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assessing*

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

**Office Correspondence**

Date February 8, 1944

Mr. Clayton

Subject: Changes in the reserve and insurance requirements of the Federal Savings and Loan Insurance Corporation.

From Ramsay Wood

I am attaching the summary you requested of changes which have taken place in the reserve and premium requirements which must be met by institutions insured by the Federal Savings and Loan Insurance Corporation, and also a table comparing the growth in potential liability of the Corporation with the growth in its reserves and earned surplus.

All Federal Savings and Loan Associations (that is, associations chartered by the Federal Home Loan Bank Administration) must be insured by the Corporation, and the insurance is available to any State-chartered savings and loan association, building and loan association, homestead association, or cooperative bank which elects to take it and meets the requirements of the Corporation.

The general effect of all changes in requirements on institutions has been to slow down the rate at which the reserves of both the institutions and the Corporation are accumulated. The Board regulation requiring that all net income of the Corporation be credited to reserve, however, increases the rate of accumulation of the Corporation's fund.

In the table comparing the potential liability of the Corporation with its reserves and earned surplus, the capital of the Corporation (100 million dollars in 3 per cent cumulative stock, subscribed by the Home Owners' Loan Corporation) has been excluded, although it is available to meet losses. Since June 30, 1935 the Corporation has not declared dividends on its capital stock; instead, it has placed 3 million dollars each year in a reserve for contingencies, which is included in the reserves and earned surplus shown in the table. On June 30, 1943, this reserve for contingencies amounted to 24 million dollars. If the Corporation's capital is considered to be available to meet potential liabilities, resources are 4.4 per cent of potential liability; if both capital and "reserve for contingencies" are excluded, the ratio is .55 per cent.

Each institution, of course, has its own reserve fund available to meet its losses, and, in case of default, the entire assets of the institution are available for the payment of claims.

RW

Attachments

REQUIREMENTS FOR INSURANCE BY THE FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

Accumulation by insured institutions of reserve against loss

<u>Law and date of approval</u>	<u>Requirement</u>	<u>Regulation and effective date</u>	<u>Requirement</u>
National Housing Act Title IV, Sec. 403 (b) June 27, 1934.	Each insured institution must build up a reserve, satisfactory to the corporation, to 5 per cent of its insured accounts within 10 years.	Rules and Regulations approved Sept. 6, 1934 Sec. 11 (a)	Each insured institution shall set up a Federal insurance reserve account for the sole purpose of absorbing losses and credit it each fiscal year with at least 1/2 of 1 per cent of the aggregate of the insured accounts on its books at the beginning of the fiscal year. This credit shall be made any year in which the Federal insurance reserve is less than 5 per cent of all insured accounts at the beginning of the year.
Public Law 76, Sec. 23, May 28, 1935.	Reserve must be built up to 5 per cent within 20 years.	Rules and Regulations, July 1, 1935 Sec. 11 (a)	Rate of credit to reserve changed to 3/10 of 1 per cent of insured accounts. Credit to be made any year in which the reserve is less than the aggregate of annual credits at the rate of 3/10 of 1 per cent from the date of insurance, or 5 per cent of all insured accounts, whichever is smaller.
		Sec. 11 (c)	Any Federal Savings and Loan Association may designate the reserve fund required by its charter as the Federal insurance reserve, in which case it must credit to the reserve either 3/10 of 1 per cent of all insured accounts at the beginning of the fiscal year, or 5 per cent of net earnings, before dividends, whichever is greater.

Limitation on payment of dividends when losses have been charged to reserve

<u>Law and date of approval</u>	<u>Requirement</u>	<u>Regulation and effective date</u>	<u>Requirement</u>
National Housing Act, Title IV, Sec. 403 (b) June 27, 1934.	Required the Corporation, by its rules and regulations, to prohibit the payment of dividends from the reserve required by law, or the payment of dividends if any losses are chargeable to such reserve.	Rules and Regulations approved Sept. 6, 1934 Sec. 11 (d)	If charges have been made to the Federal insurance reserve, leaving the amount in the reserve less than 5 per cent of all insured accounts, no dividend may be paid until there has been credited to the reserve, in addition to the regular annual increment required, the smaller of: <ol style="list-style-type: none"><li>1. The amount so charged, or</li><li>2. The amount necessary to bring the account to 5 per cent of all insured accounts.</li></ol>
Public Law 76, Sec. 23, May 28, 1935	Added to the above requirement the proviso that dividends may be declared and paid if the approval of the corporation is obtained.	Rules and Regulations, July 1, 1935 Sec. 11 (e)	No dividends shall be declared if losses have been charged to the reserve unless: <ol style="list-style-type: none"><li>1. If the reserve had not reached 5 per cent of all insured accounts, the reserve amounts to at least the aggregate of all annual credits at the rate <math>\frac{3}{10}</math> of 1 per cent of all insured accounts each year from the date of insurance.</li><li>2. If the reserve had reached 5 per cent of all insured accounts, the reserve is still at least 5 per cent after the losses are charged.</li></ol>
		Rules and Regulations, August 21, 1936 Sec. 11 (e)	Changed to provide that, if the reserve has been brought up to 5 per cent of all insured accounts by annual credits in excess of the required $\frac{3}{10}$ of 1 per cent, dividends may be paid if, after losses are charged, the reserve is at least the amount of the required annual credits of $\frac{3}{10}$ of 1 per cent accumulated since the date of insurance.

Insurance premiums to establish Corporation reserve fund

<u>Law and date of approval</u>	<u>Requirement</u>	<u>Regulation and effective date</u>	<u>Requirement</u>
National Housing Act, Title IV, Sec. 404 (a) June 27, 1934.	<p>Each insured institution shall pay an insurance premium each year equal to 1/4 of 1 per cent of the accounts of insured members plus all creditor obligations.</p> <p>This premium is payable each year in which the reserve fund of the Corporation is less than 5 per cent of the insured accounts and creditor obligations of all insured institutions.</p>	Rules and Regulations approved Sept. 6, 1934 Sec. 12 (a), (b)	Each insured institution is required to pay an insurance premium of 1/4 of 1 per cent of the total amount of all accounts of its insured members plus all obligations to its creditors, as shown in the latest report to the Corporation. The premium must be paid any year in which the Corporation's reserve fund is less than 5 per cent of all insured accounts and creditor obligations of all insured institutions.
Public Law 76, Sec. 25 (a) and (c) May 28, 1935.	Changed premium rate from 1/4 of 1 per cent to 1/8 of 1 per cent and made the change retroactive.	Rules and Regulations, July 1, 1935 Sec. 12 (a)	Changed the premium rate from 1/4 of 1 per cent to 1/8 of 1 per cent. Changed the basis of premium from "all accounts of insured members plus all obligations to creditors" to "all accounts of an insurable type plus all obligations to creditors."

Insurance premium to meet expenses and losses of the Corporation

Law and date of approval

Requirement

Regulation and effective date

Requirement

National Housing Act, Title IV, Sec. 404 (b)  
June 27, 1934.

The Corporation is authorized to assess additional premiums against all insured institutions until the amount of these premiums equals the Corporation's losses and expenses. But the amount of such assessment against any institution may not exceed 1/4 of 1 per cent of the accounts of its insured members and its creditor obligations.

Rules and Regulations approved  
Sept. 6, 1934

The Corporation may, after its first year of operation, assess against each insured institution an additional premium to recover all operating expenses and all losses charged to its reserve fund, except that such premiums may not exceed 1/4 of 1 per cent of the accounts of the insured members of the institution plus creditor obligations. No assessment was levied.

Public Law 76, Sec. 25 (a)  
May 28, 1934.

Changed premium rate from 1/4 of 1 per cent to 1/8 of 1 per cent.

Rules and Regulations,  
July 1, 1935.

Basis for maximum assessment changed to the total of the institution's accounts of an insurable type plus creditor obligations. Maximum rate changed from 1/4 of 1 per cent to 1/8 of 1 per cent. No assessment has been levied.

Admission fee for institutions which apply for insurance after June 27, 1935

Law and date of approval

Requirement

Regulation and effective date

Requirement

National Housing Act, Title IV, Sec. 403 (d) June 27, 1934.

Applicants applying for insurance after the Corporation has been operating for one year shall pay an admission fee, based upon the reserve fund of the applicant, which the Corporation finds to be an equitable contribution.

Rules and Regulations approved Sept. 6, 1934 Sec. 6.

"Any applicant which applies for insurance of savings and loan accounts after the first year of operation of the Corporation shall pay an admission fee which, in the judgment of the Corporation is an equitable charge.

Public Law 76, Sec. 24 May 28, 1935.

Changed the basis of the fee from the reserve fund of the applicant to that of the Corporation.

Rules and Regulations, July 1, 1935 Sec. 6.

"Any applicant which applies for insurance after June 27, 1935, shall pay an admission fee based upon the reserve fund of the Corporation, which, in the judgment of the Corporation, is an equitable contribution."

Board Resolution, June 28, 1935

Fee set at 1/50 of 1 per cent of the aggregate accounts of insured members plus the creditor obligations of the applicant.

Board Resolution, June 28, 1936

Fee was set at 3 cents per \$100 of the applicant's accounts of an insurable type and creditor obligations.

Board Resolution, June 28, 1937

Fee set at 4 cents per \$100 of the applicant's accounts of an insurable type and creditor obligations. Effective until further notice.

Addition of profit of Corporation to reserve

<u>Law and date of approval</u>	<u>Requirement</u>	<u>Regulation and effective date</u>	<u>Requirement</u>
No statutory requirement		Rules and Regulations approved Sept. 6, 1934 Sec. 12 (b)	The Corporation shall credit its reserve fund with all premium receipts after all operating expenses have been paid.
		Rules and Regulations, July 1, 1935 Sec. 12 (b)	The Corporation will credit its reserve fund each fiscal year with all net income after the payment of dividends required by law.