TO AMEND THE FEDERAL HOME LOAN BANK ACT

Thursday, June 13, 1940

United States Senate,
Subcommittee on Home Loan Bank and Related
Matters of the Banking and Currency Committee,
Washington, D. C.

The subcommittee met at 10:30 a.m., pursuant to adjournment on Tuesday, June 11, 1940, in room 301, Senate Office Building, Senator Robert F. Wagner presiding.

Present: Senators Wagner (presiding), Brown, Herring, and Danaher.

Senator Wagner. The subcommittee will be in order. Mr. Eccles?

Statement of Marriner S. Eccles, Chairman, Board of Governors, Federal Reserve System, Washington, D. C.

Senator Wagner. Mr. Eccles, we are considering S. 4095, and have a communication from the Federal Reserve Board stating certain objections to the bill. We would like to have your views with reference to the proposed legislation, and have you point out what you regard as objectionable features.

MR. ECCLES. Mr. Chairman, the committee requested the Board to make a report on this bill, and as Governor Ransom has that particular assignment for the Board, of following legislative matters that are pending, and prepared the letter to the committee and the accompanying report, I would like to ask him to read the statement that has been prepared in response to the request of the committee.

I would like to say that in appearing here this morning we do so at the request of the committee. They desired us to appear rather than to just file a report. So if it is agreeable I would like to have Mr. Ransom make the report.

Senator Wagner (presiding). The subcommittee will be glad to hear Mr. Ransom.

Statement of Ronald Ransom, Vice Chairman, Board of Governors, Federal Reserve System, Washington, D. C.

MR. RANSOM. I would like to say, Mr. Chairman and members of the subcommittee, that this report is a unanimous report of the Board, and not just a pro forma reply to one of the routine inquiries. The subject has been given very serious study by the Board for some time, because the same problem has been up in connection with other bills, as you know. I think this report does crystallize the Board's unanimous feeling about the proposed legislation. It is addressed to you, Senator Wagner, as the chairman of the committee:

This is in reply to your letter of June 5, 1940, requesting an opinion as to the merits of S. 4095, a bill "to amend the Federal Home Loan Bank Act, Home Owners' Loan Act of 1933, title IV of the National Housing Act, and for other purposes." The Board believes that the enactment of this bill would not be desirable in the public interest.

You will recall that recently the Board expressed its concern over the broad implications of S.2098, a bill for the same stated purposes as S. 4095. While some of the sections of S. 2098, to which the Board made specific reference have been changed or eliminated from S. 4095, the Board, considering the bill as a while, is of the opinion that it also would permit the operations of the Home Loan Bank System to be expanded far beyond the scope of its original purposes. The Board is conscious of the valuable services performed by building and loan associations and similar institutions in the field of local mutual thrift and home financing and is in complete sympathy with the maintenance of the Federal Home Loan Bank System along the lines upon which it was originally conceived. But, in the opinion of the Board the enactment of S.4095 would represent a material departure from the original idea behind their creation and would so enlarge the field of their permissible operations and the sources from which they could attract funds that it may be considered as having the effect of establishing a separate and complete banking system. Furthermore as between Home Loan Bank members and savings banks, savings departments of commercial banks and other financial institutions, the bill would strengthen and increase competitive advantages of the home loan bank group which are not enjoyed by the others.

The Board believes that the questions involved in the present bill must be considered in the light of existing law in relation to the competitive problems which are being created between these institutions and savings banks, savings departments of commercial banks, and other financial institutions.

For the convenience of your committee there is attached an analysis of provisions of the bill which, in connection with existing law, have caused the Board to conclude that S. 4095 in its present form should not be enacted.

Now, with your permission I would like to read the memorandum into the record.

Senator Wagner (presiding). We will be glad to have you do so.

Mr. Ransom. It is as follows:

The effect of certain provisions of this bill would be to facilitate the development under Federal auspices of a full-fledged banking system competing upon favored terms with savings banks, the savings departments of commercial banks, and other financial institutions.

There follows a discussion of sections of the bill which would tend to bring about such results.

Sections 1 and 2: At the present time Federal home loan banks may make advances to members or the security on "home mortgages, or obligations

of the United States or obligations fully guaranteed by the United States." Section 1 of the proposed bill, however, would permit the home loan banks also to make advances upon "first mortgages on real estate" occupied by residential structures for the use of "more than four families in the aggregate." Section 2 of the bill would increase the permissible maturity of acceptable mortgages from 20 years as now provided to 25 years, and the amount which could be advanced from $20,000 as now provided to $50,000. Thus, the support of the Federal Home Loan Banks would be put behind expanded operations of its member institutions far beyond their original purposes as local mutual thrift and home-financing institutions.

Section 3: Section 3 would authorize the Secretary of the Treasury to purchase and hold obligations issued by the Federal home-loan banks and obligations issued by the Federal Savings and Loan Insurance Corporation in amounts not greater than three times the aggregate amount of the outstanding capital stock, reserves, and surplus of the Federal home-loan banks or the Federal Savings and Loan Insurance Corporation, as the case might be.

Thus, in support of the enlarged lending power of the home-loan banks which sections 1 and 2 of the bill would confer this section would make it possible for the banks to obtain funds from the Treasury with which to support the expanded operations of their member institutions. At present there is no provision for Government support of home-loan-bank securities and there is no evidence that the banks have been unable to float their securities in the open market.

There would appear to be no necessity, therefore, for support by the Treasury and if the reasons for such support be that it is anticipated that the broadened scope of the System's operations will result in a lack of support of its securities by investors or that there will be an expansion of its operations to an extent beyond the banks' ability to borrow on their own credit, the reasons themselves would seem to indicate the undesirability of the action.

The provision authorizing the Secretary of the Treasury to purchase boligations of the Federal Savings and Loan Insurance Corporation should be considered in the light of the proposal to lower the insurance premium rates. If the rates ought to be lowered it would not seem that such support would be necessary, and if they ought not to be lowered it would seem that the result would be to shift the burden of insurance liability from the insured associations and their shareholders to the Federal Government.

Section 8: The ability of State-chartered member institutions to take advantage of the enlarged lending powers of the home loan banks, which the bill would grant, would be dependent upon State laws governing their investments. With respect to Federal savings and loan associations, they are, at present, restricted to loans of not more than $20,000 on "homes or combination of homes and business property" within a 50-mile radius of the association secured by first liens. In addition they are authorized, free of the restrictions as to locality and amount, to make loans not to exceed 15 percent of their assets on the security of first liens "on other improved real estate."

Section 8 of the proposed bill, in addition, would permit associations authorized by the Board because of their size and location, within the 50-

mile limit but without regard to the $20,000 limitation, to make loans of not more than $50,000 "up to an additional 15 per centum of their assets on any improved real estate upon which there is located one or more structures designed principally for residential use."

Furthermore, the proposed bill would authorize Federal savings and loan associations to invest funds not loaned on the security of their shares or on the security of mortgages, in obligations of, or fully guaranteed as to principal and interest by, the United States, the stock of a Federal Home Loan Bank, or obligations issued pursuant to the Federal Home Loan Bank Act, or the National Housing Act, or in other securities in which, and to the same extent that building and loan, savings and loan, or homestead associations or cooperative banks, chartered in accordance with the laws of the State in which such Federal savings and loan association is located may invest; provided, that the Board would approve a list for each State of securities in which investments could be made.

Rather than to make the powers of Federal savings and loan associations dependent upon the powers conferred by the State of its location upon State-chartered institutions, it would seem more appropriate to require insured State institutions as a condition to securing Federal insurance to conform to standards prescribed by the Federal Government. It is quite plain that the authority which these amendments would confer far exceeds that necessary for the continuance of their operations as local mutual thrift and home-financing associations. It is also quite plain that the full exercise of all of the powers which would be conferred would place them in the position of doing a large amount of general banking business.

Section 9: Section 9 of the proposed bill would extend present exemptions from Federal taxation enjoyed by Federal savings and loan associations to "any building and loan, savings and loan, homestead association and cooperative bank" organized under State law. Under the present law Federal savings and loan associations, including their "franchises, capital, reserves, and surplus, and their loans and income," already are exempt from Federal taxation and the shares of such associations "both as to their value and the income therefrom" except surtaxes, estate, inheritance and gift taxes, are also exempt from Federal taxation.

No such broad exemptions from Federal taxation have been made in favor of ordinary savings banks or the savings departments of commercial banks whether incorporated under Federal or State law and, in the light of developments, it would seem that the present exemptions in favor of Federal savings and loan associations should be repealed rather than extended to State-chartered institutions as well.

Sections 13 and 14: Section 13 of the proposed bill would reduce the premium for insurance for Federal and other insured associations from the present rate of one-eighth of 1 percent to one-twelfth of 1 percent. Section 14 of the bill, in the event of a default by an insured institution, would permit the payment of insured accounts to each insured member either

by making available a transferred insured account in another insured institution, or "in such other manner as the board of trustees may prescribe." It would permit, if the board of trustees so decided, the full payment of insured accounts in cash rather than in the manner now provided, to wit: 10 percent cash, 50 percent of the remainder within 1 year, and the balance within 3 years in negotiable non-interest-bearing debentures of the Corporation.

While it may be true that settlement, even now, is made in cash by transferring insured accounts to another insured institution and making available to such other institution funds with which immediately to pay the transferred accounts, the proposed amendment would permit such action to be taken in a direct manner and thus give further impetus to the tendency to treat these obligations in the same manner as bank deposits and to give to them the same degree of liquidity.

In fact, the theory underlying these two sections of the bill seems to be that there is an analogy between bank deposits and shares in Federal savings and loan and other member associations, whereas, there are marked differences in the two types of liabilities.

The great majority of Federal home-loan-bank members are mutual in character. Their assets are normally on a long-term basis as is borne out by the fact that the present bill proposes to increase permissible maturities for purposes of acceptability by home-loan banks from 20 to 25 years. The great bulk of their liabilities represent obligations purchased by individuals seeking to acquire and hold an investment rather than to make a deposit. Individuals invest in these obligations because they expect a higher rate of return than can be obtained in savings banks and the savings departments of commercial banks, and it may be noted that for the year 1938 the average dividend rate of the Federal savings and loan associations was 3.74, whereas member banks of the Federal Reserve system and nonmember State banks insured by the Federal Deposit Insurance Corporation were prohibited from paying over 2-1/2 percent on savings deposits.

Investors in these associations should not expect to obtain the same degree of liquidity as in the case of a savings deposit and if the investments which they make in these institutions are to be given the liquidity contemplated by this legislation, the discrepancy in the rate of return between such obligations and savings deposits will constitute another serious competitive disadvantage for national and State banks and will result either in the growth of unsound banking practices or a mortality among the institutions competing with the favored Federal and other savings and loan associations.

While one-twelfth of 1 percent is the current rate of the Federal Deposit Insurance Corporation, it does not follow that the same rate should be applied by the Federal Savings and Loan Insurance Corporation. The risk incident to the two types of insurance and the rates which should be charged cannot be compared.

The Federal Deposit Insurance Corporation insures only the deposits of banks and the net worth of banks represented by the shareholder's

interest in the banks' capital and surplus funds protects depositors and the Corporation. On the other hand, the Federal Savings and Loan Insurance Corporation, whose member institutions are largely mutual, insures withdrawable or repurchasable shares, investment certificates, or deposits of its members, and there is no similar cushion to that found in banks.

It follows that the percentage of losses suffered by insured members of the Federal Savings and Loan Insurance Corporation which would, in turn, cause it to be exposed to loss is lower than the percentage of losses suffered by insured banks which will in turn cause the Federal Deposit Insurance Corporation to be exposed.

Furthermore, with respect to types of assets and the probability of losses in them the proportion of assets represented by cash and Government obligations is much higher in banks than in Federal and other savings and loan associations, whereas the proportion of long term, higher yield assets carrying correspondingly higher degrees of risk is greater in Federal and other savings and loan associations than in banks.

It also may be noted that the uninsured portion of deposits in insured banks, upon which they pay premiums, is much greater than the uninsured liability in insured institutions of the Federal Savings and Loan Insurance Corporation, which means that if the premium collected by the Federal Deposit Insurance Corporation was calculated with respect to the deposits insured rather than all deposits the rate of the Federal Deposit Insurance Corporation would actually be higher than one-twelfth of 1 percent.

As of September 21, 1938, total deposits of insured banks were $48,000,000,000, of which 21.7 billion dollars, or 45 percent, were insured. The rate at that time, therefore, if calculated upon the basis of deposits actually insured, would have been approximately one-fifth of 1 percent rather than one-twelfth.

Finally, when according to the annual report of the Federal savings and loan associations for the year ending December 31, 1938, it appears that 151 of a total of 1,361 of such associations, after payment of dividends, operated with a deficit, it would seem that if they are to continue to pay the higher returns which they now pay, one-eighth of 1 percent is not too high a premium rate for insurance.

Now, Mr. Chairman, that is as I have said, the unanimous report of the Board.

I would like to add something to it, which you may take as my own expression of opinion but I do not think I would find any member of the Board differing with it: In the light of the fact that our whole banking system is a rather chaotic structure, and that the lines of demarcation between the various types of institutions are not very clearly drawn, it would seem quite obvious that in the course of time Congress will have to look at that problem; and I think consideration of this proposal gets back to the question as to whether it does not further encroach on the field of commercial and savings bank operations.

Let us take the case of a specific depositor in the savings department of a commercial bank or mutual savings bank, he would find, if this law were passed, that the income from the interest paid on his deposit would, in the first place, be considerably higher than commercial banks are permitted to pay. And, secondly, that it would enjoy an immunity from Federal taxation which has never been suggested for the return from interest on ordinary savings deposits.

I would like for the subcommittee to understand that no member of the board is by any means disparaging the very useful service these institutions do render. They have a definite place in the economy. The problem as we see it is to try to keep them within the field of what would seem to be their proper field of operation rather than continue this process of slow infiltration, under which since they have been established they have been coming nearer and nearer to a competitive position with savings banks.

If it is the decision of the Congress in the end that these are the institutions which should hold the savings of the people of this country, why, that is a decision which of course the Congress can make. We are not prepared this morning to discuss as broad a question as that, but we are fearful that, step by step, as the operations of these building and loan associations are broadened, and as they are given advantages not enjoyed by the banking system, we may wake up to find that they have superseded a considerable part of the commercial banking system.

The purpose of making this report is to call the attention of the members of the subcommittee to that long-range broad aspect of the question. To do that we have had to specifically point out where we think these provisions are broadening this field.

Senator Wagner (presiding). Any questions?

Senator Danaher. Yes; Mr. Chairman.

Senator Wagner. Go ahead.

Senator Danaher. Mr. Ransom, I wish you would be kind enough to examine section 4 of this bill. I notice that in your memorandum you do not discuss it, and yet section 4 to my simple mind would indicate that the bill would create a brand new judicial system so to speak applicable to this particular kind of business. Will you please give me your views on it?

Mr. Ransom. Will you tell me the page of the bill to which you refer?

Senator Danaher. It begins on page 5 of S. 4095. It runs through many pages of the bill. It even includes within it a provision, on page 13, "that the board shall have power to make orders, rules, and regulations of general, limited, or special applicability--" meaning I take it to apply to a given institution instead of a general rule. That is a rather broad provision.

Senator Wagner. Where is that, Senator Danaher?

Senator Danaher. You will find it on page 13, line 3 of the bill, S. 4095.

Mr. Ransom. We tried to direct our comments to the broader aspect only, where it would get into the field where we have a responsibility. As to that section, and those provisions along that line, they do relate wholly to the internal management of these institutions and to the Federal Home Loan Board.

Senator Danaher. I realize that.

Mr. Ransom. The bill is rather a difficult one to analyze I will say quite frankly. It is a pretty comprehensive document. So we thought first, it would be more appropriate for an agency such as ours to limit its discussion to those things where we thought it got into our field rather than make comments on sections which do relate wholly to the other agency of the Government. Quite frankly I have not made an analysis of it. We picked out those sections which we felt our letter discussed. I am sorry I cannot give you anything that would be helpful to you there.

Senator Danaher. I understand that you have been discussing the fundamental principles of the proposed legislation.

Mr. Ransom. Yes; as it relates to commercial and savings banks of the country.

Senator Danaher. Do you know of any grant of power under existing law that would even go to the length of authorizing the Attorney General to get a United States district court to issue an order commanding a person to comply with the provisions of Federal law in an action de hors so to speak,

Mr. Ransom. It has been a number of years since I practiced law but I do not recall any such provision of law. It does seem to be a pretty sweeping provision.

Senator Danaher. Let me direct the Chairman's attention to section 9.

Senator Wagner. On what page of the bill?

Senator Danaher. Page 35. I want you to see my question.

Senator Wagner. All right.

Senator Danaher. Since we have been going on with these hearings I have been trying to study this bill. As I said o Mr. Fahey on Tuesday, this is getting an education on the subject. This is certainly going beyond anything we have done. But I believe, Mr. Ransom, you would rather not go into that.

Mr. Ransom. We limited our study to the provisions of the bill going into the field we are more directly connected with. But I would not mind expressing my opinion on anything for what it might be worth.

Senator Danaher. It is perfectly understandable, and that is all right.

Mr. Ransom. Very well.

Senator Danaher. This is in line with what you have already discussed?

Mr. Ransom. Yes.

Senator Danaher. And that is whether or not you feel that conferring such powers on this system, as is contemplated, would actually result in mortality of ordinary commercial banks?

Mr. Ransom. I think it would have a very decided effect on the savings deposits of our entire banking system.

Senator Danaher. Yes?

Mr. Ransom. I would not know any reason why the average depositor in a savings account today should not take his money out of that and put it into one of these institutions if he first has the assurance that it is insured; secondly, that he can take it out in cash whenever he pleases; that in the event of suspension of payment by the institution in question, he will get it in cash and not in the form which the bill originally provided; and, next, as I just said, he would get a considerably higher return than any of us believe the commercial and savings banks could pay on such deposits, and would get a freedom from taxation which such deposits do not now enjoy.

For those reasons it seems evident that the inducement would be great to transfer a considerable volume of the deposits from the existing banks into these institutions.

As I said, if it is going to be the final conclusion of Congress that that is a division of operations which would be made, then the line of demarcation will be drawn so that there will be no question as to where the savings of people should finally come to rest.

I think the bill would very definitely create competitive advantages for these institutions over our savings banks and the savings departments of commercial banks; and that conclusion has been reached by the Board after a very careful study of the past history of these institutions and, as I say, of the drift which seems to us to be quite clearly in the direction of constantly broadening their field.

As local thrift associations where funds are put in for the building and loan purposes originally contemplated, they do obviously serve a very useful purpose; but, like so much else in our banking system, the thing grows from time to time and gradually a change comes over it; and it is hard to go back and undo what has already been done.

We feel that any further broadening of the authorities and advantages of these institutions ought to be carefully considered before any legislation is enacted.

Senator Danaher. But suppose you had a six-family-unit building under contemplation, and the present powers are limited to a four-family unit?

Mr. Ransom. Yes?

Senator Danaher. Where is the six-family institution going to get its money?

Mr. Ransom. Aren't there many other institutions to which they could go?

As I pointed out to you, that is merely a broadening of the field in which they can operate.

Senator Danaher. Yes

Mr. Ransom. We feel that there are other sources from which such funds could be derived.

But would you think that was the normal function of a building and loan association? Isn't that a rather large operation for them to undertake?

Senator Danaher. Well, if skilled men who have had the experience of operating under the existing law feel that, very properly, the original purposes can be safely expanded, and since we already know that investment capital on a long-term basis is lacking ---

Mr. Ransom. Or timid, at any rate.

Senator Danaher. And there is no question about that. The hearings on Senator Mead's bill and other bills have demonstrated that; and we certainly would like very much to find an outlet for idle funds, and we would also like to assist in the use of durable goods and in long-term investment, and we would like to get a new medium therefor. If this bill will do it -- and do it safely -- it may be a good thing.

Mr. Ransom. Yes. If you will recall from our letter, we do not criticize that, we but simply point it out as a further broadening of the uses of these institutions. It may be that you could thereby get funds which you could not get through any other medium.

Senator Danaher. But you feel that if the original powers should be expanded, we can, for instance, restrict the insurance rate by making it smaller, and instead of a twelfth we can make it a fifth -- if you choose to take your figures?

Mr. Ransom. Yes.

Senator Danaher. And otherwise protect against the evils that you foresee, and then have a good bill?

Mr. Ransom. That does not excite me very much.

Senator Danaher. Do you think so much of the purposes that are thought would fall if we tried to do that?

Mr. Ransom. No; I do not think that would upset the whole scheme of things by any means. If, in the opinion of the people who operate these institutions, that is a desirable thing to do, and if Congress decides to do it, in the light of the whole background, I do not get disturbed very much, personally, about that aspect of it.

The emphasis we would like to put is on the advantages which would be enjoyed as to liquidity and as to tax exemptions and as to rates, over

the others.

Senator Danaher. The idea of the investment?

Mr. Ransom. Yes. As to how they invest the funds which they gather, that is a question which we have not had occasion to analyze, either.

Senator Danaher. Thank you; that is all I wanted to ask.

Senator Wagner (presiding). That is all, thank you.

Further Statement of Marriner S. Eccles, Chairman, Board of Governors, Federal Reserve System, Washington, D. C.

Senator Wagner (presiding): Mr. Chairman, would you like to add something to what has been said by Mr. Ransom?

Mr. Eccles. I think Mr. Ransom has covered the subject rather completely, so I shall not take very much time for what I have to say.

I was connected, as Mr. Fahey will remember, in 1934 when I was in the Treasury with the development of the insurance feature of this legislation; and at that time, in representing the Treasury, these concerns were looked upon not as institutions of deposits but as investment institutions, and their shares were similarly considered. It was felt that they should not be liquidated in the same way as a deposit can be made liquid, and that there was considerably more risk in connection with the long-term investments and the high loan value than there was with the average bank investment; and it was believed that the premium should be considerably higher.

At that time it was agreed that a premium of one-fourth of 1 percent would be required; and the law was passed in that manner.

Since that time the premium has been cut from one-fourth of 1 percent to one-eighth of 1 percent. Now an effort is being made to cut the premium from one-eighth of 1 percent to one-twelfth of 1 percent.

In the absence of capital and surplus, it was felt that in order to justify a form of insurance, and before all of the earnings of these institutions be paid out in high dividends--because, after all, the dividend that is paid is the equivalent of the interest that is paid on savings in savings institutions--and before those high rates were paid, more substantial reserves should be required.

In other words, the earnings of these institutions should be first used to pay one-fourth of 1-percent premium into the insurance funds; secondly, all losses should be taken; third, a reserve of 5 percent should be set up in a period of 10 years, which would mean one-half of 1 percent a year, if they did not have reserves; or if there were losses taken, that reduced the reserves, they would build them back.

That is a low enough reserve requirement. It was felt that if that was done, they would not be able to pay the high competitive rate of return on these shares, that naturally would tend to attract funds away from savings departments of commercial banks and savings departments of commercial banks and savings institutions, into this type of institution.

By the way, it was originally agreed that the reserve should be set up in 10 years; and now it is changed, to be set up in 20 years.

The liquidation in case of receivership of one of these institutions was expected to be made over a period of time. As I recall, it was originally required that 10 percent be paid in cash, and one-half of the difference be paid in the period of 1 year, and the balance over a period of 3 years, and that after the 10-percent cash payment was made, the unpaid balance was to be paid in a non-interest-bearing debenture.

That type of a program was agreed to by the other departments of the Government; but that has been gotten away from.

The form of liquidation that I mention was an indication that we did not look upon or recognize these shares as a deposit; and to make it possible to pay them in cash, to give a certificate holder any idea that he can get cash immediately for his shares, the same as he would a savings deposit, that it is insured by a Government agency, that the return that he gets on those shares is free from normal Federal taxes, and that he can get from 3 to 4 percent interest; and in looking over the rate of return that they pay, they have paid from 3 to 4 percent on an average in every State of the Union; that is what it runs.

The wonder, to me, is why, with that kind of a situation, anyone would put any money in mutual savings banks or the savings departments of commercial banks, if this sort of development is going to continue; That is, to put these shares on the basis of liquidity with those of bank deposits, while at the same time paying the type of return that is paid upon those shares. It seems to me that the liability that is created by the Government, indirectly--because, after all, the Government is possibly morally liable; the Insurance Corporation, of course, is one that is a Government agency--and it seems to me that the contingent liability could become very, very great unless more reserves are set up or created in these individual institutions and unless the premium is certainly maintained where it is, so as to build up greater reserves in the insurance concern that insures the shares of these institutions; and unless the return that is paid upon the funds that are invested in these institutions, in their shares, is less, if those institutions are getting more funds than they can readily find an outlet for, then certainly one way of meeting the situation is to reduce the rate. If they are not getting more funds, then why do they need to broaden the outlet of the lending privileges, as is proposed in this bill?

It seems to me that there is no justification for the proposed legislation. It would not be in the public interest; it would certainly create a situation that is detrimental to the existing financial institutions and existing banking

structure. It may be that all of the savings should go from the banking system into the building-and-loan system. Some people argue that the commercial banks should not have savings deposits and that they should confine their activities strictly to those of a commercial banking business. However, until such time as there is a clear demarcation between the functions of the existing banking system--which is insured--and the savings and loan system of the country, which is likewise insured, there should be no further encroachment by the savings-and-loan associations upon the banking function.

Mr. Chairman, I think that is about all I have to say. There is one other point, and then I am through: It may be said that the one-twelfth of 1 percent is as fully justified as an insurance rate in the case of the building-and-loan companies as it is in the case of banks, based upon the losses in the building-and-loan system as compared with banks. Practically all of the banks were blanketed in to the Federal Deposit Insurance Corporation; and I think it was recognized at the time that there were a good number of unsound situations; and as time went on and the opportunity was given to examine all banks more closely, that were taken in, of course it was found that there were many situations that were unsound; and mergers were brought about, liquidations were carried on, and there were some substantial losses taken by the Federal Deposit Insurance Corporation, as a result of a condition that existed long prior to the establishment of the Federal Deposit Insurance Corporation.

In the case of the Federal Savings and Loan Insurance Corporation, that was organized at a later date, and the Federal Savings and Loan concerns that were established were new. They were not old ones; they were new; and they were automatically taken into the Insurance Corporation.

The older State savings and loan associations were only taken in as they were examined; and many of them of course, are not in today--with the result, of course, that the losses taken by the Federal Savings and Loan Insurance Corporation no doubt would be comparatively small.

However, the type of business done is sure to build up a substantial liability for the future; and I do not think that the losses of the Federal Deposit Insurance Corporation, due to the condition that I have outlined, and the losses of the Federal Savings and Loan Insurance Corporation are comparable under the present circumstances.

I think I have covered about all I wanted to say on this, Mr. Chairman.

Are there any questions:

Senator Brown. I should like to ask a question if I may. Will you refer to section 3, on page 4, of the bill, Mr. Eccles, which provides for the purchase under certain circumstances of the obligations issued under title IV of the National Housing Act or the obligations of the home-loan banks? What do you think of that provision?

Mr. Eccles. That was covered, Senator, in a memorandum that was read here prior to your coming in.

Senator Brown. I see.

Mr. Eccles. Governor Ransom read that report.

Senator Brown. He expresses the views of the Board?

Mr. Eccles. Yes

Senator Brown. I had one question in mind when I read it the other day: If section 3 was adopted, then I should like to know whether or not it would be wise to provide that the price should be one that would guarantee the Treasury at least an interest rate a little higher than the rate at which they borrowed money. While it is discretionary, it would be possible for the Secretary to buy those bonds and carry them at a loss; and it does not seem to me that that should be permitted.

Mr. Eccles. Well, of course, if these were banking institutions, there would be some warrant for this type of provision; but inasmuch as they are investment institutions, the members of the Federal home-loan banks as a matter of practice, it seems to me, except on a temporary basis, should not loan funds in excess of income; and to the extent that they do not permit withdrawals in the same manner that bank deposits are withdrawn, they do not need the same type of liquidity. The fact that they are mutuals and the fact that they pay a higher return, it seems to me, put them in a category where they should not expect the same liquidity.

Senator Brown. And, of course, their assets themselves are not nearly so liquid.

Mr. Eccles. That is right.

Now, to the extent that a home-loan bank cannot go to the market, it seems to me unquestionable that it should be able to go to the Treasury and get funds to meet its maturing obligations but not to loan to its members. The member institutions would not likely require funds except if they were lending in excess of their current income, which they shouldn't do under normal conditions.

It may be that the home-loan bank's debentures that are outstanding may mature at such a time that they cannot renew them; and under those circumstances they may require Federal help in order to enable them to take care of their outstanding maturities.

Senator Brown. I rather thought that was the principal purpose of it.

Mr. Eccles. Yes; and it may be that a limitation could be made to the effect that the Treasury would be authorized to take over only an amount equal to the maturities of the outstanding Federal Savings and Loan debentures. There would be some justification in that but it would seem to me that there would be little justification in the Government's loaning money to the home-loan banks

in order for the home-loan banks to make liquid the members which are not banks.

Senator Wagner (presiding). Are there any other questions?

(There was no response.)

Senator Wagner. Thank you, Mr. Chairman.