as to when they think a bank is threatened with failure. Then they move in.

Senator ROBERTSON. Give the language once more.

Mr. WIGGINS. "In order to prevent the closing of an insured bank or in order to reopen a closed insured bank, the Corporation, in the discretion of its Board of Directors——"

Senator ROBERTSON. That's enough.

The first part: "In order to prevent the closing of an insured bank—", the Federal Reserve Board said that that gave them the broadest type of discretion, and that there was no test involved that there was any serious danger of its closing or any imminency of its closing, and they could make any loan they pleased and say, "Well, with this loan there won't be any danger of its closing."

Mr. WIGGINS. That is right.

Senator ROBERTSON. They start out with the bank that is already closed. That is clear. To reopen that.

Mr. WIGGINS. Yes.

Senator ROBERTSON. Or when the Corporation determined bank is in imminent danger. Suppose we cut the "imminent" out and leave "in danger" there.

Mr. WIGGINS. I think that would be all right.

Senator ROBERTSON. That would furnish some test; wouldn't it?

Mr. WIGGINS. That is right. I think that would be all right.

Senator ROBERTSON. Certainly it will eliminate any suggestion of free-wheeling aid.

Mr. WIGGINS. That is right.

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I think that would be all right, because it seems to me that when the insuror discovers that the capital of a bank is impaired and there is not a reasonable expectation that it can be restored that they ought to move in then rather than to see the capital disintegrate and maybe have more serious losses.

Senator ROBERTSON. That position seems quite logical to me. I think we have that point cleared up so far as the subcommittee is concerned.

Mr. WIGGINS. I make the point further in my statement that a timely preventive action to deal with a distressed bank while it is still a going concern is a constructive and practicable method of protecting depositors and minimizing the losses to the Insurance Corporation. There is no authority in this provision for the Corporation to make advances to a bank under conditions other than in an emergency under which the interest of both depositors and the Insurance Corporation will be served. Preventive action is always preferable to a salvage operation. I strongly urge that the authority contained in section 13 (b) be retained in the bill.

S. 2822 contains a number of desirable clarifications and simplifications about which there seems to be full agreement on the part of all who have testified in this hearing. To conserve your time, I will not comment on these provisions. I will be glad, however, to attempt to answer any questions that members of the committee may desire to ask.

I thank you.

Senator ROBERTSON. Mr. Wiggins, as chairman of the subcommittee, I invited four different banker groups to present their viewpoints concerning the bill. They were in substantial agreement about the provisions of the bill, but there are 1,800 State banks that are members of the Federal Reserve System——

Mr. WIGGINS. I might add that my bank is a State member bank of the Federal Reserve System.

Senator ROBERTSON. There is no national organization composed of just those banks; is there?

Mr. WIGGINS. That is correct; no.

Senator ROBERTSON. No one was invited to testify from that purely sectional standpoint.

I have been in receipt of a great many letters, both from Virginia and outside, from the State member banks, complaining of a proposal to subject them to three examinations and no other banks are subjected to more than two.

With the view to taking care of that situation in a reasonable way, and yet permitting the FDIC, which is the insuror, to have a look at the bank that it thinks is getting in bad shape, on which it will have to take the loss, I got the clerk of the committee to prepare for me a substitute for section (b) on page 27 of the bill, relating to examinations .

I have just received this. I haven't had time to analyze it. It is in line with what I asked him to do. I will read it:

(b) The Board of Directors shall appoint examiners who shall have power, on behalf of the Corporation, to examine any insured State bank (except a District bank), any State bank making application to become an insured bank, and any closed insured bank, whenever in the judgment of the Board of Directors an examination of the bank is necessary: *Provided*, That examination of a State member bank shall be made upon the written consent of the Board

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of Governors of the Federal Reserve System, which written consent shall be granted by the Board of Governors of the Federal Reserve System upon the written request of the Board of Directors when accompanied by information reasonably establishing the necessity for such examination.

What is your comment on that?

Mr. WIGGINS. Senator, I think that probably breaks itself down into two areas. In the first place, it seems to me that when the insurer, the Insurance Corporation, through examination of reports of the Comptroller of the Currency or of the Federal Reserve, discovers a situation in which it appears to them that they have a potential loss; that the insurers certainly should go into that bank and take a look at it and see what can be done by way of lending money or advancing or merging, or what not. That facility should be there.

Whether it is there or not now is a matter that you gentlemen, as I understand, are looking into; to see what degree of cooperation there is and to what degree the Insurance Corporation now can make examination of such banks.

Senator ROBERTSON. I can tell you, offhand—this is off the record.

(Discussion off the record.)

Senator MAYBANK. What do you think about this as against the other; the one the committee has?

Mr. WIGGINS. I haven't heard it before. I don't see that that changes the present situation.

Senator ROBERTSON. I will give it to you so you may read it.

Mr. WIGGINS. As I understand, under the present law, the FDIC can request the Federal Reserve or the Comptroller's office for permission to examine a bank, and upon granting of that permission they go into a bank.

Senator ROBERTSON. That is true, but this makes it stronger in this respect:

On the assumption—I think it is a rather violent assumption—that there wouldn't be full cooperation from the Federal Reserve Board, just as much as from the Comptroller of the Currency, who is on the FDIC Board and who says he has never refused any request; it is based on the assumption that the Federal Reserve Board might some time refuse. This compels them to grant the request if FDIC has a reasonable ground for the examination. Doesn't FDIC have available to it all the examinations of the Federal Reserve Board as well as of the national banks and of the State banks, which they of course can either examine or take the report of the State examiners on? They have all that information?

Mr. WIGGINS. That is right.

Senator ROBERTSON. If the examination of this State member bank by the State authorities shows that there is an unsound condition, and they check that against the examination of Federal Reserve Board, which does not seriously challenge the findings of the State examiner, the Federal Reserve Board under this amendment that I am proposing would then be compelled, even if it might otherwise be reluctant—which I can't imagine—to grant permission to go in there. Why wouldn't that be greater assurance to the 1,800 banks who fear that at some time in the future they may be regularly subject to examination by agencies, but subjected to three examinations, one by the State, one by Federal Reserve Board, and one by the FDIC, and be more or less in turmoil at least three times a year?

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Mr. WIGGINS. Couldn't we break down the problem into three parts, Senator? We agree that when such a condition of distress appears, that the FDIC should be able to go into any insured bank, where it is the insurer of deposits, and take a look at it and see what the situation is and what can be done.

Senator ROBERTSON. I am in accord. If you would frame something better, we will take it up in executive session.

I offer tentatively, as prepared by the clerk of the subcommittee, an amendment to try to meet the complaint, that is really not a baseless complaint, of 1,800 banks that don't want to be subjected to unnecessary horsing around.

Mr. WIGGINS. If you will let me go through with the three points:

We are fairly well agreed that when the FDIC discovers a bank that seems to be in distress, that they should go in and see what they can do about it.

At the other end, the point is made by your member banks that have written you that they don't want three examinations, as an ordinary thing. That would sharpen the proposition to only those cases in which a bank is in current or potential trouble. If we can agree there that leaves only one area here, which is the question of whether or not the FDIC discovers a situation in which a bank is in potential or immediate trouble, and they feel, properly so, that they should move in; should they then be required to get the permission of another supervisory authority before they can make that examination?

It seems to me that is the only area open.

Senator ROBERTSON. How will you limit the middle point: That if they don't get that permission, what will be the power, if any, to govern the use of the discretion?

Mr. WIGGINS. Just as you have in this other provision here, about lending money to a bank. You have covered that. It cannot be done as an ordinary operation of FDIC of making loans to banks, but can be loaned only in certain distress conditions.

Senator MAYBANK. Doesn't that amendment cover that?

Mr. WIGGINS. No; that doesn't cover examination.

Senator MAYBANK. I mean this proposed amendment for examination of banks; that would cover the examination of banks as the other would?

Mr. WIGGINS. It is a question of whether you want to reserve to the Comptroller and to the Federal Reserve, and my own position is you should treat them both alike; I see no particular reason, because the present comptroller, from the testimony, has been cooperative, you might have a Comptroller that, even though a member of the Board, would be jealous of his Comptroller's office; so I think that any provision should apply both then to the Comptroller and to the Federal Reserve, that you put in there.

That is just a question of whether you want them to continue to have the veto on it.

Senator ROBERTSON. Suppose a State bank, not a member bank, gets into difficulty; where does it get its money to get on a liquid basis? It gets it from the FDIC; doesn't it?

Mr. WIGGINS. That is right.

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Senator ROBERTSON. Suppose the question is raised about a member bank with some frozen assets and other types of conditions? It has access to the Federal Reserve System; doesn't it?

Mr. WIGGINS. That is right, for its good assets, but for its poor assets it has access to the FDIC under this distress provision.

Senator ROBERTSON. Suppose it has enough good assets that it could be pulled out of trouble by the Federal Reserve Board?

Mr. WIGGINS. Senator, you are talking about a frozen bank. I am talking about one which has capital which is impaired and which is in danger of closing. They are the kinds of banks that apparently the FDIC wants the authority to go and take a look at.

Senator ROBERTSON. Why did you go into the Federal Reserve System.

Mr. WIGGINS. We went into it when the Federal Reserve System was established, originally.

Senator ROBERTSON. You feel it gives you a stronger position to be a member of that System?

Mr. WIGGINS. Decidely so.

Senator ROBERTSON. All right.

Mr. WIGGINS. We are all for it.

Senator ROBERTSON. What makes you in a stronger position? You are subject to its reserve requirements. That cuts down your lending power; but doesn't the stronger position grow out of this unity of a Federal and State system going together with the tremendous lending power of the System itself that you can call on; isn't that what strengthens you?

Mr. WIGGINS. Certainly, the lending powers of the Federal Reserve banks during the years up to the last few have been of tremendous assistance to State member banks, and my bank used it very effectively during the troubled days.

Senator ROBERTSON. When we were trying to use a curb on bank credit as a means of fighting price inflation, the banks complained very much of how tight the Federal Reserve Board was on them; they finally relaxed, and the Federal Reserve Board wanted to make it compulsory to bring all State banks in; would it be logical to assume that if FDIC could at will examine any member bank of the Federal Reserve System it pleased, it would have a tendency to discourage State banks in the future from becoming members of the system?

Mr. WIGGINS. Well, that turns on the point of being able to examine at will. I thought we pretty well agreed that any authority for the FDIC to examine a national bank or a State member bank should be limited only to the cases of distress.

Senator ROBERTSON. Then you think that the language of the bill as written should be modified?

Mr. WIGGINS. Unquestionably.

Senator ROBERTSON. All right. But you would modify it as we modify the loan provision, instead of making them go to another agency for their permission, you would let them exercise the discretion but limit the occasions on which that discretion could be exercised, as an assurance to these State member banks that it is not going to be an across-the-board 1,800 examinations a year.

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Mr. WIGGINS. I certainly would limit it to the banks in current or potential distress. Now, as to whether you should get permission from the other banking authorities before you can go into the bank, that is a matter that you gentlemen are looking into as a practical proposition, but I cannot conceive, Senator, that either the Comptroller or the Federal Reserve would refuse the insurer of the deposits the privilege of going into a bank where there is a danger of a loss to the insurer and taking a look at it, and making an examination for the purpose of protecting itself against losses.

Senator ROBERTSON. We have the official statement of the Chairman of the Federal Reserve Board that they have never refused. If that be true, with all the discussion that has been had since the bill has been pending, it is inconceivable to me that the Federal Reserve Board would take a position contrary to what they have followed up to this time before the issue had become one of potential legislation.

We wouldn't be too unsafe to leave the present law as it is?

Mr. WIGGINS. They are factual matters. The information you can get from the FDIC and the Federal Reserve and Mr. Crowley, who has dealt with those problems, can tell you what the facts are.

I might say that, as sort of a comparison, which has been running through my mind: If the fire department discovered a fire somewhere, and went to put it out, if they had to wait for permission from the mayor of the town council before they turned on the water, the building might burn down. I can't believe that any other supervisory authority would hold up, in the case of potential distress of a bank, would hold up the FDIC from making the examination. Whether they did it or not is a matter that you can determine from information from these banking agencies and from Mr. Crowley.

Senator ROBERTSON. So far as the chairman of the subcommittee is concerned, he feels that these 1,800 banks that haven't had an opportunity to be personally represented at these hearings are entitled to have their viewpoint considered, and he will do something so far as his one vote goes, about the matter.

Just what should be done we are trying to find out now. If you want to take that proposed amendment that I have just presented to you and revise it along the lines that you have indicated, we will be glad to consider your amendment.

Mr. WIGGINS. I think we are in agreement that there should not be general broad authority for the FDIC to examine willy-nilly any bank and triplicate the examination, but there should be available to them the facilities for promptly examining any bank that is in distress where they are carrying insurance.

Senator ROBERTSON. Senator Douglas?

Senator DOUGLAS. Mr. Wiggins, I wonder if you would turn to the bottom of page 6 of your testimony, and page 7 of your mimeographed statement.

Mr. WIGGINS. Yes.

Senator DOUGLAS. Dealing with the question of payment of interest on loans repaid to the Treasury and by implication also to the Federal Reserve, do I understannd the situation: That the Treasury advanced originally to FDIC approximately $150,000,000?

Mr. WIGGINS. That is correct.

Senator DOUGLAS. And the Federal Reserve advanced how much?

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Mr. WIGGINS. $139,000,000, I think it was.

Senator DOUGLAS. The principal of both of these sums have been repaid?

Mr. WIGGINS. Yes.

Senator DOUGLAS. But not interest?

Mr. WIGGINS. That is correct.

Senator DOUGLAS. The question then comes, and I raised it when Mr. Harl testified, as to whether in view of the fact that the Government had to borrow money which it then loaned to the FDIC, paying interest upon this money, that there was therefore a subsidy of interest which has not yet been repaid, and in the case of Federal Reserve, it gave up the opportunity to invest, at least in Governments, and therefore deprived itself of earning power.

I have had some computations made on this matter, and while I don't guarantee they are accurate from the standpoint of arithmetic, on the basis of simple interest, not compounded, it comes to a subsidy of approximately $51,000,000 on the part of the Treasury and a subsidy of something over $40,000,000 on the part of the Federal Reserve.

So we are dealing here with a very large issue.

I wondered if you would state for the purpose of the record what corporations financed with Government credit have not yet returned their principal?

Mr. WIGGINS. In particular, Senator, I have on a number of occasions so testified, and while in the Treasury Department attempted to secure the return of money from the Production Credit Corporation. They are using Government capital, they have been in operation for many years, a good many of them have paid back to the Production Credit Corporation part or all of their capital, and the Production Credit Corporation has paid back to the Treasury some part of the capital subscribed by the Government.

Now, I feel that they have been in business long enough to begin to pay interest on the part of the Government capital that they haven't returned.

On the other hand, I have felt that the system of credit, cooperative credit, was desirable for the farmers and it was perfectly proper for the Government to set up the original capital and get it under way. But after a reasonable experience, a period of time, I think it should stand on its own feet, and should then begin to pay interest on the capital, but not in the beginning of the setting up of the production credit system.

Senator DOUGLAS. Are there any other corporations that you have in mind which have not returned the principal?

Mr. WIGGINS. Now, in the case of a corporation like the RFC, I think it is a different matter because the RFC is owned by the Government and whatever there is left, if it is ever liquidated, which it may not be, but in the event it is, it all belongs to the Government. It doesn't matter in that case, except for the accounting purposes, and except for determining the soundness of the operations, whether currently they pay back any interest on the capital or not.

So I would say that that is a different type. But I am talking about such corporations as this insurance, which was an experimental thing, when originally set up, no one knew how it would work

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out. They did know that a large amount of capital would be necessary to guarantee its success, and that the Government would have to put up the capital.

Now, they put it up. It ran for 15 years, very successfully, and then the Treasury said "We think you should return the capital, you have had it long enough." If they had not returned that capital, I would have said that beginning then they should pay interest on that capital or return it, but I believe in giving these corporations a trial period, where they seem to be in the public interest and require Government capital, give them a trial period to see how they work out, and then require them to return the capital or to begin to pay interest.

Senator DOUGLAS. In the case of loans by the Rural Electrification Administration to the farm co-ops, not only the principle of those loans is being paid, but interest at 2 percent; isn't that true?

Mr. WIGGINS. Yes.

On the other hand, the Government absorbed some of the costs of that operation.

Senator DOUGLAS. But they received 2 percent interest. I am informed they borrow in the main on the short-time market. So that the difference between the 2 percent which they are paid and the less than 2 percent which they have to pay in short-term borrowings meets the expenses of the administrative services. At least they get the 2 percent.

Mr. WIGGINS. I think the theory that that is short-term money is all wrong, because loans to Rural Electrification are in the nature of long-term loans, and even though the Treasury policy is largely to make short-term borrowing, actually I have always taken the position that the Treasury could and should charge these corporations at a rate of interest based on the character of the loan the Treasury makes to the corporation, and not the character of the borrowing that the Treasury carries on to run the Government.

Senator DOUGLAS. At least, REA gets 2 percent; not only the principal, but gets 2 percent.

Mr. WIGGINS. That is correct.

Senator DOUGLAS. Whereas, in the case of FDIC it hasn't received any interest back.

Mr. WIGGINS. That is purely a business enterprise. The FDIC was not set up as a business enterprise.

Senator MAYBANK. Do you remember what we did on the telephone bill?

Mr. DOUGLAS. It was 2 percent.

Senator MAYBANK. Yes.

Senator DOUGLAS. What was the precedent established in the case of the banks with co-ops and the Federal land banks? Those were originally started with Government credit; were they not?

Mr. WIGGINS. They were, and so far as I know they never received any interest on the repayment. I wouldn't be positve. My recollection is that when the Government went to the aid of the Farm Credit Administration they paid it in by way of a surplus payment which was returned. But I don't believe that in that case any interest was paid on that.

Senator DOUGLAS. It would be interesting to look that up.

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Mr. WIGGINS. Yes; it would be. I don't think any interest was paid.

Senator DOUGLAS. In the main, the precedent which was established was the fact that production credit associations were used to making loans to farmers whose economic position was so poor that they could not obtain loans from private banks.

Mr. WIGGINS. I wouldn't say that is exactly the production credit; that was farm security. Production credit is supposed to be sound credit on a cooperative basis, as distinguished from farm security in the old days which was to help.

Senator DOUGLAS. On the whole, it tended to take care of people whose credit risk was too poor.

Mr. WIGGINS. No; it was to give the farmers another resource of agricultural credit in addition to that which they already had with the banks.

Senator ROBERTSON. It was largely a one-crop proposition. They would finance the seed and fertilizer and when the crop was harvested, they were supposed to pay it back.

Mr. WIGGINS. Yes. If they didn't get the money back, they should charge interest.

Senator DOUGLAS. This is what I find very difficult to accept. Here is an indirect subsidy of over $90,000,000, which the Government makes to groups in communities which are certainly not in need, whatever else you may say.

Senator ROBERTSON. I think the testimony before us is that interest amounted to about $45,000,000.

Mr. WIGGINS. For the $150,000,000 of the Treasury, but he has added the $139,000,000 advanced by the Federal Reserve, which was in the final liquidation paid over to the Treasury because the Federal Reserve didn't need the money and we needed it in the Treasury.

It was paid over to the Treasury.

Senator MAYBANK. Were you down there then?

Mr. WIGGINS. I was; and I testified in favor of that, I might say, as an officer of the Treasury, and if you figure the interest on both of them, Senator, it would run $85,000,000 or $90,000,000 as cost of money to the Government during the period.

Senator DOUGLAS. I am glad that my arithmetic was not too far off the mark.

Mr. WIGGINS. Senator, as I say, I think it is a matter of general policy of the Government with respect to these types of operations.

Now, the Government has never paid any part of the administrative expense of the FDIC, and the FDIC was not a corporation that the Government entered into as a business objective, as they did in the case of REA, and so forth, which is supposed to be self-liquidating.

Senator DOUGLAS. I think the Government went into this for welfare purposes, in order to protect business as a whole, protect the country as a whole, and protect the banks.

Personally, I don't object to this extension of the welfare state, I may say, but it seems to me that when the Government makes an excursion into welfare, and then it so redounds to the welfare of the banks that they recover and are prosperous that their duty is not discharged when they return the principal. I think they should also

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pay the interest so that this subsidy of $90,000,000 should be removed. Since the banking group as a whole is rather opposed to subsidies, I would suggest that the place to reform is at home.

In all these matters you must come into court with clean hands, so to speak.

Mr. WIGGINS. That, I think, sir, is a matter for the Congress. If they decided that is the proper policy of Government, why, then, they should pass a bill and appropriate from FDIC funds that amount and turn it over to the Treasury.

Senator DOUGLAS. That could be put in as a section of this bill, you see.

Mr. WIGGINS. But they should not be picked out as a special case and say that "because you have been successful, we are going to penalize you by charging you interest."

Senator DOUGLAS. But the law can proceed by degrees. It is not necessary that we deal with every situation under the sun before we can deal with the special situation. I hope that some Senator will be moved to offer this as an amendment to the bill in question.

Senator ROBERTSON. If the Senator from Illinois will yield I call his attention to this: We are proposing to give back to the banks 60 percent of their assessment, which they are very happy to get. Under that plan, according to testimony of the present witness, we will have a reserve of funds built up to $1,500,000,000 in four more years.

Mr. WIGGINS. That is right; on the present level of deposits.

Senator ROBERTSON. And when that occurs, there are several things that we can do to balance off in even-handed justice. We can provide, if we see fit, that the income from this billion and a half, which at that time will be about $50,000,000 a year, shall be treated on the same basis as assessment money; we can authorize up to 5 percent to go back to the banks—and 1954 would be one nice time to give them a little help, so far as the members of the Senate who were elected in 1948 are concerned—and then we can also consider paying $90,000,000 back to the Federal Government, and in that way at that time we can adjust all these minor differences.

Senator DOUGLAS. I will be glad to deal with my esteemed colleague from Virginia in executive session, as regards the details, but I do think the principle should be accepted by the banking fraternity.

In view of the pending Government debt, I do not wish to postpone getting this $90,000,000 to 1954. I would like to get it here and now, before we start cutting up the melon and distributing dividends to people before the legitimate claims of the Government have been met.

Senator ROBERTSON. We want to build up this reserve fund to the contemplated amount as soon as possible. Under your suggestion it will take $90,000,000 off right away.

Senator DOUGLAS. It might be paid in installments if the debtors are not able to pay now. It might be done gradually.

Mr. WIGGINS. May I make the observation that I do not think that is a matter for the boards to decide? I think it is a matter of congressional policy.

Senator DOUGLAS. We are asking for your advice.

Mr. WIGGINS. My advice, if you put it that way, is that if that is the policy of Government, with respect to other corporations, in

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which Government puts up capital, why, then, it should be applied to the FDIC. If it is not the policy of Government with respect to other somewhat similar corporations, agencies, then it should not—the FDIC should not be picked out as one, because they happen to have some money.

Senator ROBERTSON. That is what the testimony of the Secretary of the Treasury, Mr. Snyder, was. He didn't wish to make a suggestion. He finally said it is a matter of policy for the Congress, and when Congress treats the other corporations that way, it should include this.

Senator DOUGLAS. We will build up a general rule, from precedent to precedent. Wouldn't this be an admirable first step for a reform in the fiscal policy of the Government to be effected? Wouldn't this be a very admirable way for the Government to begin reforming itself?

Mr. WIGGINS. I certainly hope the Senators will be as jealous in matters of getting back the principle of a lot of these other corporations as they are in their interest in the FDIC capital.

Senator DOUGLAS. We shall be unswerving in our attempt to protect and preserve the financial integrity of the country.

Mr. WIGGINS. And, Mr. Chairman, may I be bold enough to supplement in a way what you have suggested?

I hope very much that the report of this committee will state just what you have said, that when this fund reaches $1,500,000,000 that the whole question should again be reexamined as to assessments and costs of deposit insurance.

Senator ROBERTSON. I will ask the clerk to make a note of that.

Are there any further questions? If not, we want to thank you very much.

Mr. WIGGINS. Thank you.

Senator ROBERTSON. I have a telegram that will be inserted in the record at this point.

(The telegram referred to follows:)

HARRISBURG, PA., *January 30, 1950.*

Hon. A. WILLIS ROBERTSON,
Senate Banking and Currency Committee,
Washington, D. C.:

The executive committee of the National Association of Supervisors of State Banks representing the State banking departments of the 48 States wishes to record its strong opposition to the provision of S. 2822 which should permit Federal Deposit Insurance Corporation to examine insured State member banks without prior approval of Federal Reserve Board. Our committee believes that this provision might lead to further duplication of examinations of State-chartered banks and thus would tend to undermine the dual banking system and infringe upon States' rights in banking. We fear State banks faced with examinations by three different supervisory agencies would be placed in highly disadvantageous competitive position with national banks which would be examined only by Comptroller of the Currency. Our committee respectfully requests that this provision be eliminated from the bill.

D. EMMERT BRUMBAUGH,
Chairman, Legislative Committee, National Association of Supervisors of State Banks.

Senator ROBERTSON. The next witness is Mr. Leo Crowley. We will be very glad to hear from you, Mr. Crowley.

Mr. CROWLEY. Thank you.

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STATEMENT OF LEO CROWLEY, FORMER CHAIRMAN, FEDERAL DEPOSIT INSURANCE CORPORATION

Mr. CROWLEY. My name is Leo T. Crowley. I was Chairman of the Federal Deposit Insurance Corporation from January 1, 1934, to December 1, 1945. My knowledge of the Federal deposit law goes back to the night before the President was inaugurated in 1933. I was interested in the FDIC legislation during 1933, and was Chairman of the Corporation when the extension was drafted in 1934, and also Chairman of the Corporation when the Banking Act of 1935 was enacted. Most of you who are in the Senate today were not on the Banking and Currency Committee in either the House or the Senate in 1933, 1934, and 1935.

Senator ROBERTSON. I am the only one in Congress who was on the Banking and Currency Committee at that time.

Mr. CROWLEY. That is correct, sir.

Senator Vandenberg is the only other Senator in the Senate, and Brent Spence and Jesse Wolcott are the only others that are on the Banking and Currency Committee of the House.

I want to bring you back a little bit to some of the human suffering that took place in the years 1930 to 1934, when people who had saved money for their old age or for other security found that their banks had closed, and they had suffered huge losses. The break-down of the banking system in this country started after 1920.

Senator ROBERTSON. I might say that in a town near where I lived an old colored man went to the bank, couldn't get in, kept pulling on the door, and somebody said, "That bank is closed."

"Well," he said, "Why is it closed?"

"Well," they said, "it's busted."

The old gentleman replied, "First time I had a bank bust right in my face."

Mr. CROWLEY. After 1920, throughout the Middle West, there were great financial difficulties and banks started to close. Our experience indicated that the State banking commissioners, the Comptroller of the Currency, and the Federal Reserve were reluctant to examine these banks properly and to force them to charge off bad assets. They permitted many, many banks to pay dividends when they were in an unsound and unsafe condition.

When the economic situation became worse, many of these banks had bad assets that were the accumulation of many years. The result was that the depositors lost complete confidence in bank supervision, and started to take care of themselves.

Senator DOUGLAS. This was true of the examination by the State bank's examiners?

Mr. CROWLEY. Every one.

Senator DOUGLAS. Was that true of national banks?

Mr. CROWLEY. Yes. I will get to that in just a minute.

Senator DOUGLAS. Yes.

Mr. CROWLEY. Something had to be done to stabilize public confidence in the banking system of this country. That is when it was decided that we would insure deposits. Some of the provisions in this bill that you are discussing today were compromises that came about

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because of long weeks of controversy in trying to evolve the Banking Act of 1935.

I want to say this about the right of the Corporation to go in and examine any insured bank, including a national bank that it may deem necessary, in order to protect itself from loss: You men are dealing with this FDIC rather loosely this morning in talking about reducing assessment—paying back interest and everything else, not realizing the importance of the FDIC to our economy, and the necessity that the depositors must always believe that the FDIC is capable of handling its losses; that it is conservatively run, and that it does go in and take its losses currently.

There is a difference of opinion as to what bank examinations should be used for. Mr. Eccles is a friend of mine, but we have never agreed on bank examinations. His belief is that bank examinations should be used as an instrument of economic policy.

The FDIC, while it is interested in the national economic policy, must be interested first in the soundness of banks and its right to protect itself from losses.

The FDIC must always be positive enough and courageous enough to require that before banks pay dividends, they charge off their losses. I don't think it is the responsibility of the FDIC in bank examinations to tell the bank the kind of loans that it ought to make, or the kind of bonds it ought to buy. I think that is the responsibility of management. But I think the FDIC has a right to say to the banks, "If you make bad loans, you must charge off the losses and not let them accumulate as the banks did from 1920 to 1930; that you will keep yourselves clean."

I have no objection to Federal Reserve using its examinations for carrying out its economic theories. It is in an entirely different field from the FDIC. But let me say this to you about the FDIC's right to examine any risks: I don't say this to create controversy. I spent 12 years with the FDIC. I have a great pride and interest in it. It inherited a lot of banks in 1934 which were what we call "problem banks." We went into banks in States like New Jersey and New York. They were not small banks. They were big banks. I want to tell you something of the thing we found the Federal Reserve and Comptroller's office had done in order to pass over some of their problem banks. The Federal Reserve says in this statement that we made 115 requests, or the FDIC did. Those had nothing to do with the problem banks. These requests concerned mostly banks withdrawing from the Federal Reserve System. If you go back into the history of the FDIC requests, you will find that when we tried to get into State member banks, and the national banks, there was delay after delay after delay.

Many times, we had to threaten the dismissal of the bank from insurance to get the Comptroller's office to get something done.

If you want the FDIC to continue, and you want it to remain an integral part of the banking system, then you should give it the right to protect itself.

As a matter of fact, the Comptroller of the Currency does not belong on the Federal Deposit Insurance Corporation Board, at all. That was only a compromise, and it was always expected that later it would be corrected.

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The FDIC should have 3 appointed members. There is no more reason why the Comptroller of the Currency should be on the FDIC Board than a member of the Federal Reserve should be on the FDIC Board or a member of the FDIC on the Federal Reserve Board. The FDIC should have an independent board of directors. It should have the right to go into any problem banks without asking any other agency. I have no objection to your modifying your language.

Senator MAYBANK. What about that language?

Mr. CROWLEY. I would like to study it. I have no objection to limiting it to cases of problem banks. I don't want them to go into banks promiscuously and examine all the 1,800 State member banks. I think you would find that maybe not more than 5 or 10 banks a year are all that would be involved.

In 1934 we had a big list of problem banks. It was about a foot long. The only way that we corrected the situation was by going in and examining them.

So I request you to be careful. I think that written consent of the Comptroller should come out as well as written consent of the Federal Reserve. It is an insult to the FDIC to have to write and say, "Please kind sir, may I examine a member bank?" In place there should be respected the dignity of the Corporation and the right of the Corporation to protect its loss.

I am for the increase of insurance from $5,000 to $10,000, because I think it will help lots of smaller savers; it will help a lot of small banks, it will help a lot of small banks to improve their position back in their home communities and plow credit back into the local community, which is very sound.

Senator MAYBANK. You think this $5,000 to $10,000, then, will help the smaller banks far more than the larger banks; is that right?

Mr. CROWLEY. Yes.

Senator MAYBANK. So it will be sort of local self-interest.

Mr. CROWLEY. That is right, sir.

I may say that I have always been a strong believer in the dual banking system. I don't believe in unifying the banking system by indirection. When I was here they tried in every conceivable way to get me to agree that either the FDIC would have all examinations, or that there would be a superexamining body. When you put examinations all in one place, you unify the banking system indirectly.

If Congress wants to unify the banking system, it should do it by legislative action—not by some indirect act.

On the question of loans, you should not be too restrictive in your language. The FDIC——

Senator MAYBANK. Is it too restrictive?

Mr. CROWLEY. I would like to study that. I say that for this reason: I know that the FDIC does not intend to interfere with the Federal Reserve prerogative on making loans, et cetera; but there are banks that could be consolidated or helped in some day before they are closed.

One reason that I would like to see that provision broadened is this: A time of stress is no time to start changing your banking laws. Let me go back to your RFC:

The reason the RFC was given the authority to buy preferred stock and issue debentures was because President Roosevelt felt that it was unfair to expect the FDIC to absorb all the shock for the situation

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that it inherited. For that reason, the RFC was brought into the picture. Then when the FDIC was given $120,000,000 a year income, it was given to them for a particular reason. That was to be used to try to bolster the banking system and keep it in a sound position.

Now, in addition to the right of purchasing assets, for consolidation or elimination, the FDIC should have authority for making subordinated deposits and they should have authority in extreme cases to purchase preferred stock, capital notes, and debentures.

If you give the FDIC that authority, and I would have no objection to including proper safeguards as to debentures and preferred stock, you will save a lot of banks. I wouldn't want the FDIC to have the authority to purchase preferred stock and then go out on some campaign for capital rehabilitation.

What I am thinking about on preferred stock is in case something should happen requiring some overnight help. I think this authority is very necessary.

I think, furthermore, that it may be necessary some time to make a subordinated deposit in the bank in place of taking assets out and going through all that process.

I am sure that if you will put that into the law you will strengthen it very much.

Insofar as the FDIC income is concerned, it never was intended that the FDIC would build up a reserve of $1,200,000,000 and lock it up and keep it there forever. When that $1,200,000,000 was created it was supposed to be there to use in case FDIC had unusual losses. I have no objection in the world to the reduction in the assessment. As Mr. Wiggins said, and you said, Senator, there was some talk about a $500,000,000 ceiling, then about a $750,000,000 limit, and then we agreed to take a look at the billion mark. Then we all got busy in the war effort and didn't pay any more attention to it. But, more important to the FDIC than income is its right to protect itself.

The FDIC over a period of years has done a good job in getting the State bank examiners and State legislators to improve their laws. The national banking system has been improved. The banking system generally is in good shape. But you cannot safely take the income away from FDIC and at the same time deprive it of its right of protection. If I had to choose between giving up all the income, and having the right to protect the FDIC, as Chairman, I would take the right to protect.

The FDIC has been conservatively operated. There will always be in this country, even in good times, certain numbers of unsound banks. There are a certain number of them today. You have always got to stay on top of them. I would go along with the assessment reduction; I would like to see that change made in the loaning privilege; I would go along on the $5,000 and $10,000 on the coverage, because I do not think it increases the liability, but the FDIC must be given adequate power to examine.

If the FDIC is properly run, the days of closed banks are all over, from a practical standpoint, because in the future the weak banks can be eliminated or helped before they are closed.

There are several other provisions that I would like to talk about.

On the question of the Comptroller General, I understand that that language was straightened out between the FDIC and the GAO. In

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what you have agreed on in the way of a General Accounting Office audit of the FDIC it is important not to let GAO interfere with the determination on paying off on what is a deposit liability of a bank or any part of the Corporation's management functions. The strength of the FDIC up to date has been that it could give the depositors their money within 2 or 3 days after a bank had closed. If you hamstring by audit or other controls the FDIC may lose its effectiveness.

The next thing that I would like to mention to you is the question of the building.

Senator MAYBANK. Well now, Mr. Crowley, the committee felt that we had no right to pass upon public works, since the reorganization bill, so I introduced a separate bill in order that the FDIC could be heard by the Public Works. Public Works has handled all these buildings since the Reorganization Act.

I took that section out of the bill and introduced it as a separate bill, believing that that was the intent of the reorganization law.

You may say anything you wish for the record, of course.

Mr. CROWLEY. Yes.

This question of the building for the FDIC has been something that has been discussed for a long, long time. The FDIC is like a child that was born kind of late into the family, and is not always sure that the rest of the family enjoyed having it come into the picture. There has been many an attempt here to keep the FDIC from getting a building. In 1939 Mr. Roosevelt told me to go ahead and arrange for construction of a building. The Bureau of the Budget went into the matter with us at that time and approved the project.

Our general counsel and the Bureau of the Budget's general counsel held that under the law we needed no further authority from Congress because we had the right to construct a building for our office quarters. I thought it would be rather bad grace for us to build a building without advising the Banking and Currency Committees of Congress.

Accordingly we visited the Senate Banking and Currency Committee and also the same committee on the House side. It was agreed by both committees that we would go ahead and build a building.

About that time we got involved in the war, and, of course, it was no time to talk about building a building then.

The FDIC is entitled to permanent quarters. It is entitled to the dignity and respect that goes with having its own building. The quesion of the FDIC's building is not a new thing around Washington. It is not a new difference of opinion between Mr. Eccles and myself. Mr. Eccles didn't want the FDIC to build a new building. He finally agreed that maybe what we ought to do was to build an addition onto his building, where it would be more convenient to the Federal Reserve.

Senator MAYBANK. Let me get this clear: As far as I know, personally, since this bill came down here, I have had no complaint from the Federal Reserve this time about this building. Mr. McCabe hasn't made complaint to me. The attitude I took was merely believing that the Public Works had the right to approve. I introduced the bill for them. I intend to testify before the committee. They are losing a lot of valuable time and efficiency in being scattered around; isn't that right?

Mr. CROWLEY. That is right.

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Senator MAYBANK. Then they have the heavy charges, too. There would be more than enough to amortize it. Would that be right?

Mr. CROWLEY. That is right. I think anytime you move in a new building, it will cost you more money in the beginning, but I think it gives increased efficiency and increased prestige.

Senator MAYBANK. That is right. They pay considerable rent, too.

Mr. CROWLEY. Let me say this, too——

Senator MAYBANK. They pay $194,000 rent.

Mr. CROWLEY. Let me say this in relation to that: If I was in charge of the FDIC and had any influence, I would tie this bill up until I got the provisions that I thought I was entitled to, not let this assessment reduction escape, and then have everything else hung in the air, because I have seen those things done too often around here. The Corporation is giving up a lot when it is giving this assessment reduction.

Senator MAYBANK. Nobody is fighting this building, to my knowledge.

Mr. CROWLEY. I wish I could believe so. I believe you, but I wish I could have the confidence in it that you have.

If it gets over to that committee, that will be the end of it. It will not see the light of day for a good many years, until we come up again for another reduction in assessment. That will happen.

Senator MAYBANK. I wouldn't know that.

Senator Chavez has been in New Mexico. I intend to talk with him as soon as he gets back.

Mr. CROWLEY. I would like to comment on another section. It doesn't amount to much: In qualifying for director, if a man happened to be arrested and found guilty, he could work in an insured bank. I don't think they intended to put a death sentence over anyone. I think the FDIC has all the authority it needs to pass on the directors and officers of a bank that is insured without putting that death sentence in. That is in subsection S. S. S., page 55.

Senator MAYBANK. That was called to my attention.

Mr. CROWLEY. I want to make myself clear on the right of examination, Senator: The only protection the FDIC now has is the right to examine insured banks. That doesn't mean that you have a lot of duplication in examination.

Senator MAYBANK. That is the only right they have?

Mr. CROWLEY. That is the only right.

Senator MAYBANK. What do you think of that amendment?

Mr. CROWLEY. I will look at that and talk to you about it.

On the payment of interest, Senator Douglas, I won't object to the FDIC paying that interest, as Mr. Wiggins said, if you are going to make them all do the same, but don't forget we are the only agency that paid back the original fund.

Senator DOUGLAS. I am glad that you would be willing to take this first step toward reform.

Mr. CROWLEY. That is all I have to say, Mr. Chairman, unless you have questions.

Senator MAYBANK. I do wish you would study that and write us a memo on it. That is, the examination. You might not have time do it now. We will not meet again until Wednesday.

I have no questions.

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We certainly appreciate your coming down to give us the benefit of your advice. You certainly know the FDIC. You did a wonderful job when you were there.

Mr. CROWLEY. I appreciate the opportunity, Senator. If you would permit me, I would like to work with your legislative assistant on that language.

Senator MAYBANK. I wish you would.

Senator Robertson had to go to the floor. He asked me to say we would have the hearings printed and meet in executive session on Wednesday morning.

(Whereupon, at 12 o'clock, noon, the hearing adjourned.)

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