

Statement
of
Chairman K. A. Randall
Federal Deposit Insurance Corporation

before the
Subcommittee on Bank Supervision and Insurance
of the House Committee on Banking and Currency
on February 23, 1966

INTRODUCTION

Mr. Chairman, I am here today at your request to discuss H.R. 11508, a bill "To authorize the establishment of Federal mutual savings banks." Under the provisions of the bill, Federal mutual savings banks would be chartered by the Federal Home Loan Bank Board and would be insured by the Federal Savings Insurance Corporation, the name by which the Federal Savings and Loan Insurance Corporation would be redesignated by section 201 of the bill.

I have always been a strong advocate of a Federal-State system of banking. The Corporation's function is related to all insured banks of deposit, whether state or national. I strongly support the principle inherent in the recommendation of the President for legislation to "provide for Federal chartering of mutual savings banks." I would, however, like to mention those sections of H.R. 11508 which would provide separate arrangements for chartering, supervision, and insurance protection, which I believe would overlap and complicate the present financial supervisory pattern.

The bill would require the Federal Savings Insurance Corporation to insure all Federal mutual savings banks, whether new

banks or resulting from the conversion of savings and loan associations or State-chartered mutual savings banks. Also, that Corporation would be authorized to insure mutual savings banks chartered or organized under the laws of a State, the District of Columbia, a territory, or a possession. State-chartered mutual savings banks which are insured by the Federal Deposit Insurance Corporation on the effective date of the proposed "Federal Savings Bank Act" would be granted the option of continuing to be insured by the Federal Deposit Insurance Corporation or choosing to be insured by the Federal Savings Insurance Corporation. State-chartered mutual savings banks organized on or after the effective date of the proposed Act could be insured only by the Federal Savings Insurance Corporation.

Accordingly, some State-chartered mutual savings banks could be insured by the Federal Deposit Insurance Corporation and others would be insured by the Federal Savings Insurance Corporation, thus, creating two Federal insurance plans for banks in place of one that now serves the purpose. The existing distinction between the debtor-creditor relationship of banks of deposit and their depositors and the investment relationship arising out of the acquisition of shares in a savings and loan association and its shareholders should be continued by insurance of deposits by the Federal Deposit Insurance Corporation and the insurance of share accounts by the Federal Savings and Loan Insurance Corporation.

If Federal mutual savings banks are to be chartered as banks of deposit, they might more appropriately be chartered as Federal savings banks by the existing chartering authority for national banks, the Comptroller of the Currency, and, as banks of deposit, be insured by the Federal Deposit Insurance Corporation, the agency established by the Congress to insure deposits in banks, and the agency which now insures mutual savings banks.

Turning now to the provisions of the bill relating to branches, the chartering authority, the Federal Home Loan Bank Board, could permit the establishment of a branch by a Federal mutual savings bank where it determines that a State-chartered financial institution could lawfully establish the proposed branch, or an office of an affiliated institution of the same type could be established in the same location. This language would permit the establishment of branches by Federal mutual savings banks even though the State law prohibits branches, if the Board determines that a chain or group of financial institutions are permitted to operate in the State.

These provisions offer the Federal Home Loan Bank Board extensive authority to permit branching in nonbranch States, which is directly contrary to the philosophy and functioning of the dual banking system. However, such branching is in accord with the Board's practice in recent years of allowing Federal savings and loan

associations to have branches as, for example, in the State of Florida, notwithstanding the State limitations.

As reaffirmed in recent court decisions, a national bank is permitted branches in its state only where a state bank may have a branch. This principle should likewise apply to Federal mutual savings banks.

Under the provisions of the bill Federal mutual savings banks and converted savings and loan associations and mutual savings banks would acquire a very wide range of powers, somewhat comparable to those of commercial banks. A determination by Congress that these broad powers are desirable, would suggest the appropriateness of supervision, chartering and insurance by the Federal banking agencies, rather than by the Federal Home Loan Bank System now chiefly concerned with mortgage lending.

I appreciate the opportunity to appear before this Subcommittee and express my views on this far-reaching legislation.

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