

February 2, 1950.

Dear Senator Douglas:

I am enclosing herewith the memorandum about which I talked to you this afternoon relative to a bill to amend the Federal Deposit Insurance Corporation Act. The memorandum not only reflects my views but is in harmony with the views of all the other members of the Board. I hope you will have an opportunity to read the statement.

I am glad to know that you concur in the views of the Board in regard to the question of "Examinations of State Member Banks" and "Loans to Prevent the Closing of Banks". I understand your position, as expressed over the telephone, relative to the other item in the memorandum, i.e., "Dividends to Insured Banks", and respect your views.

I have sent copies of this memorandum to Senators Tobey and Fulbright.

With warm personal regards,

Sincerely yours,

(Signed) M. S. Eccles

M. S. Eccles.

Hon. Paul Douglas,
United States Senate,
Washington, D. C.

February 2, 1950.

Dear Senator Fulbright:

I am enclosing herewith the memorandum about which I talked to you this afternoon relative to a bill to amend the Federal Deposit Insurance Corporation Act. The memorandum not only reflects my views but is in harmony with the views of all the other members of the Board. I hope you will have an opportunity to read the statement.

When this matter comes before the full Committee, I hope you will be able to be present and will be willing to support the position of the Board, at least with reference to the question of "Examinations of State Member Banks" and "Loans to Prevent the Closing of Banks". I realize you may find it difficult at this stage to get any change in the proposal with reference to "Dividends to Insured Banks".

With warm personal regards,

Sincerely yours,

(Signed) M. S. Eccles

M. S. Eccles.

Hon. J. William Fulbright,
United States Senate,
Washington, D. C.

February 2, 1950.

Honorable Charles W. Tobey,
United States Senate,
Washington, D. C.

Dear Senator Tobey:

I am enclosing herewith the memorandum about which I talked to you this afternoon relative to a bill to amend the Federal Deposit Insurance Corporation Act. The memorandum not only reflects my views but is in harmony with the views of all the other members of the Board. I hope you will have an opportunity to read the statement and that if you concur in the suggestions you will give them your vigorous support as only you can.

I expect to get copies of this statement in the hands of Senators Fulbright and Douglas.

With warm personal regards,

Sincerely yours,

(Signed) M. S. Eccles

M. S. Eccles.

Enclosure

MSK:dls

PROPOSALS REGARDING S. 2822, A BILL "TO AMEND
THE FEDERAL DEPOSIT INSURANCE ACT"

Examinations of State Member Banks. - Present law permits the FDIC to examine State banks that are members of the Federal Reserve System only with the consent of the Board of Governors of the Federal Reserve System. Section 10(b) of the bill would give the FDIC the power to examine such banks without the Board's consent. It would, however, continue the existing requirement that the Corporation obtain the consent of the Comptroller of the Currency in order to examine a national bank.

This change is unnecessary; it would increase overlapping and duplication in the examination and supervision of banks; and, by acting as a deterrent to State bank membership in the Federal Reserve System, it would weaken the effectiveness of Federal credit and monetary policies.

The existing law has worked well. The Board's records show that 115 requests for consent to examine State member banks have been received from the FDIC. Of these none has been refused, 110 were granted, and in 5 cases the requests were withdrawn or dropped. The objective of Federal Reserve examinations, which is substantially the same as that of other Federal examining authorities, is primarily to determine the financial condition and soundness of a bank and the integrity and ability of its management.

Section 10(b) of the bill, therefore, should be amended so as to continue the existing law requiring the consent of the Board for examination of State member banks by the FDIC.

If it should nevertheless be determined that some change is to be made in existing law on this point, the maximum change should be one which would require (a) the Federal Reserve Board to report to the FDIC all State member banks considered to be problem banks, (b) to furnish to the Corporation all information available with respect to banks so reported, and (c) to grant permission to examine any bank so reported if the Corporation should then request it.

Loans to Prevent the Closing of Banks. - Section 13(b) of the bill would authorize the Corporation to make loans to, or purchase the assets of, an insured bank, in order to prevent its closing. It is desirable that the Corporation have powers of this kind to deal

with distress cases. However, the language of the bill is not altogether clear and might be interpreted as permitting the Corporation to lend to banks generally. To make clear that this interpretation is not intended, this authority should be confined to cases where the Corporation has determined that an insured bank is in grave danger of closing.

Dividends to Insured Banks. - In addition to the two amendments mentioned above, which are essential, it would improve the bill to make certain changes also regarding dividends to insured banks.

The bill provides for dividends to insured banks equal to 60 per cent of the net assessment income of the Corporation. Such net assessment income, however, does not include income from investments. Investment income is a substantial portion of the entire income of the Corporation and it should be included as a basis for the determination of dividends.

Moreover, in computing net assessment income, reserves for insurance losses are deducted along with operating costs and expenses. Reserves, of course, should be deducted in computing net income but the authority of the Corporation to set up reserves should be more carefully defined. It is suggested that the setting up of reserves be authorized only upon the basis of an analysis of estimated losses.

The present size of the insurance fund, about \$1,200,000,000, together with its authority to borrow from the Treasury, justifies a higher dividend rate than the 60 per cent provided in the bill. It is suggested that this rate might be as high as 75 per cent of net income derived from both assessments and investments.