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**AMENDMENTS OF 1939 TO
FEDERAL HOME LOAN BANK ACT**

HEARINGS
BEFORE THE
COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES

SEVENTY-SIXTH CONGRESS

FIRST SESSION

ON

H. R. 5535

Superseded by H. R. 6971

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

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APRIL 25, 26, 27, MAY 2, 3, 4, 5, 9, 10, 16, 17, 18, 19, 23, 24, 26,
JUNE 1, 2, 6, 1939

Printed for the use of the Committee on Banking and Currency



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AMENDMENTS OF 1939 TO FEDERAL HOME LOAN BANK ACT

TUESDAY, APRIL 25, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10:30 a. m., Hon. Henry B. Steagall (chairman), presiding.

Members present: Messrs. Steagall, Williams, Spence, Ford, Brown, Barry, Sacks, Gore, Mills, Folger, Monroney, Wolcott, Gifford, Luce, Crawford, Gamble, Simpson, and Kean.

The CHAIRMAN. All right, gentlemen, the committee will come to order.

We have today, H. R. 5535, 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; and Mr. Fahey, the Chairman of the Federal Home Loan Bank Board, is with us to discuss this bill. I am going to ask that Mr. Fahey be permitted to conclude his preliminary statement, after which he will be glad to answer inquiries by members of the committee, and will be prepared to attend the sessions of the committee as long as it may be found desirable. You may proceed, Mr. Fahey.

STATEMENT OF JOHN H. FAHEY, CHAIRMAN, FEDERAL HOME LOAN BANK BOARD

Mr. FAHEY. Mr. Chairman and gentlemen of the committee, if it is agreeable with the committee, I think it will conserve your time and perhaps help in the consideration of this legislation, if the suggestion of the chairman is adopted.

H. R. 5535, which is before you, represents a series of perfecting amendments to existing laws governing the activities of the Federal Home Loan Bank Board offered after careful study and more than 6 years' experience. The purpose of these amendments is to strengthen the System and the Federal Savings and Loan Insurance Corporation and increase their usefulness to the millions of small savers whose money is entrusted to the thrift institutions of the country, which in turn supply a large proportion of the funds used to build our homes.

The Members of the House who were acting on this committee at the time, and who had such an important part in the enactment of the Federal Home Loan Bank Act, will recall the circumstances under which the 12 regional banks of the System came into exist-

ence in 1932 and the place they were designed to occupy in our financial system.

You will remember also the conditions which developed in 1933 and which made necessary the establishment of the Federal Deposit Insurance Corporation to insure the deposits in commercial banks and the Federal Savings and Loan Insurance Corporation to extend the same protection to the workers of the Nation who store up small sums in savings institutions.

Following the pattern of the Federal Reserve System, the Federal Home Loan Bank System was a permanent addition to the financial machinery of the United States. It was intended to perform for the thrift and home-mortgage lending institutions the same general reserve functions which the Federal Reserve provides for the commercial banks. Just as the regional Federal Reserve banks advance cash on sound collateral to member banks, so the 12 Federal home-loan banks furnish money to building and loan associations, cooperative banks, mutual savings banks, and insurance companies against conservative home mortgages.

Through its interbank operations, as need arises, the Federal Reserve is able to transfer funds from sections where there is a surplus of idle money to areas where it may be employed profitably to the advantage of business and in the public interest. The same valuable service is rendered in the home-mortgage field by the Federal home-loan banks.

Such credit operations regularly conducted in normal times are of the greatest importance to the country. The money thus made available on reasonable terms makes possible the employment of millions. Business cannot go on without this service, and the welfare of all our people is affected by it.

A fundamental conception of the Federal Reserve System, however, was that in times of emergency and panic it could extend such aid to its bank members as to enable them to meet extreme public needs, stabilize uncertain conditions, and dispel monetary fear. The Federal home-loan banks were planned to provide like protection for the home-mortgage lending institutions. The power to deal with unexpected financial developments is essential to the maintenance of any reserve system. While its importance to the commercial and industrial world cannot be overestimated, it is just as necessary to realize what it means to the home-mortgage structure. The collapse of commercial credit is a disaster which undermines our whole economy. Chaotic conditions in mortgage finance are equally dangerous. One reacts upon the other. If one cracks up, the other is sure to be in equally serious trouble.

The nonfarm home-mortgage debt of our country is the largest item of private debt in our national balance sheet, next only to Government, State, and municipal debt. Upon its careful protection from wide fluctuations depend the savings and the confidence in home ownership of millions. It is also well to remember that the employment of a great army of men in one of our largest industries—home building—is influenced directly by mortgage credit. Without a sound mortgage system capable of resisting shocks there can be no stability of real-estate or home values.

The depression which began in 1930 demonstrated that, in spite of facilities which it was supposed were adequate, the Federal Reserve

System was not sufficiently flexible to cope with the problems which confronted it. Congress, by amendments to the act in 1935, found it necessary to expand its authority to rediscount and be prepared to deal with disturbances. Meanwhile the creation of the Federal Deposit Insurance Corporation, by forestalling panic developments in the banking field, has practically eliminated the emergency hazard as it affects commercial credit and its existence supplements the power of the Federal Reserve System.

In the same way the experiences of recent years show clearly that while the Federal home-loan banks in normal times can easily take care of any conceivable demand from member institutions, they would be unable to do so temporarily in a period of sudden stress. The time has come when this defect should be remedied. With the uncertain conditions in the world today, the entire financial system of the country should be so adjusted that it is prepared to meet immediately and without question any emergency which should arise. This applies to the mortgage market as well as to commercial credit. We should not again risk such hardships as were inflicted on our people by the avalanche of home foreclosures from 1930 to 1933, which made necessary direct Government lending through the Home Owners' Loan Corporation.

Bearing the same relation to the home-loan banks and to the thrift institutions that the Federal Deposit Insurance Corporation does to the commercial banks, the Federal Savings and Loan Insurance Corporation should also be placed in a better position to serve the great mass of people who scrimp and save in order to look after their own needs and to build their homes.

These are the important general considerations to which we desire to direct your attention at the outset, preliminary to discussing the proposed amendments to existing laws which we feel are necessary to correct present weaknesses.

Because it came into existence too late and unprepared to meet the impact of the depression, the Federal Home Loan Bank System was naturally overshadowed by the operations of the Home Owners' Loan Corporation. In consequence, its significance, its indispensability to the country, the service it is rendering, its remarkable growth, and its great possibilities for future usefulness are little understood.

You will recall that the Federal Home Loan Bank Act was passed in the spring of 1932. The 12 banks were opened that fall, but by that time the mortgage and general financial panic had developed so far that but few institutions applied for membership. Up to January 1933 the System had but 101 members. It did not begin to develop membership until after the bank holiday. As of January 1, 1939, the membership consisted of 3,951 institutions with assets of \$4,400,000,000 and represented the largest and most comprehensive mortgage reserve system in the world. These member institutions are local, community enterprises. Practically all of them are mutual in character; they are economically operated, and all their net earnings go to the small savers who place money in them. A careful analysis of mortgage recordation shows that they regularly provide, from year to year, about 40 percent of the new institutional mortgage loans of the country.

When the System was organized the Federal Government subscribed \$125,000,000 of the capital. Additional capital was to be pro-

vided by the members. The Government subscription has been paid in and members have subscribed \$38,898,700, making total capital of \$163,639,700. The banks have authority to issue consolidated debentures in order to secure additional funds to loan members. There are \$90,000,000 of debentures outstanding at present. They represent a conservative investment of the highest character. The debentures without a Government guaranty carry a low rate and every issue has been many times oversubscribed. The combined assets of the 12 banks as of March 31, 1939, were \$292,292,543.38, and as of that date they had made total advances since the beginning of operations of \$496,296,758. Outstanding advances at the end of 1938 were \$198,842,000. All of the 12 banks are operating at a reasonable profit and paying dividends and not a dollar of loss has been sustained on any loan made to a member institution. The bank system is self supporting, and the Government is not called upon to advance any public money for its operation. On the other hand, it is receiving dividends on the stock it holds in the banks.

The most important amendment incorporated in this bill, is section 3, on page 3. Before taking that up, however, I would like to explain the amendments to section 10, which begin on page 1.

These amendments relate to the kind of collateral which may be offered by member institutions to the banks as a basis for advances. These member institutions all have power under the laws of the several States to make certain types of loans, which cannot in turn be used as collateral for advances by our banks. As the statute controlling the Federal Home Loan Bank System now stands, members may put up as security for advances only mortgages on one- to four-family dwellings, despite the fact that they hold other mortgages equally sound and many of which are insured by the Federal Housing Administration. There is certainly no logic in a situation where one agency of the Government is insuring mortgages which another agency cannot accept as collateral. No matter how good it may be, or even if it is insured, a bank cannot take in as collateral for a loan a mortgage on an apartment house representing more than four units.

Not only in the larger cities, but nowadays in comparatively small communities, there is a trend toward the construction of more apartment houses, and while mortgages on such housing should be handled most conservatively, the member institutions of the Bank System should be able to supply the money if they have it and it is needed. Such mortgages should not be treated any differently from other mortgages if at any time the member institution wishes to use them as collateral.

If the Federal Home Loan Banks are to fulfill their intended functions, they must be in a position to accept as collateral mortgages which are legal investments for member institutions.

Their inability to do this at present has a special bearing upon the importance of the Bank System to savings banks and life-insurance companies. There are now nine mutual savings bank members of the Federal Home Loan Bank System. As you know, the savings banks are located almost entirely in the northeastern section of the United States. In the cities they finance mortgages on a very considerable number of dwellings of the apartment-house type which house more than four families. The savings banks are restricted in the amount

of mortgages of any kind they may carry to 60 percent, or, in some cases, $66\frac{2}{3}$ percent of their resources. The balance of their funds is invested in conservative securities and such investments are governed by State laws. Savings banks which would like to be members of the Federal Home Loan Bank System point out that, under the present limitations of the Federal Home Loan Bank Act, a large part of the good collateral in their portfolios could not be utilized by them as a basis for advances either under normal conditions or in time of emergency.

There are 39 life-insurance members of the Home Loan Bank System with estimated assets of \$443,860,000. A large proportion of the mortgages held by life-insurance companies is not eligible for advances by Federal home-loan banks.

The amendments to section 10 of the present act, as set forth on pages 1, 2, and 3 of the bill now before you, propose to make mortgages on real estate other than one to four-family dwellings, eligible as collateral. Such mortgages cannot be accepted, however, at a collateral value in excess of 50 percent of the unpaid principal of the mortgage loan or 40 percent of the appraised value of the real estate securing the mortgage. The principal result of this amendment will be to permit Federal home-loan banks to accept Federal Housing Administration insured mortgages of all classes as collateral. At present, section 10 (b) of the Federal Home Loan Bank Act permits institutions which are not members of the Bank System to borrow from the banks on F. H. A. insured mortgages up to 90 percent of the unpaid principal of such mortgages. At the same time the act denies that right to the same type of institutions which happen to be members of the Bank System. If the amendment recommended is enacted, this discrimination will be removed.

It is important to recognize that this amendment would in no way affect the statutes governing the type of mortgage loans which member institutions are at present permitted to make. They would be restricted, as they are at present, to investing the major portion of their funds in mortgage loans on one- to four-family houses. Federal savings and loans institutions are permitted to use only a limited percentage of assets for loans other than on one- to four-family dwellings. Savings banks and insurance companies, on the other hand, as I have already explained, may legally make loans on multi-family residential projects.

Section 2 of the proposed bill also deals with the collateral requirements of the Bank System. It would permit the acceptance of mortgages having maturities up to 25 years instead of 20 years as at present. This amendment is needed to make the maturity requirements consistent with the provisions of the National Housing Act under which, for over a year, the Federal Housing Administration has been insuring loans with a maturity of 25 years. Many members of the Bank System are making these loans, but the banks are not permitted to accept them as collateral.

It is also proposed to eliminate the present requirement that eligible mortgages may not exceed \$20,000. It is true that Federal savings and loan associations and most State-chartered associations are now permitted to make only a limited number of loans in excess of \$20,000. The amendment would not change this condition. Savings banks and insurance companies, however, are not restricted to

mortgages in this amount. The amendment would merely permit member institutions to offer their insured mortgages as collateral for Federal home-loan bank advances. It would also permit the Federal home-loan banks to accept as security for loans the debentures of the Bank System and debentures issued by the Federal Savings and Loan Insurance Corporation. The collateral value which may be assigned for such securities is limited carefully to market or face, whichever is lower. It is obviously unreasonable for the Government to establish a reserve system for home-financing institutions and then deny those institutions the right to use their sound investments, lawfully acquired, as collateral needed to make full use of the credit-reserve system.

Section 3 of the bill is the most important feature of this measure. It offers the simplest and most effective means of placing the Federal Home Loan Bank System in a position to meet a sudden emergency without imposing any substantial burden on the Treasury. It authorizes the Secretary of the Treasury in his discretion to purchase debentures issued by the Federal home-loan banks or the Federal Savings and Loan Insurance Corporation and thus make available money to support these corporations if as the result of disorders in the financial markets, debentures could not be sold or a maturing issue could not be fully taken up.

As I have pointed out, under normal conditions, such aid to the Bank System is unnecessary. Both the banks and the Insurance Corporation can regularly dispose of their debentures at reasonable rates. In times of financial stress, however, and until market difficulties are overcome, they probably could not distribute new issues or refinance old ones. The Government is the controlling stockholder in the Federal Home Loan Bank System and owns all the stock of the Federal Savings and Loan Insurance Corporation. In an emergency it could not, as the law stands, aid either of these corporations and protect its own interest. Moreover, inability of the Government to act quickly if help were needed by either corporation would undoubtedly have a serious reaction on public confidence and exaggerate any financial disturbance.

This amendment to the act is necessary to assure bank members that they will be able to secure funds in periods of financial stringency. In addition to protecting the investment of the Government in these institutions, it provides assurance that local home-financing institutions in all sections of the country need not again freeze up and be unable to serve their communities.

Every other reserve institution in which the Government is interested is protected fully against unexpected developments, as it should be. To neglect to provide corresponding protection for the home-loan banks exposes them to unnecessary danger. Federal Reserve System may support the banking structure of the country by the issue of currency; the Secretary of the Treasury is already authorized to purchase the obligations of the Federal Deposit Insurance Corporation which provides further support for the capitalized commercial banks; the Federal Farm Mortgage Corporation, with a \$2,000,000,000 revolving fund guaranteed by the Government, may support Federal land banks and other corporations of the Farm Credit Administration. No corresponding provision has been made however, for the financial support of the Federal home-loan banks

in time of trouble by the Treasury or by the credit of the Government, notwithstanding the fact that it owns about 76 percent of the stock in the banks. The Treasury would assume no risk if, in the discretion of the Secretary, it was able to purchase and carry, temporarily, debentures of the Bank System. As I have pointed out, they represent a most conservative investment, backed not only by the combined resources of the banks but by those of borrowing members as well. The Treasury would receive interest on them at a rate agreeable to the Secretary and would merely carry them until, with the return of more normal conditions, they could be sold in the open market. If the authority proposed is given to the Secretary of the Treasury, the Bank System will really represent what it was intended to be—a reserve system able to take care at any time of the needs of its membership. It is easier to prevent deflationary tendencies which arise from fear than it is later to remove that fear after a deflationary cycle has begun in the home-mortgage system with its widespread foreclosure of home mortgages.

Mr. Fred W. Catlett, member of the Board, has given personal attention to the amendment provided for in section 4 of this bill, and also to sections 10, 11, 12, 13, 15, 16 and 17, and I am going to ask him presently to explain the necessity for these amendments.

Preliminary to this, however, I would like to review section 14 of the bill which provides for a reduction in the premium rate charged by the Federal Savings and Loan Insurance Corporation from one-eighth of 1 percent to one-twelfth of 1 percent. In our opinion, this reduction is most important, in order that the Insurance Corporation may more adequately fulfill the purpose for which it was established by Congress, to encourage the widespread accumulation of private savings in local thrift and home financing institutions and provide an adequate supply of mortgage credit.

At the present time the premium rate is one-eighth of 1 percent. The Corporation may also assess an additional one-eighth of 1 percent, making a total possible annual premium of one-fourth of 1 percent of total share and creditor liabilities. The proposed amendment does not contemplate that the Corporation will give up the right to make an additional assessment, if necessary, to absorb losses and expenses. The amended section merely reduces both the premium and the additional assessment of one-twelfth of 1 percent; thus making possible a total of one-sixth of 1 percent.

It should be noted in this connection that there is no authority to levy an additional assessment on commercial banks insured by the Federal Deposit Insurance Corporation. We feel, however, that in the interests of conservative operations, it is wise to retain the right to levy an additional assessment on insured savings and loan associations.

A reduction of the insurance premium is in the public interest. Wherever savings and loan associations throughout the country have been insured, there has been an immediate increase in small savings. During the last 2 years the rate of growth of such savings has been greater than for any other class of financial institutions in the country. Our experience to date indicates that insurance of accounts not only increases public confidence and savings but it also bring into active use a considerable amount of money previously hoarded. This increase in the amount of mortgage funds available, which can be

attributed to insurance of accounts, has had a very beneficial effect on housing developments. This influence is particularly noteworthy in small communities, where there is a great need for housing, but where quite often adequate credit facilities are not as plentiful as in the larger cities.

The present premium rate of one-eighth of 1 percent is considered unduly high by many institutions, which have, therefore, hesitated to provide insurance protection for their savers. Institutions of the mutual savings bank and savings and loan type must of necessity operate on a close margin, and the cost of insurance becomes a matter of real importance. All over the country the rates on home mortgages have declined sharply. These institutions must pay a reasonable rate of return on the money placed in their custody, must provide for capable management, and accumulate reserves. The insurance cost is, therefore, an item which must be taken into consideration. A reduction in the premium should encourage many of these institutions to provide insurance, and thus directly bring more funds into the mortgage-lending field.

It is interesting to note that up to December 31, 1938, settlements made by the Federal Savings and Loan Insurance Corporation since the beginning of operations total only 2.6 percent of total premium income during the same period, or only \$140,000. Institutions whose accounts are insured by the Federal Savings and Loan Insurance Corporation numbered, as of December 31, 1938, 2,097 with assets of \$2,129,000,000. The Corporation pays all of its operating expenses out of the returns on its investments, and as of March 31, had accumulated a reserve of \$17,138,297.35.

If it is agreeable to the committee I would like now to have Mr. Catlett explain sections 4, 10, 11, 12, 13, 15, 16, and 17, after which I will take up the remaining sections, if that is satisfactory to the committee.

The CHAIRMAN. There will be no objection to that. Mr. Catlett, you may proceed.

STATEMENT OF FRED W. CATLETT, MEMBER, FEDERAL HOME LOAN BANK BOARD

Mr. CATLETT. Gentlemen, I have been asked to explain section 4 of the bill, and the sections dealing with the Federal Savings and Loan Insurance Corporation, except the section reducing the insurance premium (sec. 14).

Section 4 merely provides that the Federal Home Loan Bank Board may sue to enforce its rights and powers and its orders, rules, and regulations. The Board has extensive regulatory and considerable quasi-judicial power, and it is necessary in the exercise of that power that it have ready access to the courts. It is provided that the suit may be instituted in any court, State or Federal, and the Attorney General is given the power to determine whether the suit shall be brought in the name of the Board, or in the name of the United States through the Attorney General, and whether the Board shall act through the Attorney General, or may use its own attorneys, subject to the direction of the Attorney General. This section has been cleared with, and is satisfactory to, the Attorney General's office.

Section 10 merely clarifies and expands, in accordance with present practice, the technical definition of an insured account. The present definition is inadequate. The amendment does not change the \$5,000 limit on the total insurance which any one person may have in an institution insured by the Federal Savings and Loan Insurance Corporation.

Section 11 changes the name of the Federal Savings and Loan Insurance Corporation to Federal Savings Insurance Corporation, which is a more accurate description of its functions. It insures savings up to the amount of \$5,000 per investor. It does not in any way insure loans. That is done by the Federal Housing Administration. The present name is unwieldy and has caused unnecessary misunderstanding.

Section 12 does not alter the present practice of the Insurance Corporation but merely states it with clarity and certainty. Under the existing statute the capital of \$100,000,000 was paid for by the Home Owners' Loan Corporation with its bonds, which were bearing at that time 3 percent interest.

The law now provides for the payment of "dividends" on such stock out of "net earnings" at a rate equal to the interest rate on such bonds, and that such dividends shall be cumulative. After paying the dividend for the first year, the trustees of the Corporation came to the conclusion that a proper administration of the Insurance Corporation required the accumulation of adequate reserves, and that the "net earnings" of the Corporation could not be arrived at without first building up such reserves. Since dividends cannot properly be paid unless there have been "net earnings," dividends have not since been declared. The proposed section provides for a dividend as soon as the 5 percent statutory reserve for losses has been established, and waives any accumulation of dividends to date.

The bonds issued by the Home Owners' Loan Corporation in payment of the capital stock are callable in 1944 and due in 1952. Under present market conditions the Insurance Corporation would be unable to reinvest that sum to produce an income of 3 percent, but under the probable interpretation of the present statute the Insurance Corporation is obligated to continue to pay cumulative dividends of 3 percent indefinitely. The effect of the present statute, therefore, is to impose an unintended fixed charge upon the funds of the Insurance Corporation. The amendment proposed merely requires the Corporation to pay noncumulative dividends on its Government capital at a rate equal to the cost of money to the Government when the 5 percent statutory reserve has been accumulated.

Section 13 merely permits savings banks to have their accounts insured by the Federal Savings & Loan Insurance Corporation, as has been explained to you by Mr. Fahey. Under the present act they are eligible for membership in a Federal home-loan bank. This section permits them to take advantage of the insurance of the Federal Savings & Loan Insurance Corporation if they desire to do so.

Section 15: Under the existing law when an insured institution defaults, the insured members have the option of new insured accounts in another insured institution, or 10 percent in cash, 45 percent in debentures due in 1 year from default, and 45 percent in debentures due in 3 years from default. These debentures do not bear interest. The amendment, in language substantially similar to that

of the Banking Act of 1935 with reference to the Federal Deposit Insurance Corporation, requires payment of the insured accounts as soon as possible, but permits the board of trustees of the Insurance Corporation to prescribe the manner of settlement.

Section 16: Under the present act when an insured institution defaults the Corporation is authorized to make contributions to such institution, but it is provided that no contribution shall be in an amount in excess of that which the Corporation finds to be "reasonably necessary to save the expense of liquidating such institution." In practice, that phrase has been found difficult to interpret and apply and it seems desirable to clarify the section. It is believed that the intent of the present provision is not altered by the amendment.

Section 17: At present, if an insured institution voluntarily terminates its insurance, the insurance of its members' accounts immediately ceases, but the institution must continue paying premiums for 3 years, with no benefit to itself or its members. On the other hand, if at present the Insurance Corporation terminates an insured institution's insurance, for any violation of the rules and regulations, the insurance of existing insured accounts continues for 5 years and the institution must continue to pay premiums for 5 years. The amendment would improve both situations, by providing that in either voluntary or involuntary termination, the institution shall immediately pay a "final premium" at twice the rate of the last premium previously paid, and that the existing insured amount of each insured account, less withdrawals made from time to time thereafter, shall remain insured for a period of 2 years.

The section also contains provisions for notice and hearing in involuntary termination and for notice to insured members in either type of termination, and a number of procedural provisions.

The CHAIRMAN. All right, Mr. Fahey, you may resume, if you will.

STATEMENT OF JOHN H. FAHEY—Resumed

Mr. FAHEY. May I now take up sections 5 and 6, which cover what we have found to be desirable amendments to the Federal Home Loan Bank Act to improve our system of examination. It is important that the examination of financial institutions shall not be conducted in such a manner as to intrude upon the proper responsibilities of management. At the same time it is necessary, however, that examination and supervision shall be so conducted that the public interest is protected fully. It is of great importance to properly managed financial institutions as well as to the public that the system of examination shall be comprehensive enough to disclose and remedy dishonest practices and destructive unfair competition. Financial difficulties are invariably caused by managements which forget their trustee responsibility and handle recklessly the money entrusted to their care. I do not think the amendments relating to the examination system call for detailed discussion, since we do not feel there is basis for reasonable objection to them, and they follow the usual lines.

And I continue from that point.

Relative to section 7, the authorities of the District of Columbia contend that since the Home Owners' Loan Corporation is a separate corporation, notwithstanding the fact that it is owned by the Govern-

ment, its building is not Federal property and should be taxed as any private business building in the District would be taxed. They have levied an assessment against the property and the issue can be settled only by a clarifying amendment to the act such as is here presented or by litigation. Clearly, it is desirable to avoid litigation.

Section 8: Under present provisions of the Home Owners' Loan Act of 1933, the character of mortgages which may be made by Federal savings and loan associations is narrowly limited. In some communities, particularly in the larger cities, multifamily dwellings are an economic necessity, as I have already suggested. Federal savings and loan associations, however, are not permitted to make loans on this type of property to an extent sufficient to employ the funds which they have available. Section 8 would correct this situation. Authority to make such loans is not needed by associations in small communities, and the amendment, therefore, proposes to vest in the Board discretion to permit only institutions which have surplus funds and are located in the cities, to use a somewhat larger proportion of their assets for loans on other than one- to four-family houses.

Under the existing statute, mortgage loans made by Federals are restricted to first liens of not more than \$20,000 on one- to four-family homes or combination home and business property located within 50 miles of their home office. The only exception is that not to exceed 15 percent of assets may be loaned on first liens or "other improved real estate" without regard to the \$20,000 and 50-mile limitations.

Section 8 would authorize the Board to permit certain institutions, because of their size and location, to invest an additional 15 percent of assets in residential mortgages other than one- to four-family home loans. This amendment makes it possible for Federal savings and loan associations to cooperate more fully with the national-housing program, while still maintaining their essential character as local thrift and home-financing institutions.

The investment powers are further liberalized to some extent by permitting Federal savings and loan associations to invest in such securities as are legal for trust funds. The Home Owners' Loan Act of 1933 limits investments of this type to Government bonds and to debentures issued by the Federal home loan banks or the Federal Savings and Loan Insurance Corporation. They cannot invest idle funds for their reserves or for temporary return in other sound securities. There is every good reason for permitting them to invest funds which they are unable for the time being to place in mortgages in such securities as are usually legal for trust funds.

Finally, this amendment would also permit Federal savings and loan associations to make loans under title I of the National Housing Act and thus cooperate more fully with the national-housing program. Under present limitations, they are not allowed to make such loans.

Section 9: If a savings and loan association which has a Federal charter, wishes to abandon it and reconvert to a State charter, it cannot do so under the provisions of the present law. Many of the State statutes authorize Federal savings and loan associations to obtain State charters by reconversion but such associations are now unable to make such a change. The provision here presented would

represent reciprocity between the respective States and the Federal Government in the matter of chartering home-financing institutions.

We feel it is also well to provide that State-chartered institutions may not transfer to Federal charters in contravention of State laws.

Mr. Catlett has already covered sections 10 to 17, with the exception of section 14, to which I have referred. The only remaining section, No. 18, is merely the separability clause.

That, Mr. Chairman, concludes our general statement relative to the scope and purpose of this bill.

Mr. LUCE. Mr. Fahey, I wish to express my appreciation of your organization and the share I have had in its development. It was created as an instrumentality to further the building of homes. The word "home" appears in its first title, and it appears in the second title, "Home Owners' Loan Corporation," and it is an organization based on the home.

Mr. FAHEY. Yes; that is correct.

Mr. LUCE. Now, an apartment house is not a home in any conceivable way. No man hopes to die in one, but most men hope to get out of one as soon as they can. They are temporary places of shelter; they are, in short, business enterprises and not philosophic enterprises.

Now, you will recall that in my own locality five trust companies, I think it was, which went on the rocks because of their investments in that sort of thing.

When I came here 20 years ago, the region between Twelfth Street and Sixteenth Street was a high-class region. Most everybody today wants to live west of Sixteenth Street. Twenty years ago, there was not a business house on Connecticut Avenue. Today, there is nothing but business houses being built. The character of a neighborhood changes, and then deteriorates rapidly. Do you have any change in mind as to the 25-year limitation, that inside of that limitation, the apartment house will go on the rocks? Would you say why you think it is necessary to spread the activities of loan institutions to cover business enterprises of the apartment-house nature?

Mr. FAHEY. Mr. Luce, one of the difficulties is, whether you are going to draw the line on 4-apartment houses or 6-apartment houses. And, again, whether we like it or not, there could be very little doubt that there is, today, a very considerable demand, a greater demand than at any time in the past, undoubtedly, for rental housing in our cities. Not only that, but it is to be observed, more sharply than ever before, that that condition is true today in the smaller communities, down to 30,000 and 40,000 inhabitants. One reason for that, undoubtedly, is that invariably a well-planned multiple-unit building can be constructed more economically than can a single or double house.

Now, the practical question, however, which you have raised and which arises is whether there is any more hazard in a loan, a sound, carefully made loan against an apartment house than there is in any other kind of home structure. That all depends on how well the structure is planned, the extent to which its environment and future possibilities are taken into consideration; in other words, the community influences, which have so large a bearing upon the character of that loan.

We have all observed that, in communities where fundamental changes take place in the industrial background of a town or city, just as great a loss and as much danger develops in the ownership of single or double homes as in the case of apartment houses.

The conditions to which you are referring, Mr. Luce, in the State of Massachusetts and here in Washington, of course, are duplicated in all sections of the country from time to time. They have been in Boston, as you well know. And it all depends, in the last analysis, upon the skill and care with which the mortgage is made, whether it be one of considerable size or a smaller one.

The savings banks in the cities are large lenders on apartment-house mortgages, on a most conservative basis, however, and I think that an examination of experience would show that these difficulties have been no greater in that field than they have been in the field of the single or double house.

Now, as I have said, unquestionably, a greater demand is developing for multifamily units in many sections of the country. You have it in southern California, you have it in Florida, you have it in States like North Carolina, States like Georgia; you have it even in some of the smaller communities of New England, where it had never developed before; and the question is, whether these lending institutions are going to be in position to provide funds for the kind of housing which apparently the people want, without interfering at all with the demand for the direct ownership of single homes.

I do not see, Mr. Congressman, how you are going to avoid loan losses which develop in connection with the ownership of homes, whether they be single or multiple, except by the skill of those who are entrusted with the trustee responsibility for the money placed in the mortgages, and who are careful to avoid, and who lend their strength to preventing, the kind of wild fluctuation and speculation which have had such a large part in the upset of our national economy in the past.

I think that any critical examination of what happened in the housing and real-estate field from 1922 to 1928 will demonstrate, clearly, that the speculation in the real-estate field and in the home field was just as serious and represented just as much inflation as we saw in the stock market during the same period.

Mr. SACKS. Is it not true, Mr. Fahey, that the mortgage on the apartment house is a greater risk than on the home, because, in the home, you have the added advantage of sentimentality, the desire to keep it; whereas, in the apartment house, it depends upon the money-making ability of the owner of that apartment house?

Mr. FAHEY. That is quite true, but the desire to keep a home may not afford sufficient protection. If the conditions in the community so change that the owner's equity in the home has shrunk, he has not the incentive to remain in possession of it. Without naming them, which I prefer not to do, I can point to one community after another around this country where the shifting in the character of the industry completely undermined the real-estate values and all of the home values, no matter what they were in the communities. We have any number of "ghost" cities and communities around this country, where the values have been so undermined that they have been almost completely destroyed in the last 20 years, and that, in many instances, quite irrespective of the influence of the depression.

Mr. SACKS. You think that the giving of this right to the saving and loan associations to invest in large apartment houses, et cetera, that is, these institutions that are entrusted with the savings of many people, would not affect their stability?

Mr. FAHEY. Here is a point that you will observe: That that right is limited to institutions in the large communities, in the cities. In our large cities like New York and Boston and Chicago and elsewhere, such institutions, of course, are in quite a different situation from those in the smaller communities. Today a large proportion of them has a surplus of funds which they cannot lend on single or double houses. Now, under this plan, under the limitation made by the Board, so as to prevent them from exceeding the speed limit, if I may so express it, they would, nevertheless, be given the opportunity to employ their funds conservatively and carefully, but yet employ them.

Now, I would agree with you, or any other member of the committee, that through any change in this act along this line, the Board ought not to be allowed to permit these institutions to get out on a limb and to indulge in the making of all kinds of speculative loans.

Mr. SACKS. You realize that, for example, in the city of Philadelphia, where the building-and-loan associations were hit very heavily, that those who were hit the greatest and those maybe who did not survive, came from those who invested in large apartment dwellings and large mortgages; and that those who were able to survive, at least save most of themselves, were those who loaned to the individual home owners? Do you realize that?

Mr. FAHEY. Under ordinary circumstances, there is, undoubtedly, a better market for a single unit or double unit than there is for a multiple dwelling. But on the other hand, of course, we have been impressed with this problem, as we have to be, by the observation of its complications on a national basis. I mean by that, that we are compelled to look at this picture as it affects the country, and the country as a whole. We have to recognize that conditions vary widely from one section of the country to another; and while it is undoubtedly true, to a large extent, as you say, that there is usually more risk and often greater loss in the multiple units above four; yet, nevertheless, an examination of the whole situation will show clearly enough that, in times of real difficulty, it does not make much difference whether it is a single house or whether it is a multiple house; they get hit just about alike, if the loans are carelessly made.

The CHAIRMAN. Mr. Fahey, in that connection, it seems to me that we are going just a little bit afield in our discussion, if we undertake to emphasize too much the need of the safety of loans of this class. It is to be assumed that whatever loans may be permitted under this law, will be safeguarded by the act and its administration. So that, really, the more fundamental question suggested by Mr. Luce is the paramount consideration in connection with loans of this type.

Mr. FAHEY. That is right.

Mr. LUCE. That is why I was touching on that, particularly. You may not be familiar with why we drew the line at four apartment houses. That came about through the fact that Congressman McCormack represents a district which is full of what are known as three-flatters, and in my own district there is a goodly or badly number of them, depending on what you call them.

To carry out the purpose, in my own first venture in housing, I built a three-apartment house and lived in one of the apartments until it was paid for. I bought that house for a home, not for an investment, and I lived in it 10 years. Mr. McCormack called the attention of this committee to that situation, and that line was drawn between four-apartments and others, because we did not think that a man would build a five- or six-apartment house with the intention of making a home of it. Furthermore, I paid for my house monthly, on the amortization plan, and I paid for that house in 12 or 14 years.

Now, comes the F. H. A. and other institutions, which want to make payments in 25 years, by somebody who does not live in the house, at all, perhaps. It strikes me that you are going far afield for the purpose of enacting legislation which was to help home building.

Yesterday, I was talking to a man who is thoroughly familiar with the conditions in Europe, and specializes in that line, and he told me that, on the continent of Europe, the new housing projects are all outside of the cities, and consist almost altogether of single homes. That is what some of us here and in the House keep hammering on. We cannot believe the social relations, which are desirable in a community, are improved by building apartments. If we had our way, we would compel the Federal Housing Administration to go outside and build single houses.

Mr. GIFFORD. Mr. Fahey, I want to suggest something. I think the paramount idea in this bill is enlarge upon the Home Owners' Act, and provide more capital. I do not want to see you defend something that perhaps you do not want to defend. I think you will agree with me that you would rather have homes—40 homes at \$4,000—than an apartment house at \$4,000 a unit, would you not?

Mr. FAHEY. Well, I do not know. I think that would all depend on the conditions and circumstances.

Mr. GIFFORD. I think you know. I think you are dodging that issue.

Mr. FAHEY. Well, I would say, from the standpoint of investment, it would be, with me, wholly a case of management. It would depend on what was presented.

Mr. GIFFORD. You take a city of 100,000 people, and you see them building a 40-unit apartment house or 50-unit house, where it costs \$4,000 a unit, that certainly would not be as good an investment in that kind of a building, where a unit was worth \$4,000, as in that number of single homes, especially when you put that authority in housing administrations of cities of 100,000, where the labor belongs to the unions; in other words, making it just as costly as it would in your own city, or Philadelphia or New York. I understand there are certain cities where apartment houses have to be built, so as to compensate for the shortage of land.

Mr. FAHEY. I think it is not merely a shortage of land, Mr. Congressman, but the preference and convenience of some families.

Mr. GIFFORD. I thought it was a matter of shortage of land, and they have to go up in the air.

Mr. FAHEY. I do not think that follows, at all.

Mr. GIFFORD. Why is it that you come in here this morning and want to bail out the life-insurance companies and the savings banks, who insure mortgages up to 80 percent? Why do you not let them

go on and take it, instead of standing back of even the large life-insurance companies or savings banks?

Mr. FAHEY. Mr. Congressman, it is not a matter of bailing them out; it is a matter of their having recourse to the Bank System, to utilize the valuable collateral that they want for loans.

Mr. GIFFORD. The Federal Reserve, itself, was limited very carefully to the kind of collateral that it would take from banks at first, and it has been enlarged.

Mr. FAHEY. But, in turn, they are taking insured mortgages, under the amendments of the law of 1935 and the regulations made in connection therewith.

Mr. GIFFORD. I say, it has been greatly enlarged, of course.

Mr. FAHEY. Now, of course, on that, the purpose was merely to provide for an emergency, because under the ordinary circumstances, there would be no occasion to do anything of the kind.

Mr. GIFFORD. That is another case then where the Government intervened to subscribe to a tremendous amount of capital stock.

Mr. FAHEY. No; the Government does not have to subscribe for any large amount of capital stock here.

Mr. GIFFORD. Or guarantee it?

Mr. FAHEY. Or guarantee of capital stock. The arrangement provided here is, merely, that the Treasury would be enabled to take the debentures of the Bank System temporarily, and there would be no occasion to do it under the ordinary circumstances, no reason why it should. On the other hand—

Mr. GIFFORD. If it is temporary, it has to be met sometime.

Mr. FAHEY. I beg pardon?

Mr. GIFFORD. I thought I read this carefully. It would seem that, in time of emergency, the Government would have to stand back of perhaps a very large amount of loans.

Mr. FAHEY. It is a further fact, in time of emergency, Mr. Congressman, is it not, and I mean a real emergency, that the Government has got to stand back of our financial system, anyway? Nothing else will do. Experience since 1929 demonstrates that, clearly enough.

Mr. GIFFORD. Is not the basis of this bill, the particularly important one, that you want to enlarge the activities of the Federal home-loan bank?

Mr. FAHEY. No.

Mr. GIFFORD. You want to take more collateral?

Mr. FAHEY. No; we want to be in position to take collateral that is available and that cannot now be taken care of, if the need for it arises.

Mr. GIFFORD. You think the life-insurance companies should have some fountain to which they can come?

Mr. FAHEY. In the event of difficulties in the mortgage market, when they have to have additional cash funds, they are in the same position as other institutions. Let us remember that the insurance companies had to suspend the making of policy loans in 1932 and 1933, just as the mutual savings banks had to have their depositors file notice, in order to get funds, and your building and loan associations and institutions of similar type had to follow the same policy.

Mr. GIFFORD. I think you said that depended on how carefully you made those mortgages, and the social conditions surrounding them.

Mr. FAHEY. That is right.

Mr. GIFFORD. Now you come here advocating \$20,000 mortgage, to be accepted by the home-loan bank. You are extremely familiar, I know, with the F. H. A., the kind of mortgage they have been taking on large apartments.

Mr. FORD. Mr. Fahey, is not one of the objectives of the bill to provide for the utilization of the large pools of money that are now unable to find an outlet?

Mr. FAHEY. That is correct, in the cities.

Mr. FORD. In the cities?

Mr. FAHEY. Yes; that is correct.

Mr. WOLCOTT. Mr. Fahey, throughout your statement, you mention that, in a period of sudden stress or emergency, certain things ought to be done. What emergencies do you anticipate here?

Mr. FAHEY. That is difficult to say. This country, more, I think, than any other in the world, has, for decades, suffered from wide swings in business cycles. All of the members of this committee, everyone who has studied the banking and currency system of the country, realizes what the conditions were previous to the enactment of the Federal Reserve Act, so far as the United States was concerned, and the ineffective character of our financial system. When the Federal Reserve Act was passed, it was supposed that its power and authority was such that it could meet quickly any kind of difficulty that arose in this country. The experience from 1930 to 1933 showed that it could not. The banks had in their portfolios plenty of valuable collateral that the Federal Reserve banks could well make loans against, but because of the limitation of the law, those loans could not be made. I think there is no question that the restrictions on the power of the Federal Reserve Board to come to the aid of business through the banks was, unquestionably, in a large measure, responsible for the development of the depression and the depth to which it went. Now, remember that, in the same way, while we created this Federal Home Loan Bank system as a reserve system, it was impotent to meet the conditions that developed in the mortgage field, and the result was that the Government, itself, through the Home Owners' Loan Corporation had to go into direct lending in the final distribution to the mortgage lenders of the country, individuals and corporations, of something more than \$3,000,000,000.

In my opinion, the banking structure of this country should be so implemented, and should be in such position, that it can, at any time in the future, immediately take care of the unsatisfactory conditions which begin to develop, and avoid the necessity of the Government being brought back into direct lending of that character, through the Reconstruction Finance Corporation, the Home Owners' Loan Corporation, or anything else. Yet, in my opinion, it is absolutely true that, without reserve machinery, whether it be in the field of farm mortgages or home mortgages or commercial paper, be so set up that it can meet any kind of untoward conditions that develop, you will certainly be obliged to bring the Government in to help, whenever things get really bad.

Now, the evolution of the depression from 1930 to the end of 1932 was something that certainly was not anticipated. In 1929, 1930, or 1931, there was little realization in the country as a whole of the extent to which it was going, and we did not act until it was too late. Now, it is my point, and I am sure the point of all of the

members of our Board who have given it serious thought, that the mortgage system is of such importance to the country that we ought to be sure it is now placed in such condition that we are not going to be, under any circumstances, called upon at any time to organize another H. O. L. C.

Mr. WOLCOTT. The Home Owners' Bank Act was created, primarily, to provide a convenient place where the banks and lending corporations might discount their own paper. We gave the Federal Reserve System, in the Banking Act of 1933 and the Banking Act of 1935, such powers as to provide that the Federal Reserve System should become the crystallization of the United States Government. As I read the act and studied it, it was never intended, originally, that the Federal Reserve System should be the fiscal agent of the United States Government, politically controlled, or under the control of a highly politicalized Board. Now, we have tied the national debt to the credit of the Nation, through the exercise of the powers in the Federal Reserve Act, which I think is very dangerous. But we have taken that step.

Now could not the purposes of the home-loan banks be accomplished by a few amendments of the Federal Reserve Act?

Mr. FAHEY. You mean by that, to make, for example, the debentures of the Federal home-loan banks available for rediscount with the Federal Reserve?

Mr. WOLCOTT. Yes; and expand the activities of the Federal Reserve System?

Mr. FAHEY. There are, of course, a variety of ways in which the objectives of which I have been speaking could be attained. We had considered the question of rediscount with the Federal Reserve and several other plans, and we came finally to the conclusion that the one here offered, of discretionary purchase by the Treasury of debentures, was the simplest one and the easiest one.

I think it is perhaps to be assumed that, if the Federal Reserve Act were amended along the lines that you suggest, the System would, in time of need, take over such debentures. I do not know whether you would make it mandatory or not.

Mr. WOLCOTT. How can the Home Loan Board put the brakes on?

Mr. FAHEY. You can, as a matter of fact, put the brakes on just as you can in the Federal Reserve System, by raising the loan rates. Not only that, but, of course, through the examination system, we have opportunity, constantly, to observe just what these institutions are doing; and every examination report that comes in, if it shows an unsatisfactory condition, is immediately taken up by the Board and corrections are insisted upon.

Mr. WOLCOTT. We will assume that the whole building activities of this country, as influenced by the agencies of the Government, have accelerated so rapidly that it is determined that we should ease up on loans for home purposes. Now, there is nothing to prevent a bank, that has subscribed to Home Loan Bank System, from pulling out. The only advantage to a bank staying is to provide this means of discounting its own paper. Now if they are expanded into the home-building field of their own accord, and you accelerate this activity to the point where it is profitable for them to do so, and credits are available otherwise, through the excess reserves of the banks, or the powers which are now developed for credit expansion, it seems to

me that they can throw the Home Loan Bank Board right out of the window and continue, and you have no brakes on them.

Getting back to the question of the Federal Reserve, as I study the actions of the Federal Reserve, with respect to the depression, it seems to me that it was one more of maladministration than it was lack of power. I think the bankers of the country are assured now that, if the Federal Reserve Board had been given authority—if the Federal Reserve Board had given authority, as requested, to the Philadelphia bank and New York bank and the Chicago bank, all of which were crying at the Federal Reserve's doors for raising the rediscount rates, and stopped the unwarranted inflation in 1929, we would have at least cushioned the depression.

Now we find the Federal Reserve Board has reversed that process and has the power to reverse it under the present conditions, and we find the Federal Reserve Board, or, at least the Chairman of the Board, advocating the expenditure of untold billions for some fantastic purpose which we have not been able to determine.

I think that we should hesitate just a little before we set up a competing agency to do what the Federal Reserve Board can do now with a few simple amendments, because the Home Loan Bank Board is just as politicalized and has as much politics as the Federal Reserve Board and is under the complete dominance and authority of the executive branch of the Government; whereas, as a matter of fact, the Federal Reserve Board was set up as an independent agency to provide for flexible credit, to meet conditions that existed, to meet the existing demands, and was never intended, as I understand it—it was never intended that the Federal Reserve System would be used for the dual purpose of controlling credit and maintaining the credit of the United States.

Now, we find ourselves in this position: That if the Federal Reserve or the President senses danger to Government bonds, due to the withdrawal of investments in Government bonds for the purpose of expanding industry, and providing for the necessary credit to industry and business, through the open-market operations of the Federal Reserve System, we can compel the freezing up of items which would otherwise be available to industry, and thereby tell the banks to buy Government bonds.

Now, by the same token we can give that authority to the Home Loan Bank Board, to virtually compel the banks to invest in this class of paper, in a market which is sure eventually to be saturated, without some opportunity or some authority somewhere to put the brakes on them, we will have contributed to this spirit of inflation, without creating any means of stopping it, if it once starts.

I think you should give very careful consideration to that question.

Mr. FORD. May I make an observation at this point, Mr. Chairman?

The CHAIRMAN. Yes.

Mr. FORD. Of course, I take exactly the opposite view of what the Board is trying to do than that held by my distinguished friend from Michigan.

Are you not attempting to be forearmed against the day which may, if experience has taught us anything, come, and are you not inaugurating a policy that seems to me ought to be with approval of every thinking, conservative person? You are trying to forearm

against the day when it might be necessary to expand your institution and extend aid to the smaller institutions that are threatened with trouble. Is that what you are trying to do?

Mr. FAHEY. That is exactly it, Mr. Congressman. That is what should have been done in the first place, I think, when the act was passed.

Mr. WOLCOTT. The only emergency which you can anticipate, or for which you can use this new power, is to offset deflation?

Mr. FAHEY. Or tend toward deflation.

Mr. WOLCOTT. Or tend toward deflation. Now, just a minute. Deflation in the building trades will perhaps follow the deflation of money values, the purchasing power in business in general, which can be completely offset by the powers which have already been given the President in that respect, or it can be caused by a saturated market, a home-building market.

Now, when we listened to the Federal Housing Administration testimony, it developed that there were several localities in the United States that were very much overbuilt, and there is bound to be deflation in the real-estate markets in those particular localities. Washington was mentioned as one of them, and Detroit was mentioned as another. But in the country at large, we were told that there was still a demand for homes and the continuance of the act was justified, but we cut down their authorization from \$6,000,000,000 to \$1,000,000,000, to prevent acceleration of the act, which might cause us to reach that saturation point too rapidly.

Now, you are asking us to supplement that act by doing just—as I see it now, without studying it carefully—just what you did until we cut the authorization of the F. H. A. down.

Now, when you reach that saturation point, you are going to have a deflationary condition in the home-building market, and the only way that you could meet that is to accelerate home building.

Mr. FAHEY. If you will permit me, there are a couple of observations I would like to make, Mr. Congressman. One, you suggested a moment ago that the policies of the Federal Home Loan Bank Board were necessarily those of the Executive and dictated by the Executive. I think I ought to correct any misapprehension on that point by saying to you that the President of the United States has never made a single suggestion to the Federal Home Loan Bank Board, or to me as chairman, relative to the policies of the Federal Home Loan Bank Board.

Mr. WOLCOTT. I grant that, but he has, of course, the right to do so?

Mr. FAHEY. Certainly.

Mr. WOLCOTT. What would the attitude of a politically appointed board be, if the President of the United States asked you to adopt such a policy?

Mr. BARRY. Mr. Chairman, I make a point of order.

The House is in session and there is a very important bill up for discussion, and I move that we adjourn.

The CHAIRMAN. Mr. Fahey, will you come back again?

Mr. FAHEY. Yes, Mr. Chairman; whenever you like.

The CHAIRMAN. We will adjourn to meet again at 10:30 tomorrow morning.

(Thereupon the committee adjourned until 10:30 a. m., Wednesday, April 26, 1939.)

AMENDMENTS OF 1939 TO FEDERAL HOME LOAN BANK ACT

WEDNESDAY, APRIL 26, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10:30 a. m., Hon. Henry B. Steagall (chairman) presiding.

Members present: Messrs. Steagall, Williams, Spence, Ford, Brown, Patman, Barry, Sacks, Gore, Mills, Folger, Hull, Monroney, Wolcott, Gifford, Luce, Crawford, Simpson, Kean, and Miss Summer.

The CHAIRMAN. The committee will come to order.

Mr. FAHEY. I believe you had concluded your general statement on yesterday?

Mr. FAHEY. Yes, Mr. Chairman.

The CHAIRMAN. Have you anything further to say? If so, you may proceed; we shall be glad to hear you.

STATEMENT OF JOHN H. FAHEY—Resumed

Mr. FAHEY. Mr. Chairman, when we suspended yesterday, there were two or three questions pending, and one, particularly, on which there seemed to be some misapprehension on the part of the members of the committee.

It is, perhaps, desirable to make some further statement relative to this liberalization of the collateral provision of the bill, especially with reference to houses of more than one to four families.

I would like to say, with reference to that, supplementing what I said yesterday relating to the trends in many sections of the country toward the construction of the smaller multiple-family units, that the Department of Labor, some months ago, completed a survey of the housing needs in various sections of the country, and the facts brought out emphasized the necessity for providing more rental housing at moderate costs, above the slum-clearance class, of course, but as a matter of private ownership and management.

We have to remember that, after all, about one-half of the dwellings of the country, probably less than one-half, are owned by their occupants. In other words, more than one-half of all of the dwellings of the country are rented, and that applies to the rental of the single-family units as well as multiple units. In many sections you find a considerable number of single- or double-family units owned by individuals where the mortgages on them are held by these institutions.

Now, under this act as it stands member institutions of the Fed-

eral Home Loan Bank System can make and hold mortgages on any number of single- or double-family units, or even four-family units, which are owned and held for rental purposes; and those mortgages are eligible as collateral for advances at the banks. On the other hand, if six units are combined in one structure, or eight units, the law does not permit the banks to accept perfectly sound mortgages of that character on such structure as an advance from any one of the banks.

May I also direct your attention to the fact that the amendments to section 10 restrict the loans on this type of mortgages? No advance shall be made for an amount in excess of 50 percent of the unpaid principal of the mortgage loan, and in no case shall the amount of such advance exceed 40 percent of the value of the real estate securing the mortgage loan.

Collateral of that type would, therefore, be extremely conservative and safe collateral, and as we have studied the problem, it has seemed to this Board that there was no good reason why such collateral should not be available for advances in case of need, just as any other sound mortgage collateral should be available.

Again, I would like to refer to the fact that savings banks, which operate largely in our cities in the Northeast, hold a great many mortgages on multiple-family units. Savings banks which are members of the Bank System, in case of need, cannot offer these mortgages as collateral for advances. Any new members who might come in would likewise be disbarred.

Now, there seems to be no good reason why the act should handicap mutual-savings banks as members of the Federal Loan Bank System in going to the banks for assistance if, under any circumstances, they need advances to meet their temporary difficulties.

If the Federal Home Loan Bank System is to be the reserve system that it was intended to be, then it certainly seems to be logical that it should be able to serve, without question, in period of difficulty, whether it be temporary or extended for some months.

So far as the Federal Reserve System is concerned—and I am speaking now of the necessity of some implement—I am speaking now of so implementing the Federal Home Loan Bank System that it can meet emergencies. If, of the Federal Reserve System, we said to its bank members: "Yes; this System is abundantly able to take care of your rediscount needs under the ordinary circumstances in normal times, but we can give you no assurance that it is or will be able likewise to take care of you in time of difficulty," I am quite sure that all of us would agree that the Federal Reserve System would not command the position that it does, so far as public confidence is concerned, and it would not be regarded as the powerful institution which it really is.

Now, it is the same way in the farm-mortgage field; if we said: "The land banks can take care of the needs, so far as the farm mortgages are concerned, under ordinary circumstances, but if unusual conditions arise you will have to shift for yourself," there would not be much confidence in the farm-loan banks.

As a matter of fact, experience from 1930 on proved that, as it stood, it was not able to meet the situation. The Government, therefore, backed the Farm Credit Administration by providing \$2,000,-

000,000 of Government-guaranteed bonds through the Federal Farm Mortgage Corporation. There is a powerful and already adequate backlog of resources to meet any untoward conditions which may develop.

Now, in its broad aspects, that is exactly the problem which we confront in the case of the Federal Home Loan Bank System. We cannot consistently say to these members: "Yes; we are perfectly able to take care of you under any normal conditions, but if unusual situations arise we cannot say that we will be able to take care of you." Certainly, it is imperative that the country should be in position to take care of the commercial banking system and the farm-mortgage system, and it seems equally necessary that there should be no question about taking care of this very great volume of urban home-mortgage debt, which has such an important social and political relation to the welfare of our people in the country as a whole.

I do not think it is necessary to say anything further in emphasizing that fundamental purpose in this bill. That is the outstanding feature of it, and that irrespective of any minor perfecting amendments which are offered.

Mr. FORD. Mr. Fahey, would it be a fair proposition to say, in this kind of nutshell, that aside from some relatively unimportant clarifying amendments, the main amendments of this act have two primary objectives: First, to afford the opportunity for the utilization of the large pools of funds that are now lying stagnate; and second, to further implement the present act, so that it can be prepared to withstand the economic disturbances which may, as a matter of fact, be reasonably certain to arise in the future?

Mr. FAHEY. That is quite true, Mr. Congressman. So far as that part of it is concerned in relation to idle funds, I would like to direct to the attention of the committee the fact that in spite of the great sums which have been returned from hoarding to the banks and to the insurance companies and private institutions, as of the first of the year there was still something like \$1,500,000,000 in hoarding in this country, which ought to be brought back and be employed in savings institutions of the country.

Mr. FORD. Is it not true, Mr. Fahey, that under the terms of the act as it now stands, many members of your organization are almost in the position of aliens of the country, who have enjoyed a great many of the privileges but they are denied the full privilege of citizenship?

Mr. FAHEY. I think it is a fact, Mr. Congressman, that the necessity for providing this ultimate resource in time of trouble was first overlooked when this act was passed.

Mr. FORD. But they are in that position, under the present act?

Mr. FAHEY. That is correct; and we, of course, of the Board, have been impressed, constantly impressed for the last 3 years, with the necessity of remedying that defect, because of the experience that we have had from day to day, and week to week, in the operation of the Home Owners' Loan Corporation; and our conviction is that the Government should see to it that conditions shall not be allowed to develop in the future which would necessitate forcing the Government back into direct lending.

Mr. SACKS. Mr. Fahey, if a loan is made under the F. H. A. by a member of your organization, under this amendment you could accept that as collateral?

Mr. FAHEY. That is correct; yes.

Mr. SACKS. Even if it is made up to 80 or 90 percent?

Mr. FAHEY. That is correct.

Mr. SACKS. And even if it were for a period of 25 years?

Mr. FAHEY. That is correct.

Mr. SACKS. Then, in reality, your organization would be allowed to permit your members to make mortgages, particularly under the 80- or 90-percent class?

Mr. FAHEY. Well, they are making them now.

Mr. SACKS. But then your organization would be able to discount those mortgages?

Mr. FAHEY. The Federal Home Loan Bank System would be able to accept mortgages of that type as collateral for advances at any time an institution so needed them.

Mr. SACKS. What are you able to do now?

Mr. FAHEY. We can accept only some of them.

Mr. SACKS. What ones do you accept now?

Mr. FAHEY. We can, under one clause of the act, accept only certain of them as collateral.

Mr. SACKS. But would you accept an 80- or 90-percent mortgage under the present act?

Mr. FAHEY. We can under one provision of the Act, if I am not mistaken.

Mr. SACKS. If you can accept some of them, why can you not accept them all; why is not the law flexible enough to take care of them all?

Mr. FAHEY. That is just the difficulty we face. We feel that it ought to be amended, so that it will be flexible enough.

Mr. SACKS. If you accept mortgages under the FHA, why is there any difference between one type of mortgage and another?

Mr. FAHEY. Well, we cannot accept any over four-family units, no matter what they are.

Mr. SACKS. That is the sole difference, then? I mean the only mortgages you cannot accept are those on properties of four-family units?

Mr. FAHEY. Yes.

Mr. SACKS. Otherwise, you could today accept as collateral any mortgage under the F. H. A. for multiple units?

Mr. FAHEY. Yes.

Mr. CATLETT. We can only accept a mortgage with a maturity of not over 20 years and they can make them for 25 years.

Mr. SACKS. You can today accept a mortgage under the F. H. A. for 20 years and on four-unit properties, and under four multiple units?

Mr. FAHEY. That is correct.

Mr. SACKS. The only change is to allow you to accept mortgages for 25 years, and over four units?

Mr. FAHEY. Insured mortgages.

Mr. SACKS. Insured mortgages?

Mr. FAHEY. That is right, but not over \$20,000.

Mr. SACKS. Not over \$20,000?

Mr. FAHEY. Yes; and it is limited to that at present.

Mr. SACKS. Therefore, you still would not be able to accept, even if we passed this amendment, those over four multiple dwellings, because I should think they would cost more than \$20,000.

Mr. FAHEY. Yes; the \$20,000 limit would not apply under the amendment here. Under the present act, it is limited now to \$20,000.

Mr. SACKS. Yes; but if that would be removed, to—

Mr. FAHEY. Yes.

Mr. SACKS. Therefore, there would be no limitation on the members of your system as to the mortgages that they can place with you as collateral, if we pass this amendment, except your sound discretion and your judgment?

Mr. FAHEY. That is right.

Mr. SACKS. Therefore, give you that right even under F. H. A. or any other?

Mr. FAHEY. Yes; except in the amendment in cases applying to the Federals, limiting them to 15 percent of their assets.

Mr. SACKS. That is not changed, is it?

Mr. FAHEY. What is that?

Mr. SACKS. That is not changed, by limiting it to 15 percent?

Mr. FAHEY. No; there is a 15-percent limitation here. And you realize, also, that as the act stands now, the nonmembers, under the present provisions of the act, can offer as collateral for advances that type of mortgage, while those who are members are limited.

Mr. SACKS. Do you think that 80- or 90-percent mortgages are safe?

Mr. FAHEY. That depends on how they are made and where they are.

Mr. SACKS. Then you will accept 80- or 90-percent mortgages made under the F. H. A., if we give you this amendment?

Mr. FAHEY. We accepted millions of them in the case of the H. O. L. C.; and as a matter of fact, it is probably safe to say they were not even 80 or 80 percent, they were 100 percent.

Mr. SACKS. You have not accepted any F. H. A. mortgage under the H. O. L. C., have you?

Mr. FAHEY. No, no; I was referring to your question as to the safety of 80- or 90-percent mortgages, and as to that I would say that the safety and the soundness of 80- or 90-percent mortgages is like any other mortgage; it depends upon the collateral behind it, and the credit responsibility of the person who is making the loan. If it is unwisely made, it is sure to invite trouble. If it is safely and soundly made on an amortized basis, all of the experience in the H. O. L. C. and all of the experiences on the other side of the Atlantic indicate that there is no danger in such mortgages.

Mr. SACKS. If we give you the right under this amendment and your members could lend on that basis and you could take that as collateral, you would have no check or limitation on the income of the borrower and the carrying of the property, would you?

Mr. FAHEY. Well, I do not know that I follow you.

Mr. SACKS. The F. H. A., for example, limits on the large units the income through their regulations, and through the act limits the amounts they can make, and make them set up a fund to pay the carrying charges, and so on. What check would you have, for example, on your members, in order to carry out the same idea?

Mr. FAHEY. Well, if I am not mistaken, the F. H. A. limitation on the earnings of properties will apply only to limited dividend corporations. It does not apply to other classes of mortgages, unless I am in error.

Mr. SACKS. I am not talking about the individual properties, but I am talking about the large buildings. Could you control that?

Mr. FAHEY. If it was a limited-dividend corporation, it would be under that self-same control.

Mr. SACKS. Suppose a man built a property and got a mortgage not under the F. H. A., but through a private mortgage institution, and then they came and placed that for collateral—

Mr. FAHEY. They could only borrow 40 or 50 percent.

Mr. SACKS. That is all?

Mr. FAHEY. That is right.

Mr. GIFFORD. Mr. Fahey, while you are here, I would like to ask you one or two questions, and I hope you will answer them.

Have you read the reorganization bill, or the plans suggested to the Congress on yesterday?

Mr. FAHEY. I have not read it all, Mr. Congressman; I did not have the time, I regret to say.

Mr. GIFFORD. I think that is very unfortunate.

Mr. FAHEY. I hope, before I go to bed tonight, to take off a little time and read it.

Mr. GIFFORD. I wonder if you realize that you would be only one of a certain personnel to be directly under the authority and direction of some higher power?

Mr. FAHEY. That would not annoy me any, Mr. Congressman.

Mr. GIFFORD. You would just as soon be one of the personnel as have an independent position?

Mr. FAHEY. As a matter of fact, as I say, I have not had an opportunity to study that document, but so far as I have hurriedly glanced at it, I should interpret it to mean, so far as these lending agencies are concerned, that their present functions will be continued just as they are being administered, and the administrator will have the responsibility of coordinating and overseeing their activities.

Mr. GIFFORD. Yes; but he would be one that would see the President.

Mr. FAHEY. I do not know about that. The President is very liberal in giving his time to seeing people.

Mr. GIFFORD. We are asked to reorganize the Government so fewer persons would have to see the President. He would not want to bother with you any more.

Mr. FAHEY. Well, that is all right. If that suits him, it is O. K. with me.

Mr. SACKS. Of course, Congressmen will be able to see him.

Mr. FAHEY. Yes, sure; any time you like.

Mr. GIFFORD. When you read that message, you will see that is the chief reason, that he does not want to be bothered with so many of you; that one head of the department is all that he has time to see.

Why enlarge the power of the Federal Home Loan Bank, when you are going to be supervised by a higher authority, who may not want this done and that may find other ways of doing it? Therefore, I think it is doubtful whether we should enlarge the power of the Fed-

eral Home Loan Bank, without the proper people recommending it, when perhaps you will simply be a personnel member?

Mr. FAHEY. That may be, of course.

Mr. SACKS. It is possible that he may be the administrator.

Mr. SPENCE. Your authority has not been impaired?

Mr. FAHEY. No; not a bit.

Mr. GIFFORD. We would feel very badly, indeed, if we could not have you representing this agency.

Mr. FAHEY. Well, thank you. I appreciate that compliment very much.

Mr. GIFFORD. I dread to think that some very prominent member—well, I would call him a politician—would be placed at the top here, to dictate to you what you should do. But I am sorry you have not read it. I am on that Reorganization Committee and I would like to have your comment.

Mr. FAHEY. I did not get that.

Mr. GIFFORD. As a member of the Reorganization Committee, and while you are present, I would thoroughly enjoy having you comment upon your future status.

Mr. FAHEY. Even without having read it in detail, Mr. Congressman, I do not know how I could very intelligently comment on my future status, inasmuch as I do not know just how it is going to be implemented.

Mr. GIFFORD. Well, you are convinced that there is going to be a great saving by getting you all together under one head?

Mr. FAHEY. Well, as to that, I cannot say. I can conceive of the possibilities of substantial savings out of the better coordination of these separate lending agencies.

Mr. GIFFORD. Are you overlapping any other agency? If so, will you tell the committee about it?

Mr. FAHEY. No; I do not know that we are particularly overlapping any other agency, but in dealing with this housing problem, as it affects the country as a whole, we certainly can accomplish more and avoid considerable loss, in my judgment, if the agencies are constantly working from day to day, in closer cooperation and coordination than they are at the present time.

Mr. GIFFORD. They are not cooperating now?

Mr. FAHEY. What is that?

Mr. GIFFORD. They are not cooperating now?

Mr. FAHEY. They are, but a more formal and definite follow-up on it all of the time, in my judgment, would be an advantage.

Mr. GIFFORD. Well, we have, for instance, the Reconstruction Finance Corporation, and some of us think that is pretty largely a one-man controlled organization there, although there are other members; we feel perfectly safe, because of the type of man at the head of it. But at the same time, I have the feeling that it is, perhaps, your last opportunity to say something about it, if you care to. Of course, as a matter of fact, this is a leading question, but why enlarge your powers at the moment, if this great change is going to take place?

Mr. FAHEY. As a matter of fact, it has nothing whatever to do with the change. The Federal Home Loan Bank System and the Federal home-loan banks are not disturbed by this proposal, so far

as I am able to see it. Not only that, but I understand that the President, yesterday, in discussing the matter with the press, said that there was no intention to disturb the present functions of these lending agencies. I do not see how—I do not know, but I do not see how you could eliminate the Federal Home Loan Bank System without an act of Congress abolishing it.

Mr. GIFFORD. I can see where this man may feel that apartment houses and large mortgages over \$20,000 would not be considered desirable, might not be a good field for the Federal home-loan banks, but that it would be better to have a national mortgage association and the other lending agencies that can take care of the larger field of mortgages, and he may abandon the home activities contemplated in this plan to go into apartment houses and these large mortgages.

Mr. FAHEY. But, Mr. Congressman, suppose he did; all that would have to be done is to issue an order to the bank that they are not to accept any such collateral as the basis of advances. That is a perfectly simple matter.

Mr. GIFFORD. And he might issue that order?

Mr. FAHEY. Yes, he might.

Mr. GIFFORD. There would be a conflict of opinion right away?

Mr. FAHEY. Well, that is all right. If that conflict of opinion could not be settled as the result of discussion, I suppose that the view of the administrator would stand.

Mr. GIFFORD. When there is a conflict of opinion between your Board and the higher authority that would be placed upon you, how are we going to determine—who are we going to hold accountable, you or the higher authority?

Mr. FAHEY. Well, as to that, I really cannot say.

Mr. GIFFORD. Will you come back to this committee and say, "I couldn't do this, if that is the thing you want, because I was under orders?"

Mr. FAHEY. Sure.

Mr. GIFFORD. And the higher authority would come here and say the same thing?

Mr. FAHEY. I think such a board as this has certain responsibility and a very definite responsibility to the Congress, just as any other similar board has, as well as to the Executive, and I say that wholly aside from the question of administration of the day or the personnel of the President. I think that if the head of an important board or agency of the Government or the board, itself, does not agree with the administrator, or with the view of the coordinator or administrator, it ought not only to have the duty but it is its duty to say what it thinks about it.

Mr. SACKS. You do not think this reorganization will be a foreclosure on your right to think?

Mr. FAHEY. No; or to speak.

Mr. GIFFORD. It would be a foreclosure on the part of the higher power to give you your walking ticket?

Mr. FAHEY. That would not bother me very much.

Mr. GIFFORD. Is it not possible that might happen?

Mr. FAHEY. It might.

Mr. SACKS. It could happen now?

Mr. FAHEY. Yes; just as it is now, without any administrator, it could happen.

Mr. GIFFORD. I presume it would be impossible to get your real thoughts expressed on this matter.

Mr. BARRY. Mr. Fahy, last week we had a hearing before this committee in connection with the bill that proposes to liberalize the H. O. L. C. Act, so far as further amortizations are concerned.

Mr. FAHEY. Yes, Mr. Barry.

Mr. BARRY. Decreasing the interest rates, the deficiency judgments, and so on, and any number of witnesses appeared representing groups, principally from New York State, and statements were made and figures given that seemed to contradict the statements of the Home Owners' Loan Corporation, and I want to ask you if you are prepared to tell me the total authorized foreclosures, the amount of properties you have taken over, the amount of properties taken over by the Corporation that has resulted, the total cost of the repairs on those properties, and the total losses sustained in the resales?

Mr. FAHEY. Yes; I think every one of those facts, Mr. Barry, is well covered in the statement which we sent to the members of the committee on the particular points advanced by the New York delegation. If there are any of them lacking, however, of course we will be glad to supply them to you.

Mr. BARRY. I do not believe your statement contains the costs of repairs of these houses that you have taken over. I do not recall that it contains that, and I do not recall that it contains a list of what is the difference between what these properties—what the original appraisal price was and the amount for which the properties had been resold by the Corporation. I do not think that was considered in the letter at all. It is not necessary right now, however.

Mr. FAHEY. Oh, yes; I can furnish it to you tomorrow.

Mr. BARRY. You can furnish it and make it a part of this record, so there will be no conflict, because some of the witnesses did raise that particular question and the statements were somewhat misleading. They contended, as I recall, or one witness contended, that about 60 percent of your present mortgages were in default. I would like to find out, for instance, about whether any of the remaining mortgages—I think you foreclosed about 150,000 or 176,000—176,000 were authorized and about 150,000 were foreclosed, and I would like to find out of the remaining mortgages just how many are in default on the principal payments, for instance.

Mr. FAHEY. Would you be good enough, Mr. Congressman, would you give me a memorandum as to exactly what you would want, and we will try to supply it for you tomorrow?

Mr. BARRY. Yes; I will do that. May I ask you this: Mr. Fahey, I noticed your F. H. A. mortgages run for 25 years and 20 years, and, of course, they are sound, because they are insured by the F. H. A. and guaranteed by Government insurance; on houses that were taken over by foreclosure in the H. O. L. C., when you resell them, how many years do you permit the new buyer to spread his amortization over?

Mr. FAHEY. That all depends on the character of the sale, Mr. Congressman.

Mr. BARRY. What is the limit?

Mr. FAHEY. Fifteen years.

Mr. BARRY. Well, now, is it not difficult to compete in the market, where we are building new homes, with small down payments, and

in forbidding the purchaser to have 25 years to pay for it—does not that make it difficult for you, with this 100,000 houses, to compete in that kind of market? And in addition to that, I know that you opposed refinancing of existing properties, but we have passed the act—

Mr. FAHEY. Just right on the point, however—

Mr. BARRY. I mean that in another factor you have got to compete with, when old construction is now being reinsured through the F. H. A. for a new spread of 20 years; does not that put you in a kind of tough spot with your properties?

Mr. FAHEY. May I first correct an apparent misunderstanding on your part? This Board did not oppose the insurance of refinancing mortgages on existing homes.

Mr. BARRY. I was absent when you were before the committee, but I was under that impression.

Mr. FAHEY. I know that was the very general impression. The point we raised was, that that insurance should not be provided if the institution which was holding the mortgage was perfectly willing to continue it, and at the same rate and under the same conditions; that it was then unnecessary to take it off of its hands and transfer it to some other institution.

Mr. BARRY. You mean at the same rate that existed then?

Mr. FAHEY. No; I mean a rate satisfactory to the borrower and comparable to the rate he could get under the F. H. A.

Mr. BARRY. That amendment did not go through.

Mr. SACKS. It went through. Mr. Spence put that amendment in.

Mr. BARRY. Then you would be opposed to it with that amendment in it?

Mr. FAHEY. No; our feeling was that if a new purchaser took over one of these houses it was perfectly all right to insure it; there was no objection to that, or if the borrower could not obtain—if the borrower of the present-day mortgage could transfer it somewhere else to a better advantage and the institution holding it would not meet those terms, then there ought to be the opportunity to insure it.

Mr. BARRY. That is in the act.

Mr. FAHEY. Yes; but another thing was that, among our institutions and others, we found cases where one institution was taking loans away from another, practically without its knowledge, because they were taking advantage of the insurance opportunity, and there was no occasion for that. That was the only point we made on it.

Now, referring to your other point, as to the sale of these properties, irrespective of the construction of new insured homes in localities, of course, we confront difficulties in disposing of the properties under present-day conditions, because real estate has not yet begun to come back, and one has to remember that the losses we take invariably are the result of the failure of the borrower to meet his obligations. Now, if it was not—

Mr. BARRY. I am not talking about that. I am talking about the resale of these properties, when you have to compete in the market, where you have liberal terms of 20 years and 25 years, with small down payments, which are offered to the purchasers, and you have to resell your properties at a no longer period than 15 years. Of necessity, I believe you have got to cut your price in order to compete with those terms.

Mr. FAHEY. Well, as a matter of fact, we have come out pretty well, inasmuch as our average cash payment, our average down payment, I think, has been close to 15 percent.

Mr. BARRY. What is the price of the home?

Mr. FAHEY. What is that?

Mr. BARRY. What is the price of the home?

Mr. FAHEY. The average mortgage which we hold is \$3,000. Now, of course, that average mortgage is higher in your State, for example. The average is higher in parts of the New England States and some other sections. On the other hand, in the less congested areas, a large proportion of these mortgages run down to \$1,200 and \$1,500.

Mr. BARRY. What is the average loss, if you have it figured, on resale?

Mr. FAHEY. \$707, do you remember that \$707—that figure includes interest and defaulted principal, and so forth. We take that all in in figuring the loss.

Mr. BARRY. Is there any difference in the appraised valuation of that property before you foreclosed, and the price that you sell the property for, after you repair it?

Mr. FAHEY. No; that is the difference between the total obligation outstanding on that property and the price at which we sell it.

Mr. BARRY. You mean the mortgage obligation?

Mr. FAHEY. Yes; plus these accumulated charges.

Mr. BARRY. You do not consider the equity of the home owner or the appraised valuation?

Mr. FAHEY. The appraised valuation is considered in connection with any offer of sale. If an offer is made to us that is less than the appraised valuation we do not take it.

Mr. BARRY. I see. The appraised valuation and the home-owner's equity, plus the mortgage?

Mr. FAHEY. No; I mean up to the present-day market value of the property.

Mr. BARRY. You consider the market value, and you get that, but before you foreclose, you consider the appraised valuation as of the time the mortgage was placed?

Mr. FAHEY. We do not give that special consideration. Those appraisals, of course, were made years ago and had no relation to the market value today.

Mr. BARRY. So far as you are concerned right now, before you foreclose, and so far as the home owner is concerned, he is bound by the appraised value at the time the mortgage was placed; that is, at the time that the H. O. L. C. took it over; and it seems to me that the difference would be the amount you resell the property at, whatever the cost of repairs is, being added?

Mr. FAHEY. Oh, no; the borrower is not held, Mr. Congressman, in any relation to the appraised value of the property when we took it over.

Mr. BARRY. He is held to the amount of his mortgage?

Mr. FAHEY. Yes: that is the amount of his mortgage.

Mr. BARRY. In other words, his mortgage is based on the appraised valuation at the time it was taken?

Mr. FAHEY. Only in part. If that mortgage, as we took it, was for 70 percent of the appraised value, it was not raised to 80 percent, you understand. Eighty percent was the limit we could make.

Mr. BARRY. That is right.

Mr. FAHEY. Now, that 80 percent—

Mr. BARRY. What I am trying to really get at is this: In the whole foreclosure policy at that time, considering the market that you have to compete with, considering the F. H. A., for example, would it be wisdom, in some cases, to spread the amortization period for 20 years, instead of foreclosing in this market, spending the foreclosure costs, and having to repair the homes and resell them at a considerable loss? Even \$707 is a substantial loss in this present market. Would it not be better, and could you not save some of this foreclosure, if you spread the amortization period right now?

Mr. FAHEY. In my judgment, Mr. Congressman, no.

Mr. BARRY. Why?

Mr. FAHEY. Out of the study of the Board, on the average, these loans which have been foreclosed in the country, have been close to 2 years in default in interest and principal, on top of the 2-year moratorium when the loan was made. You remember, they were 2 years in default and in principal and interest and 3 years in taxes when we got them.

Mr. BARRY. Was not that one of the big factors when the moratorium period elapsed, that suddenly these people were hit with the fact that they owed 2 years' back payments all at the same time?

Mr. FAHEY. We did not experience any difficulty in that. You understand that, in these cases, when borrowers get into difficulties, in order to avoid foreclosure, in order to give them every chance to work out, if they can, we make over these accounts and defer those principal payments, and adjust them. We are in the process of doing that all of the time with more than a quarter million of such accounts.

Mr. BARRY. You cannot, under the law, defer it beyond the limitation of 15 years, can you?

Mr. FAHEY. You do not have to.

Mr. BARRY. And they always have that hazard facing them, and they realize that, sooner or later, they are going to be called upon and they are going to have to meet that obligation suddenly?

Mr. FAHEY. No; not suddenly. It is spread over a series of years.

Mr. BARRY. They are limited by the remaining years since 1933. How many years are elapsed, about 9 years, leaving 8 or 9 years left. They have to meet their obligations within that period of time. We are passing legislation now, permitting people who own homes to refinance them for another 20 years. That is why I think there is a direct conflict, and you are in position where you have to toss these houses on the market with at least a 5-year shorter term than these people can now buy old houses or new houses on.

Mr. FAHEY. But, Mr. Congressman, you are not refinancing or insuring the refinancing of old houses under the F. H. A., that are a couple of years in default on interest and taxes. They are sound loans.

Mr. BARRY. I am talking about the houses, themselves, after you talk about them over. I am talking about the final wisdom of this whole policy, because after you take them over you have got to sell them or carry them along or pay taxes on them, and you have still got to compete with this F. H. A. created market.

Mr. FAHEY. It is not necessarily an F. H. A. created market. You have got to compete with whatever market there is.

Mr. BARRY. How many houses of these 150,000 have you resold?

Mr. FAHEY. We have not had 150,000 houses in our possession.

Mr. BARRY. I am quite sure I have a letter from Mr. Childress stating that 176,000 were authorized, and of that amount 158,000 were actually taken over.

Mr. FAHEY. I will not undertake to quote the figures exactly on that, because it is just impossible for me or anyone else to keep all of these figures in mind, but I will be glad to check up on it and give you the exact figure. But the real fact of the matter is this: When you are dealing with the borrower who has occupied a home for approximately 5 years, without paying 1 cent in interest or taxes, how are you going to expect, if you are going to spread it over a little longer period and make the payments less, that person who can pay nothing, will be able to pay something then.

Mr. BARRY. I know your problem. I am not criticizing you too much, but I take this position: Give them 5 or 10 years more to pay off their principal payment; if they cannot meet their obligation then, they are hopeless; they have no alibi. You are taking each case individually. We have gone over this before.

Mr. FAHEY. Yes; that is right.

Mr. BARRY. And if a case arises that I, or any Member of Congress, submits to you, you go into it very carefully, but you are dealing with approximately a million cases, and you have set a fixed policy, and treat each case on its own merits. I mean you treat each case individually.

Mr. FAHEY. How can you deal with them on any other basis? If a borrower is able to pay, should he be relieved from payment?

Mr. BARRY. No. I say this: If they can spread it over 20 or 25 years, if they cannot meet that payment, if they cannot pay a part of their principal, then wipe them out and end the thing. In the first place—

Mr. FAHEY. Let us remember here that these borrowers, under the H. O. L. C., were on a 15-year basis and a flat 5 percent rate, without any charges of any character whatever, and they today enjoy the most favorable mortgage-loan basis of any character of borrowers in the United States or anywhere else. No loan as favorable to the borrower and on as reasonable terms has ever been made anywhere in any country as this H. O. L. C. loan. Now, with the great bulk—

Mr. BARRY. I am sure the F. H. A. is more liberal than that.

Mr. FAHEY. No; it is not.

Mr. BARRY. They give you 25 years to pay it off.

Mr. FAHEY. Yes; but just a minute. It is a matter of fact that 5½ percent is the lowest rate that is charged in connection with it. Remember that the interest on the mortgage—

Mr. BARRY. I do not think the interest is so important as the principal payments. I think that is the only thing in the whole set-up.

Mr. FAHEY. The interest charges made in connection with the loan are a part of the cost of that loan.

Mr. BARRY. One-fourth of 1 percent does not mean very much.

Mr. FAHEY. Yes; but there are appraisal fees and broker fees in connection with these loans.

Mr. BROWN. If you undertake to protect the people who are 2 or 3 years in arrears in taxes—all of those things are paid when they get their loan?

Mr. FAHEY. Yes.

Mr. FORD. Yours was a rescue expedition?

Mr. FAHEY. Yes; exactly; and the really astonishing thing about it is that these hundreds of thousands of families, all of whom are in very moderate circumstances, enjoy interest terms more favorable than any of their fellow citizens, and have met their obligations and continued to meet them regularly. Approximately one-half of these people pay their bills regularly, on or before the due date, solely as the result of mail billing. I think that is a splendid piece of evidence of the integrity and character of the people of this country as a whole.

Mr. FORD. Are 80 percent of the loans current?

Mr. FAHEY. Yes. You understand, it is easy to confuse this answer, and I do not want to say anything that will mislead this committee or anybody else. When we make a loan, even temporarily, or for a considerable term of years, and the borrower meets that obligation, of course, he is current, just the same as if he was paying the full original principal and interest; and the interesting thing is that, from month to month, such a large proportion of the borrowers, as compared with current billing, meet their obligations. Now, as a result of the decline of business in 1937, our collections sagged temporarily, but they began to come back early in 1938, and as of the end of 1938, 90 percent of these obligations, whether they were original or whether they were remade—up to the 1st day of January of this year, 90 percent of those obligations had been met. For the first months of this year, these collections have been steadily rising from month to month. March was the largest single month we have ever had, with collections running more than 100 percent of the billings—103 percent of the current billings of the month.

Mr. SPENCE. What proportion of the titles you have acquired have been acquired by suit?

Mr. FAHEY. Well, now, I could not say that, offhand. Mr. Spence, Colonel Lee, the general counsel, tells me about 25 percent. Of course, a lot of them have been voluntary deeds.

Mr. CATLETT. About 25 percent have been acquired by voluntary deeds.

Mr. SPENCE. And 75 percent by foreclosure?

Mr. FAHEY. Yes.

Mr. SACKS. Mr. Fahey, in your statement, you said your organization was a sort of "salvation army," rescue organization. Would it not be advantageous now, if we can possibly rescue some more of those who are now in distress, by increasing the period of amortization and stretching it 5 or 10 years? Would not that be of advantage to the real-estate market, to the citizens, and the country as a whole?

Mr. FAHEY. The point is that, in our experience with these particular cases, we see no opportunity to do it. Now, we have said, and we have said to these delegations—we have asked them repeatedly to produce their cases where, in their judgment, if a loan policy was made either by law, or any other way, the borrower could meet his obligations. We have asked them, also, repeatedly, to please present to us the cases where, in their view, the Corporation was following

an arbitrary or unfair attitude toward the borrower and they would have taken any other course than we did in the event of foreclosure.

Mr. SACKS. There is nothing under the law, now, that would give you the right to help them, unless we increase the period of amortization?

Mr. FAHEY. Beyond 15 years? No; but we can help them anywhere within this period, and we are doing that every day.

Mr. BARRY. Eventually, even with the 15-year period, they have to set up—they have to pay off a good lump of it at one time?

Mr. FAHEY. But the relief that would be granted under any ordinary loan on any basis that has been suggested is so small that it would make no difference in their payment.

Mr. BARRY. That is your opinion; but, after all, that is a conclusion, is it not?

Mr. FAHEY. That is based on our figures.

Mr. BARRY. You do not know how the conditions will change in the next 2 years with some of these people. You do not know how many will try to hold on, if they had a longer period of time to spread it over. That is a matter of opinion of yours and mine. If the F. H. A. is not a rescue organization, I would like to know what it is. This building boom would not be going on without the F. H. A., and the banks would not be fighting to lend money without the F. H. A. It is a rescue organization for more groups than one.

Mr. FAHEY. That is perhaps so. I think that the impetus that the F. H. A. has given to the revival of construction is most useful, but I think one cannot say it would not have started at all if the Government had not insured this type of loan. It started in 1921 and 1922 and went on without any insurance.

Mr. SACKS. With reference to my statement earlier about your position on existing mortgages, the reason I make the statement that you were opposed to it is your testimony, this sentence, and I would like to read it to you and ask you whether you have the same opinion that you cited in your testimony on the House act of the F. H. A., and I read from page 227 of the hearings as follows:

So far as insurance loans on existing homes is concerned, the opinion of our Board is that the steadily declining demand for the insurance of refinanced loans—it has dropped now from something like 64 percent of the financing of F. H. A. to about 30 percent—the decline in interest rates throughout the country, and the anxiety of lending institutions to hold onto their loans, there is no longer any good reason why such loans should be insured. On the other hand, we believe that it is highly desirable that the F. H. A. should devote all of its energies and resources to the original objective of this insurance plan: The stimulation of new construction and improvements.

In that statement, I took it that you were opposed to that part of the plan.

Mr. FAHEY. But, Mr. Congressman, later on you will find in the record, I am quite sure, that our view with reference to that was further clarified in response to questions, when questions were raised as to new purchases and that sort of thing, and in response to that we said we thought there should be no bar to that. That is my feeling about it.

Mr. MILLS. That is in regard to new purchases?

Mr. FAHEY. Yes. I also said here—I am quite sure you will find it accurately stated in the record—that if a mortgagor was unable to have his lending institution continue his mortgage or refinance it

on terms that were as favorable as he could get from the F. H. A., he certainly ought to have the freedom and opportunity to take advantage of the fact and go elsewhere.

Mr. SACKS. However, of the properties that you have in your possession, do you think that you might facilitate the sale of those properties if you could offer a plan such as the F. H. A. plan?

Mr. FAHEY. It would be difficult to say about that. As a matter of fact, the present plan that we can offer is more favorable than the F. H. A. plan.

Mr. SACKS. Why?

Mr. FAHEY. Because it is on a flat 5-percent rate.

Mr. SACKS. How about the question of amortization and extending the payment over a period of years, which is also very important?

Mr. FAHEY. I do not think so. We have not encountered any trouble in disposing of these properties. We are doing quite as well with them, if, indeed, not better than the average institution; and there is another consideration here, that it is not wise for the H. O. L. C. to go into a program of dumping these properties on the market, because that would have the effect of depressing the general real-estate market.

Mr. SACKS. If you were selling them at favorable advantage under a plan like the F. H. A., therefore, you would not be dumping them on the market. For example, if you could sell your properties that you now have upon terms like the F. H. A., could you not practically get its real value and get the Government out from under; and your purchasers could get them on an amortization basis over a longer period of years?

Mr. FAHEY. Why insure the mortgages which we hold? The other point is, as I say, we are not encountering any difficulty with the average purchaser on our own plan. We do not have any difficulty about that.

Mr. BARRY. How many have you sold, Mr. Fahey?

Mr. FAHEY. About 40,000.

Mr. CATLETT. Forty-two thousand seven hundred and forty-seven.

Mr. BARRY. That leaves you with about 110,000 left?

Mr. CATLETT. No; 90,000.

Mr. FAHEY. No; about 90,000 on hand.

Mr. BARRY. I would like to have you check that figure, because I am sure I have a letter from Mr. Childress showing that.

Mr. CATLETT. You see, under the laws of the various States, it takes us quite a period of time to acquire title to the property; 176,000 is the authorized figure and 150,000 is the number that we have completely foreclosed.

Mr. BARRY. What do you mean by completely foreclosed—taken them over?

Mr. CATLETT. No; not yet. You see, there are periods of redemption before you get title in some States.

Mr. BARRY. You are absolutely sure you have 150,000 left? You are definitely certain of that?

Mr. CATLETT. We have had available for sale only one hundred and thirty thousand-odd.

Mr. FAHEY. Mr. Congressman, it does not necessarily follow that you have all of those in States where there is a redemption period

of 18 months or 2 years, where they can be redeemed within that period.

Mr. CATLETT. They can be sold, too.

Mr. FAHEY. Yes; and they can be redeemed, but we cannot sell them until the redemption period expires.

Mr. CATLETT. 131,885, Mr. Barry, and 42,747 have been sold.

Mr. FORD. Taking the average house with \$3,000 loan on it, that you have foreclosed, and you put it up for sale, and you say you are offering that house for what it has cost you. You have got \$3,000 in it. If you put it on the market, say, for \$3,000, what is there to bar the borrower from going to the F. H. A. and make a small payment down and then assume his loan and take it off of your hands completely?

Mr. FAHEY. There is nothing in the world to prevent that if the F. H. A. or any institution would take that risk. But, you see, the money in that case has got to be advanced by a lending institution, and the F. H. A. would only insure the loan. Now, the F. H. A. would probably shy at insuring a loan where the credit record is so poor.

Mr. FORD. Not for the individual who holds it, but for the new buyer?

Mr. FAHEY. On the new individual who had a good credit standing, certainly.

Mr. FORD. Well, now, suppose the old buyer could go to the F. H. A. and say, "Now the reason I was foreclosed was because my payment was \$30 a month, but I can pay \$25 a month"; and he convinces them that he can pay it. Would it not be possible that they might take it over under those conditions?

Mr. FAHEY. Yes; it would be possible.

Mr. FORD. But you have to have the matter carried out in 15 years, and you cannot cut his payments down. He says, "I can pay \$25 a month for the next 100 months"—

Mr. FAHEY. That is right.

Mr. FORD. And he goes to the F. H. A. and he convinces them of that, there is then no reason in the world why that loan should not be taken over by the bank and you let out of it completely, is there?

Mr. FAHEY. That is right. On the other hand, although we have sold \$112,000,000 worth of loans, which have been taken up and paid off in full to the H. O. L. C., practically all of them were refinanced by other institutions. To our knowledge, only a handful of them were insured. They regard the 5-percent flat rate and the terms that they could make with the lending institution as satisfactory. Of course, one has to bear in mind that the longer your loan runs, say 25 or 30 years, the more the ultimate cost of that loan is to the borrower. The difference between a 15-year loan and a 25- or 30-year loan is very considerable in the total cost of the property.

Mr. FORD. I had a letter from a constituent and he said that he could not pay his loan and he said he could pay it out at so much a month, and talked to a friend about it, and he said, "He is charging me only a little more money than I am paying at the H. O. L. C. Do you think they will let me pay it off?" And I said I thought they could, and I never heard anything more about it.

Mr. FAHEY. Anyway, the answer to all of these cases, Mr. Chairman and gentlemen of the committee, is just this: These groups

which have been organized—groups of home owners and a dozen others, which have attempted to do so—when we have asked for a submission of the facts and specific cases, what type of relief would be effective, we have just not been able to get the answer. I think that those who take a different view ought to be ready to come forward with cases illustrating contentions, put them before this committee, if you please, or any other committee of Congress, and let us submit facts in these particular cases.

Mr. BARRY. You are carrying along a lot of these people when they have not been meeting their taxes and interest and paying a small portion of the principal. Time is going to go by and you are going to get down to the last year or two of the act before its expiration, and in many cases, with \$3,000 mortgage, and you may very well have an outstanding principal of \$1,500 or \$2,000 and they must meet that obligation within that limited time, what are you going to do then?

Mr. FAHEY. If you went on with an indefinite and unlimited period, irrespective of the income of the borrower or inability to pay, yes; you would encounter that difficulty, but that is not what is happening.

Mr. BARRY. I mean that will not happen now, but it eventually will happen, under your policy.

Mr. FAHEY. That does not necessarily follow at all, because all we can say is that our experience, thus far, when any unusual difficulties arise, sickness in the family, temporary employment and those things result, they may not pay, but when they get by that difficulty and employment is resumed, they come back and pay. You do not have any difficulty about that.

Mr. BARRY. You still have about 8 or 9 years to play with in this thing, but when you get down to the last few years, you are going to run into difficulty.

Mr. SACKS. You are going to have to come back to Congress and ask Congress to extend the period.

Mr. FAHEY. I will not pretend to say what will happen in the next 7 or 8 years. That is just crystal gazing.

Mr. SACKS. If we are preparing for an emergency, why not prepare for this emergency?

Mr. FAHEY. We have not hit that emergency yet. Here is the great bulk of these borrowers, and a handful who are not meeting their obligations. Now, the task of completely revamping this corporation, bringing in all of its funds outstanding, and rewrite every one of these loans that we have, as you would have to do, would involve terrific cost, and the Lord knows how you would refinance them; I do not know.

Mr. SACKS. I mean if you run into a situation and find 70 percent of your loans have not been paid up, you will either have to do one of two things: Depress the real-estate market, or else come to Congress and say, "Let us rescue a large group who have tried to do the honest thing." So as long as you are coming in on this bill, on an emergency that might arise, why cannot we look out in the future for that emergency?

Mr. CATLETT. If the loans are paid down to that point, they can easily be refinanced by other financial institutions. As a matter

of fact, up to date, we have had 48,970 homes paid off in full, and most of them have been refinanced by private institutions.

Mr. LUCE. With reference to the bill that is before us, I want to be sure I understand what is in it and what your position is. Now, I understand your institution wants, in the case of an emergency, the right to finance, for example, hotels?

Mr. FAHEY. Oh, no; there is nothing in here that would permit the financing of hotels. You must, again, remember that the Federal Home Loan Bank System does not finance these properties. All that it does is to accept, as collateral for advances, on mortgages, the only difference here is that—

Mr. LUCE. I am using the word "finance" in its broad sense. Then in time of emergency, you want to have financial dealings with other than home owners?

Mr. FAHEY. The proposal here is that, other than individual homes, other than those limited to four-family units, may be utilized as collateral for advances.

Mr. LUCE. That is what I understand.

Mr. FAHEY. That is exactly it.

Mr. LUCE. And we must decide whether we wish to have you go beyond that?

Mr. FAHEY. Yes; exactly.

Mr. LUCE. And there is no other agency of the Government equal to meet this situation?

Mr. FAHEY. I did not get that question.

Mr. LUCE. There is no agency of the Government equal to meet emergencies, such as you speak about?

Mr. FAHEY. Not in the home-mortgage field, the urban home mortgages.

Mr. LUCE. We have gotten beyond home mortgages. We have now come to outside mortgages.

Mr. FAHEY. Yes; my impression is that the commercial banks are limited to 50 to 60 percent of value, and that these are short-term mortgages, although as a matter of fact, under the 1935 amendments, you will recall that boards of the several Federal Reserve banks were authorized to accept as collateral any securities which they regarded as sound. That would include mortgages of the type which the commercial banks make.

Mr. LUCE. Would you add anything, at all, to what you have said as to the desirability of the Home Loan Bank System expanding the circuit of its operations?

Mr. FAHEY. No; we have no present suggestion about that.

Mr. LUCE. It still looks to me as if this was a step on the part of the Home Loan Bank System to go beyond its original conception, and I am trying to find some justification for expanding its functions or its opportunities.

Mr. FAHEY. Only its opportunity for the acceptance of perfectly sound collateral mortgages of the type that are allowed, by the laws of the several States, for savings banks and for these institutions. It cannot go beyond that.

Mr. LUCE. And you include savings banks in your discussion?

Mr. FAHEY. Yes, sir.

Mr. LUCE. A savings bank has a variety of opportunities for investment?

Mr. FAHEY. It has.

Mr. LUCE. It can put its money in railroad bonds, municipal bonds and all sorts of things, as affected by the laws of the State. Does the condition exist for the home-loan institution to have this opportunity for investment that the savings bank has?

Mr. FAHEY. The savings banks, of course, are restricted, so far as their home mortgages are concerned, or other types of mortgages in many of the States, to 60 percent of their assets and some of them 66 $\frac{2}{3}$ percent. Now, the balance of their investments is of the type of securities to which you refer. That is not true of the building and loan associations and the cooperative banks and the mutual institutions of that type, which place practically all of their money in mortgages. There is no question of the investment of their reserves or their surplus of funds temporarily in other types of investment.

Mr. LUCE. Now, you put your finger on the thing that disturbed me. I failed to understand why the home-loan organizations, the building and loan associations, cooperative banks, and others, should go beyond their proper legitimate field of home financing; why their surplus should be put anywhere else, and why there should be any investment not directly connected with the building of homes.

Mr. FAHEY. Well, Mr. Congressman, I would say that, if a lending institution, a cooperative bank, let us say, in the State of Massachusetts, had half a million or a million of surplus idle funds, for which there is no demand in its mortgage activities at the time, should it allow that money to lie idle, in cash, without employing it, at all, for the benefit of its mutual savers?

Mr. LUCE. My observation of building and loan associations and cooperative banks is, that they are not conducted by men with very broad financial experience, acquainted with the investment markets; that they do understand the handling of home mortgages; and that it would be safer for them to have their money idle than to be entrusted with putting it out in fields where they have comparatively little knowledge and experience.

Mr. FAHEY. But they would be restricted to such investments which are legal investments for trust companies in the several States. They could not go into speculative securities.

Mr. LUCE. No, no; not speculative securities, but you take the ordinary savings banks, the list of investments of the savings bank, with which the president of the bank would be more familiar than the president of the building and loan association.

Mr. FAHEY. Without wishing to criticize, and I do not intend to, any class of lending institution in the country, I doubt if an examination of the investments of many of the savings banks, of those outside of the large cities, would indicate any greater skill or intelligence in investment than there is in any other class of institution or, for that matter, commercial banks. The management of a lending institution is, after all, like any other business. Some have excellent managements, which show great skill and intelligence in handling funds that may be placed in their custody, and others have not; and those who do not have a most competent management, invariably pay the penalty.

Now, at the same time, I would like to direct attention to the fact that, after all, mutual institutions of this country, conducted by those

who are so frequently referred to as small people, have invariably handled their financial affairs quite as well as those who conduct the larger institutions.

Let us remember that the credit unions of this country, conducted mutually by men and women of moderate incomes, went through this depression with the best record of any class of financial institutions in the United States. Of the two thousand four hundred-odd, that were properly administered under the National Bureau, not one of them went into bankruptcy or encountered any financial difficulty during the depression.

The CHAIRMAN. What about the Morris Plan Bank?

Mr. FAHEY. Well, the Morris Plan Bank is a private institution. The Morris Plan Bank is like any other bank, except that it makes loans to small people.

The CHAIRMAN. And they have been very successful?

Mr. FAHEY. That is quite right. As a matter of fact, some of the large commercial banks have gone into the business of making loans to small people, on a large scale, and that is one of the best classes of business that they have.

Mr. LUCE. I am convinced that the home-building association ought to stick to its last, and ought to do nothing but home building, and that if they take \$1,000,000 to finance a hotel, no matter if the security is sound, they take away from the home-building field money needed to encourage the building and occupancy of homes.

Mr. FAHEY. Well, of course, this bill, as amended, would not contemplate or make possible the financing of hotels or factories or industrial buildings or anything of that sort.

Mr. GIFFORD. I am advised that only one Massachusetts savings bank belongs to your organization.

Mr. FAHEY. I beg pardon?

Mr. GIFFORD. Only one Massachusetts savings bank belongs to your organization.

Mr. FAHEY. I think that is probably true.

Mr. GIFFORD. And only the weak ones want to come in. Are you not offering inducement here to the savings bank to come under your organization?

Mr. FAHEY. Some of the savings banks would like to.

Mr. GIFFORD. If you would discount those large mortgages?

Mr. FAHEY. As a matter of fact, in general, you would not have to, because invariably they have enough of the other types of mortgages that would be eligible, today, if they wanted to, but it would be a question of emergency recourse.

Mr. GIFFORD. That is just it. The statement was given to me within the last day or two by the president of a large savings bank, that only one, to his knowledge, had come under your Board, and he said only the weak ones would want to. That is his statement—not mine.

Congressman Luce is asking you why, and he said you would know. Are you offering inducement to savings banks to come under your insurance feature?

Mr. FAHEY. The liberalization of the act here, certainly, would make the Federal Home Loan Bank System an institution which could serve the savings banks when they needed it. There is no doubt about that. And it is my personal judgment that every savings bank in the United States ought to be in a reserve institution,

either in the Federal Reserve or in the Federal Home Loan Bank System.

Mr. GIFFORD. Every cooperative bank ought to come in, and savings and loan institution?

Mr. FAHEY. I say this, Mr. Congressman—

Mr. GIFFORD. Answer the question, please.

Mr. FAHEY. Pardon?

Mr. GIFFORD. Every cooperative bank, as we call them in our State, should come under this savings and loan, Federal Savings and Loan System?

Mr. FAHEY. No; not the Federal Savings and Loan. You mean the Federal Home Loan Bank System?

Mr. GIFFORD. Yes; but I am talking about the Federal Savings and Loan Association, that you want now to change the name to Federal Savings Association?

Mr. FAHEY. No, no; you are thinking now, Mr. Congressman, of the insurance corporation.

Mr. GIFFORD. You want to call it the Federal Savings Association?

Mr. FAHEY. No; the bill would change the name of the Federal Savings and Loan Insurance Corporation to the Federal Savings Insurance Corporation. We feel that the present name is confusing because it indicates that the Corporation is insuring loans. It is not.

Mr. GIFFORD. Now I want you to explain to us why it is that so many of our building and loan associations now are being driven into the Federal Savings and Loan Association, whatever you call it?

Mr. FAHEY. I am not aware—

Mr. GIFFORD. Why do they keep changing over; why do they offer better inducements?

Mr. FAHEY. For one thing, because they are members of the bank system, and because they are insured. Now, not only that—

Mr. GIFFORD. And they are offering a lower rate of interest, too, are they not?

Mr. FAHEY. No.

Mr. GIFFORD. I know that is why they are switching mortgages in my section. My cooperative banks insist they cannot get by without the former 6-percent rate. Now the Federal Savings and Loan Associations have that fountain to which they can go for funds, especially when they have to be under a lower rate, and switching mortgages. Did you not know that?

Mr. FAHEY. I am not aware of any complaint from any cooperative banks, Mr. Congressman, that competition from that source was compelling them to—that they must have a 6-percent rate—and competition from other directions was making it impossible for them to maintain that rate.

Mr. GIFFORD. Did you not know that, 2 years ago, the cooperative banks of Massachusetts came here in force to the Federal Savings and Loan Association, protesting, after we set up that Federal Savings and Loan Association to take care of the bank facilities that did not exist then?

Mr. FAHEY. Yes.

Mr. GIFFORD. And not to compete with places where it did exist?

Mr. FAHEY. There were no new Federals started in the State of Massachusetts. They changed from a State charter to a Federal charter in a number of instances.

Mr. GIFFORD. And the one in the city of Brockton changed to a Federal charter is now inducing the switching of mortgages from other building and loan associations.

Mr. FAHEY. So are the commercial banks, and if any competing institution is unable to meet the legitimate competition, how can they expect anything else?

Mr. GIFFORD. But the banks are one thing that the Government set up to compete with our own private set-ups.

Mr. FAHEY. Why should any cooperative lending institution insist upon imposing upon borrowers a higher rate than the market rate of its community?

Mr. GIFFORD. Well, the small building and loan association, conducted properly, has got to earn some money.

Mr. FAHEY. There is no doubt about that, but the institution which has, in most localities, a 5- or 5½-percent rate, ought to be, and thousands of them are, perfectly able to operate and to make a very substantial showing for their shareholders.

Mr. GIFFORD. This committee, 2 weeks ago, had a protect itself from the F. H. A. by setting up a law that, in switching mortgages, they would first have to go to their own lending institutions and see if they could meet those conditions. That is a definite attempt by the Government to break down interests rates by Government competition.

Mr. FAHEY. Without any Government influence on the situation at all, Mr. Congressman, I would contend that the accumulation of savings in the country and the competition for mortgages is breaking down the rates, anyway. You have lower rates of interest for money in the commercial field than we have ever had in the history of this country. Not only that, but the old second mortgage has disappeared, and the new single mortgages are being written at a lower interest and a higher percentage of value from one end of the country to the other.

Mr. GIFFORD. I understand that some of our people do not want to put their money into building-and-loan associations, which they have been successfully able to do, and some of which have been very prosperous in our section.

Mr. FAHEY. You mean they will not put it in?

Mr. GIFFORD. No; certainly not, if they cannot get a proper rate of interest, and the building-and-loan associations after paying their officials, have not very much money left to pay dividends.

Mr. FAHEY. That partly depends, Mr. Congressman, on whether they are trying to pay too high dividends, in order to get the money in, or whether they are operating their institutions efficiently. Now the fact of the matter is that insured institutions, insured under the Federal Savings and Loan Insurance Corporation and insured under the F. D. I. C., have been gaining constantly in the money put into them by the people. In the case of the federals—

Mr. GIFFORD. I understand all that and I do not want you to discuss that, but last week I walked into one cooperative institution and asked how many mortgages have been shifted from it to Brockton and I asked him why he let them go, he said, "We can't run this bank at this rate of interest."

Mr. PATMAN. What was the difference in rate, Mr. Gifford?

Mr. GIFFORD. I think it was about 1 percent or 1½ percent. I do not claim they were charging too much, but the people were always

willing to borrow and it was a very successful bank. Now, after they paid their salaries, what have they left for the people in the way of dividends?

Mr. SACKS. Mr. Fahey, by way of observation, and I mentioned this before when we were discussing the other bill, it seems that this type of Federal institution, that is, the Federal Savings and Loan Association, has done something in my city, where the situation, as everybody knows, was bad with the building-and-loan associations, that has not been done in a long time: Brought a lot of savings out of hoarding and made a lot of people invest their money in these savings institutions, when they would not do it otherwise, because they lacked confidence; and if there was one city in the United States where the building-and-loans lacked confidence, that has been the city of Philadelphia, where 3,000 out of 4,000 failed, and the Federal Savings and Loan has brought that money back into circulation for mortgages and other investments, when no other State institution, B. and L., are the same as you have in Massachusetts, the cooperative banks, could have done it; and I say to you this: The people, today, in my city, want this, because they feel their money is safe, and they would like to see it invested safely.

Mr. GIFFORD. I am hoping that private initiative and private building-and-loan associations will go along and not be forced to come under the umbrella of the Government. We could get along, if you let us alone, but you furnish us competition we cannot meet.

Mr. BROWN. The fact is, now, you are seeking to build large apartment houses?

Mr. FAHEY. No; we are not seeking to build large apartment houses, because, let us get this clear: This banking system does not build anything. Here is the point, however: Any one institution, which is not a member of this banking system, at all, under the present law, can come to us and offer as collateral—and they are entitled to advances—the very kind of collateral that we are unable to accept from those who are members of the bank.

Mr. BROWN. That is what I wanted you to explain. Now, I understood you stated, yesterday, that they are building houses in cities, small cities and towns of 25,000; that they are building in many sections of the country apartment houses in cities of from seven to ten thousand. Now, when you have a small home, a one-unit family home, they do not have waterworks in a lot of those cities, they do not have heating systems. Therefore, it is much cheaper to build these small apartment houses, and they will build them in the small towns and cities?

Mr. FAHEY. Why, certainly.

Mr. LUCE. Mr. Gifford is anxious to have me tell you that I have matured shares in four cooperative banks that were running at 5-percent interest, and are now down to 3, and I sold three of them, and I am going to sell the fourth one.

Mr. FAHEY. Well, I do not believe that a cooperative bank, under present-day conditions, can continue to pay 5-percent dividends.

(Here followed discussion off the record.)

The CHAIRMAN. The committee will adjourn until 10:30 tomorrow. (Thereupon, the committee adjourned until 10:30 a. m., Thursday, April 27, 1939.)

AMENDMENTS OF 1939 TO FEDERAL HOME LOAN BANK ACT

THURSDAY, APRIL 27, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

Hearing on H. R. 5535 was resumed at 10:55 a. m., Hon. Henry B. Steagall (chairman) presiding.

Members present: Messrs. Steagall, Williams, Spence, Ford, Brown, Patman, Barry, Mills, Folger, Wolcott, Gifford, Luce, Crawford, Simpson, Kean, Miss Sumner, Mr. Miller.

The CHAIRMAN. The committee will come to order.

Mr. Fahey, we will be glad to have you resume your statement. Mr. Patman will be recognized to interrogate you this morning.

Do you have any further general statement to make? If so, we will be glad to have you do so.

STATEMENT OF JOHN H. FAHEY, CHAIRMAN, FEDERAL HOME LOAN BANK BOARD—Resumed

Mr. FAHEY. Mr. Chairman, Mr. Gifford asked some questions yesterday, but he is not here at the moment, so I will defer supplying the information until he comes in, if that is agreeable.

The CHAIRMAN. Very well.

Mr. PATMAN. Last week this committee was visited by quite a large delegation, most of them, I believe, from the State of New York, to protest against certain policies of the H. O. L. C., and asking that certain liberalizing amendments to the law be passed.

Are you familiar with their demands?

Mr. FAHEY. Yes; I am, Mr. Congressman.

Mr. PATMAN. Do you know what prompted the creation of this organization, whether it was inspired or whether it was spontaneous?

Mr. FAHEY. There have been quite a number of organizations of that type organized around the country from time to time over the last 2 years. As several organizations were represented in this group down here, I am unable to say how many of them were organized by promoters and how many may have been organized spontaneously. I have no doubt that in some cases borrowers who are aggrieved have interested themselves sincerely in movements of this kind, but in the main our experience with such organizations around the country has been that they have been invariably organized by someone who apparently believed that a considerable number of borrowers could be influenced to pay in monthly dues and thus keep

going an organization which would compensate some paid officials in order to conduct these campaigns. There have been unquestionably, to our knowledge, a number of efforts of that kind.

Mr. PATMAN. My object in bringing that up was this, that I asked these people to furnish to this committee statements of specific cases that they would consider hardship cases, where the Board had been unreasonable or where some administrative officer had been unreasonable. When these specific cases have been presented to this committee, will you see that an answer is given to each one, for your Board?

Mr. FAHEY. We would be very glad to, Mr. Congressman. Of course, that is exactly the procedure that we have tried to follow in dealing with any of these cases. As you will realize, very frequently—indeed, generally—the statement of facts with reference to a particular case made by the complainant is quite different from what the facts are determined to be when the other side has been heard.

Mr. PATMAN. I have found that to be the case where they complained to me in my district. In fact, I have not found a single case where I thought the Board was unreasonable. I have felt that the Board has handled these matters in a very satisfactory way, in my district.

Mr. FAHEY. I have no doubt, Mr. Congressman, that mistakes have been made in some cases by our people in the field. It would be, I think, unreasonable to expect that, with thousands of field men working with these borrowers in difficulty, that some of them would not sometimes get impatient and perhaps not act as tactfully as they should, but, as a matter of fact, we have found that there have been very few cases where there was a basis for a legitimate complaint.

Mr. PATMAN. What percentage of this H. O. L. C. money was loaned in the State of New York, if you know?

Mr. FAHEY. The State of New York represents the largest single refinancing of loans of any State in the country.

Mr. PATMAN. What percentage would that be, would you say?

Mr. FAHEY. That would be naturally so, of course.

Mr. PATMAN. I know that it would be.

Mr. FAHEY. That would be natural under certain circumstances.

Mr. PATMAN. And I am not criticizing that.

Mr. FAHEY. My recollection is that it represents something like 13 or 14 percent of the whole.

Mr. PATMAN. You realize, of course, that you will have some losses in the administration of this H. O. L. C. law, and in liquidating the debts in connection with it—that there will inevitably be losses?

Mr. FAHEY. Such losses are inevitable. When you consider the situation of these loans, or when they were taken over—

Mr. PATMAN. I am familiar with that, and I am sure that the committee is; we recognize that there will be losses. But how much do you estimate the Government will finally lose on the entire H. O. L. C.?

Mr. FAHEY. Mr. Congressman, it is almost impossible to say what, if anything, the ultimate loss may be, because that will depend so much on the stabilization of real estate over the next 2 or 3 years, whether recovery continues satisfactorily so far as values and the test of rental values over the years to come.

Mr. PATMAN. Where would your greatest loss be? In which State would your greatest loss be?

Mr. FAHEY. The greatest loss that the Corporation would suffer will be in the State of New York, and in that neighborhood.

Mr. PATMAN. Why is that? Is it on account of the higher appraisals or in the liberal way in which the law was first administered?

Mr. FAHEY. It is undoubtedly due to a variety of causes. Of course, in all cases poor appraisals, made especially during the early days of our operations before the appraisal system as a whole was shaken down, always contribute.

So far as New York is concerned, another thing is the great disturbance which was caused by the collapse of mortgage-certificate companies. Some 17 mortgage-guaranty and title-guaranty companies had to be taken over by the State. Their mortgage certificates alone, outside of their straight mortgages, represented nearly \$700,000,000, and they have not completed that liquidation. That, of course, has had a very depressing effect on the whole real-estate situation in and around New York.

Mr. PATMAN. What percent of the total losses of the H. O. L. C. do you estimate will be charged up to that one State alone? Remember, I am not criticizing—

Mr. FAHEY. No, no.

Mr. PATMAN. But there will be losses, and that State has obtained more loans, naturally, but I would like to know your estimate as to what percent of the entire loss would be charged to that State.

Mr. FAHEY. I do not know, frankly, that I could do anything more than guess at that. I am not sure that we have any special estimates on that. We could, however, give you some gage on that by the average loss on sales in New York as compared with the country as a whole.

Mr. PATMAN. Have you made any study of that?

Mr. FAHEY. I think that we have that.

Mr. PATMAN. Give the information, too, that I asked for awhile ago, about the percentage of the total loans that have been made.

Mr. FAHEY. Yes.

Mr. CATLETT. The average loss in the New York region at the present time is about \$1,918 per property.

Mr. FAHEY. That is against the average loss for the country of about \$707.

Mr. PATMAN. The average loss in the entire country is about \$707 per property?

Mr. FAHEY. That is right.

Mr. PATMAN. Whereas the average loss in the State of New York is about \$1,918?

Mr. FAHEY. Yes.

Mr. PATMAN. Do you have the average for each of the States?

Mr. FAHEY. Yes.

Mr. PATMAN. Would you mind inserting that in the record in connection with your remarks?

Mr. FAHEY. I would be glad to.

(The tabulation called for is as follows:)

Special report of loans closed by Home Owners' Loan Corporation, by States[Prepared by Division of Research and Statistics, Federal Home Loan Bank Board, Washington, D. C.
Apr. 28, 1939]

Region and State	Total loans closed			Average original loan on accounts authorized for foreclosure
	Amount	Percent of United States total	Average size	
United States.....	\$3,093,450,641	100.00	\$3,039	\$4,040
Region 1.....	781,061,034	25.24	4,756	5,722
Connecticut.....	44,234,775	1.43	4,303	5,229
Maine.....	7,734,375	.25	2,276	3,228
Massachusetts.....	109,075,668	3.52	4,448	5,184
New Hampshire.....	4,513,223	.14	2,417	3,313
New Jersey.....	175,326,988	5.67	4,825	5,758
New York.....	411,276,352	13.29	5,134	6,054
Rhode Island.....	24,700,721	.80	4,037	4,844
Vermont.....	4,198,932	.14	2,664	3,776
Region 2A.....	267,563,409	8.65	2,957	3,677
Delaware.....	5,107,653	.17	3,109	3,749
District of Columbia.....	12,143,870	.39	5,816	6,844
Maryland.....	45,602,271	1.47	2,863	3,389
Pennsylvania.....	167,014,200	5.40	2,841	3,693
Virginia.....	37,695,415	1.22	3,132	3,700
Region 2B.....	328,749,264	10.63	3,054	3,660
Ohio.....	305,877,993	9.89	3,104	3,682
West Virginia.....	22,871,271	.74	2,519	3,307
Region 3A.....	147,797,980	4.78	2,325	2,938
Alabama.....	37,037,585	1.20	2,230	3,299
Florida.....	30,677,881	.99	2,268	2,825
Georgia.....	33,664,632	1.09	2,267	2,562
North Carolina.....	31,394,396	1.01	2,548	3,210
South Carolina.....	13,299,389	.43	2,340	2,786
Puerto Rico.....	1,724,097	.06	2,917	-----
Region 3B.....	206,632,796	6.68	2,550	3,237
Arkansas.....	18,677,767	.60	1,805	2,126
Kentucky.....	25,326,811	.82	2,743	3,533
Louisiana.....	40,253,494	1.30	2,799	3,368
Mississippi.....	16,463,679	.53	1,879	2,354
Missouri.....	74,877,403	2.42	3,051	3,679
Tennessee.....	31,033,642	1.01	2,255	2,972
Region 4A.....	394,826,630	12.76	3,830	4,751
Illinois.....	279,438,542	9.03	3,993	5,020
Wisconsin.....	115,388,088	3.73	3,486	4,363
Region 4B.....	353,184,721	11.39	2,710	3,254
Indiana.....	112,170,592	3.63	2,298	2,662
Michigan.....	240,014,129	7.76	2,959	3,861
Region 5A.....	191,412,951	6.19	2,017	2,457
Colorado.....	22,922,420	.74	1,974	2,468
Iowa.....	38,831,763	1.26	1,978	2,498
Kansas.....	33,643,893	1.09	1,818	2,366
Minnesota.....	47,966,105	1.55	2,282	3,013
Nebraska.....	28,113,828	.91	2,068	2,314
North Dakota.....	9,037,526	.29	2,047	2,435
South Dakota.....	10,897,416	.35	1,780	1,923
Region 5B.....	162,723,152	5.26	2,299	2,672
New Mexico.....	5,134,547	.16	2,086	2,970
Oklahoma.....	54,379,830	1.76	2,270	2,644
Texas.....	103,208,775	3.34	2,327	2,688

Special report of loans closed by Home Owners' Loan Corporation, by States—
Continued

Region and State	Total loans closed			Average original loan on accounts authorized for foreclosure
	Amount	Percent of United States total	Average size	
Region 6.....	\$260,498,704	8.42	\$2,322	\$3,124
Arizona.....	15,771,067	.51	2,423	3,258
California.....	136,705,959	4.42	2,651	3,666
Idaho.....	8,183,627	.26	1,744	2,353
Montana.....	7,284,979	.23	1,980	2,631
Nevada.....	3,298,571	.11	2,724	4,472
Oregon.....	18,554,279	.60	1,971	2,618
Utah.....	25,035,674	.81	2,329	3,019
Washington.....	38,908,330	1.26	1,814	2,295
Wyoming.....	5,463,514	.18	2,234	2,615
Hawaii.....	1,292,704	.04	2,688	-----

Average amount of loans, cumulative number of properties sold, cumulative average amount of loss on properties sold as of Mar. 31, 1939

[Source: Home Owners' Loan Corporation, Property Management Division]

	Average amount of loans	Cumulative number of properties sold	Cumulative average amount of loss on properties sold
United States.....	\$3,039	42,747	\$707.49
Region 1, New York.....	4,756	4,853	1,918.33
Connecticut.....	4,303	385	980.74
Maine.....	2,276	99	1,467.05
Massachusetts.....	4,448	1,196	1,835.76
New Hampshire.....	2,417	116	1,041.19
New Jersey.....	4,625	1,034	2,104.07
New York.....	5,134	1,560	2,333.24
Rhode Island.....	4,037	418	1,446.23
Vermont.....	2,664	45	1,121.93
Region 2A, Baltimore.....	2,957	4,201	873.20
Delaware.....	3,109	121	571.63
District of Columbia.....	5,816	163	751.85
Maryland.....	2,893	865	1,128.50
Pennsylvania.....	2,841	2,408	887.03
Virginia.....	3,132	644	565.92
Region 2B, Cincinnati.....	3,054	3,329	539.42
Ohio.....	3,104	3,106	562.77
West Virginia.....	2,519	223	214.16
Region 3A, Atlanta.....	2,325	3,277	572.55
Alabama.....	2,230	1,020	581.08
Florida.....	2,268	645	747.69
Georgia.....	2,267	646	319.36
North Carolina.....	2,548	651	680.37
South Carolina.....	2,340	315	482.70
Puerto Rico.....	2,917	-----	-----
Region 3B, Memphis.....	2,550	4,792	648.62
Arkansas.....	1,805	598	499.84
Kentucky.....	2,743	458	750.89
Louisiana.....	2,799	692	605.42
Mississippi.....	1,879	406	505.53
Missouri.....	3,051	1,825	793.58
Tennessee.....	2,255	813	483.24

Average amount of loans, cumulative number of properties sold, cumulative average amount of loss on properties sold as of Mar. 31, 1939—Continued

	Average amount of loans	Cumulative number of properties sold	Cumulative average amount of loss on properties sold
Region 4A, Chicago.....	\$3,830	3,992	\$572.75
Illinois.....	3,993	2,911	499.41
Wisconsin.....	3,486	1,081	771.25
Region 4B, Detroit.....	2,710	3,511	517.80
Indiana.....	2,298	1,597	778.76
Michigan.....	2,959	1,914	300.07
Region 5A, Omaha.....	2,017	3,511	418.82
Colorado.....	1,974	342	74.71
Iowa.....	1,978	804	557.14
Kansas.....	1,818	559	634.89
Minnesota.....	2,282	708	163.82
Nebraska.....	2,068	829	560.80
North Dakota.....	2,047	158	315.82
South Dakota.....	1,780	111	101.75
Region 5B, Dallas.....	2,299	5,942	418.10
New Mexico.....	2,086	84	273.28
Oklahoma.....	2,270	2,118	524.93
Texas.....	2,327	3,740	360.85
Region 6, San Francisco.....	2,322	5,339	454.38
Arizona.....	2,423	411	742.68
California:			
Northern division.....	2,651	2,501	422.99
Southern division.....			
Idaho.....	1,744	92	514.56
Montana.....	1,980	92	697.79
Nevada.....	2,724	34	1,002.77
Oregon.....	1,971	369	304.59
Utah.....	2,329	845	616.75
Washington.....	1,814	935	282.72
Wyoming.....	2,234	60	320.77
Hawaii.....	2,688		

Mr. PATMAN. That is all I care to ask about on that.

Mr. FAHEY. I am not sure that I have that here, but if I have not got it, we will put it in the record.

Mr. PATMAN. Now, the Home Loan Bank System is intended to be set up very similar to the Federal Reserve Bank System, is it not?

Mr. FAHEY. It closely parallels the set-up of the Federal system.

Mr. PATMAN. But the boundaries of the districts are not the same?

Mr. FAHEY. Not exactly the same.

Mr. PATMAN. But there are 12 Federal Reserve districts and 12 home-loan bank districts?

Mr. FAHEY. That is correct.

Mr. PATMAN. And they cover, of course, the same sections of the country at the same time?

Mr. FAHEY. That is true.

Mr. PATMAN. Is each bank a separate unit? Does it stand upon its own bottom, or is it part of the whole system, of the 12 banks?

Mr. FAHEY. Both things are true.

Mr. PATMAN. To what extent?

Mr. FAHEY. Each bank is a separate bank, with its own officers, with 12 directors, 4 of whom are public-interest directors, and 8 of whom are elected by classes of membership by the members of

the bank of that particular system. Each has its own capital assigned to it—

Mr. PATMAN. Wait just a minute. How many classes of directors does each bank have?

Mr. FAHEY. Three.

Mr. PATMAN. To take a specific case, I believe that Little Rock is the headquarters of the district that I am in.

Mr. FAHEY. Yes.

Mr. PATMAN. How many directors are there at Little Rock?

Mr. FAHEY. There are two elected at large—

Mr. PATMAN. By the members?

Mr. FAHEY. Yes.

Mr. PATMAN. How many others?

Mr. FAHEY. Actually six are elected by classes. The associations are divided according to size, classes A, B, and C.

Mr. PATMAN. Like the banks in the Federal Reserve System?

Mr. FAHEY. Yes.

Mr. PATMAN. And are all the directors elected by the member associations?

Mr. FAHEY. No. Four of the directors are public-interest directors, and they are selected by the Board.

Mr. PATMAN. By the Board that you are the chairman of, here in Washington?

Mr. FAHEY. Yes.

Mr. PATMAN. Four out of how many?

Mr. FAHEY. Twelve.

Mr. PATMAN. You have one-third of the total membership?

Mr. FAHEY. That is correct.

Mr. PATMAN. How much of the capital do you furnish to each bank?

Mr. FAHEY. The Government furnished originally \$125,000,000 of capital, when the system was organized.

Mr. PATMAN. That is, in all 12 banks?

Mr. FAHEY. All of them; yes. That capital was divided according to the needs of the sections and the size of the business.

Mr. PATMAN. Which was determined by the Board?

Mr. FAHEY. Which was approved by the Board, and the member institutions since then have subscribed just a little less than \$39,000,000.

Mr. PATMAN. Making a total of about \$163,000,000 in all for the 12 banks?

Mr. FAHEY. That is right.

Mr. PATMAN. Are dividends paid regularly on this stock?

Mr. FAHEY. Yes; dividends have been paid at varying rates for more than 2 years—3 years.

Mr. PATMAN. Does the Government collect the dividend on its stock?

Mr. FAHEY. It does.

Mr. PATMAN. Just like the members?

Mr. FAHEY. Just like the members.

Mr. PATMAN. In proportion to the amount that has been paid in?

Mr. FAHEY. That is right.

Mr. PATMAN. I just wonder about the number of directors. Since about 76 percent of the stock is owned by the Government, I wonder

if the Government should not have a greater representation on the board of directors. I am asking for your opinion on that.

Mr. FAHEY. Well, I am bound to say, concerning that, that the system has worked very well so far. The principle which has been applied in the selection of public-interest directors has been that they should be public-spirited citizens, having general knowledge of business and finance, but not particularly concerned with the industry. They sit on the Board, therefore, representing the public interest.

Mr. PATMAN. But they only have one-third representing the public interest, whereas two-thirds represents the minor percentage of the subscribed and paid-in capital stock?

Mr. FAHEY. That is correct, but so far we have not had any experience anywhere to indicate that that is not satisfactory.

Mr. PATMAN. Up to now, it has been very pleasant and has worked out satisfactorily in the public interest?

Mr. FAHEY. That is true.

Mr. PATMAN. And for that reason you are not making any recommendation for a change?

Mr. FAHEY. That is right.

Mr. PATMAN. Because your experience has been satisfactory?

Mr. FAHEY. That is right.

Mr. GIFFORD. There has been considerable trouble to get approval here of the directors appointed by the local banks.

Mr. PATMAN. Do you have veto power with respect to a director selected, say, at Little Rock?

Mr. FAHEY. They do not recommend the public-interest directors.

Mr. PATMAN. But I am talking about the local directors.

Mr. FAHEY. That issue has never arisen so far.

Mr. PATMAN. But if that issue should arise, you have the veto power, do you not, and would you not have the right to say, if they should elect John Jones, that you will not accept him, that you know something about his business in the past, that he is not satisfactory, and you will not have any dealings with him? Would you have the right to say to them that they should elect somebody else?

Mr. CATLETT. The statute, Mr. Patman, does not require our approval of the election of directors, but we do have the power to suspend or remove any director.

Mr. PATMAN. I presume that that is like the Federal Reserve Board; in event the set-up is not satisfactory, you would have a right to withhold funds or have a right to say that you will not have any dealings with them?

Mr. CATLETT. We could exercise authority over the making of loans by the local bank.

Mr. PATMAN. You have considerable power, regardless of who elects the directors, over them?

Mr. FAHEY. That is correct.

Mr. PATMAN. And this bill provides that in event there should be a demand for additional money for home financing, and the bank cannot furnish it, that the Secretary of the Treasury, if this bill should become a law, would have the right by the sale of bonds to acquire funds for the purpose of lending to these banks, in order that the banks may use these funds to extend loans for home financing?

Mr. FAHEY. That is correct, but in event that the bank system itself could not at the time market its own debentures and obtain money in the open money market.

Mr. PATMAN. Of course, I do not mean this in an offensive sense, but this is the first effort that has been made to get the Government right squarely behind this system, is it not?

Mr. FAHEY. Well, I would hardly say that, inasmuch as the Government, of course, was squarely behind it at the beginning.

Mr. PATMAN. I mean under obligation to pledge its credit for the purpose of saving the system in event of distress.

Mr. FAHEY. As a matter of fact, I do not see how they could escape that responsibility.

Mr. PATMAN. I am not arguing about it. I am just asking if that is not the fact, that it is the first effort of that kind that has been made?

Mr. FAHEY. It is the first effort to put the Treasury in a definite position where it can act, which it cannot do now.

Mr. PATMAN. That is the answer to my question.

Mr. FAHEY. That is right.

Mr. PATMAN. In the Insurance Corporation, where the Government has put up \$100,000,000, do you consider that the Government is morally obligated in event that the liabilities should exceed that amount?

Mr. FAHEY. I do not see how it can escape it.

Mr. PATMAN. In other words, the Government is behind it already, anyway, morally?

Mr. FAHEY. That is true.

Mr. PATMAN. And if trouble that is not expected should come up, and there should be tremendous losses, the Government of the United States would be obligated and Congress would be morally obligated to take care of the losses?

Mr. FAHEY. Well, it had to do that in this last experience. In our judgment, the important thing is to forestall those possibilities by being prepared for them.

Mr. PATMAN. Yes, sir; and of course this bill is in the direction of being prepared. I am not opposing that, but asking about it.

That brings me down to the insurance program, and the reason that I am asking about these things is that the distinguished chairman of our committee the other day made a very interesting and instructive talk—as he always does on any occasion before any body—down in North Carolina, at Lumberton, and he is quoted as saying that he believes that the member banks of the Federal Reserve System should participate in the profits of that great System; and since our chairman, you know, is a pretty powerful fellow around here, and since he believes that way, and I know his tremendous power and influence, if that is the direction that he is going, I feel that we ought to be careful about extending the powers of these other agencies, if these other agencies are going in that direction. That is the reason that I am asking these questions.

The Federal Reserve System is very similar to this, except that the Government credit is behind the banks in a different way. If a bank needs it, it just puts up Government obligations, or eligible paper, or gold certificates, and gets the legal-tender currency, and it

is all the obligations of the United States Government, not the obligation of the banks at all.

Now, then, you are trying to do a similar thing in just a little different way.

On the insurance part of it, I am especially anxious to ask you how much has been accumulated since the Government put up the \$100,000,000 by the premiums of one-eighth of 1 percent.

Mr. FAHEY. I think about \$17,000,000.

Mr. FALLON. Total reserves accumulated, \$17,000,000, and more than \$11,000,000 of that has come from the dividends.

Mr. PATMAN. I was much impressed with the statement made that you are just asking for the same thing that the F. D. I. C. has, that they have one-twelfth of 1 percent, and you are asking for one-twelfth of 1 percent, but I find this distinction and I would like to have your opinion about it. The limit here, when 5 percent of the total amount of your liabilities has been accumulated in the form of premiums, will have been reached; that is, there will be no further payments, whether it is one-eighth percent or one-twelfth percent or what not. It stops right there.

Mr. FAHEY. Oh, no.

Mr. PATMAN. Well, did we not have a proposal like that one time in one of these committee meetings? Where did I get that? I thought that I got it right in this committee.

Mr. FAHEY. No; it is not in this measure.

Mr. PATMAN. Wait a minute. I am not going to yield on that point. I still believe I am right.

Mr. CATLETT. That is correct, that the premium is payable until such time as the 5-percent reserve is accumulated, and then the premium ceases until such time as that reserve falls below the 5 percent, when the premium again becomes payable. There is an additional provision, as you recall, for an assessment of an equal amount.

Mr. PATMAN. I did not mean to say that there would never be any, but as long as there was a 5-percent reserve, am I right about that?

Mr. FAHEY. Five percent reserve accumulated.

Mr. PATMAN. I got that from your sixth annual report, where it says that:

It is to the financial interest of the insured associations, as well as of the Insurance Corporation, to build up reserves as rapidly as possible until they equal 5 percent of the insured risk of the Corporation, at which time the Congress has provided that the payment of premiums shall cease.

So that that is correct, that they do cease?

Mr. FAHEY. At that time.

Mr. PATMAN. Now, the F. D. I. C., if I understand it correctly, has a different situation, in that their premiums do not cease, but they continue on, don't they?

Mr. FAHEY. I am not sure about that.

Mr. CATLETT. Yes; that is right.

Mr. PATMAN. So that there is a difference?

Mr. CATLETT. There would be that difference in that case.

Mr. PATMAN. Are you willing to place yourself in the same position as the F. D. I. C., since you advance that argument, that if you lower the percentage, you take off the limit?

Mr. FAHEY. You mean to take off the limit on what?

Mr. PATMAN. Five percent. In other words, let the reserve accumulate to more than 5 percent and just keep on charging it, like the F. D. I. C.?

Mr. FAHEY. Your thought would be to continue collecting the premium and increasing the reserves after the 5 percent had accumulated?

Mr. PATMAN. Yes.

The CHAIRMAN. In case there should be an increase.

Mr. SPENCE. What is your insured risk? What is the amount of your insured risk?

Mr. FAHEY. \$5,000.

Mr. SPENCE. I mean the total.

Mr. FAHEY. It is about \$2,000,000,000.

Mr. FALLON. About one billion six. The total assets are two billion two.

Mr. SPENCE. And when you accumulate 5 percent of that amount, the premiums will then cease? Is that your construction of the act?

Mr. CATLETT. That is correct.

Mr. SPENCE. You will be a long time accumulating that amount?

Mr. FAHEY. That is right.

Mr. PATMAN. But since you are contending for the same situation as in the F. D. I. C., if you lower the rate to equal that of the F. D. I. C., you should not object to taking off that 5-percent limit, should you?

Mr. FAHEY. I do not know. That is a matter that has not been raised with the Board, and we have not discussed it, and consequently I would not—

Mr. PATMAN. I won't ask you to commit yourself on it, since you have not been advised about it and you have not given it careful consideration or talked to the Board about it. But I am just raising that point. However, you can see that there is a difference there between your organization and the F. D. I. C.?

Mr. FAHEY. Agreed.

Mr. PATMAN. Have you discussed with the Board, or have you arrived at any conclusion about, whether you should attempt to fix a maximum interest rate in the States, instead of being governed solely by the State laws?

Mr. FAHEY. Yes; we have, Mr. Congressman. We have been giving it considerable thought and study, and it seems to us a very difficult thing to do, for this reason, that interest rates vary in different sections of the country, depending upon local conditions in the character of the risk.

For example, assume that the Board had the power, and it adopted a regulation to the effect that no member institution could obtain funds from a bank which in turn would be loaned at more than 6 percent; we would encounter great difficulties in attempting to enforce it. We would have to be very careful as to what we meant by 6 percent, and, more than that, the net result would be unquestionably that in many States, in the thinly settled areas, where loans are made in very small amounts to people of small incomes, the risk being higher and the cost of handling higher, that we would shut a lot of those people off from loans altogether.

Mr. PATMAN. You think that you should confine your activities to preventing bad practices, like fees and forfeitures and things like that, rather than trying to do something with the maximum interest rate?

Mr. FAHEY. Well, aside from that, our observation is—and we think it is bound to go further—that the competition developing between lending institutions is correcting the excesses that have developed.

Mr. PATMAN. And will keep interest rates down?

Mr. FAHEY. Exactly. Not only that, but it is very important, in discussing interest rates, to have clearly in mind the distinction between what is called a nominal interest rate and the actual or effective interest rate, because—

Mr. PATMAN. I understand that.

Mr. FAHEY. You understand that charges of various kinds, fees, and discounts can completely distort the effect so far as comparisons are concerned. The effective interest rate is the only rate that you can take into consideration.

Mr. PATMAN. That is sufficient on that; that is a complete answer to my question.

I Notice that the interest rate in your sixth annual report, on page 116, is as follows with respect to Little Rock:

Rate in effect, 3. All advances: All advances maturing before December 31, 1938, are to be written at 3 percent. Advances maturing after that date to be written at 4 percent, but until December 31, 1938, interest to be charged at 3 percent.

Does that mean that the interest rate is 4 percent now?

Mr. FAHEY. It probably is on some of the long-term advances, but I cannot tell you exactly.

Mr. CATLETT. Little Rock, as I have it here, continues on the 3-percent rate.

Mr. PATMAN. Is there a rate at any of the banks in excess of 3½ percent?

Mr. CATLETT. No.

Mr. PATMAN. This language is not very plain here.

Mr. CATLETT. The interest rates have been dropping.

Mr. PATMAN. I understand that from information outside of this publication, but this document here indicates that the interest rate after December 31, 1938, in the Little Rock area, will be 4 percent. That is on page 116 of your report.

Mr. CATLETT. That was at that time, but there have been changes in it since, and they have all been down.

Mr. PATMAN. In regard to this Insurance Corporation, is it not a fact that about 20 percent of your loans have been made in one State? I mean, take the State of Ohio. Do you not have about 20 percent of your business being done there?

Mr. FAHEY. I cannot say, offhand. Do you have the figures, Mr. Catlett?

Mr. PATMAN. In other words, of your liabilities, about 20 percent are in one State—Ohio.

Mr. CATLETT. The total number of insured institutions in the State of Ohio on March 31 was 222, out of a total in the United States of 2,122.

Mr. PATMAN. That does not mean a thing.

Mr. CATLETT. Do you want the dollar volume?

Mr. PATMAN. That is right.

Mr. CATLETT. The dollar volume of assets was \$418,000,000, as against the dollar volume in the United States of \$2,195,000,000.

Mr. PATMAN. That is about 20 percent, is it not?

Mr. CATLETT. That is right.

Mr. PATMAN. I took the figures that you had presented to some committee—I do not know whether it was of the House or of the Senate—and I observed that about five of the States had more than 50 percent of the business, in volume.

Now, if I am right about that, do you not think that it would be just a little risky to lower this rate, in view of the fact that you have not had much experience to base it on, when so much of your liability is in one State, or so much of it is in five States? The risk is not generally scattered over the entire country. Do you not think that that should be taken into consideration when you are considering lowering the rate?

Mr. FAHEY. There are two points about that, Mr. Congressman. One is that, of course, a large amount of the lending business, mortgage lending, is concentrated in a limited number of States in the country—

Mr. PATMAN. I know that. That is a natural situation.

Mr. FAHEY. That is right.

Mr. PATMAN. I am not arguing that, but accepting it as true, naturally.

Mr. FAHEY. That is right. The second thing is that in the areas like Ohio, and the States of Illinois, Indiana, and California, where the institutions are larger and where in many cases they have had more experience, they are apt to be more alert in handling business and more enterprising in dealing with problems of this sort.

The other side of that is that in the smaller communities, in the States where the volume of lending is not great, the institutions are less inclined to take insurance, because of the feeling that the cost is too high.

It would be an advantage if the Insurance Corporation included the membership of a very much larger number of institutions scattered more widely over the country, small as well as large.

Mr. PATMAN. Well, this bill does not increase your membership, does it?

Mr. FAHEY. That is our belief, based upon our reaction to—

Mr. PATMAN. Just a moment. How does your percentage of potential members compare with the percentage of potential members of the Federal Reserve Bank System?

Mr. FAHEY. I could not tell you that offhand.

Mr. CATLETT. We have a larger number of members at the present time, a larger percentage of potential members, I believe, than the Federal Reserve System.

Mr. PATMAN. Your number seems to be rather large to me.

I notice this map here in the back of your sixth annual report, the last one. It is a very interesting map, showing the Federal savings and loan associations covering the entire country, and I find that most of them have been organized in places where they already had the most money and credit. Has that thought occurred to you?

Mr. FAHEY. No; I do not think that that quite squares with the facts.

Mr. PATMAN. I hope that I am mistaken about it.

Mr. FAHEY. Well, now, right on that very point—

Mr. PATMAN. If that is true, there must be some reason for it that is not a healthy or constructive one?

Mr. FAHEY. In the first place, in the granting of charters to Federal associations, there is considerable misapprehension. In the last year or 15 months, only seven Federal charters have been granted in the entire country.

Mr. PATMAN. You mean Federal savings and loans?

Mr. FAHEY. That is right.

Mr. PATMAN. You mean that a larger number has come in which have been converted from State organizations?

Mr. FAHEY. That is right.

Mr. PATMAN. I wondered about that.

Mr. FAHEY. It does not bring new organizations into existence. In the entire country, since the middle of 1937, only 146 Federal charters have been granted, and of that total only 17 were new charters. All the rest were converted.

Mr. PATMAN. When this bill was proposed first in 1932 I got the information somewhere that over half of the counties were not served by building and loan associations, that out of 3,073 counties in the entire United States about 1,554 were not served.

Mr. FAHEY. I think that is the fact.

Mr. PATMAN. What is the percentage now, after you have operated the last 6 years?

Mr. FAHEY. That is a question that I cannot answer.

Mr. PATMAN. What percentage of the counties are covered now or served by building and loan institutions that render this type of public service?

Mr. CATLETT. On page 47 of the report which you have in your hand you will see that on June 30, 1938, 2,868 counties were covered.

Mr. PATMAN. Nearly 2,900 out of 3,073. Of course, that is nearly all of them.

Mr. CATLETT. Or approximately 94 percent.

Mr. PATMAN. That is a fine record that has been made along that line.

Now, in connection with your supervision, I would like to ask a few questions.

A Federal savings and loan association is a local institution, with local offices and local people conducting it? Is that right?

Mr. FAHEY. That is correct.

Mr. PATMAN. The Government has furnished part of the capital in some of these institutions, and in some others it has not furnished it?

Mr. FAHEY. That is right.

Mr. PATMAN. What is the largest amount that is furnished? We sometimes take extremes.

Mr. FAHEY. You mean the largest amount?

Mr. PATMAN. Yes. Suppose that the local people put up \$100,000; how much could the Government put up, if you wanted to put it up?

Mr. FAHEY. Under the law, we could put up 50-50, isn't it?

Mr. CATLETT. The law permitted an investment of 3 to 1, but we never went that far.

Mr. PATMAN. You never have gone that far?

Mr. CATLETT. No.

Mr. PATMAN. Now, say that there are 1,000 investors, and that each investor puts in \$5,000. In that way that investment is insured. If anything happens to that concern, they would get that money from the Government Insurance Corporation here in Washington.

Do many of these associations have officers owning a large amount of stock?

Mr. FAHEY. Generally speaking, I would say that the officers and directors do not own large blocks of stock personally.

Mr. PATMAN. What I am getting at is, is there any incentive for these officers, knowing that the people who have invested their money will not suffer, to engage in graft or corruption that would possibly scuttle the organization, but cause them to line their own pockets with gold?

Mr. FAHEY. There is not much opportunity for that, because of the regular reports that we receive—

Mr. PATMAN. That must be made?

Mr. FAHEY. Yes; and the regular examinations.

Mr. PATMAN. I see. In other words, you do not see any danger there?

Mr. FAHEY. Of course, you will have embezzlements and that kind of thing now and then, but they are exceptional.

Mr. PATMAN. There is no general incentive for that in this set-up?

Mr. FAHEY. No.

Mr. PATMAN. I noticed some large building and loan association, I believe here in Washington, where the secretary only received \$3,000 a year, which seems to me like a very small amount, and yet I was told that he made \$25,000 a year, and I asked how it could be done, and was told a good thing about being the secretary of a building and loan association, was that you can write insurance and do a lot of things like that, having contacts with all of these different people, and make a lot of money that way.

Is that the general practice, or is that an exception?

Mr. FAHEY. Of course, if that particular case is true—

Mr. PATMAN. I do not say that the exact amounts are true, but I was just giving them for illustration.

Mr. FAHEY. I never heard of that case, but, of course, as you realize, many stories of that sort are far from consistent with the facts, but, generally speaking, that just is not true.

Mr. PATMAN. I do not say that it would be bad, because naturally the secretary of such an association would have contacts with a lot of people, and they have to have fire insurance and all kinds of different insurance, and it is not unlawful, is it, for such a man to be in that business?

Mr. FAHEY. No.

Mr. PATMAN. And you have no rule or regulation that would prohibit that?

Mr. FAHEY. No.

Mr. PATMAN. And you would say that it is a perfectly legal thing for them to do?

Mr. FAHEY. There is no legal objection to it that I know of.

Mr. PATMAN. You have no supervision over matters of that kind, and you make no inquiries about them?

Mr. FAHEY. If those things show up in connection with examinations, and appear to be in any way irregular—

Mr. PATMAN. But it would not show up in connection with examinations, because it is separate and distinct.

Mr. FAHEY. Yes; but in connection with the examination of these institutions, the examiners have ample opportunity to learn of things going on in those institutions that might not show up on the books.

Mr. PATMAN. Now, then, about this section 4, I want to ask you a few questions. It is provided that—

For the enforcement of its rights and powers and of its orders, rules, and regulations, the Board shall have power, by resolution, in its own name or in the name of the United States through the Attorney General, or using its own attorneys subject to the direction of the Attorney General, as the Attorney General may determine, to institute or otherwise voluntarily participate in and to prosecute to final satisfaction any action, suit, or other proceeding in any State, Federal, or other court.

What rules and regulations do you have in mind or do you contemplate under this proposed power?

Mr. FAHEY. I will ask Mr. Catlett, who has dealt with that section, and who also discussed it with the Attorney General, if he will be good enough to give you the facts about that.

Mr. CATLETT. Mr. Patman, section 17 of the Federal Home Loan Bank Act provides that the Federal Home Loan Bank Board—

shall have power to adopt, amend, and require the observance of such rules, regulations, and orders as shall be necessary from time to time for carrying out the purposes of the provisions of this act. The Board shall have power to suspend or remove any director, officer, employee, or agent of any Federal home-loan bank, etc.

Under section 5 of the Home Owners' Loan Act the Federal Home Loan Bank Board is authorized—

under such rules and regulations as it may prescribe, to provide for the organization, incorporation, examination, operation, and regulation of associations to be known as Federal savings and loan associations.

Under title IV of the National Housing Act the board of trustees of the Federal Savings and Loan Insurance Corporation has authority to make such bylaws, rules, and regulations for the operation of the Corporation as it may prescribe for carrying out the purposes of the title. Every applicant for insurance must file with its application an agreement containing a number of promises in connection with future operation. These, as well as the rules and regulations, may at some time require enforcement.

Mr. PATMAN. I would rather that you would just tell me what orders you would have in mind issuing.

Mr. CATLETT. That is what I was leading up to, that, under that authority, we have made rules and regulations for the banking system, we have made rules and regulations for the Federal associations, and we have made rules and regulations for the insured associations.

Mr. PATMAN. But you have not told me any rules yet. What specific rules do you have in mind that you might attempt to enforce in court?

Mr. CATLETT. To give you an illustration of how this question came up, we examine these institutions, for which we charge, and we might have to sue; in fact, there have been two or three cases where it looked as if we might have to sue the association in order to recover the premium, and we have to go into court. When we asked our attorneys for an opinion with reference to that, it seemed doubtful as to whether the Federal Home Loan Bank Board, an unincorporated board, had authority to go into court, and, if it had, whether it could go in its own name or must call upon the Attorney General of the United States.

Mr. PATMAN. I know, but you have not yet told me any specific case. I am asking you what order you contemplate having to enforce through the courts.

Mr. CATLETT. That would be one, the collection of a premium. And let me give you another illustration. As I pointed out previously, we are empowered to remove a director of a Federal home-loan bank.

Mr. PATMAN. That is a good reason.

Now, one other question. Where do you expect the venue to lie in a case like this? Will you bring those suits in Texas, if it involves Texas people, or in Washington?

Mr. CATLETT. If it involves Texas people, the suit will be brought in Texas.

Mr. PATMAN. Do you say that in this proposed bill?

Mr. CATLETT. I do not know.

Mr. PATMAN. You would not object to that going in there?

Mr. CATLETT. No, not at all; but the section does contemplate that, and I think would so provide.

Mr. PATMAN. Anyway, if this passes like it is—if you should have to file a suit, you will go to the place where the transaction actually occurs?

Mr. CATLETT. Certainly.

Mr. PATMAN. And not attempt to bring the people to Washington?

Mr. CATLETT. No. This does not give us the power to bring them to Washington.

Mr. PATMAN. I do not know but what it does. I have read it carefully. It says that the suit may be instituted in the district court of the United States, and we have district courts here the same as in Texas.

Mr. CATLETT. Yes; but the reference is to the Judicial Code, and I am quite sure that the provisions of the Judicial Code would govern that.

Mr. PATMAN. I wanted to be sure that you did not have that in mind, to bring them up here.

Mr. CATLETT. No.

Mr. PATMAN. Mr. Fahey, one other observation, and I am through. I apologize to the committee and to yourself for taking up so much time.

I do not object to this power. I am in favor of giving you this power. I want to see it administered as you have administered it in the past. I think that you have done a lot to start the wheels turning and to make a lot of money and credit available and if that keeps on we will be back on the road to recovery.

But in 1913, on December 28, the Federal Reserve Act became effective. The Federal Reserve Board had powers similar to what you would have, and the Federal Reserve Board was charged with certain duties. It was contemplated that we would have an elastic credit system so that if money were needed for business and industry, backed with the right kind of paper, it would be put up. That was a beautiful theory and a fine thing as originally intended, and that law provided that—

The Board shall have the right, acting through Federal Reserve agents, to grant all or any part of or to reject entirely an application of any Federal Reserve bank for Federal Reserve notes, but to the extent that such application may be granted, the Board of Governors of the Federal Reserve System shall, through its local Federal Reserve agent, supply Federal Reserve notes to the banks who are applying, and such bank shall be charged with the amount of notes issued to it and shall pay such rate of interest as may be established by the Board of Governors of the Federal Reserve System on only that amount of such notes which equals the total amount of the outstanding Federal Reserve notes, less the amount of gold certificates held by the Federal Reserve agent as collateral security.

In other words, this law says that on that 60-percent difference in there, the Board of Governors shall require the payment of interest.

Now, until this good day, that law has been violated. Not 1 cent of interest has been charged; not one. Up until 2 years ago, every bank, I believe, in this country—Federal Reserve bank—violated that law. Since that time, of course, they have had enough gold certificates.

But I want to make sure that the mandatory duties that are put in this bill for you, in a similar undertaking, are not grossly and flagrantly violated, like the Federal Reserve Board has violated that law, section 16.

Mr. GIFFORD. You referred to the number of charters granted to new institutions and indicated that it was a small percentage as compared to charters granted to converted institutions. Do you encourage the conversions?

Mr. FAHEY. No. What happens, and has happened, is that originally a certain sum was provided by Congress which enabled the Board to organize a field staff which could respond to the inquiries of these institutions around the country relative to the Federal charter, and what they had to do if they wanted a Federal charter, and so forth.

Mr. GIFFORD. If you are acquainted with Massachusetts conditions, I wish you would tell me why there is this terrific row among the banks.

Mr. FAHEY. I do not know, but I was going to say this to you, that not a Federal charter has been granted in the State of Massachusetts since 1937, and not a new Federal association has been started in the State of Massachusetts. All of the 26 Federals in the State of Massachusetts are converted institutions; and, not only that, but in answer to certain questions that you asked yesterday, I want to say that it seems to me that you perhaps have been misled by an inquiry of one of the cooperative banks up there in this respect, that a cooperative bank, one not holding a Federal charter, can gain exactly the same rights so far as the Federal Home Loan Bank System is concerned as one having a Federal charter; they can be members of the Federal

bank system and become insured if they want to. A certain number in that State have preferred not to; have preferred to retain their State charter, and that is entirely within their control.

Not only that, but a certain number of them have preferred to rely upon an insurance fund which they set up themselves, which is a so-called central fund. At the present time, I think some of them are doubtful as to the real value of that central fund to them, and they have been discussing with us some adjustment of that situation.

Now, the fact is this, that the Federals in Massachusetts, as well as elsewhere, having a Federal charter and being insured by the Federal Savings and Loan Insurance Corporation, have very evidently commanded greater public confidence than those that were in the central fund. For example, in the State of Massachusetts during 1938 these 26 Federal associations showed a gain in private money placed with them of 11 percent for the entire State of Massachusetts, and in the city of Boston, where the Federals certainly have plenty of competition, both from the State-chartered cooperatives and the State banks, the actual gains in the city of Boston alone have been over 16 percent.

Now, no other class of institution has begun to approach that record.

Mr. GIFFORD. I do not want you to pursue that too long. The facts of the case are that the Federals are taking larger mortgages than the State associations. They say to the borrower that there is an advantage of safety in the Federal savings and loan, and they are switching the business. That, together with the activity of the F. H. A., is causing great concern to our State banks, that were doing well and that ought to be encouraged to go on their own and not to lean on the Government. All of these things are tending to disrupt and to discourage local independents, and to get under the umbrella of the Government; and that, Mr. Patman, was not the intent of the passage of this law. It was to put these organizations where they do not have banking facilities, was it not?

Mr. PATMAN. Well, of course, that was one thing, as I understood it, and also to bring down interest rates and to stop bad practices.

Mr. GIFFORD. But did I not understand you to congratulate this Board, because they had formed so many Federal savings and loan institutions?

Mr. PATMAN. On the effective work that the Board has put over.

Mr. GIFFORD. But not on this point, that they have placed institutions in localities where they already have plenty of money and credit available, because it does not seem to follow the original intention.

Now, Mr. Fahey, do you not agree with me that there is a real war on between the cooperatives and the Federals?

Mr. FAHEY. I am well aware of it, and that some of the cooperatives in the State of Massachusetts have been critical of the Federals; and, if you ask me for a frank expression of opinion on it, I will say that such an insurance fund as they have in the State of Massachusetts is absurd.

Mr. GIFFORD. Yes; I understand that you feel that way from what you have told us this morning, that if the F. D. I. C. does not have funds enough to insure, that there is a moral obligation to take care of everybody in this country, and, in this case, if your fund is not enough, that we are morally obligated to take care of them all.

How do you think that an independent cooperative bank in Massachusetts can continue with that ballyhoo that is being put out?

Mr. FAHEY. There is no ballyhoo.

Mr. GIFFORD. You have said that you notify people of the advantages of using the Federals.

Mr. FAHEY. There has not been a new charter granted in the State of Massachusetts—remember that every one of them is a conversion, and not one charter has been granted since 1937.

Mr. GIFFORD. Oh, well, since 1937.

Mr. FAHEY. Two years, and only 26 in the State, whereas you have 196 State banks and several hundred cooperative banks.

Mr. GIFFORD. They do not care to go into the Federal system, but they go in because they feel they have got to go.

Mr. FAHEY. Not a bit.

Mr. GIFFORD. There is a cooperative bank in my own section, and I have information that they hated to go in, but felt that it was necessary.

Mr. FAHEY. I do not know what the necessity was, and certainly none of them were ever forced to go into the Federal system.

Mr. GIFFORD. Not forced, but they did a tremendous amount of foreclosing.

Mr. FAHEY. What?

Mr. GIFFORD. They did foreclose on a lot of property. They were not in a condition—

Mr. FAHEY. Foreclosures in these Federals?

Mr. GIFFORD. No. In this cooperative bank that I had in mind they had a tremendous number of foreclosures, and finally they went into the Federal savings and loan to regain the confidence of those people who had their money invested in it.

Mr. FORD. I should think they would.

Mr. FAHEY. I should hope that they ought to, in the interest of the people whose money is in their hands.

Mr. GIFFORD. This is not a joke to laugh about. After they went in, they had a distinct advantage, because they were insured, and they can take greater chances in their loans than the other banks are taking. That we know.

Mr. FAHEY. Do we know that? I recognize that that is often said, but in every single case where that suggestion has been brought to our attention we have immediately investigated the situation and we have found that a complaint of that kind could not be sustained.

Mr. GIFFORD. Last week I was home, and there was one case right in my own village, of a mortgage that one director of a cooperative bank told me he would not consider, but that the Federals would take it, and they are taking them, and that is common knowledge and common talk, that if they cannot secure the mortgage in the local bank they can go to the Federal in the city of Brockton.

Mr. FAHEY. Why shouldn't they, if they get better service and a lower interest rate?

Mr. GIFFORD. They have the Federal Government back of them.

Mr. FAHEY. The Federals have not the Federal Government back of them; the Federals are not owned by the Federal Government.

Mr. GIFFORD. This has caused me much concern. They landed in Washington and came to see me 2 years ago, and I went to the Federal

Loan Board and appealed to them that they should restrict them in their efforts.

Mr. FAHEY. Mr. Congressman, just how would you restrict them? And, secondly, will you do this for me, please? Just give us the facts in any specific case and let us return the facts to you.

Mr. GIFFORD. In those specific cases?

Mr. FAHEY. Yes. Let us take the mortgage that you are talking about in Brockton, give us the facts about that, and let us return to you what the facts are.

Mr. GIFFORD. Does a Congressman want to burn his hands like that?

Mr. FAHEY. No; but it is perfectly easy for the association of co-operatives in the State of Massachusetts to make charges of that kind.

Mr. GIFFORD. This is a neighbor of mine who last week needed money on his house, and wanted to get \$3,000 from the Brockton Federal Association, when no bank would touch it, and do you think I would take any part to prevent him from getting it?

Mr. FAHEY. I do not think that you need to. Let this institution itself file the facts with us. Then we will report what the facts are. In any of these cases that are brought to our attention we are perfectly willing and ready to get the facts.

Mr. GIFFORD. What would you do about it?

Mr. FAHEY. We would go ahead and check up on that loan. We have a right to do that.

Mr. GIFFORD. To find out whether they took too large a loan?

Mr. FAHEY. Certainly; and what the facts were about it.

Mr. FORD. How could you get by the Insurance Corporation?

Mr. FAHEY. On the other hand, if they are making unsafe loans, in the case of the Insurance Corporation we certainly want to know it.

Mr. SPENCE. Do you know of any reason why the commercial banks should pay less insurance premium than the building and loan associations?

Mr. FAHEY. I do not.

Mr. SPENCE. Does not the F. D. I. C. insure both the liquidity and the solvency.

Mr. FAHEY. It does.

Mr. SPENCE. And you merely insure the solvency—isn't that true?

Mr. FAHEY. That is correct.

Mr. SPENCE. The commercial banks do not pay for the examinations, do they?

Mr. FAHEY. The Insurance Corporation examinations?

Mr. SPENCE. I mean that the commercial banks do not pay the Federal Deposit Insurance Corporation for the examinations that they make? They are made gratuitously?

Mr. FAHEY. I think that you are correct.

Mr. PATMAN. May I ask a question?

Mr. SPENCE. Wait until I am through.

But the building and loan associations have to pay for these examinations?

Mr. FAHEY. That is true.

Mr. SPENCE. Although you are limited to one examination a year?

Mr. FAHEY. That is true.

Mr. KEAN. Those sums are charged to the bank.

Mr. SPENCE. I understood that there is no provision in the law for a charge.

Mr. KEAN. That is done through the Comptroller's office.

Mr. SPENCE. I am not talking about that.

Mr. KEAN. But the Federal Deposit Insurance Corporation does not make an examination when the Comptroller's office has made an examination.

Mr. SPENCE. When the Federal Deposit Insurance Corporation feels that it is necessary to examine the bank for their own purposes, they make the examination and they do not charge the bank for that examination, as I understand it, and there is nothing in the law that would require it.

Now, you do charge for your examination?

Mr. FAHEY. That is true.

Mr. SPENCE. In the F. D. I. C. law, I think that there is a recognition made of the safety of mutual associations, because in that law it says that a separate fund for mutuals may be established under the F. D. I. C., and the board of directors may from time to time fix a lower rate which shall be applicable to mutual and savings associations alone. That was a recognition that the mutual-savings associations were very safe institutions to insure.

Mr. FAHEY. I think that is true.

Mr. SPENCE. As to this accumulation of 5 percent of the insured risks of the Corporation, in all probability, as your risks increase, there never will be 5 percent of the accumulated insured risks of the Corporation? You will never have a reserve of that amount?

Mr. CATLETT. No; not for a long time.

Mr. SPENCE. As I understand, your insured risks are one billion six hundred million?

Mr. CATLETT. That is right.

Mr. SPENCE. So that you would have to have \$80,000,000 accumulated reserve before these members would not be charged with the payment of insurance?

Mr. FAHEY. That is correct.

Mr. SPENCE. So that that practically nullifies that, it seems to me. So, as it is now, the building and loans are not quite on as favorable terms as the commercial banks?

Mr. FAHEY. That is correct.

Mr. PATMAN. Isn't this true, that where the larger percentage of these investments are covered, the rate should be higher?

Mr. FAHEY. That is partly true, but where some of these institutions, having amortized mortgages, are not obliged to pay cash on demand, the risk is much less than it is in the case of commercial banks.

Mr. PATMAN. When you get the information that I asked for, will you let us have the percentage of deposits covered by the commercial banks, and the percentage that will be covered here, because I think it is very material.

Mr. FAHEY. That is right.

Mr. SPENCE. Every one of these risks is covered by an amortized mortgage, is it not?

Mr. FAHEY. That is correct.

Mr. SPENCE. There has been an appraisal in connection with the mortgage, and, in addition to that, largely in the building-and-loan

associations, it is a character loan besides. Do you not find that that is true?

Mr. FAHEY. Oh, yes.

Mr. SPENCE. So that the very character of this risk is entirely different from that assumed by the commercial bank, is it not?

Mr. FAHEY. Of course, another important factor is that they are mutual in character, and there is a very keen interest on the part of the members in the methods of operation of these institutions. There are many of the smaller groups where their directors particularly and their officers give a lot of their time without any compensation.

Mr. SPENCE. Now, as I understand it, you collect premiums not only upon the amounts paid in, but on any amount borrowed?

Mr. FAHEY. That is true.

Mr. SPENCE. What have been your losses?

Mr. FAHEY. Something less than 3 percent, as I recall it. The total in the United States up to date has been a little less than \$140,000.

Mr. SPENCE. How many institutions have you had to take over?

Mr. FALLON. Seven; two in process.

Mr. SPENCE. And the amounts that you have recovered in those institutions have been very large?

Mr. FAHEY. Oh, yes.

Mr. SPENCE. And you always have tangible assets that you can realize on?

Mr. FAHEY. That is true.

Mr. SPENCE. And if you hold them for a certain length of time, until the market adjusts itself, you can probably come out whole?

Mr. FAHEY. That is true.

Mr. SPENCE. So, instead of raising the rate, I think that the building and loans have every argument for a decrease.

Mr. CRAWFORD. Mr. Patman, when you referred to a small percentage of loss, you directed your observation to the total amount of deposits in the institutions insured by the F. D. I. C.—was that your inquiry?

Mr. PATMAN. No. Suppose that you have an account in the bank of \$25,000. Of course, the bank pays on the whole \$25,000 the insurance premium, but in the event of a loss the Insurance Corporation would only lose \$5,000.

Mr. CRAWFORD. I believe that you will find in the most recent figures available in that release to us that there are around \$48,000,000 in deposits.

Mr. CATLETT. There is \$21,700,000,000 actually insured.

Mr. PATMAN. That is less than half. In this case I think you will have a percentage much higher than that. I do not know. I am asking for information. In this case I think it will probably run up to 90 percent.

Mr. FAHEY. I would not be surprised.

Mr. CATLETT. I can give you the exact figures. The figures that Mr. Crawford gave are correct for the F. D. I. C. In our Insurance Corporation, something over 98 percent of the accounts are covered by insurance, and, as you see by our figures, 75 percent of the volume.

Mr. CRAWFORD. Suppose that you move from \$5,000 up to \$10,000, what percentage of the volume would then be insured?

Mr. FAHEY. In the case of these mutual institutions, that would not matter much, because the average account is only about \$700, and it is apparent that in this case what we are insuring are week-to-week and month-to-month savings of a lot of workers and small people in this country. Those are the ones who place their money in these establishments.

Mr. PATMAN. May I ask this gentleman to place in the record, at this point, the total liability of banks and the amount that could be lost, and then the same figures with reference to these investments? It occurs to me that it is very necessary to have that information.

Mr. FAHEY. We will try to do that.

Mr. CATLETT. I have here a copy of the chart comparing the insurance of the Federal Deposit Insurance Corporation with the Federal Savings and Loan Insurance Corporation. The chart appears in the latest book on building and loans by Mr. Bodfish. It is not the work of the Board. It is, however, an accurate comparison and, if you desire it, this table could be inserted in the record.

Mr. PATMAN. What is the total liability on investments?

Mr. CATLETT. The total liability shown in this comparison is \$1,400,000,000, at that time. It has now increased to \$1,600,000,000.

Mr. PATMAN. And 75 percent of that would be one billion two hundred million.

Mr. CATLETT. That is the 75 percent. The total assets are around two billion.

Mr. PATMAN. There is a big difference, then. If you are collecting premiums of \$2,000,000,000, and you have a liability of one billion six hundred million, if the rate is sufficient, should there not be a lower rate where the liability is only 21 billion and premiums are collected on \$48,000,000,000.

Mr. CATLETT. The essential thing is the risk in the 21 billion of demand liability. It is a tremendously greater risk than in the billion two hundred million, which is not demand liability.

Mr. PATMAN. That is what I want to find out.

Mr. CATLETT. That is the essential thing. The moment one of the 13,000 institutions of the F. D. I. C. declines to pay upon demand, that institution is insolvent and has to be taken over, but the building and loans do not have to pay upon demand, and our institutions cannot be immediately forced to default.

Mr. PATMAN. All demand deposits are not demand deposits; about half.

Mr. CATLETT. Of course, some are doubtless deposits for a definite agreed time, but they are definitely due and payable at the expiration of that time. The majority are, however, demand deposits, and the bank must pay when request is made.

Mr. SPENCE. Your Corporation has a right to impose an additional one-twelfth premium?

Mr. FAHEY. That is right.

Mr. SPENCE. After all, under the old theory that the consumer pays the tax, the borrower pays this, and there is no use putting an additional burden on the borrower where you can secure safety at a lower rate. Isn't that true?

Mr. FAHEY. Mr. Chairman, in view of some of these questions that were asked about the Federals, there is just one more brief summary

of this that might be brought to your attention, simply because it indicates that the condition in any one State is not exceptional so far as the Federals are concerned.

The facts are these, that 1,383 identical Federals in the last 2 years ending December 31 showed a gain in private money of \$218,000,000, or 29 percent. Those gains were general, in every State where Federals are located, and in 13 of the States they showed 100 percent gain.

The new Federals, mostly in localities where there were no previous facilities, small communities generally, in the 2 years trebled the amount of money that the public placed in their trusteeship, the total amount being \$104,000,000.

The Federals which converted, that is, abandoned State charters and took Federal charters, showed an average gain for the entire country of 24 percent, or \$96,000,000 in the 2 years.

We bring those facts to your attention only as indicating as I said before, that the development in any one State is not exceptional. In our judgment, the real explanation of the public acceptance of Federals is not merely that they are insured and that they are obliged by law to be members of the bank system, and consequently they have that protection and recourse in case of need; but, aside from that, it is quite apparent that the great mass of these small savers have confidence in the Federals' name, and in the backing of the Federal Government, that they have in nothing else.

Mr. LUCE. Right on that point, will you tell me what was the justification for the publicity on behalf of the Federals that was indulged in in Massachusetts?

Mr. FAHEY. These institutions took Federal charters. It was new to the State of Massachusetts, and quite naturally these institutions, in their publicity, directed attention to the advantages of the Federal charter.

Now, of course, publicity is not confined to the Federals by any manner or means. The same is true of the cooperative banks and the State banks. That is entirely a question of business management and enterprise.

Mr. LUCE. And competition?

Mr. FAHEY. Certainly, but not competition of new institutions, because not a single new institution was chartered in Massachusetts.

Mr. LUCE. Every month, almost, there appear to be furnished to the Massachusetts members, arguments in favor of the Federal institutions. Would it not be better to let this alone?

Mr. FAHEY. On the other hand, Mr. Luce, there has been continued publicity of the most critical and oftentimes misleading character relative to Federal associations and relative to the insurance fund.

Mr. LUCE. I have never seen any of that in Massachusetts.

Mr. FAHEY. We would be glad to bring some of the publicity circulated to your attention and, for that matter, I do not know of anywhere in the country, in the competition between commercial banks for mortgage business today, local mortgage companies and building-and-loan associations, where there is any lack of publicity and promotion in the attempt to get business. It is all over the country.

Mr. LUCE. Many of us have felt that our Massachusetts system was a leader, and that it has been most successful, but it makes us squirm now, the power of the Federal Government, through its unlimited purse, to advertise its invasion of State rights and State control.

Mr. FAHEY. So far as the statutes of the State of Massachusetts are concerned, I think it is true that they were regarded as very sound statutes. But I regret to say, as a citizen of the State, that I do not think that Massachusetts has kept abreast of the times in its laws with respect to cooperative banks. It was not until a year ago that the law was amended to provide for direct-reduction loans as against the old-fashioned and largely unjust funding plan, which did not make plain what the interest rates actually were.

Again, our savings banks in the State of Massachusetts, you will remember, only 2 years ago went to the legislature and had the law amended so that they could carry long-term amortized loans. The savings banks of Massachusetts can make loans up to 30 years today.

If the cooperative banks in the State of Massachusetts are not in position to compete, if they do not make available to the people of that State the service to which they are entitled, then the State of Massachusetts ought to amend its laws.

Mr. HANCOCK. Congressman Barry had to leave, and he wanted to know whether you had the information that he requested. If so, he should like to have it inserted in the record.

The CHAIRMAN. That is all right; that may be done.

(The information called for by Mr. Barry is reproduced below.)

QUESTIONS ASKED BY THE CONGRESSMAN WILLIAM B. BARRY, APRIL 26, 1939,
AND THEIR ANSWERS

1. Question. How many foreclosures have been authorized by the Home Owners' Loan Corporation to date?

Answer. As of March 31, 1939, 178,388 foreclosures had been authorized on original loans by the Home Owners' Loan Corporation. Of this number, 17,582 had been withdrawn, leaving a net total of 160,806 foreclosures authorized on original loans, of which 27,506 were pending and in process.

2. Question. How many foreclosures have actually been completed?

Answer. As of March 31, 1939, the Home Owners' Loan Corporation had acquired in absolute fee 132,136 properties from the original borrowers. In addition to this number, 707 properties had been sold to third parties at the time of foreclosure, and 357 properties had been redeemed by the borrowers.

3. Question. How many properties have been taken over by the Corporation?

Answer. As of March 31, 1939, the Corporation had acquired 132,136 properties in absolute fee from its original borrowers.

4. Question. How many resales of foreclosed properties have been made?

Answer. As of March 31, 1939, 42,747 sales had been made of properties on which foreclosures had been authorized.

5. Question. What is the total cost of repairs or modernization charges on all foreclosed homes?

Answer. As of March 31, 1939, the Corporation had completed contracts totaling \$48,892,403 for repairs or modernization on foreclosed homes. This figure includes expenditures after authorization of foreclosure, but it does not include expenditures for reconditioning which were provided for in the original loans, or in subsequent advances prior to foreclosure authorization.

6. Question. Of the properties resold what was the total appraised valuation at the time the Home Owners' Loan Corporation assumed the mortgages?

Answer. The cumulative original appraised value of all properties sold by the Home Owners' Loan Corporation up to March 1, 1939, was \$175,403,665.

7. Question: Of the properties resold, what was the total amount in dollars of the outstanding mortgages before foreclosure proceedings were started

Answer: The cumulative capital value of properties sold, through March 31, 1939, was \$179,856,549 and represented 42,747 sales of properties having 50,282 living units. These properties sold for \$149,613,266, or a net loss on capitalized value of \$30,243,283, an average loss of \$707 per property.

[NOTE: Capitalized value is computed as follows: Original loan balance plus advances plus accrued interest which has been capitalized, accrued overdue

interest, taxes, and other charges prior to acquisition, foreclosure costs, initial repairs, betterments subsequent to acquisition, less principal repayments.]

8. Question: Of the properties resold what is the total amount of money obtained from the resales?

Answer: The cumulative dollar amount of sales of properties as of March 31, 1939, was \$149,613,266. This figure includes cash sales and also sales under security instruments, sales contracts, or other instruments in lieu thereof.

9. Question: Of the present mortgages held by Home Owners' Loan Corporation, how many of them are not in default at all on principal payments to date; in other words, how many mortgages are there for which there are no deferred payments of any kind or amount?

Answer: As of the cycle billing dates for the month of March (February 21 to March 20, inclusive) there were 435,207 paid-on-schedule accounts; i. e., accounts on which there were no deferred payments of any kind or amount.

10. Question: What do you estimate the average resale loss on a home to be?

Answer: The average loss per Corporation sale of properties as of March 31, 1939, was \$707.49.

Although exact figures are not available, careful estimates disclose that the national average interest and tax delinquency of Home Owners' Loan Corporation borrowers at the time of transfer, judgment, or sale, is \$610. In addition to these items we have found it necessary to expend an average of \$450 to put the property in a marketable condition. These combined costs resulting from the delinquency or negligence of the borrower totaled \$1,060. Moreover, our experience shows that foreclosure costs on the average amount to \$140.

As of March 31, 1939, the Home Owners' Loan Corporation had sold 42,747 properties for \$149,613,266. The capitalized value of these properties, including the items of interest, repairs, taxes, and foreclosure costs, totaled \$179,856,549. The net loss from capitalized value for properties sold was \$30,243,283, or an average of \$707 per property. Since the average delinquency of the borrower (\$1,060), exclusive of foreclosure costs, was greater than the average property loss of Home Owners' Loan Corporation, it may seem as if the borrower had some equity remaining in the property; however, it must be remembered that the borrower would have to expend \$1,060 exclusive of any delinquent principal payments in order to place his property in a marketable condition.

The CHAIRMAN. The House is in session, and there is business on the floor that Members are interested in, so the committee will adjourn, and we will decide later on the time for the next meeting.

(Thereupon, at 12:20 p. m., the committee adjourned until a date subsequently to be fixed.)

AMENDMENTS OF 1939 TO FEDERAL HOME LOAN BANK ACT

TUESDAY, MAY 2, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

Hearings on H. R. 5535 were resumed at 10:54 a. m., Hon. Henry B. Steagall (chairman) presiding.

Members present: Messrs. Steagall, Williams, Spence, Ford, Brown, Patman, Barry, Sacks, Gore, Monroney, Wolcott, Gifford, Luce, Crawford, Gamble, Kean, Miss Sumner, and Mr. Hull.

The CHAIRMAN. The committee will come to order.

Mr. Fahey is with us again this morning to resume his statement.

STATEMENT OF JOHN H. FAHEY, CHAIRMAN, FEDERAL HOME LOAN BANK BOARD—Resumed

Mr. FAHEY. I have nothing to add, Mr. Chairman, except to advise you that we have supplied the material which Congressman Barry wanted for the record in response to a series of queries, and also a table showing the list of properties sold by States, compared with the original loan, and the total loans in the States—that also has been supplied for the record, and copies in both cases have been furnished to Mr. Patman and to Mr. Barry for their personal convenience.

We hope that the members of the committee, despite the demands upon their time, will find an opportunity to look at those tables, because we think you will find that they are of very considerable interest.

I think that Mr. Crawford also asked a question as to the basis on which we computed losses on foreclosed properties which are sold. That also we have put into the record, but it is only a paragraph and doubtless others members of the committee would be interested in it.

The capitalized value is computed as follows: The original loan values, plus advances, plus accrued interest which has been capitalized, accrued overdue interest, taxes, and other charges prior to acquisition, foreclosure costs, initial repairs, betterments subsequent to acquisition, less the principal payments.

In other words, the total sum from which we figure losses is everything that has accrued, except the principal payment.

Mr. CRAWFORD. That formula brings us the information that I wanted.

Mr. FAHEY. I do not know that there are other questions on which members of the committee asked to be supplied information.

The CHAIRMAN. Mr. Williams is recognized.

Mr. WILLIAMS. Mr. Fahey, you of course have given this matter of home loans and investment banking very careful and intensive study.

Mr. FAHEY. Well, we have been in the midst of a good deal of it during the last 6 years, and perhaps have had some advantage in having a national experience with it.

Mr. WILLIAMS. It had been my hope for some years past to see established two separate and distinct banking systems in this country, one investment and the other commercial. Have you noticed any tendency toward a separation of the banking functions into those two classes from what they were 10 or 15 years ago?

Mr. FAHEY. That depends, I think, Mr. Congressman, on what we call investment banking. If we think of it in the terms popularly accepted, the banking house which underwrites issues of securities or participates in the sale of issues of securities is engaged in one type of investment banking. On the other hand, I assume that most people would classify the savings banks, the cooperative banks, and the building and loan associations, and institutions of that type, as investment banking.

Mr. WILLIAMS. That would be my idea of it.

Mr. FAHEY (continuing). Including farm-mortgage operations.

Mr. WILLIAMS. Including loans over a long period of time; in other words, the institutions that furnish capital as distinguished from credit.

Mr. FAHEY. Short-term credit as compared with long-term credit; yes.

Mr. WILLIAMS. Do you think that there is a general movement to differentiate those two classes of investments, and segregate them?

Mr. FAHEY. I think, Mr. Congressman, that the development of the Federal land banks covering the farm-mortgage field, and the Federal Home Loan System covering the urban-home-mortgage field, supplementing the organization of the Federal Reserve System which definitely and distinctly applies to the commercial banking field—I think that we have, in these three systems of reserves, each distinct in its character, a much more rounded out and a much better integrated financial system than the country has ever had before.

Now, none of those, and particularly the savings institutions, touch the field of investment represented by the private investment broker or investment house which distributes securities. That is in an entirely different field.

Mr. WILLIAMS. We still have the time deposits and the savings divisions of commercial banks.

Mr. FAHEY. That is true in some of them. It is not true of all of them, of course.

Mr. WILLIAMS. It is true in the great majority of them, is it not?

Mr. FAHEY. It is true of a very large proportion of the commercial banks; yes.

Mr. WILLIAMS. In your opinion, is there any practical way by which that can be separated?

Mr. FAHEY. I think the difficulty is that your smaller country banks cannot live on short-term credit alone, on short-term loans.

They must employ a certain amount of money which is entrusted to them in longer-term investments, like mortgages, if they are going to have a sufficient income to maintain the institution at all in many of the small localities. That I think is the complication in any attempt to separate savings or long-term operations from the short-term credit operations of the commercial bank.

Mr. WILLIAMS. Of course, there is plenty of money available in the investment field, isn't there?

Mr. FAHEY. There is today, yes; an abundance of money.

Mr. WILLIAMS. Where is that money? In other words, what are the main saving institutions of the country, in form? They are divided into about four classes, are they not?

Mr. FAHEY. The strictly savings institutions are the mutual savings banks, the savings department of commercial banks, the cooperative banks, and the building- and loan-association type of institution.

Aside from that, of course, the insurance companies also represent distinctly a thrift and savings type of institution and absorb an enormous amount of savings in the country.

Mr. WILLIAMS. Half of the savings of the country is in insurance companies, is it not?

Mr. FAHEY. I could not tell you, offhand. We have that information pretty accurately, and we can supply you from our records, and we would be glad to do so, a break-down of the division of savings in the country.

Mr. WILLIAMS. I have the information, although I am not sure that it is up to date, that the savings in the banks, in time and savings deposits in the commercial banks, is something over \$14,000,000,000.

Mr. FAHEY. Yes; I would not be surprised.

Mr. PATMAN. What is that?

Mr. WILLIAMS. \$14,000,000,000.

Mr. PATMAN. That includes the national banks?

Mr. WILLIAMS. Yes; that is all of them.

My information is also that the amount of money in the building and loan associations is something like \$5,700,000,000.

Mr. FAHEY. Something around six billion, in round figures; about five billion seven hundred million, as I recall it.

Mr. WILLIAMS. And in mutual savings, something like eleven billions.

Mr. FAHEY. That is right; that is in excess of ten billion.

Mr. WILLIAMS. And in the insurance companies it is something over \$26,000,000,000, as I remember it, just in round figures, and that represents generally about 56½ billion dollars.

The CHAIRMAN. And there are nearly two billions in postal savings.

Mr. WILLIAMS. Yes; there are other kinds of savings; but those, represented by the four divisions, comprise the great mass of savings of the country.

Mr. FAHEY. That is correct.

Mr. WILLIAMS. What part of that is in your system?

Mr. FAHEY. In the Federal Home Loan Bank System, about 4½ billion dollars \$4,400,000,000, approximately.

Mr. WILLIAMS. That would mean something like 8 percent?

Mr. FAHEY. Yes; but it would represent close to one-fourth of the urban home mortgages, however.

Mr. WILLIAMS. How many of these institutions are there in the country, savings institutions of the class that I have designated, leaving out, of course, the commercial banks?

Mr. FAHEY. Savings banks represent, as I recall it, about 560. Savings banks are largely confined to the northeastern section of the United States. There are very few of them elsewhere.

Mr. WILLIAMS. Right in that connection, do they all operate along the same general line?

Mr. FAHEY. The line of operation is similar in most of the States, but there is some variation. In some of the States there is a limitation on the number of years for which they can make mortgage loans. In some cases that is 3 and 5 years. Those used to be the limits in my own State of Massachusetts, but through amendments to the law, in 1937, the saving banks in Massachusetts are now permitted to loan for as long as 20 years on an amortized basis. Before 1937 there was no amortized basis as applying to savings bank in Massachusetts. In Massachusetts, also, they are limited to 60 percent—well, 40-, 60-, and 70-percent loans, depending upon the character of the loans.

Mr. WILLIAMS. You mean valuation?

Mr. FAHEY. Of the valuation; yes. In some of the other States the law usually is 66⅔, or two-thirds of the value of the property, and in the other States where savings bank are conspicuous thrift institutions, they have not yet amended their laws along the line that Massachusetts has followed.

Mr. WILLIAMS. Is there any difference in the manner in which deposits may be withdrawn from them?

Mr. FAHEY. From the savings banks?

Mr. WILLIAMS. Yes.

Mr. FAHEY. No. In practically all of them the depositor may, under normal conditions, withdraw at any time, although invariably the savings bank, either by law or by regulation, and usually the latter, may provide that it can suspend payments for certain periods if it desires to do so.

Mr. WILLIAMS. Do you mean that they may withdraw at any time without notice?

Mr. FAHEY. Ordinarily, under normal conditions, they do. The savings institutions of all types usually carry, under normal conditions, sufficient cash so that they can meet the demand which is made, but none of them, because so large a proportion of their funds is in long-time investments, can meet unusual withdrawal demands.

Mr. WILLIAMS. Do any of them carry accounts subject to check?

Mr. FAHEY. Not to my knowledge. The savings bank has a method of withdrawal which amounts to a check, but really it is not, because it represents a closing of the account. They print a form of withdrawal in the back of their passbook, which the depositor can fill out if he wants to withdraw his savings deposit.

Mr. WILLIAMS. There are some 560 of those mutual savings banks, I understand.

Mr. FAHEY. I would not be exact about the number, but approximately that.

Mr. WILLIAMS. How many insurance companies are there, in general?

Mr. FAHEY. I would not undertake to say. I think there must be more than 800 of one type or another.

Mr. WILLIAMS. How many of them are in your system?

Mr. FAHEY. There are about 38 or 40.

Mr. CATLETT. Thirty-nine.

Mr. WILLIAMS. What part of the assets of your institution do they represent?

Mr. FAHEY. Some four hundred million dollars. As I recall it, we quoted it the other day; about \$443,000,000, as I remember it.

Mr. WILLIAMS. Who are these insurance companies that are in your system with reference to size and distribution geographically? I do not mean the name, of course, but the location and the size of it.

Mr. FAHEY. Mr. Catlett, would you answer that?

Mr. CATLETT. Our tables show that there are 862 insurance companies in the country, including all types, marine and casualty. We have 39 in the system. They have assets of \$443,000,000. They are located as follows:

One in the Pittsburgh district; 14 in the Winston-Salem district; 4 in the Cincinnati district; 1 in the Indianapolis district; 2 in the Des Moines district; 12 in the Little Rock district; 3 in the Topeka district; 1 in the Portland district; and 1 in the Los Angeles district.

Mr. WILLIAMS. How do they range in size with reference to their—

Mr. CATLETT (interposing). They would be called, I think, the smaller insurance companies. The total, as I said, is \$443,000,000, and the largest total is in the Little Rock district, which is \$156,000,000, in 12 companies. In Winston-Salem, \$149,000,000, in 14 companies.

Mr. WILLIAMS. Out of the eight-hundred-and-something of the insurance companies in the country, there are 39 in the system?

Mr. FAHEY. That is correct.

Mr. WILLIAMS. Now, Mr. Fahey, how many building and loan associations are there?

Mr. CATLETT. There are, we estimate at the present time, 9,123 building and loan associations in the country. There are 3,903 in the Federal Home Loan Bank System. That is approximately 43 percent in number, and they contain approximately 66 percent of the total assets of all of the building and loan associations.

I think one ought to say in that connection, however, that some of the 9,000 are not very active at the present time, but are probably gradually liquidating.

Mr. WILLIAMS. Has there been a tendency for them to increase in number, or have they decreased over the last 4 years?

Mr. FAHEY. You mean—

Mr. WILLIAMS. In number.

Mr. FAHEY. In the United States?

Mr. WILLIAMS. Yes.

Mr. FAHEY. There has been a shrinking in the number of building and loan associations in the country, a very marked decrease.

Mr. WILLIAMS. Has there been within the last 2 years a tendency on their part to enter the system?

Mr. FAHEY. Mr. Catlett, have you the gain of the last couple of years there?

Mr. CATLETT. I think I probably could find it.

Mr. FAHEY. While Mr. Catlett is looking for that, I might explain, Mr. Williams, that there has been a general trend in recent years so

far as cooperative banks, building and loan associations, and that type of institution are concerned, toward merger, consolidation, and the elimination of some of the very small ones. There are some smaller communities, of course, which can support only a small institution. You take a sparsely settled town or village, and the local building and loan business amounts to only one hundred to one hundred and fifty thousand dollars, and yet it is in a position to serve the needs of that community.

But, in general, the smaller institutions in the larger cities, and the provincial cities of substantial size, have not held up very well over the last decade. Invariably they have lacked the resources to provide adequate management, and they have not succeeded as well as the more substantial institutions, which could maintain really effective management and likewise enlist the services as directors of some worth-while people.

Mr. WILLIAMS. That general tendency has been true in the commercial banking field also?

Mr. FAHEY. Exactly.

Mr. CATLETT. I can give you the actual figures. If you wish them, I can give them to you from 1932 on, from the beginning of the system.

Mr. WILLIAMS. I think not; I do not care for that. Just the last 2 years.

Mr. CATLETT. The increase in 1935 is 285; in 1936, 150; and in 1937, the total increase was 9.

The number of associations has decreased, according to our records, from approximately 11,000 in 1932 to slightly over 9,000 in 1938.

Mr. WILLIAMS. What was that first figure that you gave?

Mr. CATLETT. I gave you the increase during the year 1935 in the members of the Federal Home Loan Bank System.

Mr. WILLIAMS. The question was the increase, if any, in the entire country of the number of building and loan associations.

Mr. CATLETT. There has been no increase. There has been a decrease.

Mr. WILLIAMS. And there has been a decrease in the actual number?

Mr. CATLETT. Yes, sir.

Mr. WILLIAMS. And the other figures that you gave are the increase in the number of them that have entered the system during the last few years?

Mr. CATLETT. That is right.

Mr. FAHEY. In a word, it has been this, Mr. Williams, that the law was passed in May 1932, and the banks—the 12 banks—began in October of 1932, but because of the financial disturbance at the time there was practically no membership until after the banking holiday. At the beginning of 1933 the total membership was only slightly above 100; I think about 103 or 104. After the banking holiday, and beginning in the summer and fall of 1933, the membership began to increase and increased rather steadily up to the maximum now of approximately 4,000.

Briefly, that is the story.

Mr. WILLIAMS. Have you had many applications that have been denied?

Mr. FAHEY. I would not say how many, offhand. I doubt if we have made any tabulation of them; but we have denied applications, of course.

Mr. WILLIAMS. On what ground?

Mr. FAHEY. On the ground of the unsound condition of the institutions; and, by the way, in speaking of insurance companies, I ought to have explained that a certain proportion of the insurance companies are not eligible for membership in the Federal Home Loan Banking System, because they do not make home-mortgage loans.

Mr. WILLIAMS. Some of them are not eligible?

Mr. FAHEY. Some of them are not eligible.

Mr. WILLIAMS. Well, of course, there are none of the building and loan associations that are not eligible on that ground?

Mr. FAHEY. On the ground of making home-mortgage loans?

Mr. WILLIAMS. Yes.

Mr. FAHEY. Practically all of the building and loan associations make urban home-mortgage loans; almost entirely urban mortgage loans.

Mr. WILLIAMS. But you have not any figures as to the number that have applied for admission to the System, and have been denied?

Mr. FAHEY. I do not happen to have. We can check up on that.

Mr. WILLIAMS. Is there any considerable number?

Mr. FAHEY. No; it is not a considerable number.

Mr. WILLIAMS. Just an occasional one that applies?

Mr. FAHEY. That is true. In numerous instances, where they have applied, just as in the case of insurance, we have objected to the conditions which obtained, and they have remedied those conditions, or they agreed upon a program to remedy them.

Mr. WILLIAMS. How many Federals are there?

Mr. FAHEY. There are about 1,300, as I remember it.

Mr. CATLETT. Thirteen hundred and sixty-nine as of March 31.

Mr. WILLIAMS. Are they still being organized now?

Mr. FAHEY. In the last 15 months only 7 new Federals have been chartered in the entire United States.

Mr. WILLIAMS. Those that have been chartered, have they been pretty generally scattered over the country, or in particular sections?

Mr. FAHEY. They have been pretty widely scattered. We can give you the break-down on that, by States.

Mr. WILLIAMS. There have been conversions back and forth from State to Federal, have there?

Mr. FAHEY. There have. About half of the total number of Federals are converted institutions, converted from State charters.

Mr. CATLETT. More than half; 730.

Mr. WILLIAMS. What was the primary reason for that, if you know?

Mr. FAHEY. There are a variety of reasons. In most cases, the governing influence has been the conviction of these associations that the Federal charter was a better charter than the one under which they were operating; that the association also would have a stronger appeal to the public because of its membership in the banking system, and because of the fact that it had to be insured, and likewise, because most of them regarded that the Federal name itself represented a certain asset.

Mr. WILLIAMS. On the other hand, have there been any converted the other way?

Mr. FAHEY. None so far.

Mr. WILLIAMS. There has not been a conversion from Federal to State?

Mr. FAHEY. Not yet.

Mr. WILLIAMS. What would be necessary for that to be done?

Mr. FAHEY. For one thing, it is not so easy, but there is in this bill a suggestion which would liberalize that and which would enable them to reconvert to State charters if they wished to do so, to liberalize the present provision of the law, our feeling being that the relationship should be a reciprocal one.

Mr. WILLIAMS. What is that provision in this bill—just in general?

Mr. FORD. Is it the length of time that the deposits are insured?

Mr. FAHEY. That is a factor in it, but of course they could continue to be insured under a State charter. That is not the final factor.

Mr. CATLETT. Section 9 of the proposed bill provides for reconversion of a Federal- to a State-chartered association upon a vote of not less than 51 percent of the votes cast at a meeting called for that purpose.

Mr. WILLIAMS. In what respect does that change the existing law?

Mr. CATLETT. There is no such statutory provision for it at the present time; but, believing there should be, the Federal Home Loan Board some time ago passed a regulation permitting such a reconversion. However, we believe that a statute is necessary to really regularize it.

Mr. WILLIAMS. Then this statute simply legalizes the regulation of the Board?

Mr. CATLETT. That is right.

Mr. WILLIAMS. Mr. Fahey, do the building and loan associations conduct their business along the same general lines, or is there a variety of differences in the manner in which they are conducted throughout the country?

Mr. FAHEY. There has been a considerable difference in the character of the loans and the character of the accounts in the several types of building and loan associations and cooperative banks, but there has been a steady tendency toward standardization of method in all of these institutions. In the first place, of course, the building and loan association type of thrift institution is usually mutual in character; I mean that it is primarily mutual. Again, it has from the beginning made the long-term amortized type of loan. Moreover, by and large, the loans made by the building and loan associations of the country are to the smaller groups of home owners. Their average loan is less than \$3,000, and they carry a great number of loans from \$1,000 to \$1,500 in a large part of the country. They have had, as I have stated, different types of lending plans—the direct-reduction plan, the share-sinking-fund plan, and a variety of others.

Undoubtedly one of the reasons for the tendency of the directors of these institutions to change their charters from State to Federal has been the simplicity of the Federal charter method of operation. It is pretty generally acknowledged that the Federal charter represents the best experience in this country in methods of operation.

The Federal association is not permitted to make any type of loan except a direct reduction loan. That, as you know, means a loan where, as the borrower makes his monthly payments and his principal is reduced, the amount of interest that he is paying is correspondingly reduced, as against plans which obtained in many sections and for many years where he continued to pay on the full amount of his loan until the maturity of his account, with the result that he was paying a very much higher rate of interest in the end than he does under the direct reduction plan.

I can perhaps give you some rather direct figures which illustrate that difference; but, stating it briefly, on the average, taking the direct reduction loan, compared with a share sinking fund loan of the same amount, and for the same period, and assuming the rate of interest of, let us say, 6 percent, the one would amount to 6 percent flat while the other would be close to an actual interest of 8 percent.

As you know, there has been great confusion in the public mind relative to this very matter of interest rates. That is still the case. One of the most common methods by which people have been taken advantage of in connection with interest has been the naming of a figure which presumably was the real rate of interest, when, as a matter of fact, it was not because of the discounts involved, and so forth. There is the widest difference between the nominal interest rate in any case and the so-called effective interest rate. The latter must take into consideration charges and fees and the character of the loan, just as I have said in the case of a direct reduction as compared with the sinking fund; and I should explain in that connection that the federally chartered institution is not permitted to bring into the cost of the loan these extra charges. But they are permitted under the laws and the State charters in many of the States.

Not only that, but it is interesting to find in some of the States, because of laws long since enacted, interest rate limits which are very high. In some States—for example, mutual savings banks in my own State of Massachusetts—the old law still obtains that they may charge as high as 18 percent on a loan up to \$1,000, and there is no limit on what they may charge as far as interest is concerned beyond that \$1,000. Of course, they do not do it. No such notes have obtained for a generation, but they have been regulated by the competitive process and not by the law.

Mr. WILLIAMS. What is the difference between the building-and-loan association and the so-called cooperative bank?

Mr. FAHEY. It is exactly the same thing. It is only a different name.

Mr. WILLIAMS. Then you have also the homestead associations?

Mr. FAHEY. The homestead associations are typical of institutions in the State of Louisiana. We have a great variety of names just as you have a very considerable variety in the names of savings banks.

Mr. WILLIAMS. Does the term "savings bank" and the term "mutual savings bank" mean, generally, the same?

Mr. FAHEY. They are not the same in some cases. In some States savings banks are organized under State laws, which banks are conducted for private profit. They are not mutual in character; but most of the savings banks are mutual.

Mr. WILLIAMS. To what extent are these savings banks or mutual savings banks permitted to invest in short-term securities?

Mr. FAHEY. They are not permitted to invest in short-term securities of the commercial type. In most States the character of the investments that they may make is indicated by statute. There are what are commonly referred to as legalized investments for savings banks, and such investments are usually of the type which are considered entirely safe for trust funds generally. In other words, the common policy is that the investment of the mutual savings bank should be of the trust character.

Mr. WILLIAMS. And is there any limit on the maturities?

Mr. FAHEY. No. Savings banks may purchase bonds which are classified as triple A, generally, and Government bonds, municipal bonds, State bonds, and various other securities which are considered of the highest grade. There have been in some of the States departures in that type of investment—for example, in Massachusetts savings banks are permitted to invest in the stock of commercial banks; but, generally speaking, the type of investments which the savings banks are allowed to make are about the same in the several States.

Mr. WILLIAMS. What proportion of their assets are so invested?

Mr. FAHEY. Usually 30 percent.

Mr. WILLIAMS. What is the rest of it?

Mr. FAHEY. It may be 30 to 33 percent.

The rest of their investments is invariably in mortgages, although savings banks may take two-name paper for direct loans. Those have to be secured loans, and very conservative loans. I should say that they ordinarily represent but a very small proportion of savings-bank investments.

Mr. WILLIAMS. Is that same thing true of building and loan associations?

Mr. FAHEY. No. The building and loan associations invariably have from 90 to 95 percent of their investments in home mortgages.

Mr. WILLIAMS. What form of an instrument of credit does the borrower from the building and loan association get?

Mr. FAHEY. He gives a mortgage and subscribes for shares in the association or not, as he pleases. In most building and loan associations he does not have to be a shareholder in order to borrow from the association.

Mr. WILLIAMS. Are those instruments negotiable?

Mr. FAHEY. I should say that the mortgages are negotiable under certain circumstances.

Mr. CATLETT. In most of them the note is not negotiable.

Mr. WILLIAMS. Whether the mortgage is negotiable would depend on whether the instrument which secures them is negotiable?

Mr. FAHEY. Mr. Catlett says that usually the note is not negotiable.

Mr. WILLIAMS. Before this system, in what way did the building and loan association borrow money in case of need?

Mr. FAHEY. Before the formation of the Home Loan Banking System they were accustomed to borrow from the commercial banks, and they experienced great difficulties in resorting to the commercial banks when the depression developed.

Mr. WILLIAMS. Those loans must have been unsecured loans.

Mr. FAHEY. As to that, I cannot say.

Mr. WILLIAMS. I am saying that on the ground that you have just stated, that the instruments which they hold, or their assets, were not negotiable. They would have no security to put up if they could not negotiate the paper which they held.

Mr. FAHEY. That is right.

Mr. WILLIAMS. Then those loans which they secured from the commercial banks necessarily would be unsecured loans.

Mr. CATLETT. They are assignable, although not negotiable. They can be assigned as security.

Mr. WILLIAMS. As security?

Mr. CATLETT. Yes.

Mr. WILLIAMS. There is not so much difference, after all.

Mr. CATLETT. No; just a difference between something that is negotiable and an assignment.

Mr. WILLIAMS. There is the power of assignment there for the purpose of obtaining a loan?

Mr. CATLETT. That is right.

Mr. WILLIAMS. Now, independently of their borrowing powers from the home-loan banks, could they borrow from a commercial bank in that manner?

Mr. CATLETT. Yes; they can. We limit their borrowings from outside institutions.

Mr. WILLIAMS. They can borrow by assigning the instrument and the mortgage?

Mr. CATLETT. That is right.

Mr. GIFFORD. As a matter of historical importance in connection with your question, Mr. Fahey said that 30 percent of the Massachusetts savings-bank funds could be invested in bank stocks.

Mr. FAHEY. No.

Mr. GIFFORD. Some of it.

Mr. FAHEY. Let us clear that up. I tried to say, Mr. Gifford, that investment in bank stocks was a legal investment for savings banks in the State of Massachusetts.

Mr. GIFFORD. And did they loan on bank stocks and trust security stocks?

Mr. FAHEY. Did the savings banks?

Mr. GIFFORD. Did they?

Mr. FAHEY. I could not say as to that. I should not think so. But the savings banks of Massachusetts do hold substantial amounts of bank stocks.

Mr. GIFFORD. Mr. Williams, the point that I wanted to raise as an historic matter was that there was a period in Massachusetts when trust companies were organized overnight, a lot of them, and people could take stock and get 80 percent, as I recall it, from savings banks. I sometimes wonder whether they lost much money by that operation.

Mr. WILLIAMS. The very general purpose of this is to try to ascertain the class of securities which the various members of your system hold, because you are asking here for a modification of the law which would permit advances on any class of security.

Mr. FAHEY. Which they may legally hold under the statutes of their own States.

Mr. WILLIAMS. As the law now is, they can use only those securities which are guaranteed by the Government, or by direct obligations of the Government?

Mr. FAHEY. That is correct.

Mr. WILLIAMS. As the law now stands, they can put up only home mortgages.

Mr. FAHEY. That is right.

Mr. WILLIAMS. But this bill permits any kind of a mortgage to be put up.

Mr. FAHEY. Within the limits set forth here and the type which they may legally make under the laws of their States.

Mr. WILLIAMS. What limitation is there in this bill as to the kind of mortgage that they can put up?

Mr. FAHEY. In the first place, you will see that under the provisions of section 10, which bear upon this matter, a mortgage would be eligible or an advance can be made if secured by a first mortgage given in respect of any mortgage loan, and the advance shall not be for an amount in excess of 50 percent of the unpaid principal of the mortgage, but in no case shall the amount of such advance exceed 40 percent of the value of the real estate securing the mortgage loan.

Mr. WILLIAMS. That has been in the law all the time, that part of it. Now, it is always a first mortgage?

Mr. FAHEY. Exactly.

Mr. WILLIAMS. But, under this proposed legislation, that mortgage may be on anything, may it not?

Mr. FAHEY. No; I would not say that it could be on anything, because there would be limits here as to the kind of commercial mortgages.

Mr. CATLETT, you have that phase of the matter in hand; as to the limitations, you dealt with that in the previous hearing. Would you mind taking that up again?

Mr. CATLETT. Well, I do not think I dealt with that feature of it. But I have a statement here of the limitations on lending, and the effect of the present bill upon those.

Mr. WILLIAMS. There is not any change in the limitation, is there, so far as the amount is concerned, and the valuation?

Mr. CATLETT. No—well, yes; the maximum of \$20,000 is removed by the pending bill, and the maturity is extended from 20 to 25 years.

Mr. WILLIAMS. That takes out that limitation. In other words, all limitations are taken out, are they not?

Mr. CATLETT. It is no longer restricted to one-to-four-family dwellings, as under the present act.

Mr. WILLIAMS. And all of those limitations are taken out, are they?

Mr. CATLETT. Those are the only changes made, but there is no limitation as to the amount.

Mr. WILLIAMS. Nor upon what the mortgage shall be?

Mr. FAHEY. There is the limitation in the case of the Federals to residential construction.

Mr. CATLETT. That is true. We are talking about the collateral.

So long as it is something which the institutions may legally own, I think there is no limitation, but the only change that has been made is the one that is referred to. The situation has not been altered otherwise.

Mr. WILLIAMS. Let us get back to this fundamental thing which I think is undoubtedly true, that under the law as it now stands you can make these advances only upon the security of two kinds of paper, and one of them is the obligation of the Government?

Mr. FAHEY. Yes.

Mr. WILLIAMS. And the other is upon home mortgages?

Mr. FAHEY. That is correct.

Mr. WILLIAMS. That is true now, isn't it?

Mr. FAHEY. That is true now.

Mr. WILLIAMS. Under this law, there is not any limitation at all as to the kind of obligations that may be put up as security?

Mr. FAHEY. Except, as Mr. Catlett has just said, that it is a legal investment in the States where these institutions are domiciled.

Mr. WILLIAMS. Of course, it is controlled more or less by State legislation?

Mr. FAHEY. That is true.

Mr. WILLIAMS. But, so far as this proposed legislation is concerned, there is not any limitation on it?

Mr. FAHEY. Not in that respect.

Mr. WILLIAMS. Now we will take the home mortgages. This proposed legislation simply removes the provision for home mortgages and substitutes in place of it first mortgages?

Mr. FAHEY. That is correct.

Mr. WILLIAMS. And, therefore, there is not any limitation so far as this proposed legislation is concerned upon the kind of mortgage which may be given?

Mr. FAHEY. Strictly construed, that might be argued.

Mr. WILLIAMS. I think there is not any question about that.

Mr. FAHEY. I think that you are correct about that.

Mr. WILLIAMS. And that is the purport of this legislation so far as amending or liberalizing the basis of the security?

Mr. FAHEY. Exactly. If it were the opinion of the committee that that should be modified in some respect, we would be glad to present suggestions on the point.

Mr. WILLIAMS. Now let us go to the question of insurance. Your system parallels in general the Federal Reserve System, and your insurance corporation in general the F. D. I. C.?

Mr. FAHEY. That is correct.

Mr. WILLIAMS. They were both established on government money?

Mr. FAHEY. Well, in the case of the F. D. I. C., it was partly with money of the Federal Reserve banks, you know, and the rest was Government money—R. F. C.

Mr. WILLIAMS. I understand. There has always been a difference of opinion among some of us as to whom that money belonged to.

Anyhow, that was the plan that was devised?

Mr. FAHEY. That is correct.

Mr. WILLIAMS. How many banks, if you know, are in the F. D. I. C., or how many are out? We will put it that way.

Mr. FAHEY. Offhand—

Mr. WILLIAMS. I will tell you. About 1,000 banks.

Mr. CATLETT. The number in the F. D. I. C. is 13,705.

Mr. WILLIAMS. Which leaves just a thousand out.

Mr. CATLETT. I cannot answer that.

Mr. WILLIAMS. In round numbers, that is almost exactly 1,000.

The CHAIRMAN. The last figures, I think, are 1,100.

Mr. WILLIAMS. It is right at that number, the latest figures that I have. Of course, that figure naturally changes from time to time.

How is it with reference to the eligible institutions in the Federal savings-and-loan institutions?

Mr. FAHEY. As to the eligible institutions, I would say that there are probably about 4,000-odd. It might run as high as 4,500 that are probably eligible for insurance in the Federal Savings and Loan Insurance Corporation.

Mr. WILLIAMS. And your total insured liability, I believe, was given at \$1,600,000,000, on the basis of \$2,200,000,000 in desposits?

Mr. FAHEY. Of assets, approximately; yes. I can give you the exact figures on that.

Mr. WILLIAMS. I think that that figure was given.

Mr. CATLETT. That is approximately correct.

Mr. WILLIAMS. And, on the other hand, the figure was also given of \$48,000,000,000 in bank deposits, in the insured banks?

Mr. FAHEY. In the insured commercial banks.

Mr. WILLIAMS. Yes.

Mr. CATLETT. That is correct.

Mr. WILLIAMS. And, of that amount, 21 billions—

Mr. FAHEY. The total deposits in insured banks which have a premium base are \$48,200,000,000.

Mr. WILLIAMS. Of that, how much is covered by insurance?

Mr. FAHEY. \$21,700,000,000.

Mr. WILLIAMS. Those figures are relatively the same as I had, but perhaps later and a little bigger.

Now what percentage is it?

Mr. FAHEY. The insured liabilities are approximately 45 percent of the total insured deposits.

Mr. WILLIAMS. That is, in the banks?

Mr. FAHEY. That is right.

Mr. WILLIAMS. In the building-and-loan associations, what is that percentage?

Mr. FAHEY. The percentage, of course, is very much higher there.

Mr. WILLIAMS. It is about 75 percent?

Mr. CATLETT. About 75 or 76 percent.

Mr. WILLIAMS. On the basis of the actual deposits insured under the present rate, are not the commercial banks paying the higher rate, as it now stands?

Mr. FAHEY. A higher rate than the building-and-loan associations?

Mr. WILLIAMS. Yes.

Mr. FAHEY. No.

Mr. WILLIAMS. Remember my question. It is on the basis of the insured—

Mr. FAHEY. Just let me see about that. On the actual rate assessed, you are correct; there is a slightly smaller margin. Of course, that does not take into consideration the right of the Insurance Corporation to collect the extra premium which can be collected.

Mr. WILLIAMS. They never had to do it?

Mr. FAHEY. No.

Mr. WILLIAMS. But, as the actual payment now starts from year to year, the commercial banks, on the basis of the amount insured, have a little higher rate?

Mr. FAHEY. It figures, in the case of the commercial banks, 0.185, and in the case of the savings and loan institutions, 0.159. There is a slight difference.

Mr. WILLIAMS. Now, with reference to the failures among commercial banks as compared with the building and loan failures during the last 4 years.

Mr. FAHEY. I do not happen to have in mind the number of failures in the case of the commercial banks or the amount of money which the Insurance Corporation had to pay out. Perhaps Mr. Fallon can supply that.

Mr. FALLON. The F. D. I. C. has had many more failures than we have. I think it is over 100 now, and their losses have been substantially greater.

Mr. FAHEY. Have you any idea of the total figure on losses?

Mr. WILLIAMS. Wait just a moment. Do you understand the question I asked?

Mr. FAHEY. Yes.

Mr. WILLIAMS. It is not the number that are in the Insurance Corporation, but the number in the country.

Mr. FAHEY. Oh, in the country?

Mr. WILLIAMS. That is the question.

Mr. FALLON. Building and loan failures? I have not the record of failures outside of the Insurance Corporation.

Mr. WILLIAMS. Your number was directed to the number in the Corporation?

Mr. FALLON. Yes.

Mr. WILLIAMS. That is not the question which I asked. I was very sure that you did not understand it.

Mr. FALLON. I know that it is a very large number, but I do not know what it is.

Mr. WILLIAMS. Do you know that there is considerably more with building and loan associations than there has been in the case of the commercial banks?

Mr. FALLON. No, sir; I am not posted on that.

Mr. FAHEY. You mean, more failures?

Mr. WILLIAMS. Yes.

Mr. FAHEY. I really could not say as to that.

Mr. WILLIAMS. I would say that I was very much surprised to find out that that was true, according to the information that I have, and I will give you my authority for it. One is the Federal Reserve Bulletin, and the other is the Building and Loan Annals for 1938.

Mr. FAHEY. Those ought to be dependable.

Mr. WILLIAMS. You will find, according to the Building and Loan Annals for 1938, that during the last 4 years, from 1934 to 1937, inclusive, there were 720 building and loan failures, with liabilities of over \$131,000,000.

Mr. FAHEY. Seven hundred and twenty? And, during the same period, how many commercial banks?

Mr. WILLIAMS. During the same period, 194 commercial banks, with liabilities of \$71,000,000.

Mr. FAHEY. That was within the last year?

Mr. WILLIAMS. No; that was from 1934 to 1937, inclusive. Those are the latest figures that I have.

Mr. FAHEY. You have not the accumulated figures, since the depression of 1930?

Mr. WILLIAMS. No. I am taking it during the time that both insurance systems were in operation, but not the number that were in the Insurance Corporation. That is the first thing.

Mr. FAHEY. That is right.

Mr. WILLIAMS. Well, now, I will say very frankly that I was surprised to find that figure. Do you have any reason to think that that is not correct?

Mr. FAHEY. I have not, Mr. Congressman. We would be glad to check on it and see if we find any different information, and if we do, to advise you.

Mr. WILLIAMS. After learning that, if that is the true situation, and I think it undoubtedly must be, according to the information that I have; it has rather changed my view with reference to the stability of the building-and-loan associations.

Mr. CATLETT. May I make a comment upon that?

Of course, in going back to those particular 4 years, you lost most of the bank failures which occurred nearer to the depression period. The building-and-loan failures did not occur so close to the depression period, but are just occurring, some of them, at the present time. There have been a great many of the smaller associations which are part-time associations, one-night clubs. In Pennsylvania, New Jersey, and States like that they have been very numerous and many have been liquidating, which accounts for the larger figure.

But the other point that I want to make, so that you would not reason inaccurately from those figures, is that that is the reason why our Insurance Corporation is established on the selective basis. We do not take all building-and-loan associations. Originally all of the banks went under insurance whether they wanted to or not, but here, of course, the system is entirely voluntary, and of course very careful examination is made of an institution before it comes in. We just take the ones that are found to be solvent and operating upon sound principles, and the result is that the rate of loss of the Insurance Corporation is very much reduced.

Mr. WILLIAMS. That is true of the F. D. I. C., too, isn't it?

Mr. CATLETT. I am not familiar with that process at the present time. Originally, of course, they were blanketed in without regard to their condition.

Mr. WILLIAMS. They were blanketed out pretty soon, if they were not all right.

Mr. CATLETT. I do not know.

Mr. WILLIAMS. If you do not know that, they are very strict with them now, and I hope that your Insurance Corporation is not any stricter than the F. D. I. C. is.

Mr. FAHEY. Well, the failures in the F. D. I. C., as Mr. Fallon said, of course have been more numerous than the failures among our insured institutions, and, of course, the amount affected is very much larger than any that we have had to face.

Mr. WILLIAMS. Of course, on the other hand, there have been a great many more of them.

Mr. FAHEY. Yes; they are larger in number.

Mr. WILLIAMS. I want to suggest, in reference to your first statement, that there does not seem to be any uniformity with reference to the years over these 4 years in which they have failed. For instance, in 1936, there were only 144 failures, and in 1937 there were 269 among the building and loan associations.

Mr. CATLETT. I have tried to explain the fact that a great many of these smaller associations have been winding up. Some have

been liquidated involuntarily and many more voluntarily, and our influence, Mr. Congressman, has been exercised toward a reduction of the number of building and loan associations in certain parts of the country. There were in Pennsylvania, at the beginning of the depression, 3,500 or more associations. There were supposed to be more than 2,500 in the city of Philadelphia alone. Obviously that was too many, and the reduction in Philadelphia in the last 3 or 4 years have been very great, probably as many as 1,500 associations, so that now we estimate the number in Philadelphia to be only 1,100, which is still too many.

So your reduction is not alarming. It is all a desirable trend in the interest of sound operation.

Mr. WILLIAMS. When we find that the banks are paying a higher rate of premium right now on the amount that they have actually covered, and when we find that the building and loan association failures are increasing in greater numbers in the country, it raises some question in my mind about lowering the premium rate on the building and loan associations.

Mr. FAHEY. Mr. Congressman, I think, however, that it is easy for us to be in error and to draw erroneous conclusions from those figures.

As Mr. Catlett has already said, the repression demonstrated conclusively that there were too many of these small associations in the country. There are still. Just before the depression, there were too many small commercial banks.

Now, I would not undertake to say what the explanation is of the increased number of failures or liquidations in the last couple of years, but my guess would be that a considerable amount of it is due to the fact that associations which had accumulated an undue proportion of real estate were unable to get the prices they hoped for the property that they had in hand, and they were therefore more or less obliged to go out of business or it was desirable to go of business.

The undue acquisition of real estate on the part of the lending institutions of all types of course has presented one of the great problems of this post-depression period, and especially within the last couple of years, and it ought to be said that the contraction of business in 1937 aggravated the situation with many of these institutions holding a substantial proportion of real estate.

Now, it ought to be made clear, relative to a comparison of the responsibilities of the F. D. I. C. and the Federal Savings and Loan Insurance Corporation, that there is a very real and a very practical difference in risk. In the case of the F. D. I. C., its institutions are subject to demands so far as their depositors are concerned—I mean demand payment in cash.

Now, they have today reserves in part to meet that situation, and the Federal Reserve Act has been liberalized so that they have available collateral against which they can borrow, when they could not do it before, but the experience of the depression has shown, by an examination made by the Federal Reserve Board, the results of which were printed in their bulletin of March, that the real drive of withdrawals against the commercial banks which so intensified the depression and the problems of the commercial banks were the with-

drawals of the larger deposits, those that are not covered by the insurance of \$5,000.

That is a problem which the F. D. I. C. will undoubtedly present and that Congress will wish to consider some day, as to the raising of that limit.

And remember that deposits of that type, in excess of \$5,000, represent 55 percent of all of the deposits in the commercial banks.

As far as the thrift institution is concerned, in the first place it has practically none of these large deposits or accounts. The average account is a small account. It is the account representing the savings of the poor men, mostly workers.

Mr. WILLIAMS. Right in that connection, that all applies to the banks and to the building and loan associations that are outside of the Insurance Corporation as well as in.

Mr. FAHEY. It applies to all of the savings institutions and it probably—

Mr. WILLIAMS. Yet there have been three or four times as many failures among the building and loan associations as among the banks in the last 4 years. The fact remains as a fact.

Mr. FAHEY. I would not say that that was true of the period from 1930 on, which really covers the entire period.

Mr. WILLIAMS. I am taking the period for the 4 years, 1934 to 1937, that I thought was a proper period to take.

Mr. FAHEY. The failures of either type have been comparatively small since 1934, that is, compared with the pre-depression period, or the period previous to 1934.

Mr. WILLIAMS. Now, I want to go to the question of debentures for a minute.

Mr. FAHEY. I do not wish to interrupt you. However, if you will permit me to finish what I was saying in this respect, in the case of these thrift institutions, they are not subject to immediate payment. Their contracts provide that unless the cash is readily available, they do not have to meet these demands, which puts them in a very different position.

Again, all that the Federal Savings and Loan Insurance Corporation covers is solvency in liquidation, not immediate cash withdrawal. There is quite a difference there.

Pardon me for finishing that. Would you mind going on with the question you wanted to ask?

Mr. WILLIAMS. I wanted to ask about the debentures. How many of them are outstanding?

Mr. FAHEY. \$90,000,000.

Mr. WILLIAMS. That represents the maximum that has been issued?

Mr. FAHEY. Yes; at any one time.

Mr. WILLIAMS. What maturity are they?

Mr. FAHEY. We have one maturity amounting to \$41,500,000—

Mr. WILLIAMS. I mean the length.

Mr. FAHEY. The longest maturity we have is 5 years.

Mr. WILLIAMS. What rate of interest does it bear?

Mr. CATLETT. 2 percent.

Mr. WILLIAMS. How did they sell?

Mr. FAHEY. Every one of these issues was oversubscribed by a large margin, some of them as much as 18 times.

Mr. WILLIAMS. Who took them?

Mr. FAHEY. The banks, and individual investors, apparently.

Mr. WILLIAMS. There never has been any difficulty about selling the debentures?

Mr. FAHEY. No; and as I tried to make clear to the committee in my original statement, in our judgment there can be no difficulty whatever about marketing these debentures in normal times.

Mr. WILLIAMS. One other question. These debentures, according to this bill, are to remain tax-exempt?

Mr. FAHEY. That is correct.

Mr. WILLIAMS. The intention of the original act was that the building and loan associations or the member institutions were to own the stock.

Mr. FAHEY. The provision of the act was that the Government would subscribe \$125,000,000, that the institutions would subscribe stock independently, and they have up to a little less than \$40,000,000, and the Government stock should in the course of time be retired, or could be retired.

Mr. WILLIAMS. That was the hope, that the Government would retire from it, just as it has from the Federal Reserve System, so far as money investment is concerned.

The CHAIRMAN. Do you mean the Federal Land Bank System?

Mr. WILLIAMS. No, no; the Government was authorized to purchase some stock—

Mr. PATMAN. No.

Mr. WILLIAMS. Turning now to this section of the bill about the building owned by the Bank System.

Mr. CATLETT. The building is owned by the Home Owners' Loan Corporation, and not by the Bank System.

Mr. WILLIAMS. The Home Owners' Loan Corporation?

Mr. CATLETT. That is right.

Mr. WILLIAMS. And not by the banking system? Have you a building?

Mr. FAHEY. Yes.

Mr. WILLIAMS. How did you get your building?

Mr. FAHEY. We bought the building which was the old Acacia Life Insurance Building located at First and Indiana, back of the new Acacia Building.

The situation was this, that as the flood of business poured in on the H. O. L. C. and on the banking system also, at the beginning we had to take on such a large force of people that we were unable to find any place to take care of them in Washington. We could not find quarters for them anywhere, and we had them scattered all over the place. We were in temporary quarters, in the Department of Commerce Building first, and then part of our force was in the new Post Office Building, and we were in the Standard Oil Building and other buildings. We were up against the necessity of getting out of Washington in order to house our people.

Mr. WILLIAMS. Did you get an act of Congress, or were you authorized to do it without that?

Mr. FAHEY. We were authorized to do it, and we did it with the approval of the President after a committee had been appointed by him to go into the entire matter.

Mr. WILLIAMS. Then it is in the name of the Home Owners' Loan Corporation?

Mr. FAHEY. That is correct.

Mr. WILLIAMS. However, that is simply a part of the Board's activity?

Mr. FAHEY. That is right, and the Home Owners' Loan Corporation stock, of course, is owned by the Government.

The CHAIRMAN. How much did the building cost?

Mr. FAHEY. The total investment in that building is \$2,970,000.

The CHAIRMAN. Do you have ample accommodations in that building now?

Mr. FAHEY. Yes. Of course, as a result of that, we were able to bring all of our people under one roof, and as the number of employees declined here we were able to take care of them in that one building, and we are able to do so now.

The CHAIRMAN. Are there any other Government occupants of that building?

Mr. FAHEY. There are none.

Mr. LUCE. May I get in on this, Mr. Chairman?

The CHAIRMAN. Mr. Luce, you are recognized.

Mr. LUCE. If I understand you correctly, a State-chartered thrift institution can get insurance.

Mr. FAHEY. That is correct.

Mr. LUCE. Then why the emphasis in the publicity about the value of the insured Federal institution?

Mr. FAHEY. I would not say that that was so, Mr. Luce.

Mr. LUCE. I have seen that in the windows of the banks, and it is being brought out in the bulletins, that the Federal institution is better because it is insured.

Mr. FAHEY. I would not pretend to say this without checking, but so far as the Board is concerned, I do not think any more publicity has been made available on that point than on any other.

Now, as to the individual institutions which have obtained Federal charters, I think that they have advertised that fact and tried to bring it to the public's attention.

Mr. LUCE. That is all.

Mr. FAHEY. But I might say at the same time that State-chartered institutions have also emphasized all over the country the fact that they were insured.

Mr. LUCE. Only yesterday I was talking to some gentleman from a Federal institution, who brought out that fact in the conversation, that they had the advantage because they were insured.

Mr. FAHEY. What they meant there, I think you will find, was that, so far as Massachusetts was concerned, they were insured in a fund which they felt was adequate, an adequate fund, while the State fund in the State of Massachusetts is quite generally criticized as being inadequate.

I might say on that one point, as an illustration of what happens in some of these cases, that Mr. Gifford asked a question just the other day—

The CHAIRMAN. Mr. Fahey, pardon me for interrupting; we will expect you to be back tomorrow, and you may conclude then. Some of the Members are anxious to get to the floor. We have a program that makes it necessary for us to attend.

So the committee will adjourn until tomorrow morning at 10:30. (Thereupon, at 12:20 p. m., an adjournment was taken until Wednesday morning, May 3, 1939, at 10:30 o'clock.)

AMENDMENTS OF 1939 TO FEDERAL HOME LOAN BANK ACT

WEDNESDAY, MAY 3, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

Hearings on H. R. 5535 were resumed at 10:55 a. m., Hon. Henry B. Steagall (chairman) presiding.

Members present: Messrs. Steagall, Williams, Spence, Ford, Brown, Patman, Barry, Sacks, Gore, Hull, Wolcott, Luce, Crawford, Gamble, Simpson, Johnson, Kean, Miss Sumner.

The CHAIRMAN. The committee will come to order.

Mr. PATMAN. Mr. Chairman, I have a few questions to ask Mr. Fahey.

The CHAIRMAN. You may proceed.

STATEMENT OF JOHN H. FAHEY, CHAIRMAN, FEDERAL HOME LOAN BANK BOARD—Resumed

Mr. PATMAN. Mr. Fahey, Mr. Williams asked some questions yesterday about this proposal of liberalizing the collateral requirements, and as I understand it, under the existing set-up and under existing law, you can only take mortgages on homes as collateral.

Mr. FAHEY. That is correct.

Mr. PATMAN. And this takes off that \$20,000 limit, and also takes off the requirement about only taking home-loan mortgages? You can take in good security that is handled by mutual savings banks or others?

Mr. FAHEY. Yes; that are eligible for membership in the system.

Mr. PATMAN. This will have the incentive to bring into the system the mutual savings banks, representing about \$10,000,000,000 in deposits?

Mr. FAHEY. It offers the opportunity which the savings bank do not now have, of utilizing the system to advantage where they are now handicapped in doing it.

Mr. PATMAN. These mutual savings banks do not belong to the Federal Reserve, do they?

Mr. FAHEY. A limited number of them do belong to the Federal Reserve. I do not know how many now, but my recollection is that at one time some 40 or 50 were members of the Federal Reserve System.

Mr. PATMAN. You only have four, I believe you said yesterday.

Mr. FAHEY. No; there are nine.

Mr. PATMAN. And they are quite large?

Mr. FAHEY. Most of them are large; yes.

Mr. PATMAN. I was just comparing the record of the Federal Reserve banking system with your own record of about 6 years.

I am glad that Mr. Williams has come in, because I wanted him to hear this. He asked some questions yesterday that indicated that maybe the Federal Reserve should handle this business, rather than the home-loan bank.

Mr. WILLIAMS. Oh, no. If I left that impression, that is wrong.

Mr. PATMAN. I am glad to get that correction of my erroneous impression.

Mr. WALLIAMS. I never had any such idea as that.

Mr. PATMAN. I am glad I brought it up, because that is the impression that was left on my mind.

Now, the Federal Reserve banking law went into effect on December 23, 1913. That is more than 25 years ago, and if my information is correct, only 41 percent of the eligible institutions are now members of that system, whereas in your organization, which has only been in existence about 6 years, 42 percent of the eligible institutions are members of your system.

Does that compare with your information?

Mr. FAHEY. That is approximately correct, Mr. Patman, but I would not say that it was completely accurate, because that is partly based on estimates. You are familiar with the figures on the commercial banks. The latest figures that we have are as follows: That out of a total of 15,265 banks in the commercial field, 6,341 are members of the Federal Reserve System,

Now, in the case of the Federal Home Loan Bank System, the Bank Board estimates of building and loan associations particularly vary slightly from those of the Building and Loan Annals. The last figure we make, at the end of last year, is about 9,100. The other estimate is a few hundred higher.

Then, also, the last figure we have, at the end of the year, was 562 mutual-savings banks and 862 insurance companies.

Now, not all of the insurance companies are eligible for membership in the Federal Home Loan Bank System, because they are not making home-mortgage loans.

To the best of our knowledge, practically all of the mutual-savings banks are. A substantial proportion of the building and loan associations, those still outside of the system, probably would not be admitted to the Federal Home Loan Bank System because of their small size and the element of risk involved, and the fact, as I explained yesterday, that throughout the country there is a definite and what we regard as a very helpful trend toward merger and consolidation of these smaller institutions; but, estimating it roughly, it is practically true that, of the eligible membership, the present membership in the Federal Home Loan Bank System represents some 42 to 45 percent of the probable eligible membership.

Mr. PATMAN. Anyway, I am impressed, whether you desire to comment on it or not, by the fact that you have more of the potential membership in your organization at the end of 6 years than the Federal Reserve has at the end of 25½ years.

I have the information about the loans and advances that have been made by the Federal Reserve System and also by your organization. In 1913, of course, it was thought by Congress and the country that we would have an elastic banking system through the Federal Reserve, by having a great reservoir of credit that would be used when needed, and I think that the object was carried out for awhile, especially during the World War, but after that it seems like the tendency has been the other way, and I think that the Federal Reserve Bank System is to be censured and to be criticized more than any other organization that I know of in Washington, because they have almost gone out of the business for which they were organized, and as evidence of that fact, even in 1932 they had \$235,000,000 in bills discounted, but the next year, 1933, only \$97,000,000. I am not talking about billions, but millions for the entire Federal Reserve Bank System of 12 banks and 25 branches. In 1934 it was reduced to \$7,000,000 only in bills discounted, and in 1935 only \$4,000,000, and in 1936 only \$2,000,000, and now, last year, only \$4,000,000. So that it is doing practically no business at all so far as discounting bills is concerned.

Now, as to industrial advances, there has been a great effort made to get the Federal Reserve banks to encourage industrial advances, and the figures disclose that they have only had out about \$14,000,000 a year, which is practically nothing in industrial advances.

So I am surprised that that organization, instead of carrying out a duty and responsibility, has absolutely been shirking its duty and responsibility and has been failing to do what it could do to help this country. The Board has exercised its powers to deflate, but very reluctant to use them to expand.

On the other hand, I see the Federal Home Loan Bank making advances in December 1932, and I believe that this bill passed which permitted the organization of these 12 banks along in May or June of that year, did it not?

Mr. FAHEY. My recollection is that it was either in May or the first part of June 1932.

Mr. PATMAN. That is when the bill passed, but it took you a few months to get organized?

Mr. FAHEY. Well, the Federal Home Loan Bank System did not begin to function until the fall of 1933 and the first part of 1934.

Mr. PATMAN. Take in 1933; you had advances of \$85,000,000, compared with advances of the Federal Reserve that year of \$97,000,000; but the next year, 1934, you had \$86,000,000 out, and the Federal Reserve only about \$7,000,000. In 1934 you had \$102,000,000, and the Federal Reserve only \$4,000,000. So your advances have gone up and up and up until last year, when it was \$170,614,000, whereas the Federal Reserve only had \$4,000,000 out.

Mr. FAHEY. Are you speaking of at the end of the year now, Mr. Patman?

Mr. PATMAN. Well, I am talking about specific dates. I will file for the record this statement, which will give the specific dates that I have in mind.

(The statement referred to is as follows:)

Outstanding advances, Federal Home Loan banks and Federal Reserve banks

End of month	Federal home-loan bank advances	Federal Reserve banks	
		Bills discounted	Industrial advances
December 1932.....	\$837,500	\$235,000,000	-----
December 1933.....	85,427,254	97,590,000	-----
December 1934.....	86,658,313	7,062,000	\$14,301,000
December 1935.....	102,794,559	4,672,000	32,493,000
December 1936.....	145,404,730	2,913,000	24,650,000
December 1937.....	200,095,000	9,866,000	18,049,000
December 1938.....	198,842,000	3,971,000	15,644,000
January 1939.....	178,851,000	4,598,000	14,823,000
February 1939.....	170,614,000	4,201,000	14,006,000

Mr. PATMAN. The Federal Reserve Bank System, to my mind, could have done a wonderful job, and there would have been practically no need for all of these credit facilities of the Government, including farm security and production and credit corporations, credit unions, and a number of credit institutions could be named that would have been absolutely unnecessary, to my mind, if the Federal Reserve Bank System performed the functions intended by Congress when the law was passed and had asked for and obtained from Congress additional powers as needed.

Mr. FORD. Does not that call for comment?

Mr. PATMAN. I am sure that it will call for comment from some people.

Mr. FORD. The Federal Reserve System does not hand money out for loan purposes when it is required.

Mr. PATMAN. Yes; but if banks borrow money, they are looked upon with suspicion, and they went so far in the State of Texas, according to newspaper reports, that when a San Antonio bank borrowed money with legal collateral and obtained money in a legal and customary way, the Federal Reserve bank at Dallas went so far as to post the name of that bank on the courthouse door, showing that they had borrowed this money from a Federal Reserve bank, to intimidate that bank, and that has been done, I understand, in other places over the country. In other words, instead of encouraging loans, they have been discouraging loans.

The CHAIRMAN. Let me ask you something about that. Do you mean that the Federal Reserve bank officials published a notice containing the name of the borrowing bank?

Mr. PATMAN. Yes, sir; that was the report in the newspapers that they did it.

The CHAIRMAN. You would not vouch for that, would you.

Mr. PATMAN. They might just as well have done it, if they did not, because officials made speeches and gave out statements all of the time that banks should not borrow from the Federal Reserve, and they looked with suspicion upon those banks that did have to borrow from the Federal Reserve, and because of the fact that they have been successful in that, they have discounted no bills to banks, to amount to anything. Think of \$4,000,000 for 16,000 banks. That is nothing. You might just as well not have a system as one that discourages what it was established for.

The CHAIRMAN. I am not defending their policies by any means. I think they have made a lot of mistakes, and I have often said so publicly, but I cannot believe that the officials of the Federal Reserve bank ever went to a courthouse and posted a notice containing the name of a borrowing bank.

Mr. PATMAN. That was published in the newspapers of Texas.

The CHAIRMAN. I imagine a newspaper reporter must have published it on hearsay.

Mr. PATMAN. It was reported all right, and they have exercised a policy so that that is the only end that they can reach; that is, to have no bills discounted, and \$4,000,000 is absolutely nothing. Of course, in 12 years, from 1921 until 1933, enough banks closed to cause deposits aggregating more than eight billion dollars to be frozen, and much of that is lost, whereas in 57 years preceding that time only 3,000 banks closed, aggregating \$1,000,000,000 in deposits, and I think that the Federal Reserve Bank System caused that, and I think a lot of that was deliberate, to close a lot of banking institutions.

The CHAIRMAN. I think the Federal Reserve administration was very faulty a great deal of the time; I have always thought so, and my observation in that connection makes me distrustful of the efficacy of legislative suggestions, or instructions, however well intended and good if carried out. It all depends upon proper administration.

Mr. PATMAN. Of course, the only way that you could make them carry them out is to write a law in a way that in event they failed to carry out a mandate from Congress, a resolution from either House could cause them to be removed, and then you would get the mandate carried out.

The CHAIRMAN. It has not been long since many of the chief advocates of the policy of legislative instructions to the Federal Reserve were advocating life tenure for members of the Federal Reserve Board instead of power to recall them or remove them by act of Congress. For quite a while we were urged to pass legislation with instructions to the Federal Reserve Board as to policy, and to create an authority to hold offices for life.

Mr. PATMAN. I think it would be all right if you would write into that law that if the members of this Board failed to carry out the specific policy delegated to them by Congress, that a resolution passed by either the House or the Senate could remove any such member. I would see no particular objection to a lifetime tenure of office under such conditions.

Mr. FORD. Would you give them an instruction to loan money? They have to use some judgment as to whether or not to loan it.

Mr. PATMAN. Certainly.

Mr. FORD. How will you write a legislative act to force them to loan money?

Mr. PATMAN. Well, when the Government is going out with representatives from Washington, which is not a good system at all and a system that is calculated to cause more losses than where the loans are made locally by local people familiar with local conditions—when the Government can make loans aggregating hundreds of millions of dollars a year, and collect it all back, that is pretty good evidence that the banks locally could have done it if they wanted to. I am refer-

ring to the feed and seed loans made by the Government and other loans, where they collected 100 percent, and the Government has made loans of hundreds of millions of dollars a year and collected every dime that they were supposed to collect. So, if the Government can do it from Washington, certainly local people who are acquainted with other local people and with local conditions could do the same thing and there would be no need for the Government's going into it.

Mr. FORD. Why don't they do it now?

Mr. PATMAN. There is no great incentive. We passed laws here in 1935, in order to get the Federal Deposit Insurance Corporation law through, which I favored, and I congratulate the chairman of this committee for being the principal sponsor of it and causing its passage—in order to get that law through, we had to have certain compromises with the Senate, and the chairman of this committee knows it; and one of the compromises was that thereafter banks would not be required to pay interest on demand deposits. And another one was that interest on time deposits would be fixed, and fixed low, of course, and the results of those two amendments have been that the banks have saved \$500,000,000 a year, enough to pay their operating expenses, more than \$240,000,000 a year on demand deposits and more than \$200,000,000 in time deposits, almost \$500,000,000 a year.

Now, when you pass a law that will save them that much money annually and we keep on issuing more and more of these tax-exempt interest-bearing bonds which they buy, there is no risk in any way, for all that they have to do is to buy them and to collect their interest on them, and then they have service charges, so the incentive has been for the banks to become bond brokers and commercial bookkeepers and to get out of any risk whatsoever. They do not have the incentive. We have fixed it that way. There is no interest on demand deposits, and a little on time deposits, and they will buy plenty of Government bonds, and they have a good income without it, and if you were a banker, would you rather be in a comfortable situation like that, or would you rather be concerned about some loan that you had made locally?

Mr. FORD. That is just the thing, the uneasiness about loans that you make locally.

Mr. PATMAN. You are uneasy about almost any loan you make that is not a Government bond.

Mr. FORD. What will you do? These banks take the money of the people of the United States on deposit, and you say that we have given them a bonus of \$240,000,000 a year on demand deposits alone. You know and every member of this committee knows that the main incentive for letting that go through was this, that the banks were competing for deposits and paying more for money than they could afford, and that was the reason for the failure of about half of them.

Mr. PATMAN. No; it was not. The Federal Reserve caused the failure of most of those banks.

Mr. FORD. No—

Mr. PATMAN. We are not going into anybody else's business in helping them out from a competitive standpoint. The effect has been just what I said, regardless of the incentive or the desire on

the part of Congress; the effect has been to relieve them of about \$500,000,000 a year.

Mr. FORD. The banks are not lending any money, we are told. They are not. But there is another reason for that, too, and without any reflection on the F. D. I. C., I would say that its close scrutiny of the character of the business that they do is one of the main reasons for the tightness of the banks.

Mr. PATMAN. I think that is only in a small way responsible. If they had to pay interest on demand deposits, and more interest on time deposits, and I am not advocating that, but I am telling you what the effect has been——

Mr. FORD. How long would they last if they paid 3 or 4 percent for money?

Mr. PATMAN. They would last just so long. For 57 years there were very few banks that failed.

Mr. SACKS. Is not your indictment really against the individuals in the Federal Reserve, and not against the Federal Reserve itself?

Mr. PATMAN. I think the policies of the Federal Reserve Board caused it.

Mr. SACKS. And therefore the remedy is more as to the type of individuals on the Board, then the law itself.

Mr. PATMAN. I agree with Mr. Eccles on the spending policy. I think that somebody has to spend money.

Mr. FORD. Why does not Congress take the Board over and run it itself?

Mr. PATMAN. Evidently Congress does not want to, and should not do it so far as details are concerned, but Congress should give certain mandates to the Board and they should be carried out.

Mr. MONRONEY. Do you agree that we should have a big debt?

Mr. PATMAN. We have always had a big debt. After 1919 we could have paid off the national debt if we had carried out the tax policies that were enacted at the request of President Woodrow Wilson, but then the slogan was that a big national debt helps business, and the questions asked were, Where will the insurance companies invest their money? Where will the banks invest their money? Where will individuals invest their money? We were told that we should have a big national debt. The administration in power wanted it, and they repealed the tax laws in order to have a big national debt, and, at the end of 1929, if you take the public and the private debts and add them together, you will find that they were higher than the debt today. Somebody has to go in debt, and if private industry does not do it, and business does not do it, the Government has to. It has got to be done.

Mr. SPENCE. Mr. Patman, have you any statistics as to the amount of bills that the banks had asked the Federal Reserve to discount, and that they had refused to discount?

Mr. PATMAN. That would not amount to a thing, because they know before they ask whether or not they will get it.

Mr. CRAWFORD. Mr. Patman, did I understand you to say that the banks had only borrowed \$4,000,000 from the Federal Reserve?

Mr. PATMAN. That is right—bills discounted.

Mr. CRAWFORD. What date was that?

Mr. PATMAN. That was in December 1938, \$3,971,000.

Another thing about the Federal Reserve is that they are hand-capped, like it is now, in that they cannot sell Government bonds if they want to although they should not be sold now, because their own bread and butter are wrapped up in these Government bonds. They have \$2,500,000,000 worth of Government bonds. The interest that they receive on these bonds aggregates about \$39,000,000 a year. Their total annual income is only \$41,000,000, so that practically all of their income is from the interest on these Government bonds that they bought through the use of Government credit. Now, if they were to sell those bonds, they would have to come to Congress for an appropriation, and Congress probably would not recognize these \$50,000-a-year salaries and not approve a lot of other things that the Federal Reserve banks and Board are doing. Therefore, they have to keep holding these bonds to pay their running expenses, and if it were necessary to sell those bonds, they could not afford to do it, because, as I said, their own bread and butter are tied up in them.

Mr. CRAWFORD. I was going to ask this: Don't you think that, in addition to what you pointed out there, that this might be true, in addition to what you have pointed out, that there is this consideration, assuming, for argument's sake, that your observations are correct, that as of the last December 31, or whatever the date was, the whole money market was practically devoid of paper subject to discount because of the fact that corporations which in prior years generally issued such paper had built up their working capitals to such an extent that the corporations themselves did not need such bills in order to carry inventories, or such raw materials as they needed, or accounts receivable, so that the need for credit was not indicated at their banks, and therefore the banks did not have the paper to offer for rediscount? That would be one phase of it. Another would be this: Suppose that you are in charge of the investing policy of bank A, a member of the Federal Reserve System, and your bank has excess reserves in the Federal Reserve bank, and it also has other deposits, we will say, in a New York bank in addition to excess reserves with the Federal Reserve. Under those circumstances, would your bank have to go to the Federal Reserve to discount paper, if you did have to borrow?

Mr. PATMAN. No. However, that should not last over a period of years.

Mr. CRAWFORD. It might.

Mr. PATMAN. It is possible, and it is an excuse for the banks—I mean that it is a fair excuse, but I do not think that that is a good reason, because of the very fact that the Government is making loans through the R. F. C. and other agencies of the Government, good loans that are collectible, and some of the banks, if they had been doing what they are supposed to have done, would have made a number of these loans in that way.

Mr. CRAWFORD. They would have made loans no doubt, and the people perhaps would be more active and just create a greater demand for credit at the banks, and thereby supply more discountable paper than under present condition, but I think that in addition to the observations that you have made with reference to the Federal Reserve policies, we must necessarily take into consideration these other

elements. When we analyze carefully the balance sheets, we will see 1,150 corporations whose stocks are listed on the exchange, and when we take into consideration what I would call excess supplies of working capital, it leads me to believe that you and I may not live to see the day when the banks will be called upon by those institutions to supply them with credit as in the period prior to 1928, say.

If that is true, perhaps the rediscount services of the Federal Reserve Bank System may not be in the future what they have been in the past, and the whole system may have to be revamped to accommodate itself to this new condition.

Now, looking at it in another way, as we go on to expand our economy, we may find that investors will hesitate to buy securities issued by private industry to such a point that Government agencies will go in and supply the working capital for private industry. If that be the case, the working capital of the corporations will not be as excessive as we will say it is at the present time, but Government agencies will be making advances for long-term commitments, we will say for 5, 10, or 15 years, perhaps, and in that case commercial banks are not going to be called upon to supply this credit, which would ordinarily lead to paper subject to rediscount.

So my personal opinion is that we have moved into an era which will be entirely dissimilar to that which governed up to 1930 in the whole banking field.

Mr. PATMAN. Mr. Fahey, I want to ask you to prepare an amendment, if you will, to section 4 that will make it plain that the venue for these suits that you propose to bring under this section will be at the domicile of the institution charged.

Mr. CATLETT. I am advised that that section makes no change in the ordinary venue provisions of the Federal statute, and that they govern it, and that the suits would be—

Mr. PATMAN. You are sure about that?

Mr. CATLETT. Yes.

Mr. PATMAN. In that event, it will be all right; I would not think it necessary for you to offer an amendment. The way it was, I was afraid that it would cause a change, but with that intention, it will be all right.

Mr. FAHEY. Mr. Chairman, yesterday I was asked for some information concerning failures of building and loan associations in recent years, which I was unable to supply offhand.

Checking our records overnight, however, we find this information which will doubtless be of interest to the committee in view of that inquiry.

You will recall that Mr. Williams asked some questions about the increase in the failures of building and loan associations from 68 in 1934 to 269 in 1937. Of the 68 in 1934, 9 were in Pennsylvania. In 1935, out of 239, 147 were in Pennsylvania. In 1936, out of 144, 83 were in Pennsylvania. In 1937, out of 269, 217 were in Pennsylvania. Summarizing, out of a total of 720 in this period from 1934 to 1937, inclusive, 456 were in Pennsylvania.

Mr. SACKS. On that point—

Mr. FAHEY. Hold on a minute. [Laughter.] Don't be disturbed.

Mr. SACKS. It only brings out what I told you when you appeared before our committee on the F. H. A. loans, that in Philadelphia the

only thing that will restore the small investment and cooperative and mutual societies is the Federal Savings and Loan Association, and I predict from what I hear lately that there will be more failures in Pennsylvania, because of the maladministration in the last 15 years of the building and loan associations there, without proper supervision by State officials.

Mr. FAHEY. All of the information at our disposal would confirm the deductions that you make.

I was about to explain—I referred to it yesterday, you will recall—that the conditions in Pennsylvania were peculiar in that in the city of Philadelphia alone there were up to some years ago as many as 2,500 building and loan associations, a totally disproportionate number to the need.

Mr. SACKS. Do you have any figures as to how many there were in 1924?

Mr. FAHEY. I have the figure for 1926, that at the end of 1926 there were 4,465 in the State of Pennsylvania, and that figure declined to 2,103 at the end of 1937.

Mr. SPENCE. What was the reason for that?

Mr. FAHEY. Because a large number of them, a large proportion of them, were merely local neighborhood associations, small in size, with total assets as small as \$50,000 or \$60,000, where the neighbors got together and contributed to the common pool and borrowed from it to build their homes. Of course, in the course of time institutions of that sort were unable to compete with the better-managed associations.

Now, it is also fair to say—

Mr. SACKS. I would like to point out to you that your observation as to Philadelphia is a little wrong, because the facts are that those little neighborhood associations have better withstood the depression in the real-estate market than those associations that invested in commercial and large apartment house investments, and if your records check you will find that whereas 70 percent of those that invested in large apartment houses and business properties and commercial properties went under because of the great competition for soliciting fees, interest, and so forth, the small neighborhood-controlled building and loan association, which merely allowed the people in a neighborhood to invest for the purpose of securing a home, and so forth, withstood the depression much better than the others.

Mr. FAHEY. That may be so. There is always danger in generalizing about these things. As I tried to say yesterday, you really cannot say that mere size is the controlling factor, because not only in this lending field is it true that some of the smaller mutual savings banks in the country are among the best managed, but that is also true of the country banks and it is equally true of building-and-loan associations or cooperative banks. It is largely a case matter.

In general, however, it is apparent that, just as in the case of the commercial banks some years ago, there are, too, many building-and-loan associations in the country, and the movement toward merger and consolidation, as we had an opportunity over these 4 years to observe it at close hand, is a highly desirable development.

We have one State in the Union that today has some 1,400 lending institutions, and it is quite clear that not more than 400, or at the most 500, can really function to the best interests of that community, and serve that community very well.

Mr. WILLIAMS. How many building-and-loan associations are there now, compared to what there were in 1934? In other words, how fewer are they?

Mr. FAHEY. I can give you that in just a moment. May I complete this Pennsylvania statement, so that you have the facts with reference to that?

It should be explained that a large proportion of these institutions which failed in Pennsylvania failed because they had entered into the second-mortgage business as they were allowed to do under the then laws of the State of Pennsylvania. After the law was amended, in 1935, the result has been that they are no longer permitted to make second mortgage loans, which many of them did.

Mr. SACKS. With practically no supervision or control.

Mr. FAHEY. That cannot be limited to Pennsylvania. It is also true of many other States that, in the period before 1930, examinations and supervision of these institutions as well as of other financial institutions, State banks and national banks, were inadequate. Throughout the country today, fortunately, we have greatly improved the systems of examination and supervision, and it represents a very great gain. My humble opinion is that there is still opportunity for further useful development, but there has been, generally speaking, a great improvement.

The CHAIRMAN. Isn't this likewise true, that just about in proportion to increased supervision and examination, the bank failures increased?

Mr. FAHEY. That their failures declined?

The CHAIRMAN. I think the record will show that about in the same proportion that improved methods of examination and supervision came along, bank failures increased, and our troubles multiplied. In other words, our banks operated more successfully years ago, when we had less supervision and examination, than they have since that time. There are inherent difficulties that enter into all of those problems that are beyond mere details, such as examination. Banks have failed probably due to conditions beyond their control.

Mr. FORD. Is it not also true that the loans that they used to make have decreased in volume?

The CHAIRMAN. That is true; and naturally it curtailed their earning power.

Of course, this is aside from the hearing on this bill before us, but I am not so sure that we have improved conditions generally as we have become more strict and rigid in our supervision of the banks. I would like to see them allowed in some way to resume business and make money; that is what I would like to see.

Mr. SPENCE. Has there been any greater percentage of failures among banks than among building-and-loan associations?

Mr. FAHEY. Do you mean in Pennsylvania?

Mr. SPENCE. Yes.

Mr. FAHEY. I could not answer that offhand, but I can give you, in reply to Mr. Williams' inquiry—

Mr. WILLIAMS. I would like to withdraw that and ask you this, If you have the figures giving the general picture, showing the time when the building-and-loan associations were at their highest peak in number, what that number was?

Mr. FAHEY. That is right.

Mr. WILLIAMS. I would like to get a general picture of it, and have that figure.

Mr. FAHEY. The general picture is this, that the peak of membership of building-and-loan associations was in 1927, when there was a total of 12,804. That was an increase, from 1921, from 9,255. In a word, the number of building-and-loan associations in the United States, large and small, increased from 9,255 in 1921 to a peak of 12,804 in 1927.

In answer to your other question, the change in membership in the period since 1934 has been as follows—

Mr. WILLIAMS. I want, though, before we get to that, to know this: That was the peak. Since that time, when did it reach its lowest limit?

Mr. FAHEY. The lowest recorded figure since the peak is that at the end of 1937, of 9,662. I have here, and would be glad to put in the record, a table giving the number of active banks and building-and-loan associations in the country from 1921 to 1937. Summarized in a few words, the story is this, that in 1921 there were 9,255 building-and-loan associations and institutions of similar type. At the end of 1937 there were 9,662, about a 400 gain over what it was in 1921, but a decline, as I said a few moments ago, from a peak of 12,804.

The corresponding fluctuation so far as banks are concerned was a peak of 30,560 in 1921, to a low point in 1933 of 15,011. The corresponding figure at the end of 1937 was 15,393, being commercial banks of all types, both State and National, a decline of very nearly 50 percent.

If it is agreeable to the committee, I will be glad to put that in the record for such study as the members of the committee may be disposed to give to it.

The CHAIRMAN. That will be incorporated.
(The statement referred to is as follows:)

Number of active banks and building and loan associations in the United States, 1921-37

Year	Number of building and loan associations ¹	Number of banks ²	Year	Number of building and loan associations ¹	Number of banks ²
1921.....	9,255	30,560	1930.....	11,777	22,769
1922.....	10,009	30,158	1931.....	11,442	19,966
1923.....	10,744	29,505	1932.....	10,997	18,390
1924.....	11,844	28,806	1933.....	10,727	15,011
1925.....	12,403	28,257	1934.....	10,919	16,042
1926.....	12,626	27,367	1935.....	10,534	15,837
1927.....	12,804	26,416	1936.....	10,256	15,628
1928.....	12,666	25,576	1937.....	9,662	15,393
1929.....	12,343	24,630			

¹ Source: Building and Loan Annals.

² Source: 1937 Report of Board of Governors of Federal Reserve System, p. 106. Figures as of June 30, for years 1921 and 1922. All other figures as of Dec. 31.

Suspended banks and building and loan associations, 1921-37

Year	Liabilities of failed building and loan associations ¹	Deposits in suspended banks ²	Year	Liabilities of failed building and loan associations ¹	Deposits in suspended banks ²
1921		\$172, 188, 000	1930	\$80, 437, 508	\$853, 363, 000
1922		91, 182, 000	1931	61, 908, 529	1, 690, 669, 000
1923		149, 601, 000	1932	52, 818, 387	715, 626, 000
1924		210, 151, 000	1933	215, 516, 812	3, 598, 975, 000
1925		167, 555, 000	1934	34, 727, 616	36, 937, 000
1926		260, 378, 000	1935	31, 946, 235	10, 015, 000
1927		199, 329, 000	1936	20, 316, 197	11, 306, 000
1928		142, 386, 000	1937	44, 738, 747	19, 723, 000
1929		230, 643, 000			

¹ Source: Building and Loan Association Annals.

² Source: 1937 Report of Board of Governors of the Federal Reserve System for years 1930-37. For years 1921-29, Federal Reserve Bulletin for December 1937.

Number of bank and building and loan suspensions, 1921-37

Year	Building and loans ¹	Banks ²	Year	Building and loans ¹	Banks ²
1921	6	505	1931	126	2, 293
1922	4	366	1932	122	1, 453
1923	9	646	1933	188	4, 000
1924	18	775	1934	68	57
1925	26	618	1935	239	34
1926	12	976	1936	144	44
1927	21	669	1937	269	59
1928	23	498			
1929	159	659	Total	1, 524	15, 014
1930	190	1, 350			

¹ Building and Loan Annals.

² Federal Reserve Bulletin, December 1937; p. 1209; 1937 Report of Board of Governors, Federal Reserve System.

Mr. FAHEY. Inquiry was made in our discussion yesterday relative to the building-and-loan suspensions comparable with bank suspensions. I have already referred to those of the years from 1934 to 1937, inclusive, but, making comparisons over a longer period, we find that the number of suspensions of building-and-loan associations in the period from 1921 to 1937, inclusive, was 1,524.

During the same period the number of suspensions of banks was 15,014, the latter figure being taken from the Federal Reserve Board bulletin.

As to the liabilities covering those periods, in the period from 1930 to 1937, since the depression, the number of suspensions of building-and-loan associations was 1,246, with liabilities of \$542,410,031. The corresponding figure of suspensions of banks was 9,290, and of deposits \$6,936,614,000. There are no reliable figures, as applying to the building-and-loan associations, to which I have just referred on the banks, as to their recoveries, and, of course, that would have a good deal to do with the significance of these figures. However—

Mr. SPENCE. The recoveries from the building associations have been substantially greater than the recoveries from the banks have they not?

Mr. FAHEY. As to that, I am unable to say, because, as I say, the figures on the banks are not complete. I think that the Comptroller

of the Currency has made some progressive reports on the subject, that the recoveries in the case of many of the commercial banks were gratifying, much more than was anticipated.

To me, the really interesting fact involved there as well as in these building-and-loan associations is that if these institutions of the several types are given a certain time to carry over and the first effects of a business depression or change in business conditions are allowed to pass, their recoveries are very substantial. It is the recognition of that fact, of course, which is the essence of the whole reserve-system theory.

Mr. BROWN. The assessments on the banks for those years were quite large, were they not?

Mr. FAHEY. That is right. Assessments would be an item of some importance in connection with their liquidations; that is quite true. However, I do not think that just general comparisons of bank suspensions or of suspensions of mortgage-lending institutions can be relied upon, when the figures alone are used, without taking into consideration the extraordinary conditions, particularly from 1922 on, which affected so greatly all of these classes of financial institutions. Take our commercial banks. The commercial banks before 1920 had very little in the way of mortgage investments. During the building boom from 1920 to 1925 they more than tripled their mortgage investments. Before 1920 they had only about \$900,000,000, and they went up to about three billions. Then they dropped, during the depression, to their present figure, which is down to where they were in 1926.

Now, in that one field, of mortgage lending, any examination of what happened will demonstrate conclusively, it seems to me, that the speculation in the field of real estate was as extreme as it was in the field of securities—overvaluations, excessive appraisals, and lending on an unsound basis, with second and third mortgages—all of those things contributed to a burden of indebtedness on home owners and on real estate which certainly proved to be more than the borrowers could stand. I won't call the exact figure, but something like, roughly, 65 or 70 percent or more of all of the mortgages refinanced by the Home Owners' Loan Corporation carried second mortgages, with rates at never less than 9 percent, and some of them as high as 15 to 18 percent. We also found a surprising proportion of third mortgages.

Now, our building of residential units in the period from 1921 to 1928 represented the greatest advance in that field, not only that this country ever saw, but that any other country saw in any corresponding number of years.

In the same way, so far as your country banks, or the banks generally, are concerned, of course, directly and indirectly, during that period they were loaning money on securities which were being steadily inflated from week to week in greater sums than they ever did before in our history, and therefore it seems to me that we must take into consideration the extraordinary conditions which prevailed in the period from 1921 on, particularly from 1922 to 1930.

Mr. WILLIAMS. Right in that connection, have we done away entirely with the second and third mortgage?

Mr. FAHEY. The second and third mortgages are practically unknown today, Mr. Williams. Before 1929, for more than a decade,

there was from year to year an average of about \$500,000,000 which went into second mortgages in this country. That has practically disappeared.

Mr. WILLIAMS. Have you figures to show to what extent that exists, if at all, any more?

Mr. FAHEY. We hear nothing of it today. We hear nothing of second mortgages. Second mortgages may still be made by individual lenders, because it is well to remember that individual lenders represent the largest single factor in the mortgage lending field, lending more than any one type of institution.

Mr. WILLIAMS. Does the practice of the contractor or the builder of taking a second mortgage still exist generally, or at all?

Mr. FAHEY. No; that has disappeared with the general development in the direction of the long-term amortized mortgage, which is the conspicuous development in the mortgage field in recent years.

The CHAIRMAN. Mr. Fahey, you spoke of individual real-estate loans, or mortgage loans. That was a very interesting statement and, if I understood you, they exceed in volume the loans made by regular institutions.

Mr. FAHEY. That is true.

The CHAIRMAN. Do you have any information regarding the number of private banks in the country?

Mr. FAHEY. Private banks?

The CHAIRMAN. Yes. We have private bankers, you know.

Mr. FAHEY. That is true. I do not happen to have that information at hand, Mr. Chairman. We possibly have it in the office.

The CHAIRMAN. We have them but I do not have the figures. In some of the States, I have had some unofficial information with reference to their operations. I think it would be interesting to know how many of those banks we have. So far as I have heard, none of them failed.

Mr. FAHEY. I am unable to say. I am somewhat familiar with the Credit Union, which is a small lending institution, which is restricted to small—

Mr. PATMAN. On page 20 of the book that you have before you, Mr. Chairman, you will find the number of private banks.

Mr. WILLIAMS. Right in that connection, in connection with these private loans, have you the figures broken down to date as to the percentage of home loans that are made by private lending agencies in the country, the insurance companies, building and loans, savings banks, savings departments of commercial banks, broken down into those categories?

Mr. FAHEY. Yes; I think that we have that.

Mr. Catlett tells me that we included it in our last annual report. I can give you the figures at the end of 1937.

Mr. WILLIAMS. No—

Mr. FAHEY. Pardon me?

Mr. WILLIAMS. I was going to ask you to qualify that, or to state just what you are giving us, for the record.

Mr. FAHEY. What I was going to give you for the record was the total of outstanding urban mortgage loans at the end of 1937, and the division by classes of institutions and lenders.

Mr. WILLIAMS. By the term "urban mortgage loans," what do you mean?

Mr. FAHEY. I mean on the one-to-four family homes, restricted to that particular limitation.

Now, the best figures at the end of 1937 represented a total of \$17,300,000,000, and, bearing upon the question that you were asking a moment ago, of that total \$6,000,000,000 was in the hands of individuals and others. The commercial banks had a total of \$1,400,000,000. The life-insurance companies had a total of \$1,330,000,000. The savings banks, mutual savings banks, \$2,700,000,000, and the savings-and-loan associations, \$3,480,000,000. The Home Owners' Loan Corporation had outstanding at that time loans of \$2,398,000,000, which makes a total of \$17,308,000,000, and that figure represented a decline from the peak in 1930 of \$21,953,000,000.

Mr. WILLIAMS. Have you any information there with reference to the outstanding loans against the multiple-family dwellings in the country?

Mr. FAHEY. No; we have no accurate information on that subject. The figures, so far as we know, have never been regularly gathered on a comparable basis. Now, in the case of commercial banks, within recent months the Comptroller of the Currency has asked for additional information which will indicate the break-down of the mortgages of the commercial banks, but to the best of our knowledge there is no really comprehensive break-down of such loans available now. However, the Comptroller is cooperating with others in getting a little fuller information.

Mr. SPENCE. Wouldn't you say that there is an increased tendency of commercial banks to go into this field, of lending on mortgages, by reason of the insured loans?

Mr. FAHEY. Exactly. The commercial banks have made a substantial number of F. H. A. mortgage loans—indeed, far more than any other class of institution. The latest figures which we have available were as of September 30, 1938. As of that date, the commercial banks had made \$780,184,000 of F. H. A. insured mortgages, and they had sold \$140,414,000, or approximately 18 percent of those that they made.

Mr. SPENCE. Before you established the Federal Home Loan Bank, the local building and loans were heavy borrowers from the commercial banks. They did not assign their mortgages, but they borrowed on their faith and credit. Do you think that the banks now, being in a competitive field, would be as anxious to accommodate them as they had been heretofore?

Mr. FAHEY. That is difficult to say. That would largely be a matter of opinion, but as competitors—

Mr. SPENCE. You would not accommodate a competitor as you would somebody in a noncompetitive field? Isn't that true?

Mr. FAHEY. That is true. There is very active competition in the mortgage lending field today, more active competition, in my opinion, than has existed at any time in 20 years, as a result of the accumulation of savings and the desire of the banks to increase their earnings when they are unable to get short-term paper.

Mr. SPENCE. You know that that is true, that very well-established building and loan associations in a community could go to the bank and get what accommodations they needed on their faith and credit, without the assignment of their mortgages at all.

Mr. FAHEY. That is correct, and, of course, they are today in an attitude of reluctance to borrow from commercial banks, despite the fact in some cases that they can get lower rates, because of the experience of which they complained during the depression, when their loans were called, and, as you will remember, the first relief which the Government extended through the R. F. C. resulted, I think, in advances to building and loan associations and to mortgage lending institutions of something like \$118,000,000. I think most of that has been paid back.

Mr. SPENCE. Because the building and loan associations are not liquid, they are constantly in need of that kind of assistance.

Mr. FAHEY. They are from time to time, although, of course, their turnover is very satisfactory because of the payments made month by month on amortized loans, and that is indeed very satisfactory collateral, of course, for that very reason.

In connection with our discussion of yesterday and the questions that were asked relative to failures of building and loan associations during recent years, and corresponding failures so far as commercial banks are concerned, it would seem that a reasonable comparison—

Mr. SACKS. Pardon me for interrupting.

Mr. Chairman, there is an important bill on the floor now.

The CHAIRMAN. Let us work on a few minutes more; it takes a few minutes to get going in the House.

Let Mr. Fahey finish his statement.

Mr. FAHEY. I can finish this in a moment.

The interesting comparison would be the failures of the respective classes of institutions since insurance became available, and particularly on insured institutions, although even there some reservations ought to be made.

Now, as far as banks were concerned, there was a total number of failures of 252 insured institutions from 1934 to 1938, inclusive, with total deposits of \$135,758,000.

In the same period corresponding failures of building and loan associations were five, with total liabilities of \$954,396, and the losses which the Insurance Corporation made up in the case of Federal Savings and Loan Insurance Corporation have amounted to a total of \$140,000.

Now, there is no corresponding figure available so far as recoveries in the case of commercial banks are concerned, because in many of those instances, most of them in fact, liquidation has not been completed. Not only that, but it is fair to say that in the case of commercial banks, in relation to the problem of insurance, that they took over a large number of commercial banks hurriedly during the excitement of 1933, with large sums that were advanced by the R. F. C. in connection with insurance. It seems to me inevitable that they would find a certain number of those, as they progressed, in a weak condition, and be obliged to bring about reorganizations and suspensions, and that has been their task.

Now, that is likewise a task in the case of the mortgage-lending institutions, although it does not apply in the case of insurance. We had a longer and better opportunity to examine these institutions before they were permitted to obtain insurance, and, of course, the

heart of the insurance problem is that we undertake to make sure that they are all right before we grant insurance, because through insurance we are saying to the public, and it is true of insurance generally, that a particular institution is safe and you may safely put your money in it.

Mr. SPENCE. You said yesterday that 75 percent of the deposits were insured by your insurance corporation, and 46 percent by the F. D. I. C. Have you any figures as to the number of depositors that are insured?

Mr. FAHEY. No.

Mr. SPENCE. I want the percentage of the depositors that are insured.

Mr. FAHEY. That figure has been published. I am not sure that I have it here. I quoted yesterday from a money standpoint, that, so far as the Savings and Loan Insurance Corporation is concerned, 78 percent of the money in the insured institutions is covered. In the case of the insured banks the total amount was \$48,220,000,000, and they had insured liabilities of \$21,700,000,000, or 45 percent.

Now, however, there are other facts bearing upon that phase of the problem. To make a fair comparison of the insured liability of the banks with that of the savings and loan associations, it would seem reasonable to compare mainly the savings accounts in both groups. On this basis, the 13,705 commercial banks which were insured on September 21, 1938, had savings deposits of \$13,612,000,000. Of that amount, \$11,577,000,000 were insured, or 84 percent. The corresponding ratio in the case of insured savings and loan institutions is 78 percent, or slightly lower, as you will see.

Again, of course, referring to this question of institutions and failures—

Mr. CRAWFORD. May I interject a figure? I think the answer to Mr. Spence's question is 98 percent of the individual depositors in the banks are insured by the F. D. I. C.

Mr. FAHEY. That is right.

Mr. SPENCE. Isn't the low percentage of insurance on deposits in the F. D. I. C. due largely to these great banks in the large financial centers, where there are immense deposits? Otherwise it would be comparable all along.

Mr. FAHEY. That is true. The great deposits in the city banks have a bearing on the whole problem, and also the cost of insurance and the proper premium.

Miss SUMNER. I would like to ask you this: The F. D. I. C. insures depositors, does it not? And you also insure stockholders, do you not?

Mr. FAHEY. They are shareholders, or, in the case of mutual savings banks, they would be the depositors.

Miss SUMNER. In the building and loan associations, you insure stockholders, but the F. D. I. C. does not insure stockholders?

Mr. FAHEY. No; of course, they are all shareholders in the case of these mutual institutions. They hold shares. The method of operation, however, in the accumulation of savings, is the same in effect.

Miss SUMNER. But you are giving to a person with a deposit in a building and loan association more Government insurance than you are to a person whom you insure in a bank.

Mr. FAHEY. No; it is exactly the same.

Miss SUMNER. Because there you are insuring the stockholder.

Mr. FAHEY. One is a mutual institution and the other is a capitalized institution. The stock of the bank is privately held, and such profits as accrue from the operation of the bank inure to the benefit of the stockholder.

Miss SUMNER. Don't they in the building and loan association? -

Mr. FAHEY. In this case, all of their net earnings inure to the benefit of all of the shareholders.

Miss SUMNER. But the shareholder has a profit as a stockholder from the general profits of the corporation.

Mr. FAHEY. That is true, but what is insured here, as I tried to explain the other day, is in effect the solvency of the institution and the protection from loss in the case of liquidation.

Mr. KEAN. I would like to ask a question, sometime, but on the bill. [Laughter.]

Will Mr. Fahey be back tomorrow?

The CHAIRMAN. We should like for you to come back tomorrow at 10:30, Mr. Fahey.

(Thereupon, at 12:15 p. m., an adjournment was taken until Thursday morning, May 4, 1939, at 10:30.)

AMENDMENTS OF 1939 TO FEDERAL HOME LOAN BANK ACT

THURSDAY, MAY 4, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

Hearing on H. R. 5535 was resumed at 10:55 a. m., Hon. Henry B. Steagall (chairman) presiding.

Members present: Messrs. Steagall, Williams, Spence, Ford, Brown, Patman, Gore, Mills, Martin, Folger, Monroney, Luce, Crawford, Simpson, Kean, Miss Sumner, Mr. Miller.

The CHAIRMAN. The committee will come to order.

Mr. Fahey, we shall be glad to have you resume, and if you have any preliminary statement you wish to make before being interrogated, we shall be glad to have you do so.

STATEMENT OF JOHN H. FAHEY, CHAIRMAN, FEDERAL HOME LOAN BANK BOARD—Resumed

Mr. FAHEY. Nothing, Mr. Chairman, except to make a statement to avoid a possible misapprehension relative to the figures that I gave to the committee yesterday concerning the holding of the mortgages by individuals. You will recall that the best figures available at the end of 1937 indicated that about 6 billions of urban-home mortgages were held by individuals. I neglected to say and should have explained that that includes such mortgages held by banks and trustees for individuals, and not necessarily by individuals themselves. The indications are that the total of 6 billions, about one-half, or about 3 billions, are held by trust companies, trustees, and others for individuals, and that the other 3 billions are held directly by the individuals.

I wanted to clarify that statement.

Mr. WILLIAMS. But, after all, it represents individual ownership, does it not?

Mr. FAHEY. That is right, the individual interest rather than the institutional interest.

Also, Mr. Chairman, you asked if we had any recent figures relative to private banks. Our records, which are those based upon the reports of the Comptroller of the Currency, show a decline in active private banks from a maximum of 1,091 in 1918 to 73 at the end of 1938. The 1091, in 1918 had reported assets of \$236,556,000. The 73, however, at the end of 1938, had \$628,075,000.

The CHAIRMAN. The information that I had in mind as desirable was as to the operations of private banks during the period of the depression. The Comptroller's report goes back through the years and gives the number of suspensions of private banks, but does not tell how they suspended, and does not give any information as to failures of private banks during recent years, and now the new ventures in private banking.

Mr. FAHEY. The figures of private-bank suspensions, as you say, are not particularly revealing. There were 427 suspensions of private banks in the period up to 1912. The capital involved was \$9,369,000, and the deposits \$110,000,000.

The CHAIRMAN. A good many of the formerly private banking institutions have no doubt been converted into chartered institutions. I know of some instances.

Mr. WILLIAMS. Is it not a fact or is it a fact that by legislation they have been outlawed in many States?

Mr. FAHEY. To a certain extent, although, of course, as with other classes of financial institutions, the most conspicuous liquidations were in the period since the depression. For example, in 1930 there were 26 suspensions, with \$781,000 of capital involved, and only \$6,421,000 of deposits, but in 1931 it jumped to 70, which was the largest recorded in any one year up to that time. Those 70 involved a capital of \$1,951,000 and deposits of \$17,097,000. The highest figure of suspension was reached in 1932, when 80 such institutions suspended, with a capital of \$2,449,000 and deposits of \$20,000,000.

The CHAIRMAN. The thought that I had in mind was that examination and supervision of loans do not determine the successful operation of banks. There are other factors that enter and obtain in general conditions. After all, the great body of our businessmen are honest, and they would operate about as well with the absence of supervision as with it.

Mr. LUCE. May I ask, while you are giving general information, Mr. Fahey, this question: Can you tell us whether the action of the House yesterday, putting into effect the President's plan of reorganization, will affect your Department in the way of lessening the complexity of the structure?

Mr. FAHEY. Of lessening the complexity of the structure?

Mr. LUCE. Yes.

Mr. FAHEY. So far as I am able to see, and with such understanding as we have of the plan, I cannot see that it means any interference with the normal functions of the Federal Home Loan Bank Board. As I said the other day when a question was asked on that subject, my judgment is, however, that there ought to come out of the coordination of the efforts of these several agencies, each having a close relationship to the housing problem—there ought to come a much more effective work in developing the whole program. Cooperation has been general, but not formal, and it seems to me that the administrator whose functions are those of a coordinator, devoting time to it every day in the week, and with such a staff as he needs, ought to be able to increase substantially the efficiency so far as the operations of these agencies are concerned.

Mr. LUCE. I had in mind purely the technical side of it. Now, you are heading the Home Owners' Loan Corporation and the Home Loan Bank Board. Are they Delaware corporations?

Mr. FAHEY. No. The other corporation, of course, is the Federal Savings and Loan Insurance Corporation.

The Federal Home Loan Bank System, the Home Owners' Loan Corporation, and the Federal Savings and Loan Insurance Corporation, those three are under the jurisdiction of this Board. We also have, under the law, certain definite responsibilities relative to the Federally chartered savings and loan associations.

Mr. LUCE. I am rather sympathetic with the reorganization program—do not misunderstand me there—but I was wondering whether you would find it necessary to continue the existing organizations.

Mr. FAHEY. I do not see how you can dispense with the present set-ups, because they are so unlike in their fields of operation. The Home Owners' Loan Corporation, for example, as you know, was a direct lending institution. We have stopped making loans. The Corporation is in the process of gradual liquidation. That is a very different operation from our 12 regional banks. It is a very different operation from the Federal Savings and Loan Insurance Corporation, or the task of supervising the operations of the local Federal savings and loan organizations. They are not at all the same types of operation.

Mr. WILLIAMS. Now, Mr. Fahey, I do not think it is at all material, but, just for the sake of the record, I do not think that you understood the last question I asked you. I do not believe that I made it clear. The question that I asked was whether or not, by legislation in different States, the establishment of private banks had not been prohibited; that is, that they cannot carry on a private banking business under the laws of a number of Eastern States, and more.

Mr. FAHEY. I think that is true in many of the States.

Mr. WILLIAMS. I think so.

Mr. FAHEY. There is, however, a good deal of latitude in the laws of the States relative to the organization of private mortgage companies and investment companies, but they vary greatly.

Mr. WILLIAMS. There is one question that I want to ask you which I think is material to this bill, and we often get away from it.

In giving the number of home-loan mortgages held by the different institutions which you gave, in amount at least, yesterday, and which you somewhat revised this morning with reference to individuals, what I want to ask is this: Outside of the home mortgages, do the building and loan institutions own any other kind of mortgages under the laws of the different States?

Mr. FAHEY. Practically none, although, of course, there is the combination which frequently arises of residential and commercial, a home where there is a store on the first floor, for example. In the subdivision developments, the stores that have to be provided are frequently a part of the development, and they do have some of that type of mortgage.

Mr. WILLIAMS. Have you any figures on the extent to which they have that character of a mortgage?

Mr. FAHEY. No; I cannot say that we have any figures. Generally speaking, it is rather limited.

Mr. WILLIAMS. I am talking, as you understand, now about the building and loan associations.

Mr. FAHEY. Right.

Mr. WILLIAMS. Let us go to the savings banks.

Mr. FAHEY. The situation with the savings banks is a little bit different.

Mr. WILLIAMS. What is that with reference to the character of mortgages outside of home mortgages as defined by you and defined in this law?

Mr. FAHEY. I think that the savings banks in some of the States have some latitude in the making of mortgages on commercial property, that is, business blocks or even factory buildings, but my recollection is that it is extremely limited.

I was going to say that perhaps some of the other members of the Board here, or our Statistical Division, may have some facts that I do not have in mind.

Mr. CATLETT. The Statistical Division say that they made a search and the nonhome mortgages amount to about 5 percent. Mr. Bodfish says that their figures are from 5 to 10 percent, that is, 90 or 95 percent of the mortgages held by the savings and loan institutions are upon homes.

Mr. WILLIAMS. You are talking about the building and loans as distinguished from the savings banks, or both?

Mr. CATLETT. I am talking about the building and loan associations.

Mr. FAHEY. Have we any figures on the savings banks? I doubt if we have the corresponding savings-bank figures, and I am not sure that wholly reliable figures on that subject are available, Mr. Congressman, but I think that we can get a figure for you.

Mr. WILLIAMS. Well, they are comparatively small, are they not?

Mr. FAHEY. Yes.

Mr. WILLIAMS. There is not any limitation on the insurance companies, is there?

Mr. FAHEY. No. The insurance companies can and do make mortgages on commercial buildings, on office buildings, and that sort of thing.

Mr. WILLIAMS. It seems to me, then, that your proposed amendment here which would throw open the doors for all kinds of mortgages would simply be favoring the insurance companies and not the other savings institutions.

Mr. CATLETT. I find that our statistical department made a check of the savings banks a little while back, and they found that about 50 percent of the mortgages held by the savings banks were home mortgages. It may run a little larger than that now.

Mr. WILLIAMS. Only 50 percent of them?

Mr. CATLETT. That is right.

Mr. WILLIAMS. Now, how many of those are in your system?

Mr. FAHEY. Only nine savings banks are in at the present time.

Mr. WILLIAMS. That would be of very small help to them.

Mr. FAHEY. Yes; but, you see, the point there, Mr. Congressman, is this, that the law as originally enacted provided for the membership of savings banks and insurance companies as well as savings and loan associations and cooperative banks. In other words, it was supposed to be a reserve system for the mortgage-lending institutions. Now, in the case of the savings banks, such a large proportion of them being in cities of substantial size, where the multifamily unit of more than four units is an important part of residential construction, the present limitations of the law mean that savings banks

have in their portfolios important and absolutely valuable mortgage assets which are not eligible for advances in the Federal Home Loan Bank System, and at the same time we are in the illogical position where an institution that is not a member of the Federal Home Loan Bank System may under the law apply for an advance and borrow on collateral without that limitation at all.

Now, the savings banks, a substantial number of them, feel that the system as it stands today is not in a position to serve them fully, because in time of stress they could not make available and utilize security of undoubted value; in other words, in effect it is much the same situation as that which confronted the Federal Reserve System when the period of great pressure came and their member banks had a lot of excellent collateral that could not be accepted by the Federal Reserve banks until after you made the amendment of 1935.

The whole problem here is that of how best to be in position to prevent progressive liquidation and deflation in times of severe stress, because under any ordinary circumstances savings bank members and building-and-loan-association members of the banking system encounter no difficulty at all. They have abundant collateral that today is eligible under the limitations of the act in most cases, but in a pinch that would not be so.

Mr. WILLIAMS. As a matter of fact, they have from 8 to 10 percent of their assets at the present time as security for advances.

Mr. FAHEY. In the case of members of the Federal Home Loan Bank System?

Mr. WILLIAMS. Yes.

Mr. FAHEY. Let me see—on a percentage basis—

Mr. WILLIAMS. They have outstanding advances of \$200,000,000, as I understand it, and assets of \$4,400,000,000—something like 5 percent.

Mr. FAHEY. That is right.

Mr. WILLIAMS. There is one other thing. On these assets that are put up as security for advances, what investigation is made as to their value?

Mr. FAHEY. Of course, they are checked carefully by the banks, and we have the right, just as in any other similar banking institution, to call for additional collateral at any time. They must be good mortgages, that are not in default.

Mr. WILLIAMS. When the security is offered the home-loan bank, what investigation and inspection does it make to ascertain the value of the assets that are put up when an advance is asked?

Mr. FAHEY. Of course, it is constantly in a position to know the condition of the institution which is borrowing as a result of our examinations and check-ups. Then, when it receives these mortgages as collateral, they are all examined as to the conditions of payment and the status of the mortgage, how much has been paid down from the original, and all of that information, and if there is anything lacking they may call for additional information, so that they are sure that the collateral that they have is sound collateral.

Mr. WILLIAMS. Is there any inspection at all made of the property back of the collateral?

Mr. FAHEY. There is if any occasion arises which would cause any doubt on the subject. We do that in the case of examinations also; I mean, as the regular examinations are made in these institutions,

invariably there is a spot check at least of the properties which are secured for outstanding mortgages, and wherever it appears desirable, as complete appraisal and checking as appears to be necessary is made.

Mr. WILLIAMS. One other question. You are very resourceful, but there is one point that has been bothering me, about the rate of interest on these H. O. L. C. loans. You know that Congress has two or three times reduced the interest on farm mortgages, and the question has often been asked why we shouldn't do that for home owners, as we have for the farmers.

Mr. FAHEY. Well, I think you doubtless realize that that is a somewhat controversial question. It is the responsibility of Congress to deal with it, not that of the Federal Home Loan Bank System.

Mr. WILLIAMS. We have had to pass that thing twice over the President's veto—or we have done it.

The CHAIRMAN. For once in my life, maybe I think I can help Mr. Fahey. The H. O. L. C. had to take distress mortgages? I mean, the rubbish of the home-mortgage field.

Mr. FAHEY. That is right.

The CHAIRMAN. And it was an altruistic undertaking, and so recognized at the time. The interest rate was not paramount, but we were trying to keep people from losing their homes.

Mr. SPENCE. Mr. Fahey, what proportion of the notes of insurance companies are invested in home mortgages?

Mr. FAHEY. Oh, it is a comparatively small amount as compared with total resources.

Mr. SPENCE. They finance usually large buildings, do they not?

Mr. FAHEY. Yes; but they also have financed, all over the country, mortgages on homes.

Mr. SPENCE. Under this bill, they can pledge these large mortgages for loans from the Home Loan Bank?

Mr. FAHEY. They could, but it is hardly imaginable that a situation would ever arise where that would be necessary or where that would come up, because in the main the financing of structures of that kind by the life-insurance companies has been confined to the very large life-insurance companies.

Mr. SPENCE. Suppose that a life insurance company wanted its assets liquefied. Suppose that they needed ready cash. Couldn't they come to the home-loan bank and say, "We have some mortgages here, and it is to the interest of our corporation to get some cash on them."

Mr. FAHEY. They cannot now.

Mr. SPENCE. But they can under this proposed bill?

Mr. FAHEY. They cannot now, unless they were individual home mortgages in less than four-family units.

Mr. SPENCE. But if this act is passed—

Mr. FAHEY. If this act is passed, an insurance company which wanted a substantial amount in cash—well, that collateral would be just as good as any other collateral.

Mr. SPENCE. It does throw down the bars and permit them to make an application, if this act is passed?

Mr. FAHEY. That is correct—I mean, whatever they can legally invest in now.

Mr. FORD. Let me make this observation: Would it be a desirable situation if such a condition arose?

Mr. FAHEY. I think the desirable situation is that the reserve systems of this country, the Federal Reserve, the Federal land banks, and the Federal Home Loan Bank System should be in a position to operate in a manner consistent with the whole theory of reserves, so that they can take care of any kind of an emergency that arises, carry over during the period of stress, and prevent the kind of liquidation which brings wreckage from one end of the country to the other.

Mr. FORD. You have two objectives. One objective is to make available large pools of money that now cannot be utilized in this particular field. That is one objective.

Mr. FAHEY. Yes.

Mr. FORD. The other is that should an emergency arise, where these members of the system need ready money for a reasonably short period to carry over a particular crisis that might arise, you want to be in a position to aid and therefore stop liquidation that otherwise might sweep the country like a prairie fire.

Mr. FAHEY. Exactly.

Mr. SPENCE. You would be disposed to give preference, if any situation of that kind arose, to the home mortgage, to the organization that is in the business of lending on homes?

Mr. FAHEY. Certainly; because in our view a fundamental factor in the value of a reserve system is ability to protect the great mass of home owners of the country from the danger of foreclosure when difficulties arise. The trouble is that when, as from 1930 on, difficulties develop, the financial institutions begin to divest themselves of what are regarded as the highest quality of securities, and as rapidly as they try to market them they find in the period of depression and panic that the market is steadily declining under them. The mortgage-lending institutions simultaneously begin to realize on their mortgages through foreclosure, and as that type of activity goes on progressively the net result is that the value of everything they have left in their portfolio is steadily declining, whether it be mortgages or securities, and that is exactly what happened during this period of deflation.

Now, on the other hand, if they are able to utilize a perfectly sound security, to get whatever money they may temporarily need to meet the demand, and are not obliged to sacrifice their good assets, then you can overcome to a large extent the panicky development and the kind of stress and hardship that comes about.

That was the whole theory of the Federal Reserve Board and of every other reserve system.

Mr. FORD. One more question, Mr. Fahey. Assuming that a crisis arose in the mortgage field, and it could arise in the mortgage field independently of the regular banking system, could it not?

Mr. FAHEY. That is true.

Mr. FORD. In that event you would be able, under that amendment that you are asking for, to check it, but if you were not able to do it, it might possibly or conceivably affect the entire banking system later on, would it not?

Mr. FAHEY. That also is true.

Mr. FORD. What you are trying to do is to coordinate the two fields?

Mr. FAHEY. That is right.

Mr. FORD. Commercial and mortgage banking?

Mr. FAHEY. That is true.

Mr. FORD. You are trying to build a system that will be flexible enough to take up any situation that might conceivably arise? In other words, we have one system in one field, and you want to perfect your system so that you can take care of any emergency in your field?

Mr. FAHEY. That is correct.

Mr. FORD. And what you are trying to do is to make this a flexible, all-embracing reserve system for the mortgage field? Does that state it approximately correctly?

Mr. FAHEY. Would you state that question again?

Mr. FORD. You are trying to make this a flexible, all-embracing reserve system in the mortgage field?

Mr. FAHEY. Primarily, of course, in the home-mortgage field, but broad enough to take care of the needs of home-mortgage lending institutions.

Mr. FORD. You are not limiting it to that?

Mr. FAHEY. No.

Mr. FORD. And when I say all-embracing, I mean both home mortgages and all types of mortgages that when made were good and probably would be good when the crisis came up, and all that would be necessary would be to advance sufficient to save that institution during that temporary situation.

Mr. FAHEY. Yes; on security legally held by institutions eligible for membership in this system.

Mr. FORD. You are trying to broaden your field to some extent?

Mr. FAHEY. To broaden the base so far as eligibility of collateral is concerned; that is, collateral legally held now.

Mr. FORD. That is what I mean.

Miss SUMNER. Mr. Fahey, I was just reading this law, and it seems to me that, as legislators, we ought to look at the fact that an activity can become too embracing, like the Laocoon, embrace too much. It seems to me that if we had an administrator who had no regard for the home owner—but I know that you have—he could, under page 14 of this proposed bill, lend money on such things as apartments and hotels—he could lend up to 30 percent of this association's capital, and that is a highly speculative business, isn't it?

Mr. FAHEY. Of course, he could not utilize as collateral, with the Federal Home Loan Bank System, any type of mortgage that was not a sound mortgage, and in sound condition.

Miss SUMNER. All right; a mortgage may be sound today, but it won't be sound later, if anything happens as did happen in 1929.

Mr. FAHEY. After all, that is true of all types of mortgages and collateral. It does not make any difference—

Miss SUMNER. But especially in connection with these large developments, like hotels and subdivisions, they are rather speculative propositions, are they not?

Mr. FAHEY. As I tried to say a moment ago, I think that would apply to any type of mortgage; it does not make any difference what it was. It would be equally true of the individual home mortgage.

Miss SUMNER. I think that is true, but, at the same time, I also think that you are here getting into a field that is much more dangerous than homes, since we always have to have some place for people to live, but we do not always have to have a certain type of hotel.

Mr. FAHEY. Let me make clear that we are not getting into any new field at all; we are not expanding the field. As this statute proposes, we are merely making eligible for advances sound security which these institutions already have under existing law.

Miss SUMNER. But you are expanding the Government's field. As it stands now, as I see it, you can only go up to a four-family dwelling.

Mr. FAHEY. That is true.

Miss SUMNER. And you can only go up to 15 percent of the assets. Now you are extending it to other types of buildings, involving more money and to a higher percentage of the assets.

Mr. FAHEY. That is right. In the types of institutions other than savings and loan associations, you would make eligible for advances other types of property than the single homes or those up to four-family units.

Miss SUMNER. You are enlarging your field of insurance, or the Government's activities in insurance.

Mr. FAHEY. You mean, the field—

Miss SUMNER. You are enlarging the Government's field of risk, we will say.

Mr. FAHEY. No; only so far as the risk you might take on the character of that collateral as a basis for advances by any one of the banks. But that would apply, as I tried to say a moment ago, just as much in the case of the individual house as it would with the apartment houses. By that I mean to say this, that an institutional member in, let us say, New York, applies for an advance. It puts up its note. As collateral in connection with that note, it offers, let us say, mortgages on a certain number of single-family or multiple-family homes, or up to four-family units. It also offers, or could if the eligibility possibilities were more flexible, let us say, three- or four-apartment houses.

Now, the question is, which has to be checked at the time of the loan, how good those mortgages are, whether they be on a single or double or 4-family unit, or on an 8- or 10-family unit, or even on a small hotel, and, as far as that goes, there are certain types of small hotels which are homes and which the H. O. L. C. had to take over in some cases, and our experience with them has not been altogether bad.

The fundamental is how good the security is, and remember that there is practically no risk to the bank making the advance, for two very good reasons, one that the note is a credit or liability against the whole institution in the first place and all of its assets, and, secondly, that it can demand additional collateral any minute it wants to in order to protect its advance.

Miss SUMNER. Yes; but you know that you cannot always get additional collateral.

Mr. FAHEY. Well, you could take everything that they have if you wanted it as collateral, and, of course, Mr. Hancock just reminded me, and I assume that it is perfectly clear from the terms of the bill, that you could not advance more than 40 percent against the value of that collateral unless it is insured, and I mean insured by the F. H. A.

Miss SUMNER. Of course, what we are always up against, after we get into this real-estate field, is the fact that some of the best men

in the country have lost their shirts in the real-estate game, because while they knew something about homes, when they got into hotels and apartment buildings; that is where they lost their money quickly.

Mr. FORD. Will the lady indicate any business in the United States in which able men have not lost their shirts?

Miss SUMNER. No; I would not undertake to do that, but I do not want to put the Government in that same position if it can be avoided.

Mr. KEAN. Going back to section 3, with regard to the authorization to the Secretary of the Treasury to purchase these obligations, it is self-evident that the Treasury can afford to buy these securities on a basis which will be cheaper to your organization than selling securities directly to the public.

If this permission is given, is there not danger that this method of financing may become the usual method instead of the present commendable method of selling unguaranteed securities directly to the public?

Should we not insert the words, in line 11, after the words "Secretary of the Treasury", "if he finds that it is impossible for the bank to sell obligations to the public on reasonable terms", and then go on with the words "is authorized to purchase," and so forth?

You stated, in answer to a question by Mr. Patman, that you would only sell these securities directly to the Secretary of the Treasury if you could not sell them directly to the public. There is no provision in this clause for that.

Mr. FAHEY. I recognize the point that you make there. May we have that language?

Mr. KEAN. I do not know that my language is any good.

Mr. FAHEY. I understand the idea, but if you will give us the suggestion and let us think that over—

Mr. HANCOCK. That is what we had in mind all the time.

Mr. FAHEY. That is exactly the purpose.

Mr. KEAN. Some other administrator might come along and use the Treasury all the time.

Mr. FAHEY. I do not believe that the Secretary would let them.

Miss SUMNER. Is there any way to limit the Treasury, as to how much money it could lend in this connection? It looks to me as if this operation could delve into the Treasury, under this same paragraph, to the extent of any amount.

Mr. PATMAN. There is no limit on the Federal Reserve. There it is the same situation.

Miss SUMNER. What if there isn't?

Mr. PATMAN. If it is justified in one place, it is in the other.

Miss SUMNER. But they are not identical.

Mr. FAHEY. There is a limit to the amount of debentures that we can issue; five times the amount of the capital and surplus of the banks.

Miss SUMNER. In your operation, there is that limit?

Mr. FAHEY. There is that limit now.

Miss SUMNER. But it is not in this paragraph?

Mr. FAHEY. Oh, no; it is in the law, and it has been from the beginning.

Miss SUMNER. Do you know what clause that is?

Mr. FAHEY. It is section 11, I am told.

Mr. MILLER. Reference was made to insurance companies. Under existing circumstances, do you anticipate much probability of insurance companies trying to get advances on mortgages that they are now holding? Isn't their cash position, in fact, too high?

Mr. FAHEY. Under ordinary circumstances, they would not have any occasion to.

Mr. MILLER. But under the conditions that existed in 1929 and 1930, when they had to put a 30-day-notice clause on loans, could they at this time, under this amendment, get sufficient advances on the mortgages that they held?

Mr. FAHEY. If this act had been in effect at that time, and the banking system had been functioning, they could have obtained advances from the Federal Home Loan Bank System.

Mr. CRAWFORD. In answering a question asked by Mr. Spence a while ago, and without attempting to depreciate what you have said before in these hearings, you made what to me is the most remarkable statement that I have heard from you since this bill has been taken up, and I don't want to misunderstand you, but I want to clear up one or two points in my mind.

Going directly to the question of the insurance companies discounting mortgages, let us go back to 1932, when the policy holders of this country could not borrow the cash-surrender value of their policies. If the New York Life or the Equitable becomes a member of your organization, what type of mortgage under the proposal could they discount?

Mr. FAHEY. The could put up as collateral home mortgages, mortgages on units above four-family, and any mortgages of that type. As a matter of fact, they could undoubtedly put up as collateral a mortgage on a commercial property.

Mr. CRAWFORD. An office building, for instance?

Mr. FAHEY. If it was a sound mortgage, and only that. You must remember that collateral taken by these banks at the outset is two to one, to begin with, with the power to call for additional collateral, so that the element of risk in taking care of that situation is practically negligible. Now that applies, too, as you realize, today with your Federal Reserve banks and your Federal Reserve System. If an insurance company was a member of the Federal Reserve System in 1930, and could borrow from the Federal Reserve System, under your present Federal Reserve law they could offer as collateral anything that they had, and if that had been the case, in my judgment, back when these difficulties began they could have been taken care of.

Mr. CRAWFORD. A number of times in your statement this morning you have used this term, "a sound loan," and I notice that Mr. Eccles of the Federal Reserve Board, and Mr. Jones of the R. F. C., used it a great deal. Do you know where I could get a definition of what a sound loan means?

Mr. FAHEY. Why, I think you would experience great difficulty. But what is a sound loan at one time may not be a sound loan at another time.

Mr. CRAWFORD. Let us approach it this way: Let us assume that sometime in the future, office buildings are constructed and financed as they were in the period from 1924 to 1930, and that the insurance companies acquire mortgages on those structures that have been financed in that manner, and then they use those mortgages as col-

lateral under the provisions in section 1 of this bill, on page 2, subparagraph 3, could those insurance companies use such a mortgage, acquired under such a financing plan, for the purpose of borrowing money under this bill?

Mr. FAHEY. Of course, I would say, in the first place—

Mr. CRAWFORD. In other words, what would be the basis of arriving at soundness under such a procedure?

Mr. FAHEY. The condition of the mortgage at the time, and its credit record, whether the building was fully leased, let us say, on dependable leases, whether the debt was being regularly amortized according to the terms of the mortgage, and whether there was ample reserve to take care of the management and the depreciation in value of that building.

At the same time—

Mr. CRAWFORD. That automatically excludes what I am talking about, because while the buildings were practically full of tenants—and I am referring to Detroit—those tenants were not paying the money under the leases; they could not, for there was no volume of business whereby they could pay the rent. Therefore payments were not being made on the mortgage, and therefore the mortgage was in default. In other words, the insurance companies could not qualify with that type of mortgage.

Let us also suppose that I and 15 or 20 million other policyholders at that time went out to the insurance company and asked for the cash-surrender value of our policies, with which to meet other obligations that we were being pressed to meet, or, for instance, with which to acquire money to invest in industry, to start plants, which actually happened in 1932, to give work to people while recovery was beginning to take root.

We would not, under those circumstances, then be able to acquire the cash-surrender value of our policies from the insurance companies, because they in turn would not be able to put those mortgages up as collateral and borrow from the system in this manner.

Does that sound reasonable?

Mr. FAHEY. I would say as to that, Mr. Congressman, that such a situation would hardly develop, unless you envisioned the practical liquidation of the insurance company, practically complete liquidation of the insurance company by that method.

Mr. CRAWFORD. Let us assume that that moratorium had not been put on insurance companies in 1932; how far would you have missed a complete liquidation of some of the major companies?

Mr. FAHEY. That, of course, is—

Mr. CRAWFORD. A hypothetical question, which cannot be answered?

Mr. FAHEY. No. As you know, that is a theoretical matter, but there are two factors in it, however. One is the influence of the panic complex. If you did not have that so highly developed in 1931 and 1932, but particularly 1932, nothing like the number of policyholders would have resorted to their insurance companies in an attempt to get loans. That applies to other types of institutions. Not so many depositors in savings banks would have gone to draw out their money except for that, and the same thing applies to your building and loan associations and other types of institutions.

Now, of course, I think it is a pretty general feeling today that by utilizing the principle of insurance as applied to banks and financial institutions, we have very substantially eliminated the possibility of panic developments. No one can say that we have cleared them up entirely, but certainly the operation so far indicates that the average everyday man has no fear about it any longer. That is a very important development which bears upon the question of demands which may come against your insurance company or any other type of institution, but in any event I would say that, first of all, it is extremely unlikely that under any conditions which we can visualize, and estimating results on the basis of past experiences, those at the outbreak of the World War, notably, and those in the late period from 1930 on, that you would be likely to confront a situation where the demand would be such as to mean almost 100 percent liquidation.

Mr. CRAWFORD. Let us assume that it does not reach 100 percent liquidation, but that it does reach a situation where the mechanics of this thing will have to be applied a step further, and assume that the Treasury will have to come to the rescue of the F. D. I. C. We are assuming, by reason of the fact that we have this legislation now before us, that we will have to meet that emergency when it does come.

Mr. FAHEY. You are talking about the F. D. I. C.?

Mr. CRAWFORD. No; I am talking about the case of this bill, for we fear, in considering this bill, that an emergency is going to arise in the home-loan field, and the life-insurance field; we are assuming that this storm will again begin to blow. And I personally assume that the fear psychology among our people is more highly developed today than it was in 1929 and 1933; I think it is more sensitive, and the statement you made in answer to Mr. Spence's question, which to me, I repeat, is the most significant thing that I have heard you say, in my opinion, and which I construed as having meant, in a way, that the perfection of these mechanisms such as you are describing will eliminate the possibility of economic washouts now occurring in this country. If I misunderstood you originally, I want to clear it up, and if I did not misunderstand you, then I want to know, how are we going to eliminate those economic washouts, and I mean dollar washouts, through this and the Federal Reserve? Will it be, first, by a direct conduit to the Federal Treasury, which in the final analysis always comes down to the issue of currency, so that dollar obligations may be liquidated?

Did I misconstrue you?

Mr. FAHEY. I do not think that that follows, Mr. Crawford. In the first place, may I say this, that I think that one would be taking a good deal of risk to say that the proper integration of our financial system would make us immune completely against switches and changes. I would not say that. I don't think any body would.

Mr. CRAWFORD. I construed that statement to mean that we would be immune from such a thing as happened from 1929 to 1933. Would you go that far?

Mr. FAHEY. Yes; to the extent to which it went from 1929 to 1933.

Mr. CRAWFORD. You say "to the extent." That may be 10 percent less?

Mr. FAHEY. Oh, no; far more than that. What we finally had to do to meet that situation, and the thing that did meet it, was to bring the Government into the picture when the private agencies were not able to take care of it.

Mr. CRAWFORD. But after the equities had been washed out.

Mr. FAHEY. Not by the any manner or means.

On the other hand, in the case of the Home Owners' Loan Corporation alone, and it is equally true of the land banks, you were still in the midst of a downward trend so far as values were concerned, and they stopped it.

Mr. CRAWFORD. That is true, but I am referring to those millions of people who did have equities washed out in the drop in the market prices of commodities that they held, of stocks and bonds that they held, of real estate which they held before the new Government agencies began to function, and, indeed, we had millions of people who lost their equities. The fellow who was saved by the H. O. L. C. has not lost yet, but millions have lost their equities, and I can give you names and addresses of scores of friends of mine who will never recover what they lost.

Mr. FAHEY. Isn't your question there, Mr. Congressman, whether those losses would have been suffered if the Government had acted quickly enough in the first place?

Mr. CRAWFORD. No; I do not think it would have occurred had the Government acted promptly, in this way, because I think, if I understand this bill now and I understand your statement, and I am very particular about it, because I do not want to misunderstand it; I do not want to go out of this room and say that your statement implied that if these things are perfected, there would be no more economic storm of consequence in the home-mortgage field.

Mr. FAHEY. I hope that we are perfectly clear about that.

Mr. CRAWFORD. And had this been in operation in the mortgage field in 1929 and 1933, and had we moved on into the inside of the Treasury through this arrangement, and had the Treasury been able to sell Government obligations at that time, in order to get dollar exchange with which to meet these calls, is the set-up in such a form that eventually the Government has to issue currency in order to meet these dollar obligations?

Mr. FAHEY. Well, I do not think that the Government is obliged to issue currency under this proposal, exactly, under the circumstances that you have described. It did not have to issue currency in the case of the Home Owners' Loan Corporation, or the Federal land banks. It issued the securities of those corporations which were guaranteed by the Government.

Mr. CRAWFORD. But I say, assuming that the Government cannot sell its securities in order to obtain the dollar exchange—

Mr. FAHEY. Oh, well; when the Government of the United States cannot sell its securities, nothing else can be sold.

Miss SUMNER. You would not say that, would you? That is such a common assumption, that if the Government is not any good, nothing is good. But look at many of these other countries—Germany, for instance—every country except Russia, where the Government has completely changed around. They have changed from one form of government to another, but the people still own their houses and their

property, and they still have the same property set-up, except in Russia, where they eliminated private property.

Mr. FAHEY. On the other hand, what happened in Germany when the Government was unable to support its financial structure, because it could not issue its own obligations and the people would not buy them? When the Government is unable to sell to its people its own obligations, then you have a State of undermining of all property values, and you cannot escape it.

Miss SUMNER. But if you have a farm, you may be so hungry that you will have to sell it in order to buy your lunch, but if you can hold on to it, and wait until the Government is changed, you may be the richest man in town under the next government. That is what happened in connection with all of these changes.

Mr. FAHEY. That is a good deal of a guess.

Miss SUMNER. But, at the same time, the thing that is disturbing me is that we are assuming a lot of Government obligations on the theory that if nothing is any good, the Government is; and it is a fallacy.

Mr. SPENCE. I would like to ask just one question. I wish that you would tell us something about the examinations, how you conduct the examinations, and whether you accept the examinations of other public authorities.

Mr. FAHEY. Under the law, we can accept the examinations of the State authorities.

Mr. SPENCE. Do you do that?

Mr. FAHEY. If we find that they are standard, and if they conform to our needs. Otherwise we cannot and we do not; we make our own.

Mr. SPENCE. Is it a general rule that you do accept those examinations?

Mr. FAHEY. No; because in a large proportion of cases they are not satisfactory.

Mr. SPENCE. How often do you make examinations?

Mr. FAHEY. Every year. We make regular examinations every year.

Mr. SPENCE. And then you make additional examinations if you think there is some justification for it?

Mr. FAHEY. We make additional examinations at any time that the local banks think it is called for.

Mr. SPENCE. What are the costs of those examinations?

Mr. FAHEY. I cannot tell you offhand.

Mr. SPENCE. On what basis do you figure the cost?

Mr. CATLETT. We charge them for the service of our examiners at the rate of \$22.50 a day for a senior examiner, and \$18, as I recall it, for our junior examiners, and that includes mileage and per diem.

Mr. SPENCE. What would be the ordinary cost of an examination of the average association?

Mr. CATLETT. Mr. Spence, it would be impossible to answer that question in so many words. We have tables, however, showing the actual cost. It depends on the size of the institution.

Mr. SPENCE. Are these examinations quite a burden on the associations?

Mr. FAHEY. No; we do not think so; and Mr. Hancock reminds me that the average cost of examinations of State-chartered insured

associations during the 6 months ending December 31, 1938, was only 22 cents a thousand dollars of the assets.

Mr. SPENCE. The national banks, the banks which are members of the Federal Reserve, or the banks insured by the F. D. I. C., do not pay for any of the insurance examinations, do they?

Mr. FAHEY. The Federal Deposit Insurance Corporation does not charge for examinations. I am unable to say with reference to the Federal Reserve examinations. I am under the impression that they do pay for those.

Mr. SPENCE. What has been the income to the Federal Savings & Loan Insurance Corporation as the result of these examinations?

Mr. FAHEY. Oh, the income of the examinations is the income of the bank system. The examinations are conducted by examiners of the bank system, you understand. We can give you those figures exactly. I do not happen to have them at the tip of my tongue.

Mr. SPENCE. Is there any reason why this character of lending institution should pay for the examinations when the members of the Federal Deposit Insurance Corporation do not pay for them? What is the distinction? Why should they pay if the members of the Federal Deposit Insurance Corporation do not?

Mr. FAHEY. I do not think that our banking system can afford to make these examinations without charge.

Mr. SPENCE. A good many of the institutions are smaller institutions, and they complain that it is quite burdensome to pay for the examinations. I do not know how much they pay, but they complain about it.

Mr. FAHEY. Our observation, so far as that goes, is that, generally speaking, that complaint is not well founded.

Mr. SPENCE. When an organization is apparently solvent, and there is no particular reason to have more than one examination a year, that is the extent of the examination?

Mr. FAHEY. That is correct.

Mr. SPENCE. But where you find that the lending institution may not be complying with all of the rules and regulations, and may not be entirely solvent, then you can order the examination at any time?

Mr. FAHEY. That is what we do.

Mr. SPENCE. What has been your experience along that line? Are most of them only examined once a year?

Mr. FAHEY. Oh, yes. There is no need for examining most of them except annually, and the number that we have been called upon to examine in the interim for special reasons is comparatively small.

Mr. SPENCE. Where there is an adequate examination by the local public authority, under your authority, in what proportion of the cases have you accepted those examinations without any supplementary examinations by your men?

Mr. FAHEY. Offhand, I could not tell you that.

Mr. CATLETT. We do not accept any State examinations. What we have done up to date is to join with the State supervisors and make a joint examination, conduct the examination at the same time.

Mr. SPENCE. How is the expense of that examination borne?

Mr. CATLETT. That depends upon the way in which the State supervisor himself collects. If he charges as we do, on a per diem

basis, then of course it has the effect of reducing the cost of the examination. In other words, the joint examination is made for a considerably less cost than the two examinations were made before. But in some States the State supervisor is paid a certain percentage of the assets, whether or not he examines an institution, and of course where you have that law in the State, then the effect of the joint examination is—well, it may still reduce the charge that is made, if he puts in his examiners and they do a full share of the work.

Mr. SPENCE. Do the States always charge, either directly or indirectly, for these examinations?

Mr. CATLETT. Yes; the States are accustomed to charging for these examinations, always have been.

Mr. FAHEY. I might add in explanation, Mr. Spence, that of course the examination in this case but parallels that of the Comptroller of the Currency insofar as commercial banks are concerned.

Mr. SPENCE. Can you insert in the hearings just what the cost has been for these examinations?

Mr. FAHEY. Yes; we will.

(The information requested is as follows:)

Average cost of examination of State-chartered insured associations for 6 months ended Dec. 31, 1938

Assets	Number of associations examined	Average cost per \$1,000 of assets	Assets	Number of associations examined	Average cost per \$1,000 of assets
Under \$50,000.....	2	\$1.51	\$2,500,000 to \$5,000,000.....	12	\$0.12
\$50,000 to \$100,000.....	8	.85	\$5,000,000 to \$10,000,000.....	1	.16
\$100,000 to \$250,000.....	28	.59	Over \$10,000,000.....	1	.08
\$250,000 to \$500,000.....	32	.40			
\$500,000 to \$1,000,000.....	24	.29	Total.....	140	.22
\$1,000,000 to \$2,500,000.....	32	.23			

The CHAIRMAN. Gentlemen, Members are anxious to be on the floor, because of important business there. Without objection, the committee will stand adjourned until 10:30 tomorrow.

(Thereupon, at 12:05 p. m., an adjournment was taken until Friday morning, May 5, 1939, at 10:30.)

AMENDMENTS OF 1939 TO FEDERAL HOME LOAN BANK ACT

FRIDAY, MAY 5, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10:30 a. m., Hon. Henry B. Steagall (chairman) presiding.

Members present: Messrs. Steagall, Williams, Spence, Ford, Brown, Barry, Mills, Folger, Monroney, Luce, Gamble, Simpson, Johnson, Kean, Miss Sumner.

The CHAIRMAN. The committee will come to order.

Mr. Fahey, I believe you have some more information for the committee.

Mr. FAHEY. Mr. Chairman and gentlemen of the committee, when we adjourned yesterday, Mr. Spence wanted some additional information relative to the costs of examination, and also how far cooperation in examination had developed with the States. I am glad to be able to give you, this morning, concrete information on that subject.

The costs of examination have declined steadily as the examining force has developed greater efficiency, and as cooperation on the part of institutions has resulted in better bookkeeping methods and better preparation of schedules; all of which, of course, is very helpful and reduces the costs and expedites examinations.

The cost, per thousand, of examinations of Federal associations for the 12-month period ended June 30, 1937, was 26 cents a thousand; for the 12 months ended June 30, 1938, it was 27 cents. Two reductions in rates have since been made, and with improved methods of examination and simplification of forms, and, as I have explained, the cooperation of the institutions, the figures have now been brought down to the point where our last comprehensive figures of averages have made the average rate 17 cents, a drop of almost 10 cents a thousand, as you will observe, within a comparatively short period of time.

Those are the costs for the State examinations. When institutions desire an audit in connection with examination, the cost is a little higher. A considerable number of them desire to have the Board make the audit, instead of private auditors, whom they have previously employed. The last figures give an average for the audit plus examination of approximately 25 cents the thousand.

Mr. LUCE. A thousand what?

Mr. FAHEY. A thousand dollars of assets. A question was also raised regarding acceptance of examinations made by State authori-

ties. I would like to explain that arrangements have been made between the examining division of the Federal Home Loan Bank Board and the State supervisory authorities for joint examinations in 32 States, in the Hawaiian Islands, and the District of Columbia. In four States—Arizona, California, Mississippi, and Nebraska—there are, at present, no arrangements for joint examinations, but negotiations to work out joint examinations are continuing. In the State of Maryland, where there is no supervision, the Board is, of course, obliged to examine all of the insured institutions. There are no insured State associations in 11 States, but if and when the State-chartered associations of these States are insured, the expectation and hope is to arrange for joint examinations. In certain other States, as a result of recent legislation, examinations of the Board may be accepted by the State authorities in substitution for their own. That situation applies in the States of Arkansas, Iowa, Kansas, Nevada, North Dakota, and Georgia, where State statutes have been amended in recent years.

Bills are pending in the following States, contemplating the same opportunity for the State authorities: California, Colorado, Michigan, Minnesota, and Missouri.

On joint examinations, I have given you the number of States in which such examinations are being conducted, and we can, if you wish, put in the record a list of those States, or perhaps Mr. Spence would like to have them.

Mr. SPENCE. I think that would be very useful. How is the cost of the joint examination met?

Mr. FAHEY. The usual method is that they provide some of the men and pay them, and we will provide some of them, but it is measured entirely by the work done.

Mr. SPENCE. That means two fees?

Mr. FAHEY. The new effort is to cover it in one fee.

Mr. SPENCE. Would the fee be about the same as if your examination was the sole examination?

Mr. FAHEY. Well, of course, as to that I would not undertake to say offhand, but where there is such cooperation, I would say that we would find that the costs are declining as against the fees that have been customary in the past. I do not think there has been any increase.

If it is agreeable, we will submit for the record the States in which joint examinations are being conducted at present.

The CHAIRMAN. It will be made a part of the record.

(The matter referred to is as follows:)

States in which arrangements for joint examinations have been made

Alabama	Louisiana	Oklahoma
Arkansas	Michigan	Pennsylvania
Colorado	Minnesota	South Carolina
Connecticut	Missouri	South Dakota
Florida	Montana	Texas
Georgia	New Jersey	Utah
Illinois	New Mexico	Virginia
Indiana	New York	Washington
Iowa	North Carolina	West Virginia
Kansas	North Dakota	Wisconsin
Kentucky	Ohio	

Mr. FAHEY. I ought to add, in connection with this matter, that there are no charges made for overhead costs, which are carried by the Federal Home Loan Bank Board and the Insurance Corporation itself.

I think that is the only information I was asked to bring back for this meeting of the committee.

Mr. WILLIAMS. How many institutions are there in your system, in the Home Loan Bank System?

Mr. FAHEY. Just short of 4,000.

Mr. WILLIAMS. How many of them in the Insurance Corporation?

Mr. FAHEY. In the Insurance Corporation we supplied—

Mr. WILLIAMS. Approximately?

Mr. FAHEY. About 2,120 is the latest figure.

Mr. WILLIAMS. Do you examine all of the members of your institutions every year?

Mr. FAHEY. You mean of the Insurance Corporation?

Mr. WILLIAMS. No; the banks.

Mr. FAHEY. All of the insured members are examined every year. All of the others file regular reports, and if there is occasion for examination we examine them.

Mr. WILLIAMS. Then you do not expect those outside of the Insurance Corporation to be examined unless there is some special demand for it?

Mr. FAHEY. No; we rely on the reports made, either the State reports or those that are filed with us by the member institutions.

Mr. WILLIAMS. But you do examine those that are in the Insurance Corporation every year?

Mr. FAHEY. That is right.

Mr. SPENCE. What powers have the home-loan bank examiners? Is there any limitation on their examinations of the member institutions?

Mr. FAHEY. Rather broad powers are given in the statute, but I do not—as I recall the language of the statute, it does not demand annual examinations. I mean, specifically, it does not call for annual examinations by the Board, so far as the bank members are concerned, but we do have authority to examine at any time we please.

Mr. SPENCE. If a bank wants to become a member of the Home Loan Bank System, you will examine it before you permit it to become a member?

Mr. FAHEY. Yes; we do check on its condition then.

Mr. SPENCE. You make an examination of the affairs of that organization?

Mr. FAHEY. I do not recall whether we have, in all cases, made detailed examinations or not. I do not think we have; not unless there seems to be occasion for it.

Mr. WILLIAMS. Have you the figures now—I believe I asked you that once before—of those who applied for admission to the Insurance Corporation, that have been denied admission?

Mr. FALLON. We do not keep that figure, because the application, in many cases, is not denied. We specify changes in their organization, which they sometimes decline to make. The number which we have actually denied will be small, possibly 60 or 70 in number. The number who have voluntarily withdrawn would be slightly greater.

The number that have been given the conditions and have not yet complied, but have not had as much time as they want to comply, is around 270. We do not admit them until they have complied with all of the conditions, and no one has ever withdrawn through any cause of that sort. Some have voluntarily withdrawn by reason of merger or liquidation, but we have never lost any by failure to live up to our requirements.

Mr. WILLIAMS. Have you ever put any of them out?

Mr. FAHEY. No, sir.

Mr. FALLON. No, sir; we have never had any cause to put them out.

Mr. SPENCE. And does this state of facts exist at this time: If an organization wants to become an insured institution, and you have examined it and you find it does not exactly qualify for membership, in a short while, they say, "We would like to file another application," do you examine them again? I have heard some of these people say they were subject to four or five examinations, which were pretty costly to the organization, and they did not get in. Is that something that occurs very often?

Mr. FAHEY. I would not say that was a common occurrence, Mr. Spence. What happened is this: They will apply, and they are examined. We find that there are obvious defects in their condition, which does not warrant the Corporation assuming the responsibility of insurance, and we say to them, "We cannot admit you to the insurance fund under the present conditions. If you can make adjustments in this, that, and the other thing, then we can recommend your application." Now sometimes they succeed in doing that and sometimes they do not. But as Mr. Fallon has explained, quite frequently they will come back and try again, when they have not met the requirements and we are unable to consider it until they do.

Mr. SPENCE. Every time you make a reexamination of any institution, even though it is not their own fault, you would have to charge for that examination?

Mr. FAHEY. Yes; but there is no other proper policy that you can pursue. It is their responsibility; if their institution is not in condition to be insured, it is their responsibility to put it in shape.

The CHAIRMAN. Of course, your repeated examinations represent an effort on the part of your Board to cooperate with these people and admit them to membership?

Mr. FAHEY. Exactly. We take the position that we have no right to insure an institution and to say to the public, which is what we are doing, "that this institution is safe and sound, and you may with confidence put your savings in it" unless we are satisfied that is true. Now, we have constant pressure from institutions that want to be insured and which we cannot accept, because they are not in position where they have a right to command the protection of the Board.

Mr. SPENCE. Is there any number of institutions that have made repeated efforts to get insured, and want to get into the Insurance Corporation, that have been unable to do so even though they have made repeated efforts to come in?

Mr. FAHEY. Oh, yes; there is a substantial number; but I would not undertake to say, offhand, how many. Mr. Fallon mentioned just now that there were approximately 270 that have applied at one time or another, and that we have asked to make adjustments,

and whose applications are hanging fire; and also, as he said, we have never kept a record of the number who made application, who have made tentative application, whom we have had to ask to withdraw them and hold them up. But we do have a substantial number of institutions that press for insurance, saying that they have a right to it, and we just do not feel justified in granting it.

Mr. Catlett just tells me that we do have here the figure of the total number of applications that have been filed, which is 2,721 as against the admitted membership of 2,120.

Mr. SPENCE. A good many of those applications are reapplications, are they not, those that have been turned down and make another effort to become members?

Mr. CATLETT. I do not believe those include the reapplications, as our ordinary custom is not to actually dismiss an application if there is a chance that they may, by some reorganization, make themselves eligible, and ordinarily we do try to help them by telling them exactly what it is necessary for them to do. We generally advise them of the required conditions, set down in 1, 2, 3 order, stating what they must do to receive insurance, and they take them, and if they desire—and most of them do desire it—they endeavor to perform those conditions, and they come back to us, and we insure them.

Mr. SPENCE. You do not refuse them until all hope is gone?

Mr. FAHEY. No, sir.

Miss SUMNER. Mr. Fahey, before you conclude, I would like to ask you two questions: First, I wonder if you would give us a little outline in regard to these criminal conditions on page 10 of the bill?

Mr. FAHEY. I will ask Mr. Catlett to give you that, because he has handled the legal provisions of that sort and dealt with them with the Department of Justice.

Mr. CATLETT. Those legal provisions make very little change. As a matter of fact, they simply extend the protection of the existing criminal provisions to the Insurance Corporation and, I believe, the members of the Bank System.

Miss SUMNER. This says, "and members," and I could not figure out what criminal protection they had to have there, and I did not want to go through all of those lists.

Mr. CATLETT. I think this is the explanation of that, briefly: The penal provisions of the present act, which now protects the Federal home-loan bank and, in some instances, the Federal Home Loan Bank Board, are extended so as to protect, in addition, the members of the banking system, that is, the institutions belonging to the system, including the Federal Saving and Loan Associations, and the Federal Saving and Loan Insurance Corporation. That is the only effect those criminal provisions have. There is little that is new in it.

Miss SUMNER. Then the second question, the one that seems to me more important than anything we discussed. I was not here to hear the information that you gave with reference to this question of premium on your insurance on page 18. I understand you put into the record what kind of losses your institutions have had over a period of years?

Mr. FAHEY. Yes; that is in the record and reference was made to it again, I think, day before yesterday. The number has been only a handful and the total amount which the insurance corporation has had to contribute is something less than \$140,000.

Miss SUMNER. I did not mean that, I mean inserting the premium rates. I suppose you do that—before you first fix the premium, I suppose that you had some basis of losses on mortgages to building and loan associations when you originally set the premiums; and in reference to this change of premium, I wonder what reason you had, and what basis you had for fixing that premium. We should have some statistics that show losses to the real-estate operators, especially over the last depression, and also the losses over a series of years. Do you not have an idea how much the Government might lose?

Mr. FAHEY. I think that we have covered, rather fully, in the record, the reasons for the suggestion relative to the premium rate on insurance, but if that is not adequate, would you like us to submit a memorandum on that?

Miss SUMNER. I think it would be interesting for everybody to have it in. I mean, when you set up an insurance company, for instance, and you undertake to insure a certain kind of losses, you get the statistics on those losses proposed to be insured, and so you will have an idea how much premium to fix. If they are not in the record, I think they ought to be here.

Mr. FAHEY. Mr. Catlett had a comment on that.

Mr. CATLETT. I think I can answer directly. There were not available, at the time the law was passed and are not now, any accurate figures on the losses in the building-and-loan associations. The only thing that was available was some estimated losses, which appeared in the building-and-loan field, which has been referred to. We have, of course, our experience since 1934. That is the only accurate basis we have, as yet, as to the losses.

Miss SUMNER. But that was during the depression time, I would call it; so, at least, that is not a normal period, is it?

Mr. CATLETT. No; but the losses would tend to average larger in this period than in a period of prosperity, but there are no accurate actuarial figures.

Miss SUMNER. Is there no way to get that?

Mr. CATLETT. There is no way to get that; they have never been kept in any of the States, and they could not be accumulated.

Miss SUMNER. What is your nearest approximation or estimate?

Mr. CATLETT. We never had any estimate of the actual losses, other than the figures that appear in the building-and-loan annals, and those are not reliable.

Miss SUMNER. How did you arrive at this figure—this original premium figure?

Mr. CATLETT. The original premium, as you may recall, was one-fourth of 1 percent.

Miss SUMNER. Yes; and how did you decide on that?

Mr. CATLETT. That could only be decided on by something that was approximate, that might be nearly correct, and that would have to be justified by experience. That is the only way you can proceed, when you have no basis in actuarial figures, and we have the provision, as you know, for additional assessment. If the original premiums were not sufficient, we could then assess enough to cover the loss.

Miss SUMNER. And your assessment would come right at the time when the associations could least afford to pay it.

Mr. CATLETT. Well, the assessments would fall on the associations that are in good shape; they would not fall on those that are in liquidation.

Miss SUMNER. We have had different crashes in this country. We had the Florida crash, and then we had some other crashes, but at times it comes all over the United States, and if you insure all over the United States you insure in all of the States at once.

Mr. CATLETT. Yes; but the percentage of assessment, one-fourth of 1 percent, or one-eighth of 1 percent, or one-twelfth of 1 percent, would not be large enough to cause any great difficulty. Then, in these institutions, which pay dividends only out of profits, the expense is deducted first, and the deduction for insurance would come out as expense. The only possible effect would be the deduction of the next dividend.

Miss SUMNER. In asking to decrease this premium, I presume that you are basing it only on these losses that you have had in the last few years, which amount to what?

Mr. FAHEY. \$140,000. But, more than that, let us remember this: These institutions which have been insured and which are being admitted for insurance today are being admitted on the basis of their soundness, after having passed through the most serious ordeal that they have ever encountered in history.

Miss SUMNER. Now, there is a point. A man in the audience the other day said that certain of these institutions had all kinds of frozen loans.

Mr. FAHEY. Certainly, we are not taking into the insurance fund institutions that are frozen. As to an assertion of that sort, let me say this—that bears upon the inquiry you made a moment ago relative to these criminal provisions: There are plenty of lending institutions in this country which were not qualified for insurance and who do not like, naturally, the competition in their communities of institutions that have passed the tests and that are insured. They are constantly making and circulating all sorts of assertions relative to their competitors. We have had the experience, in some communities, where institutions, or a certain number of them, were insured, and had competitors who could not be insured and whose applications we could not pass, which circulated reports in the community that the corporation that was insured was in a bad way, and that it was loaded with frozen assets, and various rumors of that sort. When it comes to the kind of disconcerting rumors that are made or circulated by one class of businessmen with reference to their competitors, the most dangerous are in the field of savings or in the field of banking. I think you would have to discount substantially an assertion such as that to which you have referred, and you can only deal with that as a case matter.

Miss SUMNER. Mr. Fahey, before you go ahead, I want to say that I agree with everything you say in that particular. I have had experience in that field, myself. I wanted to know how far this situation had been cleaned up, and whether you could properly say what the percentage of loss has been.

Mr. FAHEY. Undoubtedly, you will incur losses in the fund. They come as the result of bad management, which makes for difficulties, before you have any opportunity to correct them. It comes from embezzlement, and from things of that sort, that you have to expect.

There are many reasons why your insurance fund is built up to take care of things of that sort that it is not practicable to prevent.

MISS SUMNER. It seems to me that this period in which the Insurance Corporation has operated is too short as a basis for fixing the premium, and I was wondering what you could do.

MR. FAHEY. On the other hand, we would say that the experience during this selfsame period, and our opportunity for observation of the same conditions of these institutions, leads to just that conclusion. Now, another thing about that—

MISS SUMNER. Just one more question: Is there any other Government operation like this?

MR. FAHEY. There are two or three State funds. You will recall, before the creation of the F. D. I. C., there had been, in the country, some 8 or 10 experiments with State insurance funds. Every one of them failed. Criticism was made of the idea of a Federal fund, citing the example of the State funds which failed to fulfill the purposes for which they were created. But, of course—

MISS SUMNER. Excuse me, Mr. Fahey, I know your time is very short, but I was asking that question: What other insurance corporations there are in the Government, and I wanted to ask if you know how they arrive at their premiums? Do they have statistics of this nature?

MR. FAHEY. No; they have to make general estimates. I think the critics of those funds would probably say they are wholly inadequate and would not meet the situation. We would rather not be placed in the position of criticizing, or attempting to analyze those funds, but I would think that a committee examination of that situation might be helpful in the disposition of this problem.

MISS SUMNER. I think so, too.

MR. FAHEY. Particularly when witnesses appear before you, who have knowledge of them. For myself, I would say that it would seem obvious, at the outset, that a small fund confined to a single State can hardly represent assurance to the public that a large fund, with a diversification of risk all over the country can represent.

MR. WILLIAMS. Are savings banks eligible for insurance?

MR. FAHEY. They are; yes. They would be under the amendments to the act.

MR. WILLIAMS. Are they now?

MR. FAHEY. No.

MR. CATLETT. The savings banks are not eligible under our Corporation, now.

MR. SPENCE. Or under the F. D. I. C.?

MR. CATLETT. Yes; they are under the F. D. I. C.

MR. WILLIAMS. Are mutual savings banks?

MR. FAHEY. They are in the Banking System, but not in the Insurance Corporation.

MR. WILLIAMS. None of them?

MR. FAHEY. No.

MR. WILLIAMS. There just is the building and loan associations, of course, and what we call the savings and loan associations.

MR. FAHEY. That is right. That is exactly the same type of institution, except a different name.

MR. WILLIAMS. Then there is not anybody else except the building and loan associations that are in the insurance fund so far?

Mr. FAHEY. In the insurance fund, so far; yes; that is correct.

Mr. WILLIAMS. I mean, under the law, there is not anybody else eligible?

Mr. FAHEY. That is right.

Mr. WILLIAMS. And this law proposes to bring in those who want to come in, including the mutual savings banks?

Mr. FAHEY. Making the mutual savings banks eligible, if they care to come in.

Mr. WILLIAMS. When you say "mutual," does that cover them all?

Mr. FAHEY. Yes, sir.

Mr. WILLIAMS. All savings banks are not mutual, are they?

Mr. FAHEY. They are practically all.

Mr. WILLIAMS. I am only asking for information. I do not know.

Mr. FAHEY. I am not sure how many there are, how many capitalized savings banks there are, outside of the mutual group. Do you remember, Mr. Catlett?

Mr. CATLETT. I cannot answer that question. Most of them are mutual.

Mr. FALLON. There are a few in New Hampshire and about 15 or 20 over the country.

Mr. WILLIAMS. I understand, under this proposal, they would still be out?

Mr. CATLETT. I think, if they are eligible to membership in the System, they could come in and I believe they would be eligible under the law.

Mr. FAHEY. I am not sure about that.

Mr. WILLIAMS. I do not think there is any question but what they are eligible to the membership to the System, is there?

Mr. FAHEY. No; they would be eligible for membership in the Bank System, but I am wondering about the Insurance Corporation.

Mr. CATLETT. Mr. Bodfish says that they are eligible to the Banking System, and if they are, I think our language is broad enough to admit them to the Insurance System.

Mr. WILLIAMS. All savings banks?

Mr. FALLON. Yes, sir.

Mr. WILLIAMS. Including the mutuals?

Mr. FALLON. That is right; yes, sir.

Mr. FAHEY. That is right.

Mr. WILLIAMS. Will you tell me why they seemed to be opposed to this Home Loan Bank System?

Mr. FAHEY. Well, I think, so far as the Bank System is concerned, as I explained the other day—

Mr. WILLIAMS. Am I not right in the assumption, generally, that there is a rather hostile attitude toward the Bank System?

Mr. FAHEY. There is on the part of some of them. But I think that hostile attitude, Mr. Congressman, is more particularly with reference to the insurance. But there is a marked division of opinion among them.

Mr. WILLIAMS. Now, you think that they have been against the System because they have not been permitted to come into the Insurance Corporation?

Mr. FAHEY. No; a considerable number of them, at least, take the position, with reference to the Bank System, that it is not, as at present constituted, broad enough, so far as its eligibility provisions are con-

cerned, to represent any considerable measure of protection to them in time of need. That is their attitude in that direction.

Mr. WILLIAMS. I understood from your testimony, just yesterday, that 50 percent of their assets were home loans. It seems to me that would give them quite a bit of satisfaction, because they can put them up as security for advances, if they want to.

Mr. FAHEY. I am not sure whether I said that. I would have to check on it, or whether those are purely residential loans or one- to four-family loans. I have some doubts about that.

Mr. CATLETT. They could only put up with us, under the present law, such portion of those as were from one to four families, but that figure is the total figure.

Mr. CHAIRMAN. All right, Mr. Fahey, your hour has expired. What about meeting Tuesday?

Mr. FAHEY. That is entirely agreeable, sir.

The CHAIRMAN. We will meet at 10:30 o'clock, Tuesday.

(Thereupon recess was taken in the hearing until 10:30 a. m., Tuesday, May 9, 1939.)

AMENDMENTS OF 1939 TO FEDERAL HOME LOAN BANK ACT

TUESDAY, MAY 9, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to adjournment, for further consideration of H. R. 5535, Hon. Henry B. Steagall (chairman) presiding.

Members present: Messrs. Steagall, Williams, Spence, Ford, Brown, Patman, Mills, Martin, Folger, Monroney, Gifford, Luce, Crawford, Gamble, Simpson, Johnson, Kean, Miss Sumner, and Mr. Miller.

The CHAIRMAN. The committee will come to order. Mr. Fahey, I believe you were answering some questions by Mr. Williams; you may proceed where you left off. In the meantime, if you wish to first make any preliminary statement, it will be all right to do so.

STATEMENT OF JOHN H. FAHEY, CHAIRMAN, FEDERAL HOME LOAN BANK BOARD

Mr. FAHEY. There is no preliminary statement, Mr. Chairman, that I think it is necessary to make this morning. I think the question to which you refer, and Mr. Williams will correct me if I am wrong, was one relative to the proportion of multiple-family dwellings built in our cities in ordinary times under ordinary circumstances. We were unable to supply the information at the time, but on checking since the last hearing, we find that the recent Department of Labor statement on housing for 1938 gives some specific information on that subject. It shows that about 350,000 non-farm-dwelling units, new family dwelling units, were provided in 1938. In cities of 2,500 or more, 65,512 units of the multiple-family type were constructed. Of that number, 46,803 were in the larger cities; that is, in the cities from 500,000 up. There were 7,381 units in the next group of cities, that is, those of population from 100,000 to 500,000, and there were 11,328 in the communities from 100,000 down to 2,500.

In a word, in the larger cities, the multiple-family units represented over 54 percent of the new buildings. In the next smaller group of cities it represented 18.4 percent of all of the new building units provided, while in the communities running from 100,000 down to towns of 2,500, they represented 13½ percent. Of course, last year, 1938, we were only beginning to resume the building of new family dwelling units of the urban types, after the contraction which took place in the spring of 1937. The 350,000 for the year is far

below the average for the 10 years before 1930. We averaged then over 500,000 units a year. So that, with the resumption of more normal building there will be a proportionately larger number of multiple-family dwelling units to be financed in our cities than there was in the year 1938.

Mr. WILLIAMS. What would you consider the normal building program now per year, or what do you think it ought to be?

Mr. FAHEY. I think, and this is purely a matter of opinion, you know, Mr. Williams.

Mr. WILLIAMS. Yes; I am asking for that.

Mr. FAHEY. I think it ought to be at least 500,000 a year for some years ahead.

Mr. WILLIAMS. You have the opinion or the impression that there was somewhat of an overbuilding boom during the 1920's?

Mr. FAHEY. Yes, sir; there was.

Mr. WILLIAMS. And during that time that continued about 500,000 a year?

Mr. FAHEY. Well, it ran over that.

Mr. WILLIAMS. It averaged that?

Mr. FAHEY. It was approximately 400,000 during the depression year of 1921, and it jumped up about 268,000 in 1922 and immediately resulted in stimulating reemployment.

Mr. WILLIAMS. What was the average during that period?

Mr. FAHEY. The average during that 10-year period?

Mr. WILLIAMS. During the period 1921 to 1930, say?

Mr. FAHEY. It was much more than 500,000. I do not happen to have that figure right at hand.

Mr. FORD. I have seen a statement that it was 600,000, Mr. Fahey.

Mr. FAHEY. It was. I can give it to you by years if the committee wishes it.

Mr. WILLIAMS. Personally I do not care for it except the general average. I think that will answer the purpose. The question that I think we quit on at the last hearing was the matter of the attitude of the savings banks toward the Home Loan Bank System. It seems, or I have the impression from what I have seen and heard from them, that there is rather a hostile feeling, or, at least, not the friendliest feeling in the world toward the Home Loan Bank System, and I was asking why that was, if you can tell. I will ask you first, if my impression about that is correct, in your experience?

Mr. FAHEY. In my opinion that is not the general attitude. I think that is the feeling among some of the savings-bank people, but I would not say that that was true of the savings banks as a whole.

Mr. WILLIAMS. Now, I am not sure that we arrived at a correct understanding of a matter that I had up several days, and which I want to clear up now if possible. I think, perhaps, there was a misunderstanding of some of the questions I asked with reference to the amount of home loans which the savings banks of the country have.

Mr. FAHEY. I can give you that.

Mr. WILLIAMS. What percentage of their assets have they invested, I think that was the question, in home loans, and by that I mean home loans of the kind that you have?

Mr. FAHEY. About one-half of all of the mortgages they hold are home loans. Roughly one-half of all of their assets are in mortgages.

Mr. WILLIAMS. Now, that is where we had our trouble before, and that is not the question. The question is, Do they have any mortgages outside of home mortgages?

Mr. FAHEY. Well, they have, of course, apartment-house mortgages, and I think that under the laws of some of the States they are permitted to make mortgages on office buildings, within a very limited area, to a very limited amount.

Mr. WILLIAMS. What I am seeking to find out is what part of their assets have been in home mortgages as defined in this act? By that it would mean four-dwelling homes.

Mr. FAHEY. You mean within the four-dwelling class?

Mr. WILLIAMS. Yes.

Mr. FAHEY. I would say offhand about 25 percent of all of the assets.

Mr. WILLIAMS. Twenty-five percent?

Mr. FAHEY. Yes, sir; that is approximately it.

Mr. WILLIAMS. There is one other thing. We have discussed it somewhat heretofore, and I do not know whether we have a very clear understanding about it, and that is what other obligations have the savings banks outside of the mortgages in their assets?

Mr. FAHEY. They hold Government bonds, and State and municipal bonds, and other securities of that type.

Mr. WILLIAMS. Well, now, is there any limit, any restriction, on the kind of obligations they can hold?

Mr. FAHEY. Yes. Practically all of the States in which savings banks operate have limitations on what the savings banks may invest in. They are popularly referred to as legal investments for trust funds.

Mr. WILLIAMS. Is there any limitation with reference to the maturity of those obligations? In other words, do they engage in buying or lending on what would ordinarily be called commercial paper of 3 to 4 months' maturity?

Mr. FAHEY. No; I do not know of savings banks buying any commercial paper as such.

Mr. WILLIAMS. I mean by that, paper that is limited as to maturity.

Mr. FAHEY. I cannot say as to the other States, but in the State of Massachusetts they are allowed to make personal loans on short-term two-name paper. I think Mr. Luce would know about that.

Mr. WILLIAMS. That would simply mean a note with two signers?

Mr. FAHEY. Yes.

Mr. WILLIAMS. And for a short term?

Mr. FAHEY. Yes; but there is very little of that.

Mr. WILLIAMS. Do you know what percent of business of that kind they have?

Mr. FAHEY. I do not know, Mr. Williams, but as I have observed savings banks' statements from time to time the amount of lending of that character is negligible.

Mr. WILLIAMS. Is there any of it in the building and loan associations?

Mr. FAHEY. There is none.

Mr. WILLIAMS. Not any lending of that character?

Mr. FAHEY. There is not, not to my knowledge. I never heard of any.

Mr. LUCE. I have never known of such operations in my own State, Mr. Williams.

Mr. WILLIAMS. I am simply asking for information, because this proposed legislation makes all obligations held by member banks eligible as security for advances. I am trying to find out what those obligations are in savings banks and building and loan associations.

Mr. FAHEY. I think we can get some information for you about that.

Mr. WILLIAMS. Of course, if there is not any then we are not concerned with it.

Mr. FAHEY. I am certain that it amounts to nothing.

The CHAIRMAN. May I interrupt just a moment there. In that connection the legislation proposed here would not relate merely to existing provisions, but also apply to the betterments that would be possible under the operations of savings banks hereafter.

Mr. FAHEY. Yes, sir; that is true.

You were asking a few moments ago about the new construction in the period from 1921 to 1929. The average figure per year was 754,000 new units.

Mr. WILLIAMS. And that, in your opinion, was too many? It was an overbuilding period?

Mr. FAHEY. Yes, sir; it was.

Mr. FORD. When you say units do you mean that a 10-apartment house is 10 units?

Mr. FAHEY. Yes. That is the term commonly used.

Mr. FORD. A residential unit?

Mr. FAHEY. Yes, sir; that is right.

Mr. PATMAN. Mr. Fahey, I asked you the other day to prepare some information on how much the owners had saved in interest by reason of the governmental agencies directly and also indirectly. Do you have that information available?

Mr. FAHEY. I can give you, Mr. Patman, a reasonably good estimate on it. As you know, of course, the refinancing carried forward by the Home Owners' Loan Corporation resulted in a substantial reduction of interest rates, not only to the borrowers who obtained H. O. L. C. loans, but it likewise had its influence on the whole mortgage lending system because of the flat 5-percent rate without any charges of any kind, and the 15-year amortization plan. Now, substantial savings resulted to H. O. L. C. borrowers not only because of the lower interest rate, but because of the reduction in principal obligations which resulted from that refinancing. There was a principal reduction in the entire country which benefited borrowers from H. O. L. C. by approximately \$200,000,000.

Mr. PATMAN. And that was on how many properties?

Mr. FAHEY. On a little over 1,000,000 properties.

Mr. PATMAN. A little over 1,000,000?

Mr. FAHEY. Yes, sir; that is right.

Mr. PATMAN. That is, on the principal payment?

Mr. FAHEY. That is on the principal payments, the reduction of principal payments. Now, as you gentlemen know a very considerable proportion of the mortgages outstanding in 1933 carried first, second, and third mortgages. The third mortgages were not so common in the Northeastern part of the country as they were in other sections of the country, but the second mortgage was very common

throughout the country. It invariably called for payment within a short time, and the rate was never any less than 9 percent, and it ran as high as 16 and 17 percent in some sections of the country. On third mortgages the average rate was about 12 percent, and sometimes very much higher. As a result of the reduction in interest rates and in principal the saving for Home Owners' Loan Corporation borrowers amount to approximately \$100,000,000 a year.

Mr. PATMAN. That is, in interest?

Mr. FAHEY. In interest; yes.

Mr. PATMAN. To about 1,000,000 borrowers?

Mr. FAHEY. Yes; 1,000,000 borrowers. Of course that is reduced now in number and in amount.

Mr. PATMAN. Yes.

Mr. FAHEY. Since 1933, \$9,000,000,000 of mortgage loans have been refinanced at substantial reductions in interest rates.

Mr. FORD. How much was that?

Mr. FAHEY. \$9,000,000,000 of mortgage loans.

Mr. PATMAN. Can you give an estimate of the percentage of reduction to the borrowers?

Mr. FAHEY. Taking into consideration the previous expenses of second mortgages and some third mortgages, a fair and conservative estimate would be an average reduction of 2 percent all along the line, or about \$180,000,000 savings per year. That means the total H. O. L. C. and of private mortgage loans today are being carried with about \$280,000,000 a year less interest charge.

Mr. PATMAN. And that is the minimum, is it not?

Mr. FAHEY. We feel that is a fairly conservative estimate.

Mr. PATMAN. Do you consider that is the only saving that the home owners have received?

Mr. FAHEY. I cannot say as to that, Mr. Patman, because in the case of refinancing of private loans we have no information as to the readjustments of principal which may have taken place. We have that information only in the case of H. O. L. C. loans.

Mr. FORD. Take the average loan which was made prior to that time, a loan for 5 years, limited to 15 years on which a bank would loan money, or, if you take it over a period of 20 years that is four times that it is refinanced, and every refinancing calls for search of title, a charge for escrow, and several other charges that are made incidental to the filing of the papers and other things. So that, you would have to multiply that by at least 4 to take care of the recurring charges, and add that to your interest saving. It would be quite a job, but it could be done, I think, and would make a substantial showing.

Mr. FAHEY. That would be so, Mr. Ford, if they were all figured on the short-term basis, but we have to bear in mind that a substantial number of those are long-term loans.

Mr. FORD. You would have to separate the building and loan association loans.

Mr. FAHEY. Yes; we have to bear in mind that a substantial number of those loans are long-term amortized loans. However, the estimates which I have quoted are on the basis of interest alone, and not charges incidental to the making of and refinancing of the loan, and, as you say, that is really a very important factor, because of the

substantial difference between the nominal interest rate and the actual interest rate when charges are taken into consideration.

Mr. FORD. It amounts to about \$600 over 20 years usually on a \$3,000 loan.

Mr. FAHEY. It is a very substantial amount.

Mr. PATMAN. That would make effective an interest rate saving of about 3 percent at least, and would raise your figures to about \$270,000,000 instead of \$180,000,000 on that last item.

Mr. FAHEY. I would not want to venture on that.

Mr. PATMAN. I am just asking for information, and I know it is somewhat of a guess.

Mr. FAHEY. Yes; it would be a guess. I really do not have the information on which to base an opinion that is worth much.

Mr. PATMAN. Is that all of the information you prepared in answer to that request, Mr. Fahey?

Mr. FAHEY. Yes, sir.

Mr. CRAWFORD. Mr. Fahey, if some unseen hand had the power to fix the effective interest rate, say, at not to exceed 2 percent at the present time, or 3 or 4 percent, do you think that would be a wise thing for us to do?

Mr. FAHEY. Oh, I think it would be extremely doubtful, because, as applied to this field particularly, the money which has built the homes of this country has been the money of the small savers, the workers, who deposit small sums regularly in our savings banks and who place their money in the other classes of thrift institutions or in life insurance. Now, they seek safety first, of course, but they likewise feel, and I think justly, that they are entitled to a reasonable return on the money that they put into these savings institutions.

Mr. CRAWFORD. That is what I wanted to bring out. Based on your experience in this field of lending, with your organizing thinking in terms of effective rate of interest, what is your definition of a reasonable rate of interest, considering all of the things that I do not care to enumerate now?

Mr. FAHEY. You mean on a home mortgage?

Mr. CRAWFORD. Yes; on a home mortgage.

Mr. FAHEY. I think, in order to have a sound system you must have variable interest rates. In other words, your rate must be fixed in proportion to the risk involved.

Mr. CRAWFORD. I understand that.

Mr. FAHEY. First of all, if one could arbitrarily say that no institution shall charge more than 6 percent on a home mortgage the result undoubtedly would be that, in many parts of the country, those who seek to acquire small, inexpensive homes, and who look for loans of \$1,000 or \$2,000 would not be able to get them at all, because it costs more to service a loan of that character than it does one that involves less risk. I mean the small monthly payments that are involved in such loans cost a good deal to handle and there are more difficulties with loans of that character proportionately than there are with those of larger amounts. So, you have to allow for that in making the loan.

Mr. CRAWFORD. Let us take the Atlantic seaboard from Miami to Portland, Maine, and, thinking in terms of homes costing a minimum of \$4,000, homes which are well located with reference to transportation and school facilities, and all that goes with them under those cir-

cumstances would you think that a rate of $3\frac{1}{2}$ percent would be sound or a rate of 5 percent or a rate of 6 percent?

Mr. FAHEY. I think that a rate of $3\frac{1}{2}$ percent would be too low. I think that a rate of about 5 to $5\frac{1}{2}$ percent is a fair rate, and allows for enough spread for good management on the part of the lending institution and the payment of enough in interest to the savers so that you will continue to encourage thrift on the part of the great mass of the people. I believe if you get the rate of return to savers down too low you are going to discourage the accumulation of savings, as we have seen it proceed in the past.

Mr. CRAWFORD. By discouraging the accumulation of savings we might create a great deal more damage than we can indicate as having been built up in the way of good through this \$250,000,000 or \$300,000,000 savings that we talked about?

Mr. FAHEY. Exactly. It has to be remembered, also, that too drastic a reduction of the rates of return on mortgages and high-class investments affects the great volume of life insurance in the country, which is held, in the main, by our so-called small people.

Mr. CRAWFORD. Would you go so far as to make the observation or support the observation that, perhaps, in our anxiety to push interest rates lower, lower, and lower we may be creating a great deal more trouble in the future than we are getting rid of at the present time?

Mr. FAHEY. I think it would depend upon how low you got them.

Mr. CRAWFORD. Let us take farm mortgages, for instance, at $2\frac{1}{2}$, 3, or $3\frac{1}{2}$ percent, and the type of mortgages I described a moment ago at $3\frac{1}{2}$ or 4 percent, that would be considerably under the rates you have mentioned?

Mr. FAHEY. Of course, our opportunity for observation is confined to the urban home mortgage field. Most of our people feel that the prevailing rates of 5 or $5\frac{1}{2}$ percent on what would be termed first-class mortgages, or 6 percent, or even something slightly more than that for those which involve considerable risk, represent fair rates.

Mr. LUCE. There is another angle of this that ought to go into the testimony. If I remember right, about one member in five of a building and loan association borrows on a home. It ought to be noted and, particularly on the matter of interest, that the other four are divided into two groups, one group, which is comparatively small, using it simply as a savings institution, and the other group hoping to build a home, and that every drop in the interest rate delays the building of a home. Am I right in thinking that that may have an important effect on the amount of home construction in the country?

Mr. FAHEY. I do not think, under present circumstances, that that is likely to be a substantial factor. We have to remember, I think, that before the depression the rates of home mortgages in a large part of the country were fairly high, much higher than in the Northeast. This was due, of course, to the fact that the accumulation of savings in the northeastern area was greater, proportionately, than it was in other sections of the country. Community conditions, so far as the supply of mortgage money is concerned, of course, also have an effect. Now, that has changed very materially, however, since 1934. While there are a few communities in the country today where mortgage money is not plentiful, that number of communities is very limited.

Mr. LUCE. That does not quite solve conditions in our own part of the country, the Northeast. If a man were a shareholder in a building and loan association and wanted to build a home, up until within a few years ago, it required his monthly payments to continue over, say 12 to 14 years before the shares matured. Now, by reason of the drop in the interest rate it takes from 16 years to 18 years or even 20 years before the shares mature. In other words, the result of it is that members of a cooperative bank or of a building and loan association who want to build a home are delayed in the proposition by reason of the fact that they have not accumulated enough to build a home quickly.

Mr. FAHEY. Of course, on the other hand, in those institutions which operate on the direct reduction plan the borrower can undertake the building of his home sooner than he could before. He does not have to wait until he has saved enough to pay the entire amount, and he is able to do it at lower interest rates than those which have prevailed in the past. You remember that our Massachusetts law was amended a couple of years ago so that the cooperative banks were able to employ the direct reduction plan as against the sinking fund loan plan which had obtained in the past, and that has made a material difference in the opportunity and ability of the people to acquire homes.

Mr. LUCE. Those changes in conditions do not modify the general principle that I had in mind, that the lower interest rate on the part of the investor and the would-be borrower delays the accumulation of capital enough to build a home. That may be changed by other conditions, but that one condition remains, that the lower the interest rate the later he gets a home on general principle. I am saying that because so little is ever said in this room about the man who invests his savings and so much is said about the man who borrows. I think a word ought to be said once in a while about the advantages to all concerned of having money earn enough to induce its saving.

Mr. FAHEY. Mr. Luce, my impression is, and I think I have some figures on it, that on a loan, let us say, of \$5,000 on a house on the direct-reduction plan, as compared with the sinking-fund plan, that the actual saving to the borrower and home owner in the same number of years, the same interest rate, and so forth, is around \$1,000. I think if you go into the figures on that you will be surprised at the savings that are effected.

Mr. LUCE. That is a collateral issue, and it does not go to the main point I am trying to bring out. I am wondering whether it is a social benefit on the whole, considering all parties concerned, to have the interest rate on borrowed money low.

Mr. FAHEY. Well, I think that that depends upon how low it goes, and it becomes a matter of opinion and conditions after that, does it not? We could say, on the one hand, that if the rate was 10 percent, it is unfairly high, while on the other hand, we might say if it were 2½ or 3 percent it is unfairly and unwisely low.

Mr. LUCE. Yes.

Mr. FAHEY. And after that competition and the terms of making these loans will settle what the rate should be or will be.

Mr. FORD. Might I make a comment at that point, Mr. Chairman?

The CHAIRMAN. Mr. Ford, you are recognized.

Mr. FORD. Let us take the interest rates of the old times when they ran from 6 to 16 percent. The lender, of course, had a paper calling for 16-percent interest, but in about 4 cases out of 10 he lost out. Now, here you are offering a plan that sets up a 5-percent rate of interest, which is a fair rate, with a reasonable assurance that he is going to get his 5 percent plus his principal, which was true under the old system in only about 40 percent of the cases. So that, while the higher rate might have been an inducement to get people to go in and lend their money, the mortality rate in that type of lending was so heavy that any advantage which it might have had was counterbalanced by the tremendous amount of loss that occurred as a result of it.

Mr. LUCE. I have had no experience with that type of lending.

Mr. FORD. I have.

Mr. LUCE. I am talking about conditions in the East where the interest rate has dropped. I was brought up on 6 percent as being the normal and natural rate of earning for money invested, and my suggestion is simply that a drop of that rate to 4 or 5 percent works both ways. It is a two-edged sword.

Mr. FAHEY. Well, a well-managed lending institution should be able to operate properly on a 5-percent or 5½-percent rate on good mortgages, and be able to pay 3 or 3½ percent to those who place money with it. A 2 percent spread is ample, and a well-managed institution can get along with 1½ percent. I mean a large number of them can.

Mr. LUCE. But, up in my State the interest rate paid to the depositor or lender has gone down to 2½ percent, and it is expected to go to 2 percent.

Mr. FAHEY. I do not wish to be critical, but I think they better get around to paying their depositors a little bit more than that.

Mr. GIFFORD. Mr. Fahey, I want to take up the two principal features of this bill which interest us. I think you said the Federal Home Loan Bank was the only financial institution that was not properly safeguarded by the Government and that all others were. Is that true?

Mr. FAHEY. I referred to the Farm Credit Administration and the F. D. I. C.

Mr. GIFFORD. Yes, you referred to them, and you also made the other statement.

Mr. FAHEY. I was not aware that I made a statement quite so broad as that.

Mr. GIFFORD. I have the record here, and you say, "Every other financial institution in which the Government is interested is protected fully against unexpected developments, as they should be." I challenge that statement, but I do not want to pursue that at this time. Consequently you want the Government to come in and treat as public-debt transactions any bonds that may be issued and sold to the public so that they may protect your bank.

Mr. FAHEY. If you mean the Federal Home Loan Bank System, yes.

Mr. GIFFORD. What is the limitation of the public debt now?

Mr. FAHEY. \$45,000,000,000, or something like that.

Mr. GIFFORD. You expect it will soon be reached now under present commitments, do you not?

Mr. FAHEY. I am not intimately familiar with the figures.

Mr. GIFFORD. It does not take a pencil and paper or any great amount of acumen to know when the commitments go beyond that? You have \$125,000,000 subscribed. The banks have paid you \$33,000,000, and you have sold consolidated debentures in the amount of \$98,000,000?

Mr. FAHEY. That is approximately correct.

Mr. GIFFORD. Why are you not continuing to sell consolidated debentures?

Mr. FAHEY. As I thought I made clear to the committee there is no difficulty about selling debentures to the banks. In ordinary times there is no occasion, and no need to turn to the Secretary of the Treasury and ask him to purchase debentures, except in a real emergency.

Mr. GIFFORD. What do you call a consolidated debenture?

Mr. FAHEY. The debentures which the Bank System issues are debentures which are the responsibility of all of the 12 banks.

Mr. GIFFORD. Is it not a fact that the public up to date has been glad to purchase them?

Mr. FAHEY. Yes, sir; that is correct.

Mr. GIFFORD. They are not Government-guaranteed?

Mr. FAHEY. No; they are not.

Mr. GIFFORD. So you rather think that there may be a time when those debentures, without a Government guarantee behind them, even with all that you have back of you would not be salable?

Mr. FAHEY. At a time of extreme financial stress or emergency if an issue of the debentures of the Bank System came due you might not be able to refinance it at the time.

Mr. GIFFORD. You do not anticipate that the future is going to present to you a time of greater financial stress than that which we have been passing through, do you?

Mr. FAHEY. I am not undertaking to say what the future holds, Mr. Gifford. Nobody back in 1913 or 1914 thought we were going to have a World War, but we did have one.

Mr. GIFFORD. Well, do you think it was contemplated that the Federal Home Loan Bank in the first few years of its existence would finally emerge in a great holding concern to take in not only building-and-loan associations, but to take in large savings banks and life-insurance companies?

Mr. FAHEY. I think it ought to. I do not think that any institution of that sort, making long-term investments, and having obligations to savers ought to be in the position where it has no reserve institution to which to turn in the event of a financial emergency.

Mr. GIFFORD. Now, if you protect savings banks and life-insurance companies, and savings banks can present to you any collateral they may have for a 50-percent loan, may they not?

Mr. FAHEY. Yes.

Mr. GIFFORD. You may enlarge your holdings tremendously. How would it compare with the Federal Reserve Bank itself?

Mr. FAHEY. Why, of course, it would not compare with the Federal Reserve Bank.

Mr. GIFFORD. Not at any time?

Mr. FAHEY. Not in that period; I cannot see any such possibility as that.

Mr. GIFFORD. What did you mean by this statement: "No corresponding provision has been made, however, for the financial support of the Federal Home Loan Bank notwithstanding that it owns about 76 percent of the stock in these banks"? What did you mean by that?

Mr. FAHEY. What I mean is that the Federal Government subscribed for and has taken up approximately \$125,000,000 of the stock in the 12 Federal Home Loan Banks.

Mr. GIFFORD. Yes.

Mr. FAHEY. And that represents about 76 percent of all of the outstanding stock.

Mr. GIFFORD. And that is what they took for the \$125,000,000?

Mr. FAHEY. Yes, sir; that is right.

Mr. GIFFORD. Those are the two important phases of this bill, are they not?

Mr. FAHEY. Yes, sir; that is correct.

Mr. GIFFORD. You are asking us, and I would like to have simply a guess on your part, if it could be given, as to what the possibility might be that the Federal Government or the Treasury might have to assume that at any time, and what would be the liability by making it a public-debt transaction?

Mr. FAHEY. It is very difficult to say, Mr. Gifford. In my opinion, if the Federal Home Loan Bank System had been organized 15 or 20 years ago and had matured and developed as it would have in normal times we never would have had the kind of a mortgage crisis that developed from 1930 on, and it would not have been necessary for the Federal Government to come into the field and indulge in what amounted to direct Treasury transactions by issuing the securities of the Home Owners' Loan Corporation.

Mr. GIFFORD. If the Government should simply guarantee, then we would not have to step over the \$45,000,000,000?

Mr. FAHEY. What?

Mr. GIFFORD. That is, if the Government simply placed its guarantee behind it?

Mr. FAHEY. Well, who knows what the situation is going to be in the years ahead?

Mr. GIFFORD. You deliberately say here you want to make it a public-debt transaction of the Government. Why do you not do as they are doing by reciting in this bill that simply the Government may guarantee these obligations, make it simply a contingent liability?

Mr. FAHEY. Guarantee these obligations?

Mr. GIFFORD. Yes. Then you can sell them to the public.

Mr. FAHEY. You mean in an emergency or permanently?

Mr. GIFFORD. At any time or in an emergency.

Mr. FAHEY. I do not think it ought to be done as a permanent matter. I do not think there is any occasion for it.

Mr. GIFFORD. You are deliberately asking us to order the Treasury to buy as many of these debentures as necessary to hold you up, to make it a public-debt transaction. What I am getting at is why not simply guarantee them by the Government and sell them that way? Then you could sell them just as well as this.

Mr. FAHEY. I should think so; yes.

Mr. GIFFORD. Because we have got to get around this \$45,000,000,000, and I venture the suggestion that there will be a lot more devices started, and that there will be only a contingent liability.

Mr. FAHEY. I see.

Mr. GIFFORD. You see the difference?

Mr. FAHEY. Yes; I see the point.

Mr. GIFFORD. There is a very great difference.

Mr. FAHEY. There is a possible difference.

Mr. GIFFORD. I wonder if the Treasury knew you were asking us to make it deliberately a public-debt transaction? Was this gone over by the Treasury?

Mr. FAHEY. The question of guaranteeing by the Treasury I think we did at one time raise with the Treasury. The Treasury felt that it was unwise to make that provision because there would be a temptation to resort to it or employ it in normal times. We do not think there is any occasion for it, and neither does the Treasury. The suggestion is merely an emergency measure.

Mr. GIFFORD. Was the Treasury consulted about this phase of it?

Mr. FAHEY. No; not relative to an emergency guarantee.

Mr. GIFFORD. In other words, it is left up to the judgment of this committee as to whether we want to order the Treasury to do this?

Mr. FAHEY. Yes. Congress has to settle this problem. We cannot settle it.

Mr. GIFFORD. The President might well advise us as to whether the Treasury wants to assume that obligation; but is it not a cuter way to have them guaranteed, as we will never know how much we do owe?

Mr. FAHEY. I do not know about that. That is a matter of opinion.

Mr. GIFFORD. Would it not have gained more support in the committee if you had gotten around it that way?

Mr. FAHEY. I cannot say as to that; you are more familiar with the reactions of the committee than I am.

Mr. GIFFORD. There has got to be a little watchfulness. I can go before my people and tell them what our direct public debt is, but I can only guess about the possibility of what the contingent debt may be, or even what it is. I have studied it very carefully, and I have spoken quite often of those Treasury reports, as you will recall.

Mr. PATMAN. Does the gentleman mean to say that the Treasury does not indicate the amount of the potential debt?

Mr. GIFFORD. Yes; from time to time. Once in 6 months.

Mr. PATMAN. Oh, it is more often than that.

Mr. GIFFORD. Well, I get them.

Mr. PATMAN. The gentleman can get them every day.

Mr. GIFFORD. Oh, no; I get the Treasury reports here.

Mr. PATMAN. If you call up the Treasury you can get it.

Mr. GIFFORD. I can have a recital of all the contingent debts and assets of the Treasury. That comes out every 3 months. What I am talking about is that recital of what the Treasury has within its assets. They have seed loans made to farmers in 1921, Mr. Fahey, and they still carry those at face value as assets of the Treasury, seed loans made back in 1921, and I have told my people that we have notes, and it is called to my attention now that the Government has not any cotton.

Mr. PATMAN. Will the gentleman state how much that amounts to?

Mr. GIFFORD. The contingent debts?

Mr. PATMAN. The seed loans.

Mr. GIFFORD. About \$165,000,000.

Mr. PATMAN. Oh, the gentleman is certainly mistaken, or I am not thinking of the same thing he is.

Mr. GIFFORD. Oh, no.

Mr. PATMAN. Oh, yes; you are.

Mr. GIFFORD. I hope I am.

Mr. PATMAN. It does not reach anything like that amount.

Mr. GIFFORD. Well, I read it. Do you approve of carrying in the asset account those notes at face value?

Mr. PATMAN. But, we did not have a seed loan in 1921. It was not until about 1933.

Mr. GIFFORD. They began in 1921 and have been carried from 1921 on, and they are not marked off. I do not want to go into that field.

I am wondering if you have never lost a dollar, and if you have all of these banks back of you, why the public would not take the consolidated debentures. There is no limit on the amount of the consolidated debentures you can sell?

Mr. FAHEY. Oh, yes; there is.

Mr. GIFFORD. What is it?

Mr. FAHEY. It is five to one. The maximum that the bank system can issue is \$1,000,000,000, as I remember it, five times its capital, and it would be less than \$1,000,000,000.

Mr. GIFFORD. That would be about \$1,100,000,000?

Mr. FAHEY. No; not as much as that, because the capital, you see, is a little less than \$170,000,000.

Mr. GIFFORD. Now, you can issue five times that?

Mr. FAHEY. That is right.

Mr. GIFFORD. Would not that increase it enough to ask the Treasury to make it public debt?

Mr. FAHEY. You see, the only question there, Mr. Gifford, is that of marketing them in times of difficulties. That is the only point. As I said a few moments ago, we cannot conceive of any trouble whatever in marketing the debentures of the Bank System under ordinary circumstances.

Mr. CRAWFORD. Even not being guaranteed?

Mr. FAHEY. We do not ask to have them guaranteed, and in our opinion they ought not to be guaranteed.

Mr. SPENCE. Mr. Fahey, the bill provides that—

each Federal home-loan bank may make advances to its members secured by obligations issued pursuant to this act, the National Housing Act, or other obligations, acceptable to the Board, which a member may lawfully have available.

The obligations which a member may lawfully have available are dependent upon State law?

Mr. FAHEY. That is true.

Mr. SPENCE. As to the State law changes, this will be continuing in operation and it may make other obligations available for loans in the bank.

Mr. FAHEY. Yes. However, if there were substantial changes, it is still within the power of the Board to make regulations which would cover them.

Mr. SPENCE. I do not see how it could be done in any other way, but of course you are dependent upon State law for the obligations that are legally available.

Mr. FAHEY. That is true.

Mr. SPENCE. And as the State law changes, it may enlarge the obligations that may be available for loans.

Mr. FAHEY. Yes; but if it enlarged it in directions which we thought unwise, we could by regulations declare that that collateral cannot be accepted as security for loans, or we can fix the terms under which it shall be acceptable.

Mr. SPENCE. But that is entirely a matter of State law?

Mr. FAHEY. Yes, sir; that is correct.

Mr. SPENCE. You have no power at all to say what may be legally available?

Mr. FAHEY. That is correct.

Mr. WILLIAMS. You do not have the power to say whether you will accept it?

Mr. FAHEY. That is true.

Mr. WILLIAMS. With reference to the maturity of home loans that are made by building and loan associations and savings banks, what is the average maturity of those?

Mr. FAHEY. In the case of the building and loan associations they range all of the way from 12 years to 20 years. In the case of the F. H. A. insured loans, of course, under the law they can go as long as 25 years. I am talking now about building and loan associations and savings associations. That is, on new structures. In the case of savings banks generally, their loans do not go beyond 5 years except those loans which are insured by the F. H. A. Now in the State of Massachusetts, however, the law has been amended, and there the mutual savings banks are able to make long-term loans up to 20 years.

Mr. WILLIAMS. Now, do you mean that the 5-year limitation is a State law or practice?

Mr. FAHEY. The 5-year limitation is the law in several of the States. To the best of my knowledge, that generally is the legal limitation.

Mr. WILLIAMS. Now, that limitation does not apply, as I understand you, to building and loan associations?

Mr. FAHEY. No, sir; it does not.

Mr. WILLIAMS. Well, what is their limitation, if any, under the State laws with reference to maturities of mortgages?

Mr. FAHEY. Those vary from 12 years to 20 years, or from 10 years to 20 years.

Mr. WILLIAMS. Well, in general, then, of course, the maturities of the building and loan association mortgages are much longer than those of the savings banks?

Mr. FAHEY. In general the savings and loan type of institution is operated on the principle of the building societies in Great Britain. Its underlying principle always has been to make long-term amortized loans.

Mr. GIFFORD. In practice they make 15-year loans under the 5-year limitation. Have such mortgages been written for 5 years rather than for 15 or 20 years?

Mr. FAHEY. Yes, indeed. That is quite true. Indeed, a substantial proportion of the so-called savings-bank mortgages have been regarded as more or less permanent loans because of the low percentage of value represented in the loan.

Mr. WILLIAMS. They are not amortized at all, then, is that it?

Mr. FAHEY. A large proportion of them have not been in the past. Now, there has been, of course, a change in policy and method in recent years. The savings banks now generally have adopted the principle that when a loan matures they ask to have it reduced. In other words, they will renew it for another 3 or 5 years, but they ask for a reduction of principal.

Mr. WILLIAMS. That would be very unsatisfactory, to amortize a substantial loan over a period of 5 years, would it not?

Mr. FAHEY. They do not attempt to amortize the entire loan within that period, but they will frequently ask for a quarterly or semi-annual or annual payment during the period of renewal.

Mr. SPENCE. In Kentucky some of the building and loan associations make loans for 20 years, and others make them for a 10-year period.

Mr. FAHEY. Yes; that is true.

Mr. WILLIAMS. That is true of the building and loan associations, but under the law the savings institutions cannot do that, as I understand you.

Mr. FAHEY. No; but they are not estopped from requiring reductions in the principal of the loan during the 5-year period, but they are limited, or have been limited, from making loans longer than 5 years at the beginning.

Mr. WILLIAMS. That is on account of the 5-year limitation?

Mr. FAHEY. Yes, sir; that is right.

Mr. CRAWFORD. Mr. Fahey, I want to ask you one or two questions in connection with Mr. Gifford's thought that he brought out awhile ago. As I understand it, your institution can issue, roughly, \$850,000,000 worth of debentures?

Mr. FAHEY. Of debentures; that is right.

Mr. CRAWFORD. Then I gathered from you the idea that you have two fears. One is that the \$850,000,000 might be insufficient to take care of emergencies, and therefore that may not prevent your institutions from immediate emergency insofar as issuing debentures is concerned, and consequently, if those are guaranteed by the Government, instead of being a part of the public-debt transaction, to meet it that way you would have to be authorized to issue more debentures than 5 to 1, so that you could not meet the emergency in that manner; is that right?

Mr. FAHEY. In the first place, Mr. Congressman, of course, it is a mere guess as to what financing it might be necessary to do in the event of a real emergency; and, expressing my own opinion, under any conditions in prospect or in sight, I do not think we would get to the limit of what the Federal Home Loan Bank System can issue. I do not think there is any difficulty on that side of it at all. In the second place, so far as the Treasury is concerned, because these are sound and perfectly safe obligations, it would only be necessary for the Treasury, in the event of difficulty, to take them over as a temporary matter. It could rid itself of them and market them as soon as

any storm subsided. It is the difficulties that come through fear and panic which we fail to stem in time that cause most of our troubles, so far as the financial structure of the country is concerned.

Mr. CRAWFORD. Let me see if I understand you clearly, because I believe I may have misunderstood something here. Assuming that this committee determines that the Treasury is to guarantee these debentures instead of issuing direct obligations to make it a part of the public-debt transaction, do you think that it would be wise to enact what you term "emergency legislation" and depend upon the \$850,000,000 limitation?

Mr. FAHEY. I think that is sufficient.

Mr. CRAWFORD. Going to the other part of the question, which is this: If such an emergency should develop as to require the issuance of the limit on consolidated debentures of, say, \$850,000,000, do you feel that there might be some question about selling those in the market with the storm on?

Mr. FAHEY. Yes.

Mr. CRAWFORD. Therefore, you ask that it be made a part of the public-debt transaction?

Mr. FAHEY. Yes.

Mr. CRAWFORD. That is your feeling?

Mr. FAHEY. Although as a practical matter, I think that the Government guaranty in such an emergency would be just as effective as the Treasury taking it over. That was the experience we had with the Home Owners' Loan Corporation bonds, as you know. Although those bonds originally carried a rate of 4 percent and were tax-free and guaranteed as to interest, you will recall that there was some reluctance on the part of institutions to accept them at the beginning of the Home Owners' Loan Corporation operation in the fall of 1933, but that attitude began to change, even before the act was amended and the Government guaranty of principal was made effective. But, thereafter, from the time when the Government guaranty was given, there was no difficulty whatever about Home Owners' Loan Corporation bonds.

Mr. CRAWFORD. Then, do I understand that you and your organization, and your Home Loan Bank System, would be perfectly satisfied if the committee should decide to make this a question of guaranty as to principal and interest?

Mr. FAHEY. I would rather not take the responsibility, Congressman, of speaking for the Board without talking with the Board, but I will be glad to do that.

Mr. WILLIAMS. Now, Mr. Fahey, right in that connection, is this five times your capital the only limitation there is upon the issuance of debentures? Is there not another provision in there that limits you to the amount of obligations that are held by the banks and put up by the member banks as securities for the advances made to them or something along that line?

Mr. FAHEY. Yes; there is the other limitation, Mr. Williams.

Mr. WILLIAMS. Under that provision, you would be much more limited than you would the other way?

Mr. FAHEY. I have it right here. It is in section 11 (b). It says:

It shall be the duty of the Board not to issue debentures under this section in excess of the notes or obligations of member institutions held and secured under section 10 of the Act by all of the Federal home-loan banks.

Mr. WILLIAMS. Your limitation under that would be much more strict than it would be under the five times the amount of your capital?

Mr. FAHEY. Yes, sir; that is correct.

Mr. WILLIAMS. By reason of the fact that you have now, as I remember your testimony, something like \$200,000,000 of obligations put up as security for advances which have been made?

Mr. FAHEY. That is right. That means, under present circumstances, that we could not issue more than \$200,000,000 of debentures. Now, dealing with the emergency problem, if there was present no more than \$300,000,000 or \$400,000,000 of obligations put up as security on account of advances made, we could not issue any more debentures than that amount.

Mr. CRAWFORD. Then, your \$850,000,000 formula does not apply there?

Mr. FAHEY. The \$850,000,000 is the limit under all circumstances as it stands.

Mr. CRAWFORD. That brings us back to the proposition that your only way out, as far as meeting that emergency is concerned, is to make it a part of the public-debt transaction of the Government instead of guaranteeing the consolidated debentures?

Mr. FAHEY. I would not undertake to say that offhand. As I suggested before, I would like to canvass that with the Board and give you our reactions on that later.

Mr. SPENCE. It is just a device by which you keep your assets liquid, is it not?

Mr. FAHEY. You mean it is a device by which we keep our debentures liquid?

Mr. SPENCE. Yes.

Mr. FAHEY. Yes, sir; that is right.

Mr. KEAN. Mr. Fahey, what excuse is there for the Government ever guaranteeing bonds? Should not they always be sold as public-debt transactions? It is a well-known fact that any bonds sold and guaranteed by the Government sell at a slightly lower figure than the direct Treasury obligations, and do you see any reason for the Government guaranteeing bonds except a method to fool the people as to what the public debt is?

Mr. FAHEY. Well, I would not say so. For example, here is a satisfactorily organized Corporation with \$200,000,000 of stock, and it had a right to issue at the beginning \$4,750,000,000 of bonds. It became necessary to issue only a total of \$3,100,000,000 of those bonds. Of course, I would say to you that, as a matter of fact, there was no occasion for investors or the banking institutions to be concerned about the fact that those bonds were not guaranteed by the Government. There was sufficient protection in the \$200,000,000 of stock and in the loans that were being taken over. Very frankly, I think it was a very foolish attitude on the part of the mortgage-lending institutions that they should hesitate to part with loans that were in default an average of 2 years and 2 years' delinquency for a bond where the interest was guaranteed by the Government. As a matter of fact, I am trying to say that it was this type of transaction, and the reluctance of the banking interests to make the exchanges, that persuaded Congress to provide for that guaranty.

Mr. KEAN. But why not make it a public-debt transaction? I have studied the matter, and I have been informed by various dealers in Government securities that, as a rule, the cost of a Government-guaranteed bond was about a quarter of 1 percent higher than the cost of a direct Treasury obligation. With \$5,400,000,000 outstanding, that costs the people of the country about \$14,000,000 a year. There is an additional \$15,000,000,000 worth of guaranteed securities authorized. If those are issued, there is going to be another cost on the people of the country on account of selling bonds which are guaranteed by the Government, when they could just as well sell direct Treasury obligations.

Mr. FAHEY. But, as I pointed out, in the case of the Home Owners' Loan Corporation the Corporation itself earns enough to take care of all its interest and principal obligations. It is no burden on the Treasury at all. It is an entirely separate transaction. It has nothing to do with the public debt.

Mr. KEAN. Then why did the Government guarantee it?

Mr. FAHEY. As I say, it was guaranteed because Congress wanted to accelerate and the Government wanted to meet the apathetic attitude of the bankers who did not wish to take these bonds in exchange for bad mortgages. I think it was a ridiculous attitude on their part, but that was the attitude that you had to meet.

Mr. KEAN. Of course, I was brought up with the idea that it is all right to lend money, but never to put your name on the back of a note, and I think the Government should do the same thing.

Mr. GIFFORD. Have you paid off any of those bonds—this \$3,000,000,000 that you mention?

Mr. FAHEY. Yes; about \$500,000,000 of principal payments have been made. I do not happen to have at the moment the total amount of the reduction.

Mr. GIFFORD. It takes a great many years to liquidate your H. O. L. C. bonds.

Mr. FAHEY. I do not think so.

Mr. GIFFORD. Do you think those bonds will be retired soon?

Mr. FAHEY. I think, if conditions continue as they are at present, without any allowance for improvement, that within 3 years or so these loans should be paid down—I am speaking about H. O. L. C. loans—should be paid down to the point where the private lending institutions of the country can take practically all of them and will be very glad to do so.

Mr. GIFFORD. Do your agents try to place them or try to urge them to take them off of your hands?

Mr. FAHEY. No; they do not.

Mr. GIFFORD. Why don't they do that?

Mr. FAHEY. Because we have not yet reached the point where it is wise to do that. We could sell off a lot of the H. O. L. C. loans. The loans that have already been made form a sound investment, but the result would be that you would lose the interest income on those loans, and you would be left to take care of those causing the greatest difficulties and costing more to service.

Mr. GIFFORD. It will take a great many years to liquidate them, will it not?

Mr. FAHEY. That is not our feeling about it, Mr. Congressman. As I said a few moments ago, we believe that within the next few years these loans will be in such shape that you can get rid of all of them.

Mr. GIFFORD. Well, cannot the man who is going to be appointed over you meet that?

Mr. FAHEY. I do not know, we better cross that bridge when we come to it.

Mr. GIFFORD. Nobody knows what your man over you will tell you what to do, but I see the Congressmen and everybody else seem to think it would be a good thing.

Mr. FAHEY. A good thing to do what?

Mr. GIFFORD. To reorganize and have a man over you to tell you what to do.

Mr. FAHEY. They are probably right, as far as I am concerned.

The CHAIRMAN. Unless we have some further questions to ask Mr. Fahey, might we not now say that he has concluded his statement and tomorrow morning hear somebody else? Mr. Bodfish will be here tomorrow. He is always helpful to the committee. We will adjourn until 10:30 tomorrow.

Mr. FAHEY. I shall be glad to come up any time later, if you wish me to, Mr. Chairman.

The CHAIRMAN. At any time you desire to come back, we shall be glad to have you or if any of the members desire to ask you any further questions, we will call you.

Mr. FAHEY. We wish to thank you for your attendance and your assistance.

(Thereupon, at 12:15 p. m., the committee adjourned until tomorrow, Wednesday, May 10, 1939, at 10:30 a. m.)

AMENDMENTS OF 1939 TO FEDERAL HOME LOAN BANK ACT

WEDNESDAY, MAY 10, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to adjournment, for further consideration of H. R. 5535, Hon. Henry B. Steagall (chairman) presiding.

Members present: Messrs. Steagall, Williams, Spence, Ford, Brown, Patman, Barry, Mills, Martin, Folger, Monroney, Wolcott, Gifford, Luce, Crawford, Simpson, Johnson, Kean, Miss Sumner.

The CHAIRMAN. The committee will come to order. We have with us this morning Mr. Morton Bodfish, executive vice president of the United States Building and Loan League, who is well known to the committee. Mr. Bodfish you may proceed.

STATEMENT OF MORTON BODFISH, EXECUTIVE VICE PRESIDENT, UNITED STATES BUILDING AND LOAN LEAGUE, CHICAGO, ILL.

Mr. BODFISH. Mr. Chairman and gentlemen of the committee, my name is Morton Bodfish, executive vice president of the United States Building and Loan League.

Our United States League represents over 4,000 individual institutions and 47 affiliated State organizations. It includes in its membership over 80 percent of the assets of the community thrift and home-financing institutions of the savings and loan type. Practically all of our members are members of and stockholders in the 12 Federal Home Loan banks and nearly half of our member institutions have their accounts insured by the Federal Savings and Loan Insurance Corporation. The membership of 4,000 includes both State and federally chartered institutions.

I record the above to indicate to the committee our interest and direct concern in the legislative proposals now before it.

Mr. Chairman, if I might make a statement for a few minutes it probably would serve the committee best, and then I will be very glad to answer any questions which the committee may care to ask. At the outset, may I indicate that we are very strongly in favor of this legislation which is before your committee. It has been some 4 years since the statutes directly dealing with the institutions in which we are interested, namely, the Federal home loan banks, the Federal Savings and Loan Insurance Corporation, and the Federal Savings and Loan Associations have been dealt with by the Congress.

During that time there have been drafts of legislation prepared by the Federal Home Loan Bank Board and a bill introduced by the chairman of this committee was before the committee last year which facilitated the discussion at the same time these proposals have been before the board of directors and the appropriate committees of our national organizations. The bill that is now before you represents what the Federal Home Loan Bank Board considers necessary and proper at this time for the Federal Home Loan Bank System and the associated activities. We are heartily in accord with these suggestions, and I want to indicate our agreement and support of the very able testimony Mr. Fahey has presented to this committee regarding H. R. 5535 which is pending before you.

We think that this legislation is extremely important at this time because, obviously, a continued expansion of home building is very important to general business in the country. We believe that anything which implements and improves local thrift and savings institutions contributes to sound business activity in practically every small community in the United States. The institutions which are directly affected by this legislation have been the most important and extensive lenders on home mortgages in the country. As a matter of fact, to explain that statement by a few figures, in the year 1935 our loans totaled \$641,000,000; in the year 1936 our loans totaled \$830,000,000; in 1937 the amount of loans made by us totaled \$896,000,000; and in 1938 they totaled \$798,000,000, and in the year 1939 it looks as if we will touch about \$1,000,000,000 in home-mortgage loans, about 30 percent of which are for new construction, and the balance of which are for repairs, modernization, and refinancing or purchasing of existing structures.

This legislation, Mr. Chairman, does not deal, to my mind, with any startling policy matters. Those members of the committee who were here in 1932 recall that this committee at that time had the responsibility of the development of the R. F. C. Act which was passed by the Congress, and became one of the key instrumentalities in the recovery program. At or about the same time the Federal Home Loan Bank Act was presented to this committee, and it was designed to do important permanent things in the home-mortgage field, and somewhat paralleled the efforts of the Federal Reserve banks and the R. F. C. in the banking field. This legislation, however, was not enacted, as you may recall, as promptly as the R. F. C. Act was passed. It was passed some 6 or 7 months later due largely to the opposition of the banking and insurance interests of the country who objected rather strenuously at that time to the establishment of the Federal Home Loan Bank Board and the 12 Federal home-loan banks. Since that time the Federal home-loan banks have gone through the natural evolution that accompanies the institution of any new agency, and only once has the Congress altered the original statute, by way of rounding it out a little bit in light of experience. That was in the year 1934 when you changed, as you recall, the bond provision, and placed the bonds on a debenture basis rather than continuing to use the rather complicated machinery that had been originally planned regarding bond issues. This home-loan bank system, in the judgment of practically all of the savings, building, and loan associations of the United States has been necessary and useful. It has loaned to date about a half a billion dol-

lars, and the associations have invested about \$40,000,000 in stock of the 12 Federal home-loan banks. There is a provision in the statute for the retirement of the Government stock, and we feel that, as the debentures of the system become more and more established and sought after in the security markets, the Government can further retire from the system. The discretion for that retirement lies entirely in the Federal Home Loan Bank Board and, incidentally, the securities issued are not guaranteed by the Government.

Now, H. R. 5535, which is pending before the committee, after 7 years of home-loan bank experience, proposes, first, to moderately liberalize the collateral provisions in the 12 Federal home-loan banks as regards their dealings with their stock-owning member institutions. Sections 1 and 2 merely indicate that, in addition to home mortgages, but not on a preferred basis, and, as a matter of fact, not on a basis nearly as liberal, the 12 Federal home-loan banks can have a little more latitude under the Board in taking the collateral that their member institutions may have at hand. For example, I would say about 90 percent of our mortgages today in the savings, building, and loan associations throughout the country are home mortgages, but we are allowed to invest funds beyond the demand for funds for home mortgages in mortgages secured by small multi-family properties, other improved real estate, or, for further example, in the bonds of the States or localities in which we operate. The essential suggestion of sections 1 and 2 of this bill is that any collateral in the form of mortgages or securities that one of these institutions is authorized to have by State or Federal statutes and that is acceptable within the regulations of the Federal Board as collateral, should be authorized and recognized as collateral lawfully acceptable by the 12 home-loan banks, which are the reserve banks for nearly 4,000 local thrift institutions. I do not think there is any disposition at all on the part of any of us to guide our community thrift and home-financing institutions into the financing of dangerously large multiple-family or business properties, and, certainly, if there are any apprehensions on the part of the committee in that regard we will welcome any reasonable restrictions in the statute.

I would like to call your attention to the fact that there is an automatic restriction inherent in this legislation insofar as multifamily properties are concerned. Under existing legislation it is possible for the 12 Federal home-loan banks to lend to a member institution up to 90 percent on an F. H. A. insured mortgage; that is, 90 percent of the unpaid principal, and then 65 percent of the unpaid principal of an uninsured mortgage, the type of collateral usually submitted. This bill provides that mortgage loans on anything else, such as loans on small multifamily property, could be only for 50 percent of the unpaid principal, not the value of the real estate. So any member borrowers who utilize the facilities of the Federal Home Loan Bank System and pledge multifamily loans as security would have to put up security on the basis of two for one or more. The use of legally held securities of home-loan bank collateral is also carefully and adequately restricted in our judgment.

The second policy provision that appears in the bill is section 3, which would authorize the Secretary of the Treasury to buy the obligations of the Home Loan Bank System. This should be used only in

times of emergency and crisis. Personally I can see no objection to the suggestions which were made the other day indicating that Treasury support should be only an emergency or crisis power and activity, because that is all we have in mind. The language does not suggest any increase in the public indebtedness of the United States. It merely follows the language that has been used with regard to the Farm Credit Administration, the Federal Deposit Insurance Corporation, and other Federally controlled agencies, which authorizes the Secretary of the Treasury to use the funds at hand, or proceeds from securities that he may sell, under the Second Liberty Bond Act, as amended, which I understand to be the most appropriate, flexible, and customary for such transactions.

Mr. PATMAN. Which agencies have that authority now, Mr. Bodfish?

Mr. BODFISH. The Federal Deposit Insurance Corporation, the Farm Credit Administration, the intermediate credit banks, and several others.

Mr. PATMAN. That is three that you have named—the Federal Deposit Insurance Corporation, the Farm Credit Administration, and the intermediate credit banks?

Mr. BODFISH. That is right, and the Reconstruction Finance Corporation, and the Farm Credit Administration, which includes the land banks and the like. In other words, such backing now covers practically all of the Federal institutions that deal in mortgage credits in any way.

Mr. GIFFORD. Is the F. D. I. C. limited in that respect, Mr. Bodfish?

Mr. BODFISH. Yes, sir; the F. D. I. C. is limited but I do not recall just what the limitation is, Mr. Gifford.

Mr. GIFFORD. Do you mean to say the Treasury is obligated to purchase obligations held by the F. D. I. C.?

Mr. BODFISH. The Secretary of the Treasury is directed and must not in his discretion, purchase obligations which are held by the Federal Deposit Insurance Corporation if it should need funds in a crisis with which to operate, in order to supply the F. D. I. C. with the necessary funds to finance its activities.

Mr. GIFFORD. To a limited extent to take care of emergencies?

Mr. BODFISH. Yes. There is some maximum dollar limit, Mr. Gifford, but I do not recall exactly what it is.

The CHAIRMAN. The limit is \$250,000,000, with an additional proviso in the act authorizing the borrowing of \$250,000,000.

Mr. BODFISH. Yes, sir; that is right.

The CHAIRMAN. Then there is an additional proviso that, if that is not supplied by the R. F. C., the amount may be supplied by the Treasury.

Mr. GIFFORD. It is in the revolving fund.

The CHAIRMAN. But, in the meantime, the Federal Deposit Insurance Corporation is authorized to issue obligations up to three times the amount of the paid-in capital of the Corporation.

Mr. BODFISH. Which is about \$300,000,000 at the present time.

The CHAIRMAN. The capital of the Corporation is made up, first, of \$150,000,000, which is provided by the Treasury, and which represents payments made by the Federal Reserve System in lieu of taxes.

Mr. BODFISH. That is right.

The CHAIRMAN. But that is not all callable at one time. That is, it is within the discretion of the Board.

Mr. BODFISH. Yes, sir; that is right. Then, there is stock assessed upon and paid by the 12 Federal Reserve banks.

The CHAIRMAN. They have some subscriptions of stock by the Federal Reserve banks. I do not know exactly what the stock of the Corporation is, but \$150,000,000 is provided by the Treasury, and \$139,000,000 by the Federal Reserve banks, and \$40,000,000 more in premiums. So, it does run up to more than \$300,000,000.

Mr. BODFISH. Yes, sir, Mr. Chairman; it amounts to about \$300,000,000.

The CHAIRMAN. But the expansion is limited to the amount of capital which is paid in plus the assessments from the banks.

Mr. BODFISH. We feel that, insofar as normal conditions of operation are concerned, there would be no occasion to invoke this power at all, because the securities of the Federal Home Loan Bank System have had a very fine reception in the securities market, and a significant point is that the Home Loan Bank Act specifically says that those securities are not obligations of the Government, nor are they guaranteed by the Government, and, in addition, in the case of every one of those obligations issued under the statute must plainly indicate that they are not obligations of the Government. So I feel that they have stood on their own probably as much or more than any other security which has been issued by an instrumentality of the Government.

As regards the public-debt transaction that is authorized in the bill, I have made some inquiries about that, and I find that it cannot, in any way, increase the aggregate public debt. It is merely an authorization to the Secretary of the Treasury that when he is going to buy \$25,000,000 of these securities he can use cash on hand if he has it, or he can issue Government obligations to the extent to which he is making a purchase. So there is no net increase in debt, and it is not a debt transaction in the ordinary sense of the word. He receives secured obligations or debentures which offset the disbursement and are repaid in an orderly and agreed manner.

Mr. GIFFORD. I understand that, Mr. Bodfish, but you also understand that it may increase the debt over \$45,000,000,000 and it might not increase it.

Mr. BODFISH. That is a possibility under the \$45,000,000,000 limit. That limitation would operate insofar as issuing new securities is concerned, but the debt limitation of \$45,000,000,000 that now exists would still apply.

Mr. GIFFORD. But suppose you have reached the \$45,000,000,000?

Mr. BODFISH. Then the section cannot apply or operate unless he has the cash on hand with which to purchase them.

The CHAIRMAN. That would be an automatic brake on any borrowing.

Mr. BODFISH. Yes, sir; that is right.

Mr. GIFFORD. Suppose he had \$1,000,000,000 or \$2,000,000,000 worth of gold in the cash box; what relation would it have to this transaction, Mr. Bodfish?

Mr. BODFISH. Mr. Gifford, I frankly do not know. I suppose that the Secretary of the Treasury can issue gold certificates or utilize bullion in some way if he cares to.

Mr. GIFFORD. In other words, he could take gold sterilized for the moment in his cash box and deposit it in the Federal Reserve banks to obtain a credit in the way of deposit slips for it, and he could then draw against that credit. Is that what he would do in order to finance the operations through this bill; is that the way it would operate?

Mr. BODFISH. I am very frank to say that I do not know.

Mr. GIFFORD. If you received a gold certificate, would you hold any gold?

Mr. BODFISH. Congressman, if we can engage in a little levity for just a moment, I might say that some years ago I taught economics at Northwestern University, and I settled all of these questions with the sophomores and the juniors in those classes, and since then I fear I taught them too well; and the more removed I am from those days the less certain I am; in fact, I think I am rather confused myself.

Mr. GIFFORD. I do not think anybody knows anything about it; not even Mr. Patman.

Mr. PATMAN. I will say to the gentleman that when you get a gold certificate and you need gold, you can get it, but you cannot get it unless you do need it. If you are a dentist and need it you can get it, and if you need it to settle the national balance, you can get it, but if you do not need it you cannot get it.

Mr. GIFFORD. If you are a foreigner you can get it.

Mr. BODFISH. We have never had any gold balances or obligations in the building and loan associations.

Mr. GIFFORD. That is a bookkeeping matter.

Mr. BODFISH. The banks keep our balances and currency—

The CHAIRMAN. I want to ask Mr. Gifford a question. How would you stand on the proposition of utilizing our supply of gold as currency and basing certificates against it, and permitting you to get gold if you want it?

Mr. GIFFORD. I think anybody now with us having fifteen billion in gold is entitled to gold.

The CHAIRMAN. I am asking you what this Government should do about the use of the supply of gold as a medium of exchange?

Mr. GIFFORD. I think we had better let our citizens have some of it, or all they want. I would like to have some.

The CHAIRMAN. Would you favor using our supply of gold as a circulating medium of exchange through legislative enactment?

Mr. GIFFORD. We use it now.

The CHAIRMAN. You are still not telling me whether you would favor such legislation or not. Personally, I think I would; I would like to see it put into use, and I am wondering whether you would.

Mr. GIFFORD. Well, if you need the money, use it, of course, but as people, we should have all of the gold we want.

Mr. CRAWFORD. May I ask a serious question, Mr. Chairman?

The CHAIRMAN. Yes.

Mr. CRAWFORD. Would that be used to issue currency?

The CHAIRMAN. I was just asking questions.

Mr. CRAWFORD. Would your thought be to issue \$35 worth of currency against an ounce of gold and, also, would you issue the currency on the basis of a 40-percent gold base?

The CHAIRMAN. To be perfectly frank with you, I did not mean to precipitate this discussion, but I would welcome a very extended use

of our supply of gold on the old ratio of 40 to 100 in order to put an end to the clamor in this country that the Government is broke and that we are facing a deficit that we cannot take care of and as an extraordinary policy.

Mr. CRAWFORD. You would increase the national debt if you did it.

The CHAIRMAN. I do not say that I would do it at one stroke. I am not an inflationist at all, but the people who are so alarmed about inflation do not seem to know that you can inflate by the use of gold, and, as a matter of fact, we could put about \$50,000,000,000 out tomorrow with 40-percent gold back of it as a metallic base. I talked with one of our gold experts here not long ago, and he told me that he was in favor of the gold standard, and that he wanted to go back to it; and when I asked him if he really wanted to do it by using our present supply of gold I found him opposed to it.

Mr. GIFFORD. I talk money to my wife sometimes, and she always says, "It's funny you know so much about it and you never have any."

The CHAIRMAN. The gold that stands to the credit of the Federal Reserve banks is practically sterilized up to 60 percent of its value. If you treat 40 percent of the gold as a reserve for currency there is 60 percent of our gold sterilized as a practical proposition. There is \$2,000,000,000 in the stabilization fund, and a large amount of that gold is actually sterilized; but you can use the gold that stands to the credit of the Federal Reserve banks and the Treasury, 40 percent of it as a reserve for currency, and that would expand our currency to about \$40,000,000,000.

Mr. FORD. It would be \$37,000,000,000, Mr. Chairman.

The CHAIRMAN. And the people who have been the staunchest in advocacy of the gold standard would probably be the worst complainers to be found in the country if you attempted to do that. I am not an inflationist at all, but I do believe that an expansion of the currency under proper control would be a wholesome thing.

Mr. PATMAN. But, Mr. Chairman, do not overlook this—you have not reached the top of your currency expansion when you issue \$37,000,000,000 worth of currency; it is just $2\frac{1}{2}$ to 1 of the gold we have.

The CHAIRMAN. I say if we use this gold.

Mr. PATMAN. Yes; if we use this gold. Then if the banks get it they can expand on the basis of nearly 6 to 1. So there is that further expansion.

The CHAIRMAN. Our real currency has always been bank credit.

Mr. PATMAN. They are not even issuing gold certificates on this gold now.

The CHAIRMAN. When they issue gold certificates on the basis of 100 cents on the dollar 60 percent of that is sterilized.

Mr. FORD. The Secretary of the Treasury says that the title to gold is in the United States, aside from the small amount that he keeps on hand which he uses for the purchase of it.

Mr. PATMAN. Gold comes into the country in three ways, as you know.

Mr. GIFFORD. How much gold do the foreigners have on demand?

Mr. PATMAN. We do not know, but the best information is that it would not be a very large sum.

Mr. GIFFORD. No; it is not large.

Mr. PATMAN. But they are not demanding it.

The CHAIRMAN. Over nine billion of this foreign gold stands to the credit of the banks.

Mr. PATMAN. And we also have that stabilization fund to take care of the gold that some of the foreigners might call for, and I think the stabilization fund would take care of any demand that the foreigners might make.

The CHAIRMAN. Of course, the stabilization fund does not require \$2,000,000,000.

Mr. PATMAN. Do not overlook the fact that much of that gold, \$140,000,000 is in the Federal Reserve bank in New York City, and it is not carried on the Treasury books. Of course, the foreigners would call for that first.

Mr. FORD. That is purely a deposit.

Mr. BODFISH. I know I am not qualified to discuss this gold question with these gentlemen here, but Mr. Congressman, you know after all, the value of the money of any country, despite what we read in the textbooks, and despite all the laws we pass, depends upon the confidence of the people in that currency and their government.

Mr. PATMAN. Do you not think that when the long-term bonds sell at the lowest possible rate in the history of the country that that shows confidence on the part of the people?

Mr. BODFISH. I think there is no question at all about their confidence in the obligations of this country. I think it may sometimes indicate a little apprehension about the earning capacity of investment in other enterprises, business and industrial enterprises, but there is no question about the confidence of our people in our Government.

The CHAIRMAN. Yes; judging by the way the holders of cash invest it in this country; they are holding their money rather than investing it.

Mr. BODFISH. Yes, sir; that is right.

The CHAIRMAN. It would mean that they certainly have confidence in the money they have, and that they are not in a hurry to get rid of it, or to exchange it for property.

Mr. PATMAN. They would rather exchange it for Government bonds.

Mr. GIFFORD. My people do not want to invest their money. They want the banks to invest it for them.

Mr. BODFISH. That is true of many people.

Mr. CRAWFORD. Do you think it is more important that our people have confidence in the currency and in the bank credits to their accounts and in the Government IOU's than it is to have confidence in business that gives employment?

Mr. BODFISH. I do not think that you can put the two things in juxtaposition, Mr. Congressman. If our people lose confidence in bank credits and the obligations in which funds are invested, including the Government obligations, we will have no financial or business structure that will function. The last thing that goes is Government credit and the ability of the Government to function and all of the things that are personified in a Government and its responsibilities regarding money, credits, and the like.

Mr. CRAWFORD. What you just said may be true, but my thought goes directly to what I think is a very important statement which

was made by the Assistant Secretary of the Treasury at Indianapolis just a few days ago when he was addressing the Indiana Bankers' Association, and I think it touches directly on this question that is before us and your observation, also. Let me ask you this question, Mr. Bodfish: How long would your Government and your currency system survive in the absence of confidence in business activity so that business can go along and support the Government? I think that comes directly to the very essence of this bill.

Mr. BODFISH. Well, if you get business to the place where it cannot carry its tax burden, of course, you are going to have difficulties with your Government situation. We have had some pretty bad times at one time or another in this country, but there has always been considerable business going on regardless of our problems and varying times.

Mr. CRAWFORD. Yes; there always has been business going on regardless of the times, but there is considerable disturbance among Government officials today as to whether there is going to be any business at all, and I refer you to their own press releases on that subject, and I read them, because I want to know what they are thinking about it. I can have all of the confidence in the world in a Government bond, and no confidence in any kind of business or industrial activity, and therefore I do not venture into business activity; therefore I do not give any employment, and therefore I do not spend any money, and therefore some fellow comes along and he proposes to tax my bank account, as bills are now being drawn here in order to force me to spend the \$2 or \$3 that I happen to have in the bank. It is because we have no confidence in business activity that we run to Government investment, and we run to placing currency on deposit and to placing currency in vault boxes, and we run to credit in our account in the bank, because we have no confidence in business, and I think it is a very dangerous situation when our people run away from business to Government.

Mr. BODFISH. It brings about unemployment, and it brings about the relief problems, and it brings about many of the other destructive forces that we are confronted with today.

Mr. GIFFORD. Private business has to use the American dollar in its transactions, does it not?

Mr. BODFISH. Yes, sir; that is right.

Mr. GIFFORD. And it has to run the risk of solvency, because it cannot leave.

Mr. BODFISH. That is right.

Mr. GIFFORD. The Government can use a debased dollar if it wants to, can it not?

Mr. BODFISH. Yes, sir; that is right.

Mr. GIFFORD. And it can go on printing money and pay no attention to its own solvency. How can business compete with such competition as that?

Mr. BODFISH. That has been limited, and we have had a single adjustment, and I do not think any impartial observers expect any great dilution of the currency or further adjustments. All of the businessmen and authorities that I have talked to on the subject look only to a stabilization of the present position, the present gold content of the dollar, and the like.

Mr. GIFFORD. Were the businessmen of the country speaking in the chamber of commerce here recently? Were those the real businessmen of the country?

Mr. BODFISH. Mr. Hopkins said they were not.

Mr. GIFFORD. Yes; I understand that Mr. Hopkins said they were not.

Mr. FORD. Business has its demagogues, just as politics have. [Laughter.]

Mr. BODFISH. Mr. Gifford, I would like to make one comment about our business friends, and I aspire to be one of them. Quite often when business comes to deal with Government they leave their salesmanship at home. They do a good job of salesmanship in the sale of their products which they manufacture and distribute back home, but when it comes to coming down here and dealing with new legislation and with the Government they leave most of their salesmanship at home.

Mr. GIFFORD. They told the truth here in Washington. They did not try to be demagogic down here last week. They still have their very poor way of grasping the idea of public relations, but they know the private side of industry and business.

Mr. FORD. That is a matter of point of view or opinion.

Mr. GIFFORD. You are going to agree with my point of view some time.

Mr. BODFISH. As the older members of the committee will remember we almost lost the Federal Home Loan Bank Act on a controversial currency question, and I do hope we can go on from the currency question, as I am not qualified on that, but I do know something about real-estate mortgages and thrift institutions.

Mr. LUCE. You have given us to understand that you approve of the first two sections of the bill?

Mr. BODFISH. Yes, sir; that is right.

Mr. LUCE. There are 18 sections of the bill. Can we go along now to No. 3?

Mr. BODFISH. Yes, sir; thank you very much. I have discussed and we approve No. 3.

Sections 4 and 5 involve no policy matters as we understand them. They merely deal with the supervisory responsibilities of the Board.

Section 6 deals with criminal provisions regarding forgery, misrepresentation, embezzlement, defamatory statements, examiners' disclosure of confidential matters, and there are no major policy matters involved there. They appear in the main in legislation that the Congress has already enacted with regard to national banks.

Mr. WILLIAMS. In what respect does it change existing law?

Mr. BODFISH. The existing law is not complete. For example there is no provision regarding defamatory statements against the type of institutions which are insured or are members of the Federal Home Loan Bank System. The present law does not prohibit gratuities or loans to examiners, nor prohibit them from improper disclosure of information, to illustrate my answer that the present law is not complete.

Mr. WILLIAMS. In other words it just extends the criminal provisions of the law to cover their activities?

Mr. BODFISH. Yes, sir; that is right. Section 7 merely deals with this question of the taxation of the Government building owned by the

Home Owners' Loan Corporation. Section 8 restates the investment section affecting approximately 1,400 Federal savings-and-loan associations.

Mr. FORD. Does the Home Owners' Loan Corporation own the building?

Mr. BODFISH. Yes; the H. O. L. C. owns the building, which is a Government building. The District of Columbia Building has been trying to collect taxes.

Mr. PATMAN. Do they collect taxes on the Federal Reserve Board Building?

Mr. BODFISH. My understanding is that they do not; it is regarded as Government property.

Mr. PATMAN. I thought the real estate of the Federal Reserve banks was taxed.

Mr. BODFISH. I think it is elsewhere, but not here.

Mr. PATMAN. I think the Federal Reserve Bank Building at Dallas is taxed, and also in New York City. I thought they were taxable.

Mr. BODFISH. I think they do pay real-estate taxes. I do not think they pay on their building here in Washington.

Mr. PATMAN. I think the law says they shall pay taxes on the buildings.

Mr. BODFISH. The regional banks?

Mr. PATMAN. No; I am talking about all property of the Federal Reserve banks.

Mr. BODFISH. I think that is true as a rule.

Mr. PATMAN. Does the Federal Home Loan Bank Board pay taxes?

Mr. BODFISH. They do not pay taxes. The Board says that their building is in the category of a Government building.

Mr. PATMAN. I am not saying that they both should not be exempted, but if the Federal Reserve pays taxes on their property, I see no reason why the Federal Home Loan Bank Board should not pay taxes.

The CHAIRMAN. The Federal Reserve Bank Building is not built out of Government funds. It is built out of funds of the Federal Reserve Bank.

Mr. PATMAN. Whose funds built this building here?

The CHAIRMAN. It was paid for out of the Treasury.

Mr. BODFISH. The funds of the Home Owners' Loan Corporation.

Mr. PATMAN. I am just asking for information; I am not arguing or insisting it should be done.

Mr. BODFISH. I think this is a matter of general public policy in which Congress should be consistent in dealing with other agencies. The H. O. L. C. Building is owned by the United States Government, that is, the Home Owners' Loan Corporation is a Government corporation owned entirely by the Government, and it is operated by the Government. There is no private operation in connection with the H. O. L. C.

The CHAIRMAN. Is that entirely true; that it is owned entirely by the Government?

Mr. BODFISH. The Home Owners' Loan Corporation?

The CHAIRMAN. Yes; the Home Owners' Loan?

Mr. BODFISH. Yes, sir; that is right.

Mr. WILLIAMS. You say that they do not pay taxes on the Federal Reserve Board Building here in Washington?

Mr. BODFISH. Yes, sir; it is my understanding that they do not.

Mr. WILLIAMS. I understood our Chairman to say that that was not built with Government funds but with Federal Reserve funds.

Mr. BODFISH. Well, the Government authorized assessment, or appropriated, I think it was, \$3,000,000 for it, probably from Federal Reserve funds.

The CHAIRMAN. For building it?

Mr. BODFISH. Yes, sir; that is right.

Mr. WILLIAMS. If it is built with funds belonging to the Federal Reserve System and it is owned by the private banks of the country, of course, they should pay taxes on it.

Mr. PATMAN. The law says they should pay taxes.

Mr. WILLIAMS. I do not know what it says as to the Board's building here in the city.

The CHAIRMAN. I may be mistaken, but it is my understanding that all the Federal Reserve Bank buildings are paid for out of earnings of the banks, and that the Board building here in Washington was paid for in the same way.

Mr. WILLIAMS. In the last analysis the H. O. L. C. building belongs to the Government.

Mr. BODFISH. The H. O. L. C. building belongs to the Government.

Mr. WILLIAMS. I think there is no question about the H. O. L. C. building being a purely Government-owned building.

Mr. PATMAN. You are talking about the Federal Reserve Building or the Home Loan Bank Building?

Mr. WILLIAMS. No; I am not talking about the Federal Reserve Building.

Mr. PATMAN. The Home Owners' Loan Building?

Mr. BODFISH. That is right.

The CHAIRMAN. The Home Loan Bank Building is owned exclusively by the Government?

Mr. BODFISH. Yes, sir; that is correct.

Mr. PATMAN. Now, then, the Federal Home Loan Bank Board occupies space in that building, I presume.

Mr. BODFISH. And that Board serves the H. O. L. C. and the Home Loan Banks, both.

Mr. WILLIAMS. And the Insurance Corporation?

Mr. BODFISH. Yes; and the Federal Savings and Loan Insurance Corporation.

Mr. PATMAN. One part is strictly Government and the other part is more or less private?

Mr. BODFISH. That is right.

Mr. PATMAN. If it is satisfactory I guess it would be right for that part used by private banks to pay taxes and the other part not to pay taxes?

Mr. BODFISH. If it is the policy to have a system of real-estate tax on buildings like the Federal Reserve Building in Washington. Perhaps Mr. Fahey could tell us about that.

Mr. FAHEY. I do not know what the situation is with reference to the Federal Reserve Bank Building. The Home Owners' Loan Corporation owns this building. The capital stock of the Home Owners' Loan Corporation is owned entirely by the United States Government. Our contention has been that the building is tax-exempt already. The District officials have raised a question about

that, and they want to take it to the courts, and it is for the purpose of avoiding litigation and just to make assurance doubly sure that this amendment is proposed.

The CHAIRMAN. As a matter of fact, you have not paid any taxes so far?

Mr. FAHEY. No. They are undertaking to assess them now, and that is why the issue arose.

Mr. PATMAN. What part of the building is occupied by the Federal Home Loan Bank Board?

Mr. FAHEY. Only a small part of it.

Mr. PATMAN. What percentage of it?

Mr. FAHEY. I should think less than 10 percent is occupied by them.

Mr. PATMAN. Do they pay rent to the Home Owners' Loan Corporation?

Mr. FAHEY. It is adjusted between the expenses.

Mr. PATMAN. It is adjusted on the expenses?

Mr. FAHEY. Yes, sir.

Mr. PATMAN. What do you mean by "expenses"?

Mr. FAHEY. That is, we take into consideration what the Bank Board pays toward the H. O. L. C. and the support of the Board itself every year.

Mr. PATMAN. Does it pay something like the amount of rent would be?

Mr. FAHEY. I cannot give you the exact detail of it, but it would be about what the Board would pay elsewhere in rent.

The CHAIRMAN. The use of the building does not touch on the matter of taxes. If it is a Government building it would take a specific authorization of Congress to tax the building.

Mr. FAHEY. That is right.

The CHAIRMAN. I find upon examination of the act that specific authority was conferred upon the Federal Reserve Board to assess the 12 Federal Reserve banks upon the basis of their capital stock and surplus in order to obtain funds for the construction of a building in Washington. There is an additional provision in the act to the effect that the funds derived from such assessments may not be construed to be Government funds or appropriated money. So that the Federal Reserve Bank Building in Washington is privately owned, or owned in the same sense that the buildings of the different Federal Reserve banks are owned, and I find, upon inquiry at the Board, that there is no law specifically exempting that building from taxation. However, no assessment of taxes has been made, because it is said that the Attorney General has held that the Board is an agency of the Federal Government.

Mr. PATMAN. The Federal Reserve Act specifically deals with Federal Reserve banks, including capital stock and surplus, and provides that no real estate owned by these banks shall be exempt from Federal, State, or local taxation.

The CHAIRMAN. Yes.

Mr. PATMAN. So, that is the reason I suggested the building would be taxable, because the act specifically says buildings are not exempted.

The CHAIRMAN. The opinion by the Attorney General's office is just a little bit surprising to me, but I would not criticize it; that is, the opinion in reference to a building privately owned by the Federal Reserve System.

Mr. BODFISH. Section 8 involves a policy matter. It restates the investment section affecting approximately 1,400 Federal savings-and-loan associations.

No important policy change is involved in this section other than giving them the right to invest in securities approved by the Board which are legal investments for fiduciaries and trust funds, and also to make title I loans. In the main, it is a restatement of the present investment section, with only two important changes, or possibly three.

In the first place, the associations are at the present time allowed to lend 15 percent of their resources on other than home mortgages. That is regulated by existing statute. This revised section would permit the Board to give the larger institutions in the larger cities where there is a concentration of multiple family property an opportunity to loan on mortgage an additional 15 percent of their resources, only with Board approval and permission under lawful rules and regulations and supervision, in local residential income property, accommodating more than four families.

Then secondly, at the present time the Federal savings and loan associations can only invest in first mortgages, home-loan bank stock, and bonds, and direct obligations of the United States Government. As I understand, we cannot even buy an H. O. L. C. bond, which is a guaranteed obligation. It is proposed in section 8 that these associations be given a right to invest in direct obligations of the Government, obligations guaranteed by the Government, which means H. O. L. C. bonds and the like, and securities which are legal investments for trust funds or fiduciaries in the areas in which the institutions are located. Essentially this means giving to the Federal savings and loan associations the power that now exists as regards most State-chartered building-and-loan associations, because most State-chartered building and loan associations can at the present time invest in obligations of the State in which they are located and the municipality in which they function and in a few additional similar obligations. Now, there might be some discussion as to whether or not the legal investments for fiduciaries is not a bit broader than that. It is in some States. In the main, you will find the State laws governing investments for fiduciaries permit investments, first in mortgages, bank deposits, and Government obligations and obligations of States and municipalities. That is a predominant State law that exists throughout the country. In some of the States they also permit some investment triple A bonds. However, that is not generally the predominant situation. So, this amendment does provide a bit of latitude. We see no reason why these institutions gathering together thrift funds in a community should not be permitted to invest in the securities of the State or the municipality in which they are located, and have a little more flexibility in the investment of our surplus funds—that is, funds beyond mortgage requirements—in those securities and other prime securities selected from a list ap-

proved by the Federal Board or detailed in a statute, if the Congress desires to write a more specific investment section.

Mr. FORD. Does not that put them more or less in the direct banking field?

Mr. BODFISH. No, sir; I do not think it puts them in the direct banking field, Mr. Ford. Of course, when you come to define the banking field today, if you took out of the hands of the savings and building and loan associations everything that is done by the commercial banks today, why, we would have to liquidate, because they are making long-term mortgages and going into many other fields.

Mr. FORD. They are making mortgages for how long?

Mr. BODFISH. Up to 25 years.

Mr. FORD. Up to 25 years?

Mr. BODFISH. Yes, sir; up to 25 years.

Mr. FORD. The banks?

Mr. BODFISH. Yes; under the F. H. A.

Mr. FORD. Under the F. H. A.?

Mr. BODFISH. Yes, sir. That has been one of our problems—that we have that group of newcomers in the small-home-mortgage business.

Mr. FORD. In other words, you are aiming at putting them on more of an equal basis as regards loans?

Mr. BODFISH. We think it is wise to give our institutions a little flexibility in the investment of their surplus funds. I will approach it from another angle. I think our country is very liquidity conscious at the present time and very, very much concerned about putting their money in a place where they can get it out promptly. We do not propose to go into the banking business, but we do propose to enter into demand-deposit relations—we propose to make an honest, fair contract with regard to the withdrawal of savings.

Mr. FORD. What is that contract?

Mr. BODFISH. I will describe that in a minute. We do feel that our institutions should carry more cash than traditionally carried by such institutions, in order to be a little more prompt than many of our associations were in the last depression in the retirement of savings of working people, of which we had at that time \$10,000,000,000. That means that it is probably wise for these institutions to carry, say, 10 percent, or maybe 15 percent, of their assets in cash and Government securities, or what we call trustee securities, obligations of our State or locality or like prime obligations.

Mr. FORD. Which could be liquidated on the spot?

Mr. BODFISH. We do not want to go into the liquidity position and demand contracts of banks at all, but we must, in order to get money at the low rates that now prevail, do a little better job in being prepared to meet the withdrawal demands of customers.

Mr. LUCE. Do you think it is perfectly safe for us to permit investment in bonds of municipalities? We have several cities in my State that have gone bankrupt; and according to Mayor LaGuardia and other mayors who came down here, many of the cities are bankrupt, or will be within a few months.

Mr. BODFISH. We should not be permitted to invest in any obligation which is in default. I am not sure but what most State statutes

so provide. We do not wish to invest in obligations in default, and certainly the Federal Home Loan Bank Board, which must approve of every obligation which we invest, under this language would not approve of our investing in any obligation that was not both current and most sound and conservative.

Mr. LUCE. When a city goes broke, there is no recourse. You cannot attach a schoolhouse or any other municipal building.

Mr. BODFISH. That is true.

Mr. LUCE. Would it not be that class of investment that may become less desirable than formerly?

Mr. BODFISH. Yes; but I still feel that there are many cities that have kept their credit unimpaired, and I certainly cannot imagine the general list or regulations of the Federal Home Loan Bank Board permitting investment in these securities which were not current and not in good standing. Of course, a change in trend may affect the character of any investment security one owns. I think that can happen with a State obligation, and it can happen with a mortgage, but our concept of this thing is of the most conservative nature and to introduce merely a little broader and more flexible program as regards the investment of surplus funds in these federally chartered institutions.

Miss SUMNER. Railroad stocks are legal trust fund in New York State and other States, are they not?

Mr. BODFISH. No; I should not imagine they are. They are not in Illinois.

Miss SUMNER. As a question of policy, is it quite safe for the Government to back even the bonds?

Mr. BODFISH. This is not a question of putting the Government back of the bonds. It is a question of a community institution, a thrift institution, and the responsible board of directors, community businessmen, and giving them reasonable discretion to invest in mortgages and obligations of the Government and obligations of the State or the municipalities in which they are located; and if the statutes of that State, as determined by the State legislature, say triple-A bonds, or something of that kind, may be invested in, it would include such bonds. Very few of the State statutes are that liberal.

Miss SUMNER. Would that not cause them to go in and expand that provision in the various State legislatures?

Mr. BODFISH. No; I do not see how it would.

Miss SUMNER. What is there to prevent them from going in the back door and getting the State legislature to expand the policy on that? Any way you look at it, this device makes the Government buttress them to a certain extent, does it not?

Mr. BODFISH. I do not see how it makes the Government buttress them at all. This is a question of the investment powers you give to 1,400 institutions wherever they operate in the different communities. You say you can make first mortgages, and you now say you can buy direct obligations of the United States Government. In all State-chartered building and loan associations in practically every State they can buy obligations of the State or the municipality and like securities. This merely brings into the Federal savings

and loan structure, under the supervision of the Federal Home Loan Bank Board, some reasonable latitude in investing their excess funds beyond cash-and-mortgage requirements. I do not think you need to have any apprehension about the Board authorizing the buying of speculative securities, or endangering the solvency of the institutions by purchasing speculative securities. If you have, let's write a more specific statute. We desire to be careful.

Mr. SPENCE. Mr. Bodfish, I notice in section 8 the limitation is \$20,000.

Mr. BODFISH. Yes, sir; that is right.

Mr. SPENCE (reading):

However, not exceeding 15 per centum of the assets of any association may be loaned on any improved real estate, which by reason of its condition is not only marketable, but is capable of producing income reasonably in relation to the payment of interest—

and so forth. It is subject to that limitation?

Mr. BODFISH. Yes.

Mr. SPENCE. And then 15 percent additional can be loaned. That means 30 percent in all, does it not?

Mr. BODFISH. That would only be in the large institutions whose size and location is such that they can qualify to make larger loans, where they do not have to operate in home mortgages. Take our city of Chicago, for example, and there 73 percent of our people live in four-family apartments or larger apartments. It is a question granting flexibility to those qualified under the supervision of the Board.

Mr. SPENCE. There is 30 percent that can be loaned over the \$20,000 limitation?

Mr. BODFISH. That is right, but only by institutions whose size and location justified it. It would not be a general proposition.

Mr. MARTIN. That would be under whose supervision?

Mr. BODFISH. It would be under the regulation of the Federal Home Loan Bank Board here in Washington.

Mr. MARTIN. Do I understand that under this provision they could loan as much as \$1,500,000 on one loan?

Mr. BODFISH. Yes; if the Federal Home Loan Board would authorize by the regulations a \$1,500,000 loan, which I cannot conceive.

Mr. MARTIN. But they could do that under the terms of this law?

Mr. BODFISH. I think, as far as the statute is concerned, they could; that is, if the Board down here would pass a regulation that you could make \$1,500,000 loans and the association was large enough it could be done.

Mr. MARTIN. Do you think that would be dangerous?

Mr. BODFISH. I would certainly oppose any legislation by the Department or Federal Board which would permit \$1,500,000 loans in these thrift institutions.

Mr. SPENCE. Are not the debentures of the home-loan bank limited to the amount of available securities held by the Federal home-loan bank?

Mr. BODFISH. The limit on the amount of debentures is five times the amount of the capital structure.

Mr. SPENCE. It has nothing to do with the assets which the home-loan banks hold?

Mr. BODFISH. Not as far as the statute is concerned, except they cannot be issued in an amount greater than the notes and obligations of member institutions.

Mr. WILLIAMS. There is another limitation in there.

Mr. SPENCE. It is limited to the par value of the assets held by the home-loan banks?

Mr. CATLETT. Yes; it is limited by the amount of the assets held by the Federal home-loan banks.

Mr. SPENCE. So, really, the Treasury furnishes to the Home Loan Bank System in respect to making its assets liquid the same assistance that you furnish to members of the System?

Mr. CATLETT. That would be the limit to which the Treasury could furnish it; yes.

Mr. SPENCE. In other words, you could go to the Treasury with your assets and get the same kind of help and assistance that the members of your System could get from you?

Mr. CATLETT. If we had a provision such as contained in the proposed law that would be possible. At the present time it is not possible.

Mr. BODFISH. Section No. 9 merely deals with the question of Federal institutions becoming State chartered institutions, or the conversion from Federal institutions to State-chartered institutions. It is a reciprocal provision as most States provide for State banks to become national banks and State building and loan associations becoming Federal.

Section No. 10 puts in statutory form the definition of "insured account." There are no policy matters involved in that and the section follows an existing regulation.

Section No. 11 simplifies the name of the Federal Savings and Loan Insurance Corporation.

Section No. 12 brings the statute in regard to the Insurance Corporation regarding dividends and reserves in line with the present Insurance Corporation practice.

Section No. 13 is one which broadens the institutions to which the insurance of account is available. I think Mr. Fahey discussed that rather adequately. Under this section it would be possible for any institution which is eligible for membership in the Home Loan Bank System to insure its accounts under the Federal Savings and Loan Corporation, which is now confined exclusively to building and loan associations and cooperative banks.

Section No. 14 deals with the premium rate charged to institutions, and I would like to take a minute to discuss that item with the committee, because we feel very strongly that this change that is proposed in this bill is justified. In the first place, we do not feel that the risk is as great when you insure institutions, the bulk of whose assets are invested in real-estate mortgages and in the secured loans as exists in insuring a commercial bank. In other words, there is a concentration of savings and loan assets in secured amortized loans, an absence of demand liabilities, and therefore no forced liquidation of securities. Furthermore, in connection with this item of risk you

are not insuring the liquidity of these institutions. What you are insuring is the ultimate solvency. You are not placing this insurance fund behind these institutions saying that we will insure that you will pay every person on demand as in a commercial bank.

So, we feel, first, that there is a great difference in the risk involved. We think that the record of the 2 insurance corporations to date bears out the fact that there is not nearly as great a risk in the savings and loan field as in the banking field. There has been a great deal of discussion about the percentage of deposits insured in the commercial banks by the F. D. I. C. as contrasted to the percentage of deposits for which the Savings and Loan Insurance Corporation takes full responsibility. I think there are several things in that connection that should be explored. In the first place, the mutual savings banks are more comparable institutions to ours than commercial banks. The F. D. I. C. has insured 56 mutual savings banks, with assets in excess of \$1,000,000,000, and they have charged one-twelfth of 1 percent premium, which is the same as that charged the commercial banks, and the reports of the F. D. I. C. indicate that 90 percent of the assets of those banks are covered by insurance. So, I think if we want to look to a precedent or an example in the F. D. I. C. it would probably be a fairer comparison to look to the billion dollars of mutual savings bank deposits which they have insured.

I next call the attention of the committee to the fact that the F. D. I. C. has liquidated 255 insolvent banks since the beginning of the Corporation, and that has involved about one-half a million depositors, or, to be exact, 479,000 depositors. Now, their report indicates that deposits amounting to \$136,000,000, or 97 percent of the total deposits in the 255 banks, were fully insured and were made available promptly without loss to the depositors. Only 748, or less than one-half of 1 percent of the 479,829 depositors, were not fully protected. In other words, the thing that throws the comparison off is the large banks with their colossal commercial accounts which are in the F. D. I. C., and I think as a practical insurance matter you are protecting completely the bulk of the banks for which the F. D. I. C. has assumed responsibility. You can figure it out another way. Something over 85 percent of the savings deposits in the commercial banks are covered by the F. D. I. C.

Mr. PATMAN. Let us assume that the total deposits which pay a premium of one-twelfth of 1 percent aggregate \$48,000,000,000.

Mr. BODFISH. Yes, sir; that is what they do aggregate.

Mr. PATMAN. About that?

Mr. BODFISH. Yes, sir; that is right.

Mr. PATMAN. Let us assume, too, which I think is a fair estimate, that \$21,000,000,000 represents the amount covered by this insurance.

Mr. BODFISH. That is right.

Mr. PATMAN. That is the total liability in the event all of the banks were to close?

Mr. BODFISH. Yes, sir; that is right.

Mr. PATMAN. Well, now, these banks, according to the latest reports, own \$14,000,000,000 worth of United States Government bonds. So that you have immediately \$14,000,000,000 taken from the \$21,000,-

€00,000 of potential loss. Therefore you have only a liability there of only \$7,000,000,000 out of a total of \$48,000,000,000. In other words, for one-twelfth of 1 percent the potential liability is one-seventh of the total amount of deposits, whereas in the case of the home-loan banks the liability is about, if Mr. Fahey's estimate is correct, 75 percent of the total. On that basis, can't you see the big difference there, where the rate would be justified in the case of the F. D. I. C. and it would not be justified in your case? Now, I am not saying that I would be opposed to it, but I want information, and I would like to have you answer that.

Mr. BODFISH. Well, Mr. Patman, of course this whole question of rate is one which none of us should be presumptuous enough to attempt to prove statistically, as to what the rates should be. The commercial banks which close certainly will not have the proportion of Government securities which you suggest, and many of us have always been convinced that the risk was less in our institution than in commercial banks. We are trying entirely to make an intelligent judgment of what accumulation here will be necessary.

Mr. PATMAN. That is the reason I wish it were possible to be better advised and to wait until we had more experience to govern us.

Mr. BODFISH. However, based on our experience up to date you are treating us very unfairly, because we have lost only \$120,000 in our insurance fund so far, whereas the losses which have occurred in the bank-insurance fund, based upon the liquidation of the 255 banks that I mentioned a moment ago, run into tens of millions of dollars.

Mr. MONRONEY. Is it not a fact that the H. O. L. C. cleaned out their portfolios of bad-mortgage paper?

Mr. BODFISH. Yes; they walked into banks, and they swept whole mortgage portfolios right out. It is true we received about \$800,000,000 in H. O. L. C. bonds, but in proportion to our mortgage holdings we only received about 13 percent of our mortgage accounts, when the banks were receiving, at the same time, something like 26 percent. We had no complaint. We were very fairly treated, and very generously treated.

Miss SUMNER. Mr. Bodfish, I was not in Congress at the time this system was instituted, but out where I was living, the F. D. I. C. came in at a time when the people were hoarding their money away in baskets and in stockings, and what not, and taking the money out of the banks. Now, they are putting the money back into some depository where it can be run into private enterprise and where it can furnish employment. The Congress guaranteed people that if they would put their money into the banks that the Government would stand back of that institution. I cannot see that this situation is similar with yours.

Mr. BODFISH. I think it is an identical situation, Miss Sumner, for this reason: The only reason we came to the Congress with a scheme or an insurance proposal to insure savings and loan accounts was the cold, difficult fact, that after the Government insured the bank accounts, including savings bank accounts, as near as we can calculate, that drained nearly \$1,000,000,000 out of our community

thrift building and loan institutions, and it put it into the banking institutions, due to the insurance of those deposits.

Miss SUMNER. I do not quite understand that.

Mr. BODFISH. I was trying to present a reason for the similarity in the problems. Let us say, for example, there is a bank here on one corner and a building and loan association over here on another corner. Now, in 1933 the Government very wisely applied, on a Nation-wide basis, the insurance principle to the safety and the solvency of all bank accounts. Let us say you have an account in a building and loan association and the Government insures all of the bank deposits and accounts, naturally you will want your account also insured. That took over a billion dollars from the building and loan associations when the investing members took the money out and put it into the commercial banks because the F. D. I. C. had insured the accounts in the banks. It was not a question of the integrity of our securities at all, or a lack of good management, but we fell off one-third in the assets of the building and loan associations of this country from 1933 to 1938, and that was due to money going from these cooperative institutions, these community mortgage institutions and thrift institutions, into insured bank deposits. So less than 2 years later the Federal Savings and Loan insurance was necessary following somewhat along broad F. D. I. C. lines, and for very similar reasons.

Miss SUMNER. I was not anticipating a run on the building and loan associations, because in my locality there is a limitation on the time in which you can withdraw your money. You cannot just walk up to a building and loan association and draw your money out without notice. I have been attorney in lawsuits for estates in which we have had to wait for months to get money out of building and loan associations. They have no right to demand immediate payment for loan money in my State, and is it not the same all over the country?

Mr. BODFISH. That is true all over the country but, you see, when people ask for money out of a savings, building and loan association, it has to apply its mortgage collections and income to the payment of those withdrawal obligations which are made upon them. New savings cease to flow in and new loans are impossible. It is a matter of public record that with nearly \$9,000,000,000 of assets in 1930 we have total assets of less than \$6,000,000,000 at this time. Our assets of the building and loan associations in the State of Illinois have decreased over \$110,000,000 in the last 6 years, even though the people had to wait for the money. It forced institutions into orderly liquidation, which was not in the community or public interest.

Miss SUMNER. I am just seeking information; I am not opposing it, Mr. Bodfish.

Mr. BODFISH. No.

Miss SUMNER. And I know in the same way that Federal Deposit Insurance has encouraged people to put their money into just any bank, whereas formerly they would look to see whether the bank was managed in a solid way by people of high integrity and ability.

Mr. BODFISH. That is the big question in the whole insurance program, is it not?

Miss SUMNER. Yes.

Mr. BODFISH. It may iron out some of the sound preferences and growth that were based upon customer choice of careful management and the like.

Miss SUMNER. The reason I wish to be very careful in that I do not think it is sound reasoning to say, "Look, somebody else gets more than his share out of the Government, and therefore I ought to get the same."

Mr. BODFISH. We do not feel, Miss Sumner, that we are getting anything out of the Government here. We feel that Congress is sort of a board of directors, that we are paying insurance premiums, and that we are having a sort of an annual meeting with the people who determine the policies of this great insurance organization, which costs us several millions a year. That is income from our insurance premiums. We feel, frankly, that on the basis of the record we have shown the premium is more than it needs to be. The reason for talking about the F. D. I. C. and the insurance rate on the commercial banks and the mutual savings banks is the Government policy, always attempts in dealing with citizens to be equal and fair, and as reasonable, and equitable as possible to all parties concerned. This insurance is not for the institutions. It is principally for the people who put their money in. It is for the protection of the people that save their money in these institutions, rather than for the protection of the institutions themselves.

Mr. SPENCE. Do you think, calling on the experience that we have had, that we would be justified in reducing the premium?

Mr. BODFISH. Yes, sir; I do think so.

Mr. SPENCE. Would the same reasoning prevail in a Government institution in building up a reserve that might never be used? Do you not think a Government institution is justified in acting so that all of the insurers may be treated equally?

Mr. BODFISH. Yes.

Mr. PATMAN. The F. H. A. is a new organization, and it occurs to me that one-half of 1 percent is not enough in the F. H. A.; and that we should think a long time before we reduce your rate to one-twelfth of 1 percent. I would like an answer on those two points, the first, with reference to the F. D. I. C., and the next on the F. H. A.

Mr. BODFISH. What is your question on the F. H. A.? I am sorry I did not get it.

Mr. PATMAN. First, if all of the banks were to close, the liability of the Government would only be about \$7,000,000,000, because immediately the Government would get \$14,000,000,000 in excellent bonds which are, of course, as good as money. Then we would take the other \$7,000,000,000 and pay of the \$21,000,000,000, which is the limit of the liability under existing law where all deposits are paying one-twelfth of 1 percent. Now, if the building and loan associations were to close, they would not have any Government bonds, and the Government's liability would be 75 percent of the total amount rather than one-seventh of the total amount as it would be in the case of the F. D. I. C., and it occurs to me that there should be a difference in the insurance rate, and I would like to know the reason why there should not be a difference in view of the situation. Next, on the

F. H. A. one-half of 1 percent is not high enough, according to some who testified here.

Mr. SPENCE. Is not the distinction that one insures an individual loan, and this insures an institution, not any individual loan?

Mr. BODFISH. Yes.

Mr. PATMAN. Yes; I know; but the law of averages has not been repealed. They take the law of averages in figuring that.

Mr. FORD. When a building and loan association is liquidated, its insurance company pays the money out in cash promptly for those who hold stock.

Mr. BODFISH. Yes, sir; it has been the practice to do that, Mr. Ford.

Mr. FORD. But they do not have to do it?

Mr. BODFISH. No, sir; they do not have to do it.

Mr. FORD. They can take 3 years in which to pay it if they so desire?

Mr. BODFISH. Yes, sir; they can take 3 years on 45 percent of an account under the present legislation.

Mr. PATMAN. They can take time on the savings deposit accounts in the banks too, if they desire?

Mr. BODFISH. No; not in the banks. The F. D. I. C. is supposed to pay it as promptly as possible.

Mr. PATMAN. I thought they could take over the bank's contract and pay so much in 30 days, so much in 90 days, and so forth, that it would be subrogated to its rights.

Mr. BODFISH. I don't know about that. It is, of course, difficult to reason in such colossal aggregate figures. In the first place, the F. D. I. C. would not have any prior claim on assets, which would mean that the 14 billion in bonds which you assumed would not be first applied to repaying the F. D. I. C. It further occurs to me that seldom do any closed banks, with their weakened condition, have any Government bonds on hand when they fail. Published figures of the F. D. I. C. so far indicate that, as banks fail, the Government, through the F. D. I. C., is responsible for practically the entire deposit liability of the closed bank. I suppose the first thing a weak bank or a bank facing a run does is to liquidate Governments in order to meet cash requirements. I really do not expect that, if the Government pays off bank failures through the F. D. I. C., you are going to have the proportion of Government securities which your percentages would indicate. They just experienced a 30-million-dollar bank failure in the State of New Jersey, which is now being handled by the F. D. I. C. As I recall, they had about \$10,000,000,000 in frozen real estate and real-estate loans and no consequential aggregate of Government securities.

Mr. PATMAN. But that bank had been in a rather weak condition for a long period of time.

Mr. BODFISH. I think when any bank fails, one of the reasons it fails is that it does not have liquid securities and cash and that it has nothing left but securities on which it cannot readily realize, and the fact that the F. D. I. C. has taken over 255 of them so far and the losses often run into tens of millions of dollars proves that.

Mr. FORD. Furthermore, is it not reasonable to assume that in the next 4 or 5 years the banks will not carry as many loans at a low rate of interest when they can get other loans?

Mr. BODFISH. Yes; I hope they will not. I think they ought to expand in the field of commercial and not mortgage banking.

Mr. WOLCOTT. Since the Open Market Committee can dictate to them, they will probably compel them to take those securities.

Mr. BODFISH. I think that is true to an extent.

Mr. Patman asked why the F. H. A. rate of one-half of 1 percent was necessary to insure individual mortgages, and why one-twelfth of 1 percent was an adequate premium for insuring a bundle of mortgages, so to speak. I think there is a very clear distinction or difference. In the one case you are dealing with a single debt of an individual, and you are agreeing to underwrite the loss in case he does not pay that debt.

Mr. PATMAN. Well, are you dealing with a single debt or dealing with many debts held by one institution?

Mr. BODFISH. I am willing to admit that when you insure an institution you are dealing with many debts held by one institution. However, let us keep in mind that along with that institution there are 2,122 additional institutions also insured which pay premiums and are liable for additional assessments. However, of these over 2,000 institutions, you will find nearly 8 percent of their aggregate assets in reserves against losses. In other words, speaking in the aggregate, the institutions can lose 8 percent from reserves which they have established themselves before calling on the Insurance Corporation to pay losses and settle on account of insolvency. In addition to existing reserves, there is a continuous increase in reserves out of earnings; there are current earnings in the institution out of which ordinary losses can be paid without any claim on the Insurance Corporation, while almost every and the entire loss has to be paid by the F. H. A. Further, in an institution are earnings are important and, if one loss is incurred, the earnings on the other mortgages in a normal situation can absorb the loss. Then there are questions of local responsibility and local management and the universal existence of the thrift and investor side of the institution, on whose behalf the management attempts to be most vigilant and is constantly, in the transactions of each day, reminded of its responsibility to them.

While admitting sufficient time has not passed to conclusively determine this question, it seems to many of us that the insurance of an institution with reserves, management responsibility to savers and investors in the same community, and the like is a much different thing from a Government department insuring or endorsing individual mortgage notes for high-percentage mortgage loans.

It may turn out in the long run that this F. H. A. operation—and I would rather avoid that discussion if I can help it—will turn out to be just a big Nation-wide building and loan association or a great big Nation-wide mutual insurance company and have no problems; but, to date, you have had more current expense than income, and that is not exactly a typical insurance operation. However, the experiment may turn out successful. I think maybe even some losses

over income are justified in the new-construction phase. There are elements of employment that are involved, and there are also other implications. That is a premium-rate question, and it seems that is about the only other important thing in the bill. I have one other important thing, Mr. Chairman, that I want to present to the committee in the way of an additional section that is very vital to our State-chartered building and loan associations.

(After informal discussion off the record:)

The CHAIRMAN. We will resume with you, Mr. Bodfish, at the next meeting of the committee.

(Thereupon, at 12:25 p. m., the committee adjourned.)

Summary table of number of associations, total membership, and total assets of savings, building and loan associations, by States, 1937
 Summary table of number of associations, total membership, and total assets of savings, building and loan associations, by States, 1937—Continued

	Number of associations			Number of members				Amount of assets			
	State	Federal	Total	State	Federal	Total	Increase or decrease of total over 1936	State	Federal	Total	Increase or decrease of total over 1936
Alabama	24	14	38	8,250	5,120	13,370	1,036	\$7,821,273	\$4,848,272	\$12,669,545	\$3,035,303
Arizona	1	2	3	718	613	1,331	130	424,257	1,504,464	1,928,721	762,046
Arkansas	10	35	45	4,800	4,793	9,593	9	4,129,211	8,629,718	12,758,929	1,356,997
California	124	69	193	218,401	36,183	254,584	9,330	224,504,988	68,456,501	292,961,489	14,880,431
Colorado	36	25	61	17,505	14,000	31,505	1,419	12,268,471	16,526,261	28,794,732	47,319
Connecticut	47	15	62	27,907	7,422	35,329	5,123	22,896,347	8,157,925	31,054,272	4,258,814
Delaware	33	43	76	14,900	14,900	29,800	7,700	12,414,227	12,414,227	24,828,454	143,980
District of Columbia	27	1	28	129,780	129,780	259,560	6,796	120,614,000	120,614,000	241,228,000	7,343,508
Florida	45	49	94	6,750	15,398	22,148	5,796	6,126,289	29,100,540	35,226,829	9,415,540
Georgia	23	43	66	9,998	11,151	21,149	2,104	6,306,672	14,022,419	20,419,091	6,052,125
Idaho	4	9	13	1,800	6,508	8,308	5,576	801,892	6,146,403	6,948,295	1,106,507
Illinois	660	102	762	286,500	55,507	342,007	5,930	258,057,130	81,879,596	339,936,726	15,132,523
Indiana	208	66	274	89,600	67,868	157,468	9,448	77,797,971	77,783,339	155,581,310	1,115,617
Iowa	68	32	100	38,990	6,096	45,086	1,859	33,027,368	7,886,249	40,913,617	2,219,875
Kansas	129	20	149	109,512	6,500	116,012	22,037	66,928,112	8,784,574	75,712,686	2,562,354
Kentucky	127	48	175	72,820	39,543	112,363	5,177	53,739,583	51,277,281	105,016,864	5,497,198
Louisiana	70	12	82	98,418	5,987	104,405	10,039	77,585,442	11,498,970	89,084,412	9,953,540
Maine	36	6	42	24,028	433	24,461	22	22,691,391	442,012	23,133,403	627,773
Maryland	*875	28	*903	201,300	12,288	213,588	5,666	*140,900,000	17,931,441	158,831,441	5,078,759
Massachusetts	189	26	215	344,251	55,758	400,009	5,798	396,782,814	79,409,501	476,192,315	14,946,872
Michigan	58	24	82	81,280	14,335	95,615	15,549	94,309,666	19,259,920	113,569,586	1,816,475
Minnesota	47	31	78	20,019	28,173	48,192	7,372	21,873,804	28,767,060	50,640,864	7,919,749
Mississippi	25	21	46	4,200	2,823	7,023	4,556	*5,148,000	3,158,487	8,306,487	1,154,279
Missouri	184	37	221	155,000	23,063	178,063	17,097	95,291,779	32,601,225	127,893,004	2,001,089
Montana	20	3	23	14,825	4,386	19,211	799	9,568,395	1,593,123	11,163,518	4,781
Nebraska	76	16	92	83,005	4,396	87,401	556	65,852,076	5,425,121	71,277,197	5,089,805
Nevada	4	1	5	1,140	1,140	2,280	110	952,464	952,464	1,904,928	91,135
New Hampshire	28	2	30	14,074	3,477	17,551	489	11,157,512	5,790,686	16,948,198	1,434,735
New Jersey	1,423	1	1,423	585,395	585,395	1,170,790	56,495	792,361,056	792,361,056	1,584,717	91,116,926
New Mexico	13	8	21	3,329	899	4,228	80	3,578,944	1,217,374	4,796,318	583,005
New York	320	64	384	376,598	133,480	510,078	71,033	256,266,687	122,233,902	378,500,589	15,101,673
North Carolina	168	15	183	100,272	5,112	105,384	14,373	67,415,711	8,399,193	75,814,904	9,779,362
North Dakota	18	5	23	7,930	1,817	9,747	5,048	8,748,137	1,647,464	10,395,601	558,847
Ohio	621	103	724	1,157,475	149,325	1,306,800	286,067	648,920,718	161,777,514	810,598,232	18,172,974
Oklahoma	41	32	73	14,401	24,225	38,626	918	19,757,674	39,313,016	59,070,690	2,186,995
Oregon	14	23	37	16,982	10,060	27,042	646	14,301,958	10,709,808	25,011,766	3,704,411
Pennsylvania	2,103	54	2,157	510,402	17,215	527,617	58,863	573,576,873	23,128,363	596,705,236	62,519,481
Rhode Island	8	1	9	49,401	250	299,401	2,282	35,856,065	252,075	36,108,140	1,742,272
South Carolina	44	30	74	8,110	9,316	17,426	1,963	8,030,285	11,270,063	19,300,348	3,766,046

South Dakota	14	5	19	5,290	1,515	6,805	92	3,173,279	1,406,407	4,579,686	111,841
Tennessee	7	38	45	2,290	12,889	15,179	7,781	*1,700,000	17,886,758	19,586,758	1,908,088
Texas	87	89	176	42,762	16,713	59,475	3,433	59,530,001	24,186,152	83,716,153	6,001,015
Utah	15	6	21	21,600	4,830	26,430	201	21,206,610	5,290,144	26,496,754	848,056
Vermont	12	2	14	5,500	908	6,408	850	4,270,726	1,278,555	5,549,281	543,041
Virginia	77	21	98	38,650	7,467	46,117	2,344	30,995,147	13,263,090	44,258,237	1,227,182
Washington	34	36	70	70,000	72,222	142,222	7,155	19,000,000	33,742,091	52,742,091	8,046,588
West Virginia	48	21	69	21,300	8,241	29,541	729	14,816,377	11,690,624	26,507,001	2,505,471
Wisconsin	175	27	202	173,886	6,111	179,997	4,144	178,462,121	8,672,614	187,134,735	336,373
Wyoming	5	9	14	3,462	1,221	4,683	4,062	3,297,696	2,083,488	5,381,184	157,559
Hawaii	9	1	10	21,500	1,050	22,550	1,718	4,329,993	1,673,460	6,003,453	873,506
Alaska		1	1		56	56	56		95,975	95,975	95,975
Total	8,434	1,328	9,762	5,316,276	916,743	6,233,019		4,619,557,192	1,092,101,218	5,711,658,410	30,277,020

*Estimated.

AMENDMENTS OF 1939 TO FEDERAL HOME LOAN BANK ACT

TUESDAY, MAY 16, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

Hearings on H. R. 5535 were resumed at 10:45 a. m., Hon. Henry B. Steagall (chairman) presiding.

Members present: Messrs Steagall, Spence, Ford, Brown, Patman, Barry, Gore, Mills, Martin, Folger, Hull, Wolcott, Gifford, Luce, Crawford, Simpson, Johnson, Kean, Miss Sumner.

The CHAIRMAN. The committee will come to order.

Mr. Bodfish, we are glad to have you with us this morning, and the committee will be glad to have you proceed in your own way, and I am sure that the committee will be glad to have you make your general statement without interruption, if you so desire.

STATEMENT OF MORTON BODFISH, EXECUTIVE VICE PRESIDENT, UNITED STATES BUILDING AND LOAN LEAGUE—Resumed

Mr. BODFISH. Mr. Chairman, on Wednesday we discussed the provisions of the bill in which the savings and loan associations were interested, and which they approve. In short, the more important items were, first, Treasury support of the Home Loan Bank System in section 3; second, revision of the investment section as regards Federal savings and loan associations, and I am sorry that Congressman Martin is not here, for he raised a question as to whether it would be theoretically possible for a \$5,000,000 institution to make a million-and-a-half loan under that language. If so, we would be very glad to see the committee make some adjustment in the language, so that no loan could go beyond a reasonable portion of reasonable assets of the institution.

We also discussed on Wednesday the question of the phrase "other securities which are legal investments for fiduciaries," and the like. I indicated to the committee that that language has a variety of meanings in different States. In the main, it means Federal securities, and securities of the States, municipalities, counties, and the like, although in some areas there is a much wider group of securities that do come under the category of legal investments for fiduciaries. Those States are in the minority, and it might be wise in a further study of the bill to revert to the language in Chairman Steagall's bill of last year, and merely confine it to other securities approved by the Board, and not involve the question of the variety of local

fiduciary statutes, or of legal investments for trustees and guardians, as to which there is a variety of treatment in the different States.

I am sure that that is a matter which, if it were put in the discretion of the Board, would result in their being most uniform and conservative in the securities that they would approve, probably confining themselves to State obligations and the obligations of municipalities that in default and like conservative securities.

The CHAIRMAN. May I ask you a question there?

Would such a change bring about an automatic limitation, or would it operate, in practice, as an enlargement of the powers of the Board?

Mr. BODFISH. I think that, in practice, it would be an enlargement of the discretion of the Board. It would put them in position to establish a list of so-called approved securities, in which they might include liens of the respective States, and liens of the municipalities in which the institution is located. Federal associations do not at the present time have authority to make such investments, so that it would be an extension of their discretion, and somewhat of an expansion of the investment scope of these institutions.

We have no idea, however, that that expansion should result in its becoming a predominant activity of these institutions. We feel at the present time that they have only the right to invest in governments, and the time will come when the mortgage loan market real estate situation is such that their funds should be tapered off in mortgage lending, and perhaps go into such trustee securities.

The next item that we discussed—

The CHAIRMAN. I am wondering about the general effect upon the economic conditions. It occurs to me, insofar as it is safe to do so, that it would be desirable to permit investments in securities other than "Governments," because it seems to me that it would have a better effect upon economic conditions than when restricted to Government securities.

Mr. BODFISH. I think that you are entirely correct in that. I think that that is one of the errors in policy that we have embarked upon at the present time. We have developed a psychology through both statutes and practice that the only thing that is conservative and safe is an obligation of the United States Government. That is true, that it is conservative and safe, but there are other things which are proper for investment by conservative institutions, and by trustees, besides the direct obligations of the Government, and I think that it would be a good thing, for example, if the capital raised in Alabama, rather than to of necessity going into Government obligations, might go into some ultra-conservative securities issued by that State, some municipality, or some enterprise there.

I think that it is an error to point everything to Government securities in the way of conservative investments.

Mr. PATMAN. I notice that you suggest an amendment here.

Mr. BODFISH. I would like to come to that later, Mr. Patman, if I may.

We also discussed the reconversion section, which was section 9. We discussed on Wednesday the reduction in the premium rate, and while I was in Chicago over the week end, I thought I could possibly help the committee by preparing as careful a statement as I could of the building and loan losses, the experiences, and the reasons why we think the rate is justified. I have had it mimeographed. I have

some copies for the committee or for the record, entirely as you please or prefer.

Mr. PATMAN. Do you compare the rate charged by the building and loans and under the F. H. A.?

Mr. BODFISH. In this statement?

Mr. PATMAN. Yes.

Mr. BODFISH. I do not. I do not feel that it is a valid comparison myself, Mr. Patman. I think that it is one thing to insure an institution with management and reserves and all that sort of thing, and quite a different thing to endorse a note on an individual mortgage. It may in the long run work out that, in the aggregate spread of risks through the F. H. A. operation, you will have something more identical than we have at the present time. We do not know.

I think that our valid comparison lies essentially with the insurance risks involved by the Government in insuring the deposits in mutual savings banks, the risks and responsibilities of the Government in insuring time and commercial deposits in commercial banks, and, in the main, as far as there are comparisons in my memorandum, those are the ones in it. A copy is available for the record at the conclusion of my testimony.

I doubt if there is any question or objection as regards the insurance-settlement question, and I was about to comment briefly on the termination section in this bill, which is section 17 of the bill. At the present time, if an association should want to withdraw from the insurance, it is necessary for them to pay a 3-year penalty premium for withdrawal, during which period the insurance is not available to the account holder. The protection is withdrawn as to the date of termination. If there is an involuntary termination, there is a penalty of some 5-years' premium, during which period the insurance protection is not available to the shareholder.

The new withdrawal section provides for a 2-year penalty premium, and the insurance is operative during the 2 years.

There is considerable technical language in connection with that section dealing with notice and investors and the like.

Now, we come to the section that we feel should be added to the bill, to adjust a matter that has been under rather extensive discussion in the different States. The proposal is:

Amend H. R. 5535 and S. 2098 by the insertion of a new section between original sections 8 and 9, to be numbered 9, and renumber sections 9 to 18, inclusive, seriatim as 10 to 19, inclusive, the new section to read as follows:

SEC. 9. Subsection (h) of section 5 of Home Owners' Loan Act of 1933, as amended, is amended by adding at the end thereof the following:

"Any exemption from taxation by the United States now or hereafter provided applicable to Federal savings and loan associations, or the shares thereof, or the income therefrom, shall likewise apply to any building and loan, savings and loan, homestead association, and cooperative bank organized under the laws of any State, Territory, dependency or possession of the United States, or the District of Columbia, and to the shares, deposits, and certificates of indebtedness issued by such associations and to the income derived therefrom."

The reasons for this proposed amendment are:

1. It has been the long-established practice of the Federal Government and the State governments, in dealing with National and State banks, to put the two types of banks on the same tax basis.

2. The Congress, through section 5 (h) of the Home Owners' Loan Act of 1933, has insisted upon and established an identical basis for the State taxation of Federal associations, as compared with State-chartered associations. It therefore appears equitable and logical for this amendment to establish an identical basis in Federal taxation as regards treatment of both State and Federal associations. Furthermore, it has been the consistent policy of the Government to endeavor to establish equality in such matters.

3. The present discrimination against State associations creates a basis of competition revolving on the question of taxes between State-chartered associations and similar associations chartered and supervised by the Federal Government.

4. Recently the National Housing Act amendments of 1938 put debentures of national mortgage associations upon the same Federal tax basis as now provided for investments in federally chartered associations, and as is here requested for the shares of State savings and loan associations.

5. The only difference which today exists between federally chartered and State chartered institutions with respect to Federal taxes is that the earnings of the savings member in the State association are subject to normal tax and the earnings of the savings member in the Federal association are not. Both are subject to surtax, and so forth.

Again, the purpose of the section is to equalize the Federal taxation levied upon Federal savings and loan associations and their members with that levied upon State associations and their savings members. At the present time the taxing of both institutions and the members, both of the State-chartered and the Federal-chartered, is identical, with the exception of one proposition, that as to the saver in a Federal association his income is exempt from normal tax, as was the income in State-chartered institutions for many years, but it has been held recently that the income of an investor in one of these cooperative institutions, State-chartered, is subject to the normal tax. Our feeling is that it has been the long-established practice of both State and Federal Governments to treat both national and State banks in an identical way, on the same tax basis, and the Congress, through originally section 5 (h) of the H. O. L. C. Act, said to the States that they could treat these federally chartered associations just as they treat their own State-chartered institutions, and now we feel that the Federal Government should give equal privileges to State associations.

Mr. PATMAN. The same with national banks and State banks?

Mr. BODFISH. In Federal taxation the national banks and State banks are treated the same. In order to tax an instrumentality of the Federal Government, it was necessary for Congress to give permission, and the permission was given in the original H. O. L. C. statute, which said that any State or municipality or locality could tax them, but they must tax them, if at all, in the same way in which they tax similar State-chartered thrift and home financing institutions.

Mr. SPENCE. There was a decision in a recent case on that question of equal taxation. Can you refer us to that?

Mr. BODFISH. There was litigation on the question, and there was also a change in the language in the 1932 Revenue Act which led to

a different interpretation. The case was the *Aaron Ward case*, and I can get the citation for you, which raised the question.

Mr. KEAN. Mr. Bodfish, what is the reason why savers in building-and-loan associations should be exempted from the Federal normal tax, while savers in savings banks are not?

Mr. BODFISH. Well, it has been the general policy of the Government to encourage cooperative and mutual institutions in this manner.

Mr. KEAN. But not in connection with savings banks, which are mutual institutions.

Mr. BODFISH. A mutual bank is entirely exempt from all corporate and stock taxes.

Mr. KEAN. But, as to the saver's income, the man who puts his money in a savings bank, and where he gets an income from it, has to pay the normal income tax on it. Why should the man who puts his money in the building and loan association be exempt from the normal tax?

Mr. BODFISH. Well, I think the justification undoubtedly rests on the cooperative character of the institution.

Mr. KEAN. Savings banks are cooperative, too, a good many of them.

Mr. BODFISH. Trustee savings banks?

Mr. KEAN. No; but a mutual savings bank is. A large number of the savings banks in the northeast are mutual.

Mr. BODFISH. That is right.

Mr. KEAN. I do not see why one should be so favored, and not the other.

Mr. BODFISH. I think that the principal justification that one could develop is that there is probably a public policy which is defensible on the part of the cooperative institutions which invest all of their funds in the financing of homes and local housing. I suppose that a man's money, that he saves, is just as important to him if it is in an insurance company or in a commercial bank, in arguing the broad question of how his money should be treated.

It, however, has been the policy for many, many decades to encourage this type of institution through very liberal arrangements both as regards the taxation of the corporations themselves and the people who invest in them, and the Congress, in enacting the statute that provided for Federal savings and loan associations, and the taxation thereof, in the interest of encouraging the flow of savings into those institutions, exempted them from the normal tax, but subjected them to the surtax, the estate tax, the inheritance and the gift taxes.

In the final analysis it just turns on whether it is a desirable thing to encourage this type of community activity.

Mr. SPENCE. I cannot see why there should be discrimination between taxing the shares of the Federal savings and loan associations and the ordinary building associations, or any other institution doing the same character of business.

Mr. BODFISH. That is right. It creates a basis of competition and local irritation that certainly is not justified in public policy.

Mr. SPENCE. It seems to me that either none should be taxed, or all of them.

Mr. BODFISH. I think that that is the sound principle, but I think that there is also social justification in the case of these nonprofit institutions, all of whose funds are devoted to financing homes and

housing and like activities in the community, and that is why they are treated decidedly different than the great trading, industrial, and private organizations, and much different from those commercial banks operated for profit.

MISS SUMNER. Are building and loan associations not profit corporations?

MR. BODFISH. There is no proprietary stock, or ownership of them like a commercial bank; it is a common fund of money, in which people take shares, which are evidenced by certificates or pass books. They all participate alike in the earnings.

MISS SUMNER. But when you take earnings, you participate in profits, do you not?

MR. BODFISH. I suppose that taking the dividend of a cooperative building and loan association, with a thousand members and a million dollars, and all just exactly alike, is taking a profit. We speak of it as earnings. It is not interest. There is no contractual obligation.

By private organization, I mean an organization operated essentially for the profit of a group of proprietary shareholders, like a commercial bank. A commercial bank will have \$2,000,000 in deposits and \$100,000 or \$150,000 in stock, and we think of that as a private organization, in contrast to a cooperative.

MISS SUMNER. You say that it is defensible, but what is the defense, where you treat a small group of people getting a profit any differently than you treat a large group of people getting a profit. I do not see the difference there. I would like to know what the defense of that policy is.

MR. BODFISH. The defense of that policy is one that has been recognized for many years and decades, that if we get a group of 1,000 people here, and they all pool their savings in a local cooperative enterprise, that a State or the Federal Government says, for social reasons such as the home ownership thus achieved, that it wants to encourage that type of cooperative endeavor, and will treat them somewhat differently than they treat an organization in which there is a limited number of people with large stock interests who are operating everything for their individual profit, rather than operating it for equal distribution of earnings to all of those who contributed to the common or cooperative fund.

That has been the policy of the Government to a certain extent regarding mutual life insurance, mutual savings banks and cooperative banks, and savings and loan associations for decades, ever since we have had Federation taxation.

It is also the policy in the States. In Illinois the building and loan associations are not taxed in any way, shape, or form by the State, other than on the real estate in which they conduct their business.

MISS SUMNER. Well, of course, I think some of these depressions that we have had in the last 10 years have made some of us feel that we ought to think Government fiscal policies through very carefully. It does seem that the Government, representing a large group of people, should consider whether a small group of people in a building and loan association should be exempted as against a smaller group of private shareholders.

MR. BODFISH. On that basis, we should extend our income tax right down to anyone who has a dollar of income.

Mr. PATMAN. Which would be the easiest way to remove this discrimination, to require them all to pay this tax or to grant a further exemption?

Mr. BODFISH. I think it is preferable to continue the present policy.

Mr. PATMAN. If we should attempt to remove that discrimination, we would still have discrimination between these institutions and mutual savings banks and possibly other institutions, would we not?

Mr. BODFISH. It is possible. Of course, as far as taxation of these institutions is concerned, mutual savings banks are treated just like building and loan associations. I do not know about the matter of any others.

Mr. PATMAN. I think it would be interesting to the committee, and I know that it would be interesting to me, to know what other institutions are affected by this. If we were to grant your request, would others come in and say that they are entitled to the same consideration?

We would like to know what other institutions would be in a position to logically contend for that.

Mr. BODFISH. I do not know. I would have to study that thing, but I think that there is a rather recent precedent that is also of importance. The investors in securities of national mortgage associations, by action of this committee and the Congress in the 1938 F. H. A. amendments, had their returns exempted from such debentures and securities from the normal income tax, putting them on the same basis as shares in federally chartered savings and loan associations, and that was one of the reasons advanced by Mr. Eccles and others who advocated that change.

Mr. SPENCE. In the last analysis, it is not discrimination between individuals who are engaged in exactly the same investment, because it is the individual who profits if you relieve him from taxation on his shares?

Mr. BODFISH. Yes, and the thing that happens, where there are both State-chartered and Federal-chartered institutions operating in the same community, just as if there is a State bank and a national bank, and the taxation privilege were a little greater for a national bank than for a State bank, the management would probably imagine that some investments went one place rather than to the other on account of that.

But our people, in the main, are not substantial taxpayers. Their average account is not large. I do not think there is any substantial sum of money involved in this matter. As nearly as I can see, for the whole country it would only involve \$200,000 or \$300,000, and we think that it is consistent with the policy that has been followed as regards the Federals, and we hope that the committee will seriously consider adding such an amendment to the bill. We do feel that the committee and Congress should treat all institutions of like kind exactly alike, and there is a difference at the present time.

Mr. PATMAN. Who could furnish us with the information as to the other institutions that would have a right to make the same contention? Would you take upon yourself that responsibility, or do you think that we should ask some governmental agency?

Mr. BODFISH. I would be very glad to work on the inquiry you make.

Mr. PATMAN. In other words, give us a list of all institutions now profiting by reason of this provision, like the housing organization, and the Federal savings and loan—those two you have named. Evidently there are others. I would like to see a list of the others, and I would like to know of those who could contend for the same provision in their behalf.

Mr. BODFISH. I would be very glad to make a careful study of that. It involves studying the revenue acts. It includes local mutual insurance companies, savings banks, and the securities of a number of small corporations and Government-sponsored or supervised organizations of one kind and another.

Memorandum to Banking and Currency Committee, House of Representatives,
Hon. Henry B. Steagall, chairman.
From United States Building and Loan League, Morton Bodfish, executive vice president.

Re question by Congressman Patman dealing with policy of the Federal Government regarding normal income taxation of earnings from certain investments

The taxation of savers in Federal savings and loan associations by the Federal Government and the permission to State, county, municipal, or local taxing authorities to impose taxes not greater than that imposed on other similar local mutual or cooperative thrift and home-financing institutions is found in section 5 (h) of the Home Owners' Loan Act of 1933.

The investors in Federal savings and loan associations and the investors in State-chartered savings, building and loan associations, and cooperative banks are treated identically as far as taxation by the Federal Government is concerned, with one exception. The earnings to savings members in Federal savings and loan associations are not subject to normal income taxes, as is the case with State-chartered building and loan associations.

The question is raised as to what other or similar investments, controlled or created by Federal statutes, are accorded similar treatment, as regards normal taxes, as that accorded to investors in Federal savings and loan associations.

The income from the following is not subject to normal income tax:

United States saving bonds, 2.9 percent.

Postal-savings deposits, 2 percent.

Postal-savings bonds, 2 and 2½ percent.

Credit-union shares, 3 to 6 percent.

Federal Savings and Loan Association shares, 3 to 3½ percent.*

Federal Housing Administration debentures, 2¾ and 3 percent.

National Mortgage Association obligations, 1⅝ percent.

Federal Farm Mortgage Corporation bonds, 1¼ to 3¼ percent.

United States Housing Authority obligations.

Treasury notes, Treasury bonds, 2 to 4 percent.

Reconstruction Finance Corporation notes, ⅞ and 1½ percent.

Federal Deposit Insurance Corporation, Treasury notes, 2 percent.

Federal Savings and Loan Insurance Corporation obligations.

Federal Home Loan Bank bonds and debentures, 1 to 2 percent.

Commodity Credit Corporation notes, ¾ percent.

Federal Intermediate Credit Bank bonds and stock.

National Farm Loan Association bonds and stock.

Life-insurance payments on death and annuities up to 3 percent of aggregate premiums or consideration, also dividends on unmaturing and paid-up policies.

Obligations of State, Territory, or any political subdivision thereof.

The income from the following is subject to normal income tax:

Dividends on the stock of production credit corporations, production credit associations, and banks for cooperatives organized under Farm Credit Act of 1933.

Interest on deposits in national banks, savings banks, etc. Dividends and interest paid on stock and bonds issued by business industrial and trading corporations, etc.

The basic reason for the treatment accorded savings members in local cooperative thrift and home-financing institutions has been the social service which they render in facilitating and encouraging home ownership. The Government has for many years given special encouragement to cooperatives of all types and has put them in a somewhat different category as regards Federal taxes from other business and industrial enterprises. The position has been taken, and rightly so, that local organizations of a cooperative character, which have as their further purpose the encouragement of thrift, should be assisted to a greater degree than private enterprises whose profits are not widely distributed as in the mutual organization. It is generally true that governments abroad have traditionally given tax preferences to cooperative organizations in the fields of banking, agricultural credit, consumer purchases, and thrift and home financing. This type of support has been justified because of the mutual and democratic character of these associations and their primary purpose of providing an accumulation of local funds which could be loaned at reasonable rates in the development of sound community enterprises.

The financing of small-home ownership has always been considered a particularly worth-while social activity. Limited tax exemption, such as is requested in this amendment, serves the purpose of encouraging the flow of savings into useful community activity at little expense to the Government. The exemption from normal income tax of dividends on building and loan shares appears especially justified in view of the fact that all of the savings funds in these institutions are employed in the financing of small urban homes, which homes bear a heavy burden of taxation.

Mr. FORD. Mr. Bodfish, your contention is that by this exemption it would encourage thrift. I note that the Gallup poll records that only 3 percent of those queried believe that taxes should be generally reduced. I do not think that the general public is as much concerned about the present taxes as these newspapers and chambers of commerce and others would lead us to believe.

Mr. CRAWFORD. May I ask you this, Mr. Ford? Do you think that those people to whom those queries were submitted know wherein and whereby and how they are paying taxes?

Mr. FORD. I do not know whether they do or not. But a good many of the people are placing a great deal of significance on those polls. I am wondering about the significance of them myself.

Mr. CRAWFORD. In last night's paper, there is a very short press report by one of the more important agencies to the effect that 7.8 percent out of each dollar paid for food is covered by an indirect tax—say, roughly, 8 percent. I am sure that the people do not know that. I did not know that.

¹ The Internal Revenue authorities have ruled that where State-chartered building and loan associations are reorganized to form Federal savings and loan associations, the earnings of the associations credited to the shareholders before such reorganization are subject to normal tax and surtax, but the earnings credited subsequent to the reorganization are subject only to surtax. (See I. T. 3050, 1937—1 C. B. 57.) The same situation prevails when a State-chartered institution converts to a Federal savings and loan association.

² The present law, which is sec. 5 (h) of Home Owners' Loan Act of 1933, as amended, with proposed amendment added in italic:

(h) Such associations, including their franchises, capital, reserves, and surplus, and their loans and income, shall be exempt from all taxation now or hereafter imposed by the United States, and all shares of such associations shall be exempt both as to their value and the income therefrom from all taxation (except surtaxes, estate, inheritance, and gift taxes) now or hereafter imposed by the United States; and no State, Territorial, county, municipal, or local taxing authority shall impose any tax on such associations or their franchise, capital, reserves, surplus, loans, or income greater than that imposed by such authority on other similar local mutual or cooperative thrift and home-financing institutions. *Any exemption from taxation by the United States now or hereafter provided applicable to Federal savings and loan associations or the shares thereof or the income therefrom shall likewise apply to any building and loan, savings and loan, homestead association, and cooperative bank organized under the laws of any State, Territory, dependency, or possession of the United States, or the District of Columbia, and to the shares, deposits, and certificates of indebtedness issued by such associations and to the income derived therefrom.*

Mr. PATMAN. That is not very high, considering everything.

Mr. CRAWFORD. It is an indirect tax of 8 percent, or a hidden tax of 8 percent, that the people do not know anything about.

Mr. PATMAN. You pay from 40 to 60 percent on the cigarettes that you smoke.

Mr. CRAWFORD. I do not smoke them.

Mr. PATMAN. And you pay about 50-percent tax on the gasoline that you use. You certainly use gasoline.

Mr. CRAWFORD. That may be true.

Mr. PATMAN. This money is going right back to the people who pay it.

Mr. FORD. I am just wondering how much sentiment there is in the country for a reduction of taxes.

Mr. SPENCE. I understand that you are not asking for a reduction of taxes but for equalization.

Mr. BODFISH. For equalization, but it does involve a very small reduction in the normal tax of people who invested in State-chartered building-and-loan associations. The thing that we want, of course, is to have it adjusted so that the situation is helpful and identical. We would strongly prefer to see it adjusted on the more favorable basis, because one of our problems has been to get the flow of savings into the institutions, State and Federal, and I believe that when I submit the list of securities requested by Mr. Patman that the committee will be convinced that our amendment is justified.

The CHAIRMAN. Everybody wants to reduce the taxes that he is interested in, and everybody wants the appropriation that he is interested in. People who pay the taxes want to balance the Budget and do not want to pay the taxes.

Mr. CRAWFORD. Mr. Bodfish, did I understand correctly that the Congress has drafted the law in such manner that those who participate in earnings directly or indirectly through the Federal savings-and-loan associations are not taxable for the normal income taxes?

Mr. BODFISH. That is correct.

Mr. CRAWFORD. What about the surtax?

Mr. BODFISH. They are subject to surtaxes, estate taxes, gift taxes, and all other taxes.

Mr. CRAWFORD. You ask, then, that the building-and-loan association members be treated in a comparable manner?

Mr. BODFISH. That Congress declare the policy that the Federal Government shall treat the State-chartered institutions and the members therein on exactly the same basis as they treat similar associations which they charter. Today the Government treats them identically at the present time as regards everything except this one item, and in the statute the Federal Government permitted the States to tax the Federals, which they do, but only on the same basis that they tax the State institutions.

Mr. CRAWFORD. How many States now tax the Federals and the building and loans?

Mr. BODFISH. Any State in the Union can, if they care to, but few do.

Mr. CRAWFORD. But you do not know how many are taxed?

Mr. BODFISH. Most of them do not tax them at all.

Mr. CRAWFORD. Massachusetts does tax both, does it not?

Mr. BODFISH. They do not have any tax, as I recall, on the earnings invested in shares although the State of Massachusetts is attempting to tax income from the Federal shares.

Mr. CRAWFORD. Do you know of any other State in the Union that also taxes the participation in these earnings of Federals and building and loans?

Mr. BODFISH. I am not familiar enough with the State income taxes to know. I know that we do not in Illinois. There is a small tax in Ohio. The general policy is not to tax these institutions or the earning of their savings members.

Mr. CRAWFORD. If the law were amended so that the Federal savings and loan associations were not exempt in connection with the Federal normal tax, would you then feel that the building and loans should be exempted?

Mr. BODFISH. No. I think that they should be each treated just exactly alike, both by every State government and the Federal Government.

Mr. CRAWFORD. And you are not concerned which way it goes, so long as they are treated alike?

Mr. BODFISH. I would not be human, representing the interests of the Federals as well as of the State-chartered institutions, if I did not urge the Congress to follow its traditionally liberal policy with regard to all of these mutual thrift and home-ownership associations.

Mr. CRAWFORD. You say that so far as you understand the program of Congress, these exemptions were made to encourage this type of investment and participation?

Mr. BODFISH. To encourage the flow of savings into these institutions—but first to encourage thrift.

Mr. CRAWFORD. Here is a step which in my opinion runs contrary to what Congress did, and also defeats the purpose which I think you are advocating. A statement issued by the Treasury shows that on Monday, May 1, 1939, through a full-page advertisement in the Saturday Evening Post and by personal solicitations through the mails, that the Treasury, or the Congress, or the Government, or all of them put together, had induced our people to place two billion, five hundred and eleven million of savings in baby bonds.

Now, if we are so anxious to induce people to put money in the Federal savings-and-loan institutions that we exempt their income from taxes, why do we go along and promote such a program as to pull their savings away from industry, from building and loans, from Federal savings and loans, and all of these other activities, and to put them into baby bonds?

Do you think that there is any conflict between the policy of Congress—this is my real question—which exempted Federal savings-and-loan associations from the normal tax, in order to induce people to so invest, and the policy of Congress which creates the baby-bond program? Do you see any conflict there at all?

Mr. BODFISH. I see two propositions, Mr. Crawford. In the first place, I recall that the baby-bond income, in the hands of the individual, is treated just like the Federal savings-and-loan share.

Mr. PATMAN. But the interest rate is different. One is $2\frac{3}{4}$ percent, and the other is 4.

Mr. BODFISH. Our interest rates are 3, $3\frac{1}{2}$, and 4, with 3 becoming predominant very rapidly.

It seems to me that there are two propositions that come before us in answer to Mr. Crawford's inquiry. No. 1—it is hard for any of us to criticize our Government and its policy in funding or raising the money to carry out the operations and the expenses which have been authorized by the people through their elected representatives. It seems to me that that is a basic proposition which we all must admit.

Now, granting that, I think that probably there is some wisdom and desirability in having the debt of the Government more in the hands of the general citizenship than to have it concentrated and sometimes almost forced into the financial institutions of the country.

The other side of the question, and I fear that you will accuse me of straddling, is that from the point of view of a group of citizens in a community trying to get together through a financial institution and to encourage thrift in that community and to lend it back in the community, it is mighty discouraging to have your stamps canceled when you send out some literature to people whom you are trying to persuade to buy building and loan shares and to have them and also your own employees receive from the mailman two or three times a year some star-spangled literature from the United States Treasury urging them to buy baby bonds.

So, competitively, it is irritating and sometimes a little unfair.

But looking at it in a broad light, perhaps it is a desirable thing to have a broad distribution of the public debt, rather than a concentration of it in the large financial institutions.

Mr. CRAWFORD. I agree with you 100 percent on the question of discrimination, and my question is directed in order to try to find out from you if, in your opinion, there is any conflict in the policy of Congress in exempting certain shares from taxation in that manner.

Mr. BODFISH. It seems to me that there is a fairly consistent policy. They are trying to encourage small savings, essentially, aren't they, when the exemption is given to the baby bonds?

Mr. CRAWFORD. Last week, if I remember your statement correctly, you dropped a remark to the effect that the mechanism of the F. D. I. C. was draining money from the building and loans to the banks. Did I understand you correctly in that?

Mr. BODFISH. Yes; but I was speaking particularly of the period of 1933 and 1934, when deposits in banks were insured and we had no such protection.

Mr. CRAWFORD. Can you tell me where I can find some absolutely definite information supporting the philosophy that that drainage has taken place or did take place or is continuing?

Here is the reason that I ask the question, and I will go back to the baby-bond proposition. Our people have purchased two and a half billion dollars of maturity values since that program started. Did that two and a half billion come from prospective building-and-loan customers?

Mr. BODFISH. Some of it did.

Mr. CRAWFORD. Or is it money that would have gone to the baby bonds anyway, and which was never attached to the building and loans? In other words, I am trying to get a reasonably accurate yardstick to support your suggestion.

Mr. BODFISH. I do not believe that that statement, Congressman Crawford, can be proven statistically from records, either in the Post Office Department or in the hands of the supervisory authorities. You can go, however, to the Peoples Building and Loan, and you will find there that Mr. Jerome will tell you that they have had withdrawals and the checks would come floating back and we would know where they were cashed—oftentimes in postal savings and oftentimes in insured bank deposits—and it was the opinion of men whom I respect, who were following the thing right in their own communities, that the flow of savings was decidedly toward insured institutions, and, of course accompanying that there was a flow toward postal savings.

I think that this has been about the first period recently when the postal savings volume has not been mounting almost monthly.

Mr. CRAWFORD. When you refer to the postal savings, you are not including baby bonds?

Mr. BODFISH. I was thinking particularly about postal savings. Of course, baby bonds are continuing to mount in volume each month.

Mr. CRAWFORD. I find that during the months of January, February, March, and April, this year, they sold \$327,000,000 worth of baby bonds, or at the rate of almost \$1,000,000,000 per annum.

I am just wondering what connection there is between that flow of savings and your statement with reference to the drainage from banks. I am wondering if the building and loan associations and the banks also are not being drained. I am not criticizing, but trying to analyze.

Mr. BODFISH. I think that there is a direct competition there, and that, in the absence of the baby-bond program and the postal savings program, which now are very similar in many ways, I think those funds would remain in community institutions, both banks and building and loan associations. Personally, I can see no reason, with the guaranty of bank deposits that we have now under the F. D. I. C., and the insurance of accounts in connection with the savings and loan associations, for the postal saving activity or the baby-bond activity, except the reason of getting the public debt widely spread into the hands of a large proportion of the citizenship.

Mr. CRAWFORD. Isn't this the cause of that flow of money in that direction, that they do not receive any returns on demand deposits? You have your demand deposit going to your credit, and it is insured, but you receive no return. If you have the money in the savings account in our banks out West, you get a lower return than you receive from the baby bonds or the postal savings; do you not?

Mr. BODFISH. That is true.

Mr. CRAWFORD. Isn't that the reason for this shift?

Mr. BODFISH. I think that there is a competitive feature there in the interest rate, although it must be said in fairness that the baby bonds are in long-term money, and there is a forfeiture of earnings if those bonds are cashed or withdrawn in the early days.

Mr. CRAWFORD. There is no forfeiture in the principal?

Mr. BODFISH. There is no forfeiture in the principal, but there are surrender values, so to speak, which decrease the return unless it is left in for the full period. You must leave it in for the full period in order to get the 2.9 percent. Before that, I think that you could

adjust the principal and an increasing portion of the interest as each year passes.

Mr. CRAWFORD. You made another observation, to the effect that the banks were making a great many loans on a 25-year basis. What in your opinion is the principal reason for those loans now being made, that were not made in prior years?

Mr. BODFISH. The only reason why the commercial banks in this country are making 25-year loans is that, through the F. H. A., the United States is guaranteeing them both safety and a profit.

Mr. CRAWFORD. So far as your information goes, are practically all of these 25-year loans being made by banks in competition with your institutions, both of which are guaranteed by the F. H. A.?

Mr. BODFISH. As far as I know, all of them are. I do not think that any bank has made a loan over a 3- or 5-year period unless it was guaranteed or insured by the Government.

Mr. PATMAN. They are not privileged to, under the law.

Mr. BODFISH. I think that 5 years is the limit.

Mr. CRAWFORD. What in your opinion would be the policy of these banks that are making these loans, thus insured, if we should run into an era of very active industrial activity and the banks had demands for heavy commercial loans? What do you think they would probably say?

Mr. BODFISH. I think that they would return to the commercial loan activity, which has been their traditional field.

Mr. CRAWFORD. To what extent would they return to their old activity? Say, 75 percent, in your opinion?

Mr. BODFISH. Of course, any figure would be a guess. But I cannot quite imagine a commercial bank working in the monthly amortized mortgage field if there are commercial loan demands, which involve much simpler and longer transactions. On the other hand, I am not a commercial banker.

Mr. CRAWFORD. Do you think that some of the banks would want to continue to receive the backing of the Government, rather than to shift to commercial loans, without the Government guaranty?

Mr. BODFISH. Well, I think that our commercial banks are very much interested in the F. H. A. guaranty. It has brought them back into the mortgage business, but I doubt—and, of course, they should speak for themselves—I doubt if they would continue in the mortgage field extensively at all in the absence of the F. H. A. guaranty.

Mr. CRAWFORD. May I ask you this question, and this, I think, directly relates to building-and-loan activities. In Cincinnati, Ohio, the baby-bond sales have amounted to \$16,000,000; in Chicago, \$132,000,000; in Providence, R. I., \$3,000,000; in Denver, Colo., \$17,000,000; in St. Louis, Mo., \$35,900,000, as against Philadelphia, Pa., \$36,700,000. As I study those figures, I get the impression that the baby-bond sales are much greater in proportion to population and, you might say, ability to buy, west of the Alleghenies than east of the Alleghenies.

In your building-and-loan league work, did you find any activity that would indicate to you that you are losing out more west of the Alleghenies than you are on the Atlantic seaboard?

Mr. BODFISH. I do not think so.

Mr. CRAWFORD. As an illustration, in Chicago the sales have been almost \$132,000,000, as against \$36,700,000 in Philadelphia.

MR. BODFISH. Of course, in our Chicago picture, just to discuss that directly for a moment, the small saver has somewhat of a problem. In the county of Cook we lost over 100 banks in the depression. They were heavily involved in the real-estate-mortgage field, some of them showing mortgage holdings ranging from 50 to 60 percent. Then, our building-and-loan structure was not as extensive as it is in some places. It existed largely in small associations among the foreign-language groups where the association did great service, but the small saver has been slow in patronizing many of them since the banking crisis.

MR. PATMAN. Would not the size of the cities, and the per capita wealth, have something to do with it?

MR. CRAWFORD. Let us take Minneapolis, for instance. Minneapolis has purchased \$35,700,000, and Philadelphia, \$36,700,000. That is the drought-stricken Northwest, where there has been no business, where rents have gone to pieces, and property values dropped from 40 to 60 percent in many cases, and yet baby-bond sales in Minneapolis compare with those of Philadelphia.

So I am just wondering, if this impetus is to be continued to be given to this baby-bond activity, what the future of the building and loans is going to be, especially if you do not receive as much consideration as other competitive types of savings activities enjoy?

MR. PATMAN. Do we have the figures for the building and loans during the same period of time?

MR. CRAWFORD. No. I do not know that that has been compiled.

MR. PATMAN. Wouldn't that be the only fair comparison?

MR. CRAWFORD. I do not believe it would be a fair comparison, because there would be the question whether the building and loan activities were increasing as fast as, say, the sale of baby bonds. I do not believe that it would show up that way.

MR. BODFISH. Can't we generalize to this extent? I have not thought about or studied the question that Mr. Crawford raises in terms of individual cities, but there is no question but what the great flow of thrift money that would otherwise get into the savings departments of banks and into savings and loan associations and building and loan associations is going into baby bonds. It is that class of small saver and small investor, in the main, that is putting his money there instead of in local or community institutions.

MR. PATMAN. But this money that goes into baby bonds does not stay there; it goes right back to the communities. When it was paid to the Government, if the Government kept it, I think that your contention about taking the money away from a community would be correct, but where it goes right back to the people in that community, that is a different situation.

MR. BODFISH. Of course, there you get into the question of the flow and distribution of the wealth. But this money goes out of the community in the form of a savings bond and comes back in the form of a relief check or a public project, rather than staying in the community as a building and loan investment.

MR. PATMAN. But it does not stay there; it moves.

MR. BODFISH. That is right.

MR. PATMAN. It goes into the hands of the people who invest in building and loans.

MR. BODFISH. To a certain extent that is right.

Mr. PATMAN. And who pay income tax.

Mr. BODFISH. That is right.

Mr. GIFFORD. Why not take a cooperative bank, or take two or three—it is the same story with all of them. When the trouble came, and there were foreclosures, they stopped doing much business. They were bailed out by the H. O. L. C. until they finally got on their feet.

I find in my little community, and said so on the floor of the House recently, that we used to live off of each other. Anybody who had something spent it. Now those in my community who have a little money put it in an insured commercial bank, and my \$3,000,000 bank has \$1,000,000 of actual cash on hand. So insured deposits is the answer.

The reason I find that the cooperative banks are still able to function and to have money is not because of new money put in, but because of the amortization of present mortgages. So it is not new money that is flowing in like it used to.

Nantucket Island, which I represent, leads the country, as a post office, in selling baby bonds. We all know that foreigners in other localities are more responsible for buying baby bonds than anybody else. They did not want to do a banking business, and I made the statement on the floor, and still stick to it, that by insuring the commercial banks, we have frozen many accounts. I asked my cooperative bankers about it, and they tell that story, that this is money flowing in on the mortgage already issued, and not new money.

It has been a natural feeling that building and loan associations are not as safe as deposit-insured banks, and I have said it emphatically over and over again on the floor, and I repeat, that your bank-insured deposits in small communities makes business as tight as it can be. We used all to live together, but we do not any more.

Mr. PATMAN. Couldn't you say that the opposite is true, for this reason, that you encourage your people to put money in an institution that will pay? In other words, get it out into circulation, instead of hoarding it themselves? You take 1,000,000 people who, we will say, each have \$10 to invest. They would not invest that in the building and loans, but they would possibly put it in the Postal Savings, and that \$10,000,000 would go to the Government and be spent all over the country and become available for business, industry, and trade. Then, a lot of people would not put money in the banks if it were not for the insured deposit, and the fact that that money is put in the banks makes it available for business.

Mr. BODFISH. Isn't that a natural reaction to the financial catastrophe that we had? Fifteen thousand banks failed from 1920 to 1933, and we had all that sort of thing, so that it was very necessary and important that some vehicle be developed, and I think the F. O. I. C. was an excellent thing, myself. I do not know of the final ramifications; they cannot be judged until 25 years from now, but it did provide a more orderly method of liquidation than had generally been provided for financial institutions and confidence was restored.

The CHAIRMAN. We insured deposits under the Emergency Banking Act by permitting them to print currency on their assets in order to meet the demands of their depositors, and we ran on that basis until we enacted the insurance law.

Mr. FORD. Are we not coming in here and asking for permanent legislation to meet a specific and what might be a temporary situation? Suppose that business should finally become normal, and that the market for common stocks and industrial bonds began to develop; is it not to be assumed that the building and loan and other savings funds would again roll into that market by reason of the higher returns promised?

Mr. BODFISH. I do not believe that the higher return will be possible again in our type of institutions.

Mr. FORD. Not in yours, but higher returns from buying common stocks and industrial bonds.

Mr. BODFISH. If there are higher returns developed in that field, in comparison with thrift investment in institutions, the money will flow from us.

Mr. FORD. Your organization would not dream of coming in here and asking Congress to do something to rectify that situation, if it should develop?

Mr. BODFISH. No; I do not see how we could do anything about it. I think the only thing that we can ask for is rather general treatment similar to what is received by institutions of the same class, and beyond that we must go right out and work, compete and scratch to deliver the goods on our merits.

Mr. FORD. You are asking to be treated on an equality basis with others?

Mr. BODFISH. That is right, and beyond that we must go out and compete.

Mr. FORD. Absolutely, and get the money where you can, and get what you can out of it when you invest it, and do your best. That is the capitalistic system in a competitive situation?

Mr. BODFISH. That is right.

Mr. FORD. I have been looking at some figures as to returns on industry. For 3 years up to 1938, industry made a general gain, and I took in the good ones and bad ones, and they got 8.34 on their net worth. In the first 3 months of 1939, they made 7.1 on their net worth.

Mr. BODFISH. That is before taxes?

Mr. FORD. After taxes. It does seem to me that there has been a great deal of complaint about taxes stopping business, and all that. I do not think it is warranted. There is a great deal of talk about confidence. It seems to me that the outstanding fact is that people have confidence in the country. They are buying baby bonds, and putting their money in insured institutions, and buying these Government-insured mortgages.

Possibly the institutions are doing that.

Mr. BODFISH. That is right.

Mr. FORD. It seems to me that what you are trying to do now is to create temporary legislation to meet a temporary situation, because anybody that follows the trend sees that it is on the way up, and that probably in from 3 to 6 months all of this legislation will be unnecessary. I may be wrong, but that is my feeling. The steel people have cut the price on steel, and people familiar with steel think that they should have done that long ago and sold more steel and made their money on volume.

So I have the feeling that, outside of rectifying any inequalities that exist between these particular thrift institutions, we should not go very much further.

Mr. BODFISH. I do not think this bill proposes to go much further than to fill in reasonable needs and sound additions in existing legislation. No major policy changes are involved in my judgment.

Mr. FORD. But the discussion brings in a very much wider field.

Mr. BODFISH. You have said that modestly. It has been wider, possibly wider than necessary.

Mr. LUCE. I would like to ask one question on the proposed amendment. I own shares, matured shares, as they are called, in a cooperative bank, State chartered. I also own matured shares in a Federal savings and loan association. I paid no taxes until this year, no State taxes, upon those owned in the Federal association. This year I was obliged to make a return on my profits on the Federal shares. I did it under protest, upon the advice of the cooperative bank. I am now waiting, and shall probably wait several months, to find out whether the State agency can collect a tax on a Federal agency.

If your amendment prevails, I do not see that you correct that situation, but, instead, will make me pay a State tax upon my State-owned shares, the reverse of what I understood you to desire to accomplish. Instead of my being better off, I will be worse off if that prevails.

Wherein am I in error?

Mr. BODFISH. I think you are in error in the assumption that you will be in a taxpaying position to a greater extent. I think that I can best state your position by reading from the present Federal statute—

Mr. LUCE. It is the State statute that worries me.

Mr. BODFISH. I know, but it is the Federal statute which gives the State the right to tax your earnings from your Federal shares, which is the question, as I understand it, in which you have paid under protest, paid a State tax on earnings on your Federal shares.

Mr. LUCE. I won't question that at all, whether it is right or wrong, but you propose that if I have to pay a Federal tax, I shall also pay a State tax.

Mr. BODFISH. No. I propose that the exemption which you have been granted by Federal law on your normal Federal income tax from your Federal shares be made available to you as far as Federal tax is concerned and the income from your State cooperative bank shares. As regards your income from your State shares, at the present time, under the rulings of the Bureau, as they interpret that statute, you are supposed to pay a normal income tax on the income from your State cooperative bank shares. You do not have any obligation to pay a normal income tax on the income from your Federal shares.

The only thing that I want to deal with is the question of the policy of the Federal Government as far as Federal taxation is concerned. We think the policy as regards local taxes is properly set out in the statute when they say that a State may tax a Federal in any way that it taxes its own institution. The only thing that we want to adjust is the question of the normal tax on the income from your shares in the cooperative banks, on which you are supposed to pay at the present time.

Mr. LUCE. Now, turning to the other horn of the dilemma, I understand your amendment to require that I shall pay a State tax.

Mr. BODFISH. No.

Mr. LUCE. If I pay a Federal tax. Is that wrong?

Mr. BODFISH. The amendment, as I understand it, merely says that any exemption by the United States from Federal taxes that is made available to Federal associations and their members shall likewise be made available to State-chartered institutions and their members. That is the whole purport of the amendment, in summary, merely to say in the substantive law that the Federal Government, in granting exemptions to Federal associations, shall likewise make those exemptions available to State-chartered institutions and to their members.

Mr. SPENCE. In the constitutions of almost all of the States there is a provision that all property of whatever character similarly situated shall be taxed the same. Do you know of any State in the Union where there is not a provision of that kind?

Mr. BODFISH. Aside from classification. Some States treat realty different from personalty, but in the main that is so.

Mr. SPENCE. But there is a provision of the type that I have just referred to.

Mr. BODFISH. That is right.

Mr. SPENCE. And you want to apply that principle to the National Government?

Mr. BODFISH. That is right; and I think it was the intention of the National Congress in writing that section. It certainly was our intention to do exactly the same thing, those of us who had a part in advising Congress on the H. O. L. C. legislation.

The CHAIRMAN. On account of the situation in the House, it is desirable that we adjourn now, and we will meet tomorrow morning at 10:30 o'clock.

(Thereupon, at 12 o'clock noon, an adjournment was taken until Wednesday morning, May 17, 1939, at 10:30.)

Memorandum to: Banking and Currency Committee, House of Representatives,
Hon. Henry B. Steagall, chairman.
From: United States Building and Loan League, Morton Bodfish, executive vice president.

MEMORANDUM UPON THE REDUCTION OF THE INSURANCE PREMIUM OF FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION FROM ONE-EIGHTH OF 1 PERCENT TO ONE-TWELFTH OF 1 PERCENT

The following propositions deserve consideration in connection with the insurance premium of F. S. L. I. C.:

I

The Federal Savings and Loan Insurance Corporation was organized in 1934. Currently, its expenses are approximately 10 percent of its net premium income and its losses from 1934 to date have been approximately 2 percent of premium income. It follows that approximately 88 percent of current premium income is going into surplus and reserves.

The total income of the Corporation consists of premium income, admission fees, and earnings on investments, and the losses to date have been approximately 1 percent of total income, and the expenses are currently approximately 4½ percent of total income. The capital of the Corporation remains intact, and in addition it has built up more than \$17,000,000 of surplus and reserves. It has paid all of its expenses from its earnings and not one dollar has been appropriated from tax or other revenue for its support. The record appears clearly to justify the reduction in premium rate.

II

The savings and loan business, as a whole, in the United States was about \$9,000,000,000 just prior to the depression and is now about \$6,000,000,000. There are about 9,500 separate associations in the United States. If every association, without regard to its management, condition, or practices, had been insured in 1920 at the premium rate now recommended and all losses had been paid as the same have occurred, the Insurance Corporation would still be solvent and unimpaired and it would have built substantial surplus and reserves. Records have been kept for many years of the number of associations which have failed and the total estimated losses in such associations, as reported by the State supervisors and the Federal supervisory authority, and we attach a tabulation of these figures to indicate the loss experience.

This summary of failures and losses includes 1,526 institutions. During the identical period, 15,014 banks failed or were suspended. Included in the 1,500 building and loan failures (10 percent in number of the bank failures), were almost 1,000 Pennsylvania associations, practically all of which were engaged in making second mortgages and account for a substantial portion of the losses as well as the numerical failures. Certainly these institutions, in addition to many others, would not have been insured under the standards and policies of the Federal Savings and Loans Insurance Corporation.

III

Some suggestions of comparison with the Federal Deposit Insurance Corporation have been made. The Federal Deposit Insurance Corporation has a premium rate of one-twelfth of 1 percent measured by deposit liability only, and does not include creditor obligations in the measure of the premium. And, furthermore, it pays from its own funds as an expense for its examination of over 7,000 State nonmember banks. We ask for a premium of one-twelfth of 1 percent measured by the total deposit liability plus the total amount paid in on shares, plus the total other creditor liabilities, and in our case the total cost of examination is borne by the institutions insured and not by the Insurance Corporation. The addition of the creditor liability in the measure of the insurance premium increases the amount of premiums payable at the same rate by approximately 10 percent. In addition to all of the foregoing, the Federal Savings and Loan Insurance Corporation has power to assess an additional amount equivalent to its regular premium against its insured institutions when necessary to pay expenses or losses, or to pay expenses and losses. We are not asking that this power to assess be removed, and it, of course, adds materially to the power of this Insurance Corporation to pay its way in the event of catastrophe, and protects the Government. The Federal Deposit Insurance Corporation has no power to make additional assessments.

Savings and loan associations do not object to one comprehensive and adequate examination each year by State or Federal supervisory authorities. In States providing for adequate examination, however, the associations with their accounts insured should be relieved of paying a second and additional or double examination charge. Such an adjustment or policy was suggested in section 17 of H. R. 10558 by Mr. Steagall, which was before the Seventy-fifth Congress.

IV

Mutual savings banks may be insured by the Federal Deposit Insurance Corporation at a premium of one-twelfth of 1 percent of their deposit liability, and approximately \$1,000,000,000 of such deposit liability is insured out of a total of about \$10,000,000,000 of such deposits. Mutual savings banks are somewhat similar to Federal savings and loan associations and with an increasing number of State savings and loan associations. They invest a high percentage of their assets in mortgages, but have not the same protective restrictions around them as apply to the savings and loan associations. They invest extensively in railroad and public-utility bonds, which are probably more dangerous as an insurance risk. We know of no proposal to increase the insurance premium rate in this case. Certainly if this rate is sound, and the Federal Deposit Insurance Corporation is able to spend from its own funds money for examination, then one-twelfth of 1 percent is sound for Federal Savings and Loan Insurance Corporation, measured by the total amount paid in by savers and investors, plus creditor liabilities, and with the Insurance Corporation having power to assess an additional one-twelfth of 1 percent.

V

The fact that Federal Deposit Insurance Corporation is protected in a measure by underlying capital in banks has been mentioned. It is not protected by underlying capital in the case of mutual savings banks. The underlying capital and surplus in the commercial banks, we believe, is approximately 13 percent of their resources. The accumulated reserves, surplus, and undivided profits in insured savings and loan associations is approximately 8 percent, and is increasing. It is true that the capital and surplus of banks are not insured, but it is true also that the reserves, surplus, and undivided profits of savings and loan associations are not insured.

VI

It has been pointed out that Federal Savings and Loan Insurance Corporation insures practically the entire amount paid in in the case of savings and loan associations, whereas Federal Deposit Insurance Corporation insures only about 40 percent of the amount paid in to commercial banks on deposits. Both insure accounts up to \$5,000, but the savings and loans have the savings of the working people of the country and the banks have the deposits of all classes of people, including some very large deposits which run far above the insured amount. But the facts are that the advance 1938 report of the Federal Deposit Insurance Corporation, shows, we find:

"From the beginning of deposit insurance to December 31, 1938, 255 insolvent insured banks were closed, of which 3 were subsequently reopened or taken over by other insured banks and 252, having 479,829 depositors, with total deposits of \$135,758,000, were liquidated or merged with the aid of loans from the Corporation. Deposits amounting to \$131,783,000, or 97 percent, of the total deposits in the 252 banks, were made available promptly without loss to depositors. Only 748, or less than one-half of 1 percent of the 479,829 depositors were not fully protected."

whereas Federal Savings and Loan Insurance Corporation reports that 78 percent of the amount paid into insured savings and loan associations is protected by insurance. It is true that a limited few big banks have big accounts far above the insured liability, but the smaller banks, which do fail from time to time, have small accounts approximately the same size as the savings and loan associations. Furthermore, the actual losses of the two corporations the past 5 years, when measured by the total premium income, the total number and volume of failures and insured institutions requiring support, the total losses, and the percentage of losses in the cases dealt with, or measured on any other basis, indicate that a rate higher than that charged by the Federal Deposit Insurance Corporation cannot be justified. One of the strongest reasons for the reduction of the premium in this case is the expense and loss ratios. Further, it should be noted that the 56 mutual savings banks insured by the Federal Deposit Insurance Corporation, with assets in excess of \$1,000,000,000, which pay only a one-twelfth of 1 percent premium, have, according to Federal Deposit Insurance Corporation figures over 90 percent of their depositor liability insured. This further would indicate that consistent and equitable policy should make a one-twelfth-percent rate available to savings and loan associations where the guaranty is only one of ultimate solvency and not one of both liquidity and solvency as in the case of both commercial banks and savings banks. In the savings departments of commercial banks also over 90 percent of the depositor liability is insured.

VII

Finally, the justification for the reduction of the premium rate is that, as well as the risk can be measured, the reduced rate will pay the losses. This insurance provides absolute insurance of the saver and investor and yet in the event of failure the loss to the Insurance Corporation is not as great as the saver and investor has been accustomed to bear. The reason for this is that in the past, upon failure of a financial institution, enormous and extraordinary expenses were incurred in liquidation, and the value of assets shrank immeasurably on the auction block. Whereas with insurance much of the expense of liquidation can be avoided, and the going-concern value of assets can be realized. The assets of a good bank or a good savings and loan association having an intrinsic worth substantially as much as the total deposits or the total amount paid in on shares, as the case may be, would sell on the auction block at only 50

or 75 percent of their face value, but the Insurance Corporation with its resources may take such assets and by merger or reorganization realize the going concern value which seldom is substantially under the deposit or share liability. With 5 years of insurance of savings it is clear that one-twelfth of 1 percent can absorb the losses.

VIII

Finally, again, savings and loan associations must pay the maximum for local savings in order to stimulate thrift and must meet all loan competition in order to promote and encourage home ownership, and the insurance premium to be paid by them becomes a matter of vital concern. Many insured institutions are making long-term loans at $4\frac{1}{2}$, 5, and $5\frac{1}{2}$ percent. Everyone desires to encourage such lending. The lower insurance premium rate and the other provisions in H. R. 5535 will encourage a greater number of institutions to insure, and insurance encourages a steady, substantial flow of savings at reasonable rates, which provides the money for extensive home financing at reasonable rates. It is, therefore, a matter of major importance that the pending legislation be given favorable consideration.

*Summary of building and loan association failures and estimated losses, 1920-37*¹

Year	Total number of associations	Total resources	Number failed	Total liabilities of failed associations	Estimated loss	Percent of loss to total resources
1920	8,633	\$2,519,914,971	2		\$506	0.00002
1921	9,255	2,890,764,621	6		91,547	.0032
1922	10,009	3,342,530,953	4		158,674	.0047
1923	10,744	3,942,939,880	9		132,612	.0034
1924	11,844	4,765,937,197	18		398,245	.0084
1925	12,403	5,509,176,154	26		500,000	.0090
1926	12,626	6,334,103,807	12		380,725	.0060
1927	12,804	7,178,562,451	21		1,013,000	.0141
1928	12,666	8,016,034,327	23		568,000	.0071
1929	12,343	8,695,154,220	159		2,312,626	.0266
1930	11,777	8,828,611,925	190	\$80,437,508	24,676,059	.2795
1931	11,442	8,417,375,605	123	61,008,529	22,327,842	.2653
1932	10,997	7,750,491,084	122	52,818,387	20,337,255	.2624
1933	10,727	6,977,531,676	88	215,516,812	43,954,547	.6299
1934	10,919	6,450,424,392	68	34,727,616	10,174,442	.1577
1935	10,534	5,888,710,326	239	31,946,235	15,782,068	.2680
1936	10,256	5,741,935,430	144	20,316,197	9,051,583	.1576
1937	9,762	5,711,658,410	269	44,738,747	15,775,096	.2761

¹ Of the 1,526 failures, over 950 were Pennsylvania associations engaged primarily in the second-mortgage business. This was the only State in which second-mortgage lending was permitted, although it is now prohibited by law in Pennsylvania. The second-mortgage associations are responsible for a substantial portion of the estimated losses. This table taken from the 1938 report of H. F. Cellarius, secretary, United States Building and Loan League.

AMENDMENTS OF 1939 TO FEDERAL HOME LOAN BANK ACT

WEDNESDAY, MAY 17, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10:30 a. m., Hon. Henry B. Steagall (chairman) presiding.

Members present: Messrs. Steagall, Spence, Ford, Brown, Patman, Mills, Martin, Folger, Monroney, Gifford, Luce, Crawford, Simpson, Kean, Miss Sumner.

The CHAIRMAN. Gentlemen, the committee will come to order.

We have with us this morning Mr. P. R. Williams, of Los Angeles, Calif., president of the savings division, American Bankers' Association. We shall be very glad to hear you, Mr. Williams.

STATEMENT OF P. R. WILLIAMS, PRESIDENT, SAVINGS DIVISION, AMERICAN BANKERS ASSOCIATION

Mr. WILLIAMS. Mr. Chairman and members of the committee, as has been stated by the chairman, I come before you as president of the savings division of the American Bankers' Association and am representing that division. My banking experience extends over a period of 35 years. At present I am vice president of the Bank of America N. T. & S. A. at Los Angeles, Calif.

As you well know, there are different types of savings banks. There is that very large group of mutual savings banks which territorially are situated very largely in the northeastern part of the United States, with its \$10,000,000,000 of deposits. I should like it understood that I shall make no attempt to speak for them, as they will have representatives at this hearing who will speak for themselves. They will be men who have spent a lifetime in that field. I speak rather for the balance of savings banks and banks with savings departments, which represent savings banking in the rest of the United States. That group is comprised of the thousands of small institutions, as well as the larger ones, and we find them in every section. The aggregate deposits of this group in round figures is about \$15,000,000,000. This figure, added to the \$10,000,000,000 of the mutuals, represents about 51 percent of the individual deposits of the banks of the United States.

Mr. PATMAN. You mean in all banks?

Mr. WILLIAMS. Yes.

Mr. PATMAN. You mean the mutual savings banks have 51 percent of the deposits of all banks?

Mr. WILLIAMS. No; I mean that \$25,000,000,000 of savings deposits represent about 51 percent.

The CHAIRMAN. He says about \$10,000,000,000 in the mutuals and \$15,000,000,000 in the savings departments of the other banks.

Mr. WILLIAMS. That is right, Mr. Chairman.

It also represents 44,738,752 savings depositors. These figures are as of June 30, 1938, and are divided as follows: Mutuals, 14,132,000 depositors; State, 8,881,000 depositors; national, 15,934,000 depositors; and trust companies, 5,761,000 depositors.

It is in the interest of this very large group of nearly 45,000,000 savings depositors that we appear.

May I say here that I do not propose to present an analysis of this bill, nor do I expect to go through it and discuss it minutely section by section. The president of the American Bankers' Association is now on his way here by plane from a western trip and he and others, we trust, will be heard by this committee. In the conservation of your time and to prevent unnecessary duplication I will confine my remarks to a more general statement.

We are deeply concerned with this proposed legislation, as we were with the Bulkley bill which was presented last session. More and more, it is proposed that Federal savings and loan associations become like banks and less like their ancestors, buildings and loan associations, and savings and loan associations. We do not believe that this trend is in the public interest. We do not believe that it was the intention of Congress that they should be converted into banking institutions of deposit.

We need but glance at the legislation which brought the Federal home-loan bank, and later the Home Owners' Loan Corporation, and Federal savings and loan associations, into being to know that their creation was for the very definite purpose of home loans and home financing. With that program and with that objective the banks of the United States were in accord.

I refer you to Senate Report No. 837, calendar No. 895 of the Seventy-second Congress, entitled "Creation of Federal Home-Loan Banks." The report is that of the Committee on Banking and Currency on S. 2959, but it includes House Report No. 1418 of the Seventy-second Congress in connection with H. R. 12280, which was favorably reported by this committee. Reading from page 3 of that report:

NATIONAL SURVEY AS TO NEED FOR THIS LEGISLATION

Last January the Secretary of Commerce sent out questionnaires to about 8,000 banking institutions and mortgage-loan companies of the country to get their views on the legislation proposed in this bill. The questionnaire contained the following four questions, which are particularly significant:

1. Would the facilities provided by the proposed home-loan discount banks for borrowing on your home mortgages add desirable flexibility and security to the conduct of your institution?
2. Would operation of the discount banks increase the amount of credit now available for legitimate use in your community?
3. Is there a demonstrable need for actual home construction, either new houses or remodeling work, that could be undertaken in your community if credit facilities were widened at the present time? If so, could you estimate the probable extent of such contemplated construction?
4. Would the facilities afforded by the proposed discount banks help to relieve the dangers of foreclosures on urban homes and farms?

The following percentages are shown to these four questions as made by the institutions to whom the questionnaires were sent:

In the national banks, the percentage answering "yes" was 74 percent; "no," 26 percent

Building and loan associations, "yes," 84 percent; "no," 16 percent.

Mutual savings banks, "yes," 59 percent; "no," 41 percent.

Stock savings banks, "yes," 69 percent; "no," 31 percent.

State banks, "yes," 78 percent; "no," 22 percent.

Loan and trust companies, "yes," 81 percent; "no," 19 percent.

Mortgage bankers, "yes," 23 percent; "no," 77 percent.

If you would like to have the answers to the other questions, I could give them to you.

Mr. PATMAN. Mr. Williams, you stated in the beginning, that you represented 45,000,000 depositors in these banks; is that right? I am not challenging your statement, but I would like to know how you obtained the right to represent them.

Mr. WILLIAMS. Yes; I am president of the savings division of the American Bankers' Association.

Mr. PATMAN. I presume you are connected with the savings bank yourself, aren't you?

Mr. WILLIAMS. I am an officer of the Bank of America, National Trust and Savings Association, and our bank, as you perhaps know, is one of the largest in the country.

Mr. PATMAN. It is in the Federal Reserve?

Mr. WILLIAMS. Yes; it is in the Federal Reserve, but we have a greater proportion of savings in our banks than we have commercial deposits, and it is more of a savings bank than the other type.

Mr. PATMAN. What is your largest savings bank in California that is not connected with the F. D. I. C. or the Government insurance corporation?

Mr. WILLIAMS. I could not answer that question. I doubt whether there is any large bank there, Mr. Patman, in California. You see, we have practically no strictly savings banks, alone. Our banks there are almost all national trust and saving banks and a lot of departmental banks.

Mr. PATMAN. I think you are speaking for the banks of New York and Massachusetts, also. I wish you would pick out a large savings bank in New York that does not belong to F. D. I. C. and whose deposits are not insured, directly or indirectly, by the Government insurance corporation.

Mr. WILLIAMS. I think the savings banks in New York, or in New England, are practically all mutual savings banks. We have mutual saving bankers here who would know more about that than I. We do not have any mutual savings banks in the West.

Mr. PATMAN. How are they operated, by directors or trustees?

Mr. WILLIAMS. The mutual savings banks?

Mr. PATMAN. Yes.

Mr. WILLIAMS. By the trustees.

Mr. PATMAN. Who selects the trustees?

Mr. WILLIAMS. Well, theoretically, the depositors.

Mr. PATMAN. Theoretically? What do you mean by that?

Mr. WILLIAMS. As I say, again, I have never lived in the mutual savings-bank country, and there are men here who can answer that question for you.

Mr. PATMAN. I think that would be important to know, and I hope, before you conclude your testimony for your association, you can call someone to appear before the committee who knows about the set-up as to how these trustees are selected and what representation the depositors actually have.

Mr. WILLIAMS. That was the reason for my statement earlier here, that we were already prepared for that, Mr. Patman. The men who will follow me can testify about that, and one of them will be the president of the Mutual Savings Banks.

Mr. PATMAN. He will be able to answer all of these questions?

Mr. WILLIAMS. Yes; that pertain to the mutual savings banks. I have had no experience with them, at all.

Mr. PATMAN. All right, you may proceed.

Mr. WILLIAMS. It is quite evident that the vast majority of bankers were in favor of the creation of Federal home-loan banks. It is interesting to note that this first document ties together the words "home-loan." They are hyphenated, and the hyphenated word has been used thousands of times since, including the bill before us, H. R. 5535. There is no doubt that the original purpose and the continuing purpose has been that of home loans and not some other kind.

On July 22, 1932, the Federal Home Loan Bank Act was approved. There under "definitions" comes the definition of a home mortgage loan and of a home mortgage, section 2:

(5) The term "Home mortgage loan" means a loan made by a member or a nonmember borrower upon the security of a home mortgage.

(6) The term "home mortgage" means a first mortgage upon real estate, in fee simple, or leasehold under a renewable lease for not less than 99 years, upon which there is located a dwelling for not more than three families, and shall include, in addition to first mortgages, such classes of first liens as are commonly given to secure advances on real estate by institutions authorized under this act to become members, under the laws of the State in which the real estate is located, together with the credit instruments, if any, secured thereby.

Then comes the Home Owners' Loan Act of 1933 which authorized the Federal Home Loan Bank Board to create the Federal savings and loan associations. Once again under "definitions" we find a similar definition of "home mortgage" as is in the Federal Home Loan Bank Act, except that now it has been increased to read "four families" instead of "three families," and must be used by the owner as a home or be held by him as a homestead, and have a value not exceeding \$20,000.

Another year elapses and there was approved, on June 27, 1934, the National Housing Act, which provided, among other things, for the creation of the Federal Savings and Loan Insurance Corporation. This reads:

An Act to encourage improvement in housing standards and conditions, to provide a system of mutual mortgage insurance, and for other purposes.

All through this chain of legislation, it is clear that Congress intended to encourage home loans and home financing, and to give relief to home owners and building and loan associations.

In spite of the intent of Congress so clearly defined, take the bill, H. R. 5535 which we have before us. We find that in its very first section the words "home mortgages" have been changed to read "first mortgage." The word "home" being completely eliminated.

We believe it to be a dangerous procedure. It tends to completely change the character of the institution.

Then there is a change in the second section, where we find "other obligations" are to be eligible collateral. This is apparently of similar trend and just as dangerous in its potentialities. "Other obligations" means drifting very far afield from "home mortgages."

I have said that we are deeply concerned with this proposed bill. We are equally concerned about the policy and practices that have developed in the operation of Federal savings and loan associations in many places. Complaints from the small banks in the small towns have been pouring in. They became so insistent that some time ago we made a Nation-wide survey of the situation. We found that the public was being misled into the belief that Federal savings and loan associations were actually banks of deposit. We know from the record that the Congress never intended that they should be a new system of banks of deposit.

Section 5 (b) of the Home Owners' Loan Act of 1933 reads: "No deposits shall be accepted"; and exhibit K, revised charter, a portion of section 8, reads:

The association shall not accept deposits from the public or issue any evidence of indebtedness except for advances. It shall not represent itself as a deposit institution.

Mr. PATMAN. Do you contend that they have violated the law you have just mentioned?

Mr. WILLIAMS. Yes. If I may be permitted to finish all of my statement, I believe I will show that, Mr. Patman.

Exhibit K, revised charter, section 9, reads:

Profits to holders of share accounts shall be termed "dividends" * * * and shall not be referred to as interest.

This means that profits may be distributed to investors only if and when made and only in the form of dividends. To promise a definite return or investment in the form of interest is forbidden.

Section 403 (b), National Housing Act, provides that applicants for insurance must agree not to "issue securities which guarantee a definite return or which have a definite maturity, except with specific approval" of the Federal Savings and Loan Insurance Corporation.

We found that advertising and publicity in many forms were used to convey to the public the impression that Federal savings and loan associations were in fact banks where they could get a much larger rate of interest on their deposits. They are using the radio and are saying, "Why be satisfied with 2 percent on your savings account, when you can get more from us?" Billboards were used, and the plain inference was that these are new banks of deposit which have the backing of the United States Government.

When we had collected some hundreds of newspaper advertisements, our committee brought them to Washington and laid them before the officers and the board of directors of the Federal home-loan bank. There they were thoroughly discussed, and at the Board's request we furnished them with photostatic copies of many of the advertisements complained of by small banks.

A remedy was sought. We were requested to return a month later for another meeting. This we did in early April of last year.

There were present, besides officers of the Federal Home Loan Bank System and ourselves, representatives of Federal Reserve Board, F. D. I. C. of the Treasury, of the Comptroller's office, of mutual-savings banks, and of the United States Building and Loan League.

We were told quite frankly that in the matter of taking disciplinary action against those who were stepping over the traces, their hands were tied. We were told that there were not enough "teeth" in the law to enable them to make the law and regulations as effective as they would wish.

They told us that their counsel, Mr. Horace Russell, would prepare some instructions regarding illegal and undesirable advertising copy and that these instructions would be sent to every insured member. Such a document was later prepared and sent out under the date of May 12, 1938, and under the joint signatures of Preston Delano, governor of the Federal Home Loan Bank System, and of Nugent Fallon, general manager of the Federal Savings and Loan Insurance Corporation. It is a strange document, replete with contradictions. On page 1, under the caption "Illegal advertising," we read that it is illegal to advertise using the words "fully insured." While on page 6 is shown examples of material which they state is not objectionable. Here is one: "Be wise—insist on 100 percent safety." Another reads: "100 percent protection plus sound mortgage." Apparently it is illegal to say "fully insured," but perfectly proper to say "100 percent protection," or "100 percent safety." Page 1 says it is illegal to advertise using the words "Government insured." Page 5 says it is not objectionable to say "accounts federally insured," and again "Federal insurance gives full protection up to \$5,000"; again "Your funds which we invest in first mortgages on homes are now further protected by Federal insurance up to \$5,000."

Mr. PATMAN. Is that a fact, or not, that they are protected up to \$5,000?

Mr. WILLIAMS. Yes; but it does not say up to \$5,000.

Mr. PATMAN. That would not misled anyone, if he attempted to invest more than that, into believing that it would be fully protected? Do you have any instances you can cite where that did actually mislead anybody?

Mr. WILLIAMS. No; but I say this tends to mislead them. They are being misled. I have listened to radio remarks, from such associations speaking of their investments as deposits in different ways.

Mr. PATMAN. You do not know of anyone in California being misled, though, by that, into investing more than \$5,000 and expecting full protection?

Mr. WILLIAMS. No; I do not. I am quoting simply from their own document, and I have not gone out and sought those particular instances.

Mr. CRAWFORD. Mr. Chairman, will the gentleman yield?

Do you say you do not know of anyone who has been misled? Do you think the officials who issued that statement that you have just quoted from felt that somebody was being misled?

Mr. WILLIAMS. I do not know what the officials might think, Mr. Crawford.

Mr. CRAWFORD. If they did not think they were being misled, why would they issue such a statement? If they did not think the public was being misled, why would the officials issue such a statement?

Mr. WILLIAMS. I do not know. Some of the officials are here and they are better able to answer that question than I.

Mr. PATMAN. Let us have all of the facts covering this situation.

Mr. WILLIAMS. The reason I have not given you any more is because I was interrupted. If I could finish my statement, you will find it all in there, I think.

Mr. PATMAN. What I am interested in knowing is whether or not anybody reading that statement that said up to \$5,000—if you know whether they were saying 100 percent protected, fully protected, and using all of those phrases you have used, and yet in another part give more specifically exactly what it covers?

Mr. WILLIAMS. Perhaps I did not make it plain that these two references I gave were suggested forms of advertising, and there are a whole lot of them that give you more than those particular ones, of course. That particular one, of course, does not say anything about \$5,000, but there will be others in which it does, but there are a large number of them here, suggested forms of advertising.

Mr. PATMAN. It would be presumed that an honest official would have exactly what it covers, and the extent that the insurance covers 100 percent. They would not just use those phrases and stop then; they would go ahead and say, "If you have got \$5,000 to invest, bring it to us," would they not?

Mr. WILLIAMS. Yes; but they have been doing that, Mr. Patman.

Mr. PATMAN. Without losing the limit of \$5,000?

Mr. WILLIAMS. Yes; many, many times.

Mr. PATMAN. That is the case I would be interested in. ing which does that very thing.

Mr. WILLIAMS. Yes; we can show you, before the hearing is through, if you wish to see them, some photostatic copies of advertising which does that very thing.

Mr. PATMAN. Where they make no reference to the limitation of that amount?

Mr. WILLIAMS. Yes; that is the point I am trying to get at.

Mr. PATMAN. Of course, even then I doubt if anybody would be fooled by that, because they would discover, by any investigation they would make, that only \$5,000 would be protected. I doubt if they would be fooled by that.

Mr. WILLIAMS. If I may, I would like to finish this statement completely; then I will answer all of the questions, Mr. Chairman, that I am capable of answering.

Returning to page 1 again of this letter addressed to all insured institutions, under date of May 12, 1938, by the Federal Savings and Loan Insurance Corporation, it says it is illegal to advertise, using the words "Government insured." Accounts that are not insured by the Federal Government cannot be so advertised or represented by the direct statement.

Mr. BROWN. Mr. Williams, I think all that is required is to show that the deposits are insured up to \$5,000.

Mr. WILLIAMS. Yes; but these institutions—they may have their signs in the lobby or in the window or in the room somewhere, but

this is the advertising that they use in the newspapers and on the air.

Mr. BROWN. Do you not suppose that a man who has as much as \$5,000 to invest will make a little investigation?

Mr. WILLIAMS. I think it is much more important, if it is misleading the small depositors into thinking they are insured banks of deposits, when apparently it was never intended that they should be banks of deposit.

Mr. CRAWFORD. Mr. Chairman, may I ask Mr. Williams a question?

The CHAIRMAN. Certainly.

Mr. CRAWFORD. You are being interrupted so much I would not hesitate to do it again.

Did the establishment of the Securities and Exchange Commission have anything to do with preventing private individuals from so advertising in their prospectus? Do you not think there is a connection between the operation of the Securities and Exchange, when it says to an individual who wants to promote a productive enterprise, "You must be very meticulous in what you put in your prospectus"; and the looseness which is followed in this kind of advertising that you have mentioned, which all of us have read? I have read scores of them. Do you see any connection between their operations at all?

Mr. WILLIAMS. Yes; I see the same ends sought: The safety of the public's money.

Mr. CRAWFORD. A short time ago we had Mr. MacDonald, of the Federal Housing Administration, before the committee, and I had a large stack of clip sheets, which they put out, and I read some information from those clip sheets—this occurred right here in the committee room, and the members saw it happen—he read those clip sheets and said, in substance, that information should not have been published in the clip sheet. He read the clip sheet and put it in his pocket, and I asked him to return it to me. That is the way that clip sheet was carried, which was misleading, and I think a highly intellectual, dishonest essay made for the prospective clients of the Federal Housing Administration.

Personally, I think what you have pointed out here is highly intellectually dishonest, based on the statement made yesterday about "blue stamp money."

I think the gentleman is making a very important presentation here, and it fits into the case absolutely.

Mr. WILLIAMS. This may be repeating, but again referring to page 1 of this letter of May 12, it points out that it is illegal to advertise using the words "Government insured." However, page 5 says it is not objectionable to say "Accounts federally insured"; and again, "Federal insurance gives full protection up to \$5,000"; and again, "Your funds which we invest in first mortgages on homes are now further protected by Federal insurance up to \$5,000."

Mr. PATMAN. That means to use the instrumentality of the Federal Government? Does not that absolutely imply that?

Mr. WILLIAMS. Yes; but that is in another instance.

Mr. PATMAN. I mean, does it really mean the same thing, especially in view of the fact that Mr. Fahey, the chairman of the Board, said that the Government expects to back up this insurance corporation, anyway.

Mr. GIFFORD. What Mr. Williams has been saying is that the F. D. I. C. could insure 22 billions. I thought Mr. Patman was going to say to the gentleman that the Government is going to back up the F. D. I. C.

Mr. PATMAN. It can do anything. That is already done.

Mr. GIFFORD. They have a lot of cute methods, but when they say "federally," you are trying to tell us that is unfair and that is misleading.

Mr. WILLIAMS. "Accounts federally insured," without saying by what instrumentality, merely that they are accounts federally insured.

Mr. GIFFORD. That is, insured by an agency created by the Federal Government, which will probably back them, as Mr. Patman suggested.

Mr. WILLIAMS. I was about to say this, Mr. Gifford, that surely whatever may be the meaning to officials of the Federal home-loan banks, it cannot be controverted that, to the man in the street, for whom this advertising is intended, "federally insured" means insured by the Government of the United States, and nothing less.

Mr. GIFFORD. I agree with you that it surely does, and I want you to go home with the idea that, in the back of the heads of the Congress, it is fully intended that the Government, in all of these created agencies, in times of emergency, is going to support them to the full limit of their losses, whether it is the F. D. I. C. or whatever it is. That is what your Government has already done.

Mr. PATMAN. Is not the word "national" in connection with the bank also misleading? Like a national bank, indicating that the Federal Government has something to do with this bank? Does not the name "Federal Reserve bank" mislead, because it would indicate that the Government owned the bank when the Government does not own the bank?

Mr. Williams, following out Mr. Crawford's suggestion, do you suppose the S. E. C. waits until somebody acknowledges that they have been fooled by the advertising before they take any action?

Mr. WILLIAMS. I hardly think so.

Mr. GIFFORD. They would not do anything until they had some people certified that it had been misleading? No; they act before that, do they not? When a prospectus is issued and they have criticized it all they care to, do they then say, "We don't approve it" or "We disapprove it," yet the S. E. C. is the proper place to bring it out, is it not? The Government ought to have an S. E. C. over it.

Mr. PATMAN. Congress is the S. E. C. over the Government.

Mr. GIFFORD. Yes; all Government agencies are supervised by Congress, but some of them are in the bucket-shop business, completely in the bucket-shop business, which the S. E. C. is trying to stop in private matters.

How you private individuals can sit back and watch the way they are carrying on this Government I do not understand. You ought to protest it. It is an unusual thing for anybody to come in here and protest. We have not had a protest this year, from anybody and how did you get the courage, Mr. Williams, to come to this committee?

Mr. WILLIAMS. Well, by virtue of my position, I do not claim any particular courage in coming and talking to you gentlemen.

Mr. GIFFORD. You do not have a personal letter from 45,000,000 stockholders, do you?

Mr. WILLIAMS. No.

Mr. GIFFORD. Mr. Bodfish probably represents all of his institutions, and they should know he does; they could make a protest any time they wanted to. You still claim you are the recognized representative of these particular institutions?

Mr. WILLIAMS. I do; yes, sir.

Mr. PATMAN. What I want to know is this—what voice these depositors may have in the running of these institutions?

Mr. GIFFORD. Of these mutual savings banks?

Mr. PATMAN. That is right.

Mr. GIFFORD. It is like Al Smith going on the New York Life—the trustees, the other trustees appointed him.

Mr. PATMAN. And Herbert Hoover got on the New York Life, too.

Mr. GIFFORD. Yes; the trustees appointed him the same way.

Mr. PATMAN. And I think Calvin Coolidge was on the board, having been appointed by the trustees.

Mr. GIFFORD. Our mutual savings banks, which have the authority in their trustees to build the trusteeships that are necessary, in my section, Mr. Patman. They are the ones who run the mutual savings banks, and they are not paid for doing it.

The CHAIRMAN. He is not representing the mutuals.

Mr. GIFFORD. Oh, yes; he represents all of them.

The CHAIRMAN. As I understand, you are representing the savings banks?

Mr. WILLIAMS. The savings division of the American Bankers Association, but we have some special representatives coming from the mutuals.

The CHAIRMAN. You are connected with the savings department of the banks?

Mr. WILLIAMS. That is right; yes.

Mr. FOLGER. Which includes the mutual savings banks?

Mr. WILLIAMS. I would prefer these other gentlemen to represent the mutuals.

Mr. FOLGER. They are included in your division of the American Bankers Association?

Mr. WILLIAMS. Yes.; when they belong to the American Bankers Association, which they do not all do.

Mr. GIFFORD. Mr. Williams, this is very important to this committee: The Federal savings and loan associations, if we do not do anything to prevent their being established—we thought we established them in places where banking facilities were needed—we find now that, through this sort of advertising, no matter how much the public is misled or ought not to be misled, we find the definite feeling is that the depositors are putting their savings in the Federal savings and loan institutions.

Last evening my local paper had an article that said that, right off the front doorsteps of our local cooperative banks, mortgages are going to the cities nearby, where they have a Federal savings and loan institution; that they are being solicited to take from one to the other because they are offered better inducement as to appraisals. These are facts. I do not object to places where they needed banking facili-

ties; but, do you agree, or do you not agree, that they are crippling, distinctly, some regular cooperative banks, as we call them, or building and loan associations, as set up and running themselves?

Mr. WILLIAMS. That question refers, does it not, directly to the mutual savings banks? All of my banking experience has been in the West, where we do not have that particular type of bank, and I would much prefer to have the mutual bankers answer those questions, because they can be answered by them more intelligently.

Mr. GIFFORD. We depended upon Mr. Bodfish, but I suppose he is a little tongue-tied on it, and I hardly know how to question him. I had a delegation from the cooperative banks come to Washington. I had them meet before the Saving and Loan Association, protesting against this act, and their statement was, a year or two ago, "We should go Federal." Our institutions then were getting along splendidly, but the other fellows say, "We want the public to pay a low rate of interest, and we will force these cooperative banks to pay it or we will take the business away," and that is what they are doing. So, while we have plenty of months, we are losing business to the Federal savings and loans. One cooperative bank, that was in a weak position, did go Federal, and I suppose they had to.

That is what I am getting at, in this committee: Shall we conclude or allow those things that we set up, where there are no banking facilities, to actually enter into real competition with established institutions?

Mr. WILLIAMS. Out in the West we find these Federal savings and loan associations right next door, sometimes, to a bank, or in the same block, or across the street, where there already were plenty of banking facilities.

Mr. GIFFORD. Of course, that is certainly causing a great deal of annoyance. Can you not suggest something?

Mr. WILLIAMS. I will before I get through, Mr. Gifford, if I may proceed. I think I will suggest. May I finish my statement?

Mr. GIFFORD. Yes; but the trouble is, in making a statement, you have to pardon us, but we forget what you said before.

Mr. WILLIAMS. I think there will be something in here that will remind you of it.

On page 2 we read:

It is illegal advertising to say "liquidity insured."

Page 8, however, says it is not objectionable to say:

Availability: Our charter permits prompt payment of investors' funds in full or in part, without fees, fines, or forfeitures on your part.

If that does not mean liquidity, what does it mean?

Imagine the confusion in the minds of the management of Federal savings and loan associations when they received these instructions. It is quite natural that in many instances they accepted as law the most liberal interpretation made available to them. The result is that the public is misinformed as to the character and purpose of the institutions in which they are invited to invest.

Only a few days ago I was told by a representative of a Federal savings and loan association that they would open on account for me for any amount over \$5 and pay dividends on it; that a passbook would be furnished to me and I could add to it and withdraw all or only a

portion of it any time I desired. They told me it was just like a deposit in a bank.

Upon the suggestion of Governor Delano, a plan was evolved in which the American Bankers Association was asked to take the initiative to try as an experiment the appointment of joint committees of representatives of banks and of members of United States Building and Loan League with the cooperation of Federal home-loan banks. The purpose of these committees was to attempt to compose differences which arise from time to time between competitive institutions in the savings field. The thought was that while such committees would be wholly without power or legal standing, that if half a dozen reasonable men could sit around a table and discuss their differences that perhaps 90 or 95 percent of the problems might be solved in this way.

Such committees were appointed at the request of President Orval Adams, of the American Bankers Association, and they are in existence today. They have met with some success, but it is too early to know whether it will be very pronounced or lasting.

May I repeat that in our opinion the bill before this committee at the present time is likely only to create greater confusion regarding the differences between Federal savings and loan associations and banks.

We note that once again change in name of members is suggested and it is actually proposed that associations may be converted into mutual savings banks.

Excepting for the newly organized Federal savings and loan associations, the greater number of such associations are building and loan associations which have been converted and rechristened as Federal savings and loan associations. We believe that building and loan associations are institutions much to be desired, and for a hundred years, both in this country and in Great Britain, they have been exceedingly useful in their field. When they are encouraged to trespass in the field of deposit banking, however, we believe that most decidedly it is against public interest.

If Congress had contemplated that they should become banks of deposit, would not the Congress have brought them into the Federal Reserve System and the F. D. I. C. rather than to bring them into the Federal Home Loan Bank System.

Mr. PATMAN. Let me ask you a question: How many communities and cities in California do you serve through the Bank of America?

Mr. WILLIAMS. We have about 500 branches.

Mr. PATMAN. Five hundred branches?

Mr. WILLIAMS. Nearly 500 branches.

Mr. PATMAN. Do you have competition in all of the towns that you serve?

Mr. WILLIAMS. Of this type of competition?

Mr. PATMAN. No; I am talking about in the banking business.

Mr. WILLIAMS. No.

Mr. PATMAN. How many communities do you serve, where your institution has such banks?

Mr. WILLIAMS. I could not tell you.

Mr. PATMAN. Two hundred of them?

Mr. WILLIAMS. A smaller number would be my guess.

Mr. PATMAN. What is that?

Mr. WILLIAMS. I should say the number would be smaller than that, and would be in the very small communities.

Mr. PATMAN. Say 100?

Mr. WILLIAMS. I will not guess at it, Mr. Patman. I will give it to you later in the session, if you wish.

Mr. PATMAN. In those towns, you have some competition, I guess, from the Federal savings and loan associations?

Mr. WILLIAMS. Yes.

Mr. PATMAN. That is the only competition you have?

Mr. WILLIAMS. No; I cannot say that it is true.

Mr. PATMAN. Anyway, you do not want that competition?

Mr. WILLIAMS. You are speaking to me, now?

Mr. PATMAN. Yes; as an official of your company?

Mr. WILLIAMS. I have not the objection at all to the competition as a building and loan association, but I do object to such competition when they are pretending to be banks of deposit, which we think they are not intended for.

Mr. PATMAN. Well, you take the Postal Savings, and they are not intended to be banks of deposit, yet you know you can actually make a deposit and go back the next day and get it if you want to, or in 30 days or 60 days. I do not see how you can control things like that.

Mr. WILLIAMS. Well, we are not attempting to control them.

Mr. CRAWFORD. Mr. Chairman, may I ask Mr. Williams a question?

The CHAIRMAN. Mr. Crawford.

Mr. CRAWFORD. Mr. Williams, have you heard anything at all about the F. D. I. C. closing any banks so as to eliminate competition? Do you know of any cases like that?

Mr. WILLIAMS. I do not.

Mr. CRAWFORD. Mr. Chairman, I wish at this point in the record to quote from an address of Hon. Leo T. Crowley, Chairman, Federal Deposit Insurance Corporation, before the Third Annual Conference on Banking, University of Illinois, Champaign-Urbana, Ill., November 23, 1937. Mr. Crowley in part said:

To make possible execution of its assignment the Federal Deposit Insurance Corporation was given certain resources and certain powers of supervision over insured banks. An initial capital of \$289,000,000, subscribed by the United States Treasury and the 12 Federal Reserve banks, and a regular income from assessment upon the deposits of insured banks were provided to enable the Corporation to reimburse depositors in insured banks which it was found necessary or desirable to close. The Corporation's supervisory powers are designed to reduce the claims on our resources arising through insured bank failures. These powers fall into three broad classes: First, control of the admission of banks to insurance; second, supervision of the activities and practices of insured institutions; and third, power to terminate the insured status of banks found to be violating law or consistently indulging in unsafe and unsound practices.

Should the loss record of the last few decades recur, however, neither the Corporation nor the banks could bear the outlay that insurance of deposits would involve. Consequently, the Corporation is directing its most earnest efforts along the likeliest route to successful deposit insurance. That route is a long, uphill climb directed toward building and maintaining a strong, well-managed banking system, capable of withstanding adverse turns of the business wheel and sound enough to keep losses at an irreducible minimum. It is hoped that intelligent exercise of its supervisory powers by the Corporation, with the cooperation and understanding of bankers, will give this country a strong banking system and will give to depositors the protection and sense of security they deserve, but have seldom had.

While the F. D. I. C. has no direct control over the chartering of banks, it does have power to pass upon the admission of banks to insurance. In effect,

this power discourages the organization of banks which cannot qualify for insurance. The Directors of the Federal Deposit Insurance Corporation are convinced that careless and indiscriminate chartering policies contributed to the losses suffered by depositors in past years. We therefore are determined to approve for insurance only institutions which can be justified on the basis of real need, which have reasonable earnings prospects, which are adequately capitalized for their probable volume of business, and which are to be managed by men of proven ability.

The Corporation's interest in sound and safe banking requires frequently that it controvert the established habits and fetishes of individual bankers. Building for a strong banking system implies that policies must transcend even the factitious barriers of class and geographic location.

I do not endorse an arbitrary approach to charter applications. There is no doubt that some communities, now bankless, could support and should have banks. On the other hand, many communities even today have more banks than they can support. I propose merely that action upon charter applications shall be taken only after a thorough investigation of the adequacy of existing banking facilities, and that changes in the banking structure, whatever their nature, shall be approached carefully.

Now, Mr. Chairman, I personally interpret these remarks and others which were included in the address from which I have quoted to strictly mean that in due course the F. D. I. C. will practically be forced to close many banks that are now in operation, and primarily because under the competitive conditions which the banks will have from Government lending agencies and cheap money rates the banks will be utterly unable to meet the high standards which the F. D. I. C. will in self-defense be forced to initiate and enforce. I personally feel that Chairman Crowley has given fair warning to all banks and bankers of what is in store if the F. D. I. C. operations are to prove successful.

Mr. PATMAN. I notice we have the counsel of the F. D. I. C. with us this morning.

The CHAIRMAN. Let us not turn aside from this inquiry now.

Mr. GIFFORD. Except I want to supplement that, Mr. Williams; that here in the city of Washington itself several banks were closed to stop so much competition, and sometimes rightfully yelled, but they got no relief; they were closed and the depositors lost, simply and wholly for the reason that there were too many banks.

Mr. PATMAN. When was that, Mr. Gifford?

Mr. GIFFORD. During the bank holiday of 1933. You remember that. We were flooded with protests.

Mr. PATMAN. That was before the F. D. I. C.

Mr. GIFFORD. I am talking about the Government authorities closing those banks.

Mr. PATMAN. I know, but that was before the F. D. I. C. was passed.

Mr. GIFFORD. I am not talking about the F. D. I. C.; I am talking about banks being closed to stop competition.

Mr. PATMAN. Yes; and I think about 15,000 were closed in 1932 and 1933.

Mr. GIFFORD. Yes; but those were deliberately closed, because there were too many banks.

The CHAIRMAN. How much more time will you need to finish your statement?

Mr. WILLIAMS. Just to complete this statement, about 2 minutes.

The CHAIRMAN. You may proceed.

Mr. WILLIAMS. If names are to be changed we believe that the true character of Federal savings-and-loan associations should be recog-

nized and the word "savings" completely eliminated from their titles. We believe that it was a most serious mistake tending to mislead the public when that word "savings" was incorporated into their titles. Unfortunately individual associations are capitalizing on that word and playing it up in large letters in illuminated signs, on the radio, and in newspaper advertising. Let us rechristen them once more and change their names from Federal savings-and-loan associations to Federal building-and-loan associations. Then let us remind them that the "shoemaker should stick to his last."

Mr. PATMAN. Is that title any more misleading than your own title, "Bank of America?" Would that indicate that America had something to do with that bank?

Mr. WILLIAMS. It was organized under the United States Government, under the laws of the United States Government.

Mr. PATMAN. I remember when I was in California in 1917, seeing Bank of Italy on all of these buildings, and I understand that the name implied—at least to the owners—that it implied that the country of Italy owned the Bank of Italy, so they changed it to the Bank of America; and then that would imply that America owned it. So you have a misleading title of your own, Mr. Williams.

Mr. WILLIAMS. I do not admit that, Mr. Patman.

The CHAIRMAN. Let me make a suggestion, off the record.

(Here followed discussion off the record.)

(Thereupon, the committee proceeded to the consideration of other matters.)

AMENDMENTS OF 1939 TO FEDERAL HOME LOAN BANK ACT

THURSDAY, MAY 18, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

Hearings on H. R. 5535 were resumed at 10:54 a. m., Hon. Henry B. Steagall (chairman) presiding.

Members present:

Mr. Steagall, Mr. Williams, Mr. Spence, Mr. Ford, Mr. Brown, Mr. Patman, Mr. Gore, Mr. Mills, Mr. Martin, Mr. Folger, Mr. Hull, Mr. Monroney, Mr. Gifford, Mr. Luce, Mr. Gamble, Mr. Simpson, Mr. Kean, Miss Sumner.

The CHAIRMAN. The committee will come to order.

We have Mr. Benson, president of the American Bankers Association, with us—

Mr. PATMAN. I want to ask Mr. Williams one or two questions.

The CHAIRMAN. I was going to suggest that we let Mr. Williams come back, and finish then, but let Mr. Benson proceed now.

Mr. PATMAN. That is all right with me; any time.

The CHAIRMAN. Mr. Benson, come around, please.

STATEMENT OF PHILIP A. BENSON, PRESIDENT, AMERICAN BANKERS ASSOCIATION

Mr. BENSON. My name is Philip A. Benson. I live in Brooklyn, N. Y., and I am president of the Dime Savings Bank of Brooklyn. I am also president of the American Bankers Association.

I am appearing here as the spokesman for the American Bankers Association. At a meeting of its executive council which is the governing body, held during the last week in April 1939 at Hot Springs, Va., this proposed legislation was discussed in some detail. As the result of that discussion, I was instructed to appear before your committee and make known to you the views of the American Bankers Association.

Our association has among its membership savings banks throughout the country, including stock institutions as well as mutual banks. Also, most of our national banks and State commercial banks maintain thrift or savings departments and are greatly interested in any measure which tends to affect that part of their business.

I do want to emphasize, however, that this appearance is not made in the selfish interests of our institutions from a competitive standpoint. Generally speaking, banks and building and loan associa-

tions have until recent years operated in different fields. We are interested here, however, in the broader aspects of the bill.

The American Bankers Association is interested in this bill because it vitally affects basic banking principles. The proposals of the bill, considered separately, may not seem particularly important. It is only when the bill is considered as a whole and in connection with other developments affecting the Federal savings and loan system that the ultimate effect is appreciated. Such a comprehensive consideration leads to the conclusion that this legislation is part of a general plan to establish in the United States a third banking system, in addition to the already existing national and State bank systems.

In our opinion, the contemplated creation of a third banking system is not the result of public need or demand. The support for this bill comes, rather, from the institutions which desire to compete in an already fully serviced field and from the supervising authority which is trying to enlarge its own powers and importance.

Even the sponsors of this measure do not contend that a third banking system is necessary or desirable. They know they cannot support such a contention. They approach the problem indirectly by altering gradually the powers and characteristics of their institutions. When their program is fully completed they will have institutions which are in effect banks, but competing without the same effective supervision in the banking field.

ENACTMENT OF LEGISLATION (1933) PROVIDING FOR FEDERAL SAVINGS AND LOAN ASSOCIATIONS

It is not necessary to recite to this committee the conditions existing in the banking field early in 1933. You are most familiar with those conditions, inasmuch as there devolved upon you the necessity of taking steps to rectify conditions and strengthen our banking system. Generally speaking, the banks needed strengthening; there was excessive competition; it was too easy to establish a new bank with inadequate capital; there was lack of adequate supervision in some sections. All of these things contributed toward potential difficulty during periods of adversity. Without going into details, it is sufficient to say that the legislation enacted at that time and subsequently has been of a constructive character, designed to discourage these conditions in our industry, all with a view toward having a sounder banking system for the people of our country. It is not conceivable that Congress would at the same time provide for the creation of another system of institutions to increase competition under another supervisory agency.

At that time there were State building and loan associations. These institutions were performing a useful function in their field, namely, the encouragement of investments in homes and the accumulation of savings for that purpose. Generally, their function was to make possible construction of homes. They did not act as deposit banks to receive savings for general investment; their funds were derived entirely from the sale of shares to shareholders, either fully paid or through payments at regular intervals, and devices were generally provided to discourage withdrawal of funds except upon adequate notice. It was generally recognized that such institutions, because of their non-liquid character, might properly pay dividends

to their shareholders somewhat higher than interest rates paid by banks.

Like many of our banks, a great number of these institutions got into difficulty during the severe depression years; many were closed and needed rehabilitation. Many communities were without service of this type of institution. It was, of course, proper that Congress should take the same constructive steps for the benefit of building and loan associations and other stockholders as was done for banks and their depositors, altering, of course, the remedy to the type of institution to be aided by the legislation.

Early in 1933 Congress found it necessary to provide emergency relief to home owners with respect to their home mortgages. Accordingly, it passed the Home Owners' Loan Act of 1933 and the purpose of that entire legislation was to provide emergency home mortgage relief. As a part of that act, provision was made for the first time for the establishment of Federal savings and loan associations. It is quite plain that Congress was not dealing with banks or institutions having the characteristics of banks. It was dealing with methods to provide additional home-mortgage relief. The act describes [section 5 (a)] the institutions as "local, mutual, thrift, and home financing institutions." The act was carefully framed so that the primary investments of such institutions would be mortgages on small homes, for four families or less.

It is quite plain from other features of the act that the Congress did not contemplate that such institutions should in any respects have the characteristics of banks. An essential concomitant of the nonliquid character of home-mortgage investments is that the liability side of the savings and loan associations must be represented by nondemand liabilities. Thus, it was provided that such associations should raise their funds through the sale of shares rather than the acceptance of deposits. In section 5 (b), it was specifically provided that—

no deposit shall be accepted and no certificates of indebtedness shall be issued except for such borrowed money as may be authorized by regulations of the Board.

ADMINISTRATION OF ACT BY THE FEDERAL HOME LOAN BANK BOARD

It has long been evident that the Federal Savings and Loan Association was not content to remain in the field for which it was established. In December 1936 the Federal Home Loan Bank Board issued its revised regulations and authorized the adoption of a new type of charter for Federal savings and loan associations, which represents the first step in an attempt to convert them into deposit banks. The new charter contained provisions which made the shares the substantial equivalent of deposits. While the regulations could not, under the law, change the method of participation—for example, shareholder participation—the bank board did, however, so change the attributes or characteristics of the basis of participation as to make them substantially the same as deposits. For example, there is no requirement that a share must be fully paid for when purchased or even that there must be periodic payments. Shareholders may make payments at any time, precisely in the same manner as a depositor. Under the new charter the saving and loan association may, in its discretion, repurchase the shares on demand, much in the same

manner as banks return deposits. However, the association may require the shareholder to take his turn, just as a savings bank may require a period of notice before withdrawal. There is no penalty in the event of repurchase of the share as was the practice in the case of old building and loan associations. The shareholder receives full dividends or interest.

This charter change is an essential departure from the savings and loan plan as established by Congress, and it was made without congressional approval. I suggest that the Federal Home Loan Bank Board violated the spirit of the statute in changing the fundamental relationship between shareholders and the association. The result is that shares in savings and loan associations are for practical purposes treated as deposits in banks, although specifically prohibited from accepting deposits.

The savings and loan associations have made a point of indicating in their advertisements (in language which ordinarily avoids the use of the word "deposit") that moneys advanced by shareholders are repaid on demand. These institutions also pay considerably higher rates than the authorities permit banks to pay for thrift or savings deposits. For instance, Federal associations, in some sections at least, pay 4 percent and with the shareholder having substantially the same privileges as a depositor under the new charter, the situation at least does not seem equitable in all respects.

THE GENERAL EFFECT OF THE PROPOSED LEGISLATION

As I have already indicated, the first step in changing these building and loan associations into banks has already been taken by the Federal Home Loan Bank Board in connection with the privileges and rights of a shareholder. This bill would substantially complete the process of a change of a Federal savings and loan association into the substantial equivalent of a savings bank. Practically the only step which would remain would be the change in the name of the institution.

The intention of the framers of this bill was made clear in the original measure as introduced in Congress last year. That bill would have changed the name of the associations to Federal Savings Associations. Because of the opposition this provision created it was eliminated in the legislation as introduced this year. There can be little doubt, however, that, if this bill is adopted, it will not be long before it is pointed out that the associations are primarily "savings" rather than "loan" institutions and that therefore the name should be changed.

As I have previously stated, a consideration of the bill as a whole is necessary to an understanding of its far-reaching effect. Isolated sections considered separately may not appear to be important, but they are of importance as a part of a general scheme or program. From the standpoint of a general understanding of the effect of the legislation, I think I should first mention briefly the effect of the changes proposed in connection with the Federal Savings and Loan Associations, inasmuch as our comments with reference to the remainder of the bill tie up with our general observations as to those amendments.

AMENDMENTS PROPOSED AFFECTING FEDERAL SAVINGS AND LOAN
ASSOCIATIONS

The present law, section 5 (c), directs that the assets of savings and loan associations shall be invested in mortgages on homes for not more than four families located within 50 miles of the principal office of the institution. Fifteen percent of the assets of the institution may, however, be loaned on other types of mortgages. There is also a provision that assets may be invested in obligations of the United States or the stock or bonds of a Federal home-loan bank. This clearly contemplates a type of institution that will have by far the greatest part of its assets invested in small home mortgages within the community and that Government bond investments will be limited to its funds on hand awaiting investment in home mortgages. This bill would add another 15-percent exception in favor of investments within 50 miles of the principal office on larger residential properties when authorized by the Home Loan Bank Board. Thus, associations could be permitted to invest up to 30 percent of their assets in mortgages on large apartment houses or hotels. There is absolutely no public necessity for this provision. Banks, insurance companies, and other lending agencies are loaded with idle funds seeking investment in just such mortgages.

Even more important than this, the associations would be permitted to invest any of their assets in any securities "which are legal investments for fiduciary and trust funds." Most State laws authorize fiduciaries to invest only in those securities which are legal for savings bank investment. This provision, therefore, would permit savings and loans associations in most States to invest in any security which is legal for savings banks.

This proposal requires some examination to understand its full significance. In the past the essential characteristic of a building and loan association was that of a home-financing institution, primarily for community use. It was by design a nonliquid institution. Its funds were fully invested in home mortgages. On no other basis can higher rates be justified for the use of shareholder money. Such surplus funds as were on hand were not invested generally in corporate or other securities but were held temporarily in Government bonds awaiting home-mortgage investments.

On the other hand, savings banks and thrift departments of commercial banks, because of the deposit character of their institutions, were required to adopt a policy of maintaining a substantial part of their funds in so-called liquid reserves. These primary and secondary reserves were ordinarily invested in legal investments for trust funds stipulated by the various States, including among others utilities, municipals, rails, and in some States corporate bonds and even stocks. The effect of this proposal is to convert the old building and loan or savings and loan association into a general investment institution. The bill does not propose to say that only 5 percent may be invested, or any other limited percentage, but, with the approval of the Board, presumably the entire, or any portion of the fund, might be invested in securities other than home mortgage.

This represents, in my judgment, a change in the essential character of the institution. It is, of course, for Congress to say whether such

change is desirable in our economic structure, but it is important for Congress to know the practical effect of the proposed legislation.

The bill also adds a provision permitting Federal savings and loan associations to convert into mutual savings banks. This provision is important as an illustration of what the bill is trying to make possible. It is particularly illuminating as evidence of an intent that Federal savings and loan associations shall be substantially the same as mutual savings banks.

AMENDMENTS TO THE FEDERAL HOME LOAN BANK ACT

The bill also broadens the provisions of the Federal Home Loan Bank Act in a number of respects which, by themselves, might not be important, but which are of importance as a part of the general scheme of the bill. The present law authorizes the Federal Home Loan Bank to make advances to members upon the security of United States Government obligations or mortgages on homes for not more than four families. The amendment would permit advances on any kind of first mortgage. The argument is made that this would be desirable if savings banks should become members of the Federal Home Loan Bank System. This System is not useful to the savings banks and they therefore will have no occasion to require this liberalization. I understand that perhaps eight or nine mutual savings banks have become members of the Federal Home Loan Bank System, but generally the savings banks feel that the System is of no importance to them. A committee representing the savings banks considered the matter for several years. They thought that the Home Loan Bank System offered two advantages only:

First. A place to secure money from time to time for reinvestment purposes. The savings banks believe that it is unsound to borrow money for reinvestments; that such a practice is akin to speculation and is not a sound practice for any savings institution to follow; and that borrowing should be confined only to emergency purposes to repay depositors.

While it is not in my statement, I would like to emphasize the point that if a savings and loan association takes its mortgages and borrows on them from the Home Loan Bank System, as it may under this bill, the Home Loan Bank System then is a creditor, having a first lien on those mortgages that were assigned. The shareholders of the institution move into a subordinate position, and I do not believe that you gentlemen intend that shareholders should be put in that position.

Mr. PATMAN. What about your time deposits in banks? Don't you accept them and pay interest on them—in other words, borrow money and invest it?

Mr. BENSON. We accept deposits and invest the deposits.

Mr. PATMAN. But you are borrowing money.

Mr. BENSON. We do not borrow money; no.

Mr. PATMAN. You are paying interest on it.

Mr. BENSON. That is not borrowed money. You are talking about banks.

Mr. PATMAN. In a true sense of the word, possibly you are correct, but in actual practice, when you accept someone else's money, and you pay interest on it, and then you reinvest that money, you are borrowing money to reinvest it, aren't you, in the banks?

Mr. BENSON. We are paying interest to our depositors on their money and investing that money so that we can pay them that interest.

Mr. PATMAN. So that if it applies to the building and loans, it should apply to the banks, too, your statement that it is not safe and sound to borrow money to reinvest, that that is a policy that no institution should adopt. Well, if no institution should adopt that policy, why should the banks do it?

Mr. BENSON. They are not.

Mr. PATMAN. They are accepting time deposits and paying interest on them and reinvesting those deposits.

Mr. BENSON. They are accepting deposits and paying interest on them.

Mr. PATMAN. Therefore they are borrowing money, in one sense of the word, although technically they are not.

Mr. BENSON. No; they are not.

Mr. PATMAN. They are paying for the use of that money.

Mr. BENSON. Yes.

Miss SUMNER. What he means is that in a bank, the primary purpose is to enable people to have somewhere where they can get their money and get it quickly, and yet have it safe, and what he means is that with a bank you can go to the Federal Reserve and borrow money on your security only for the purpose of giving the depositor back the money he deposits.

Mr. BENSON. That is it exactly.

Miss SUMNER. He says that this bill gives them the right, not just to go to this Federal Reserve activity and borrow money to pay back depositors but to go out and invest money, which is an entirely new activity.

Mr. BENSON. That is my point.

Mr. PATMAN. I understand your point.

Mr. BENSON. Second, the only possible use the Home Loan Bank System might have for savings banks would be for a reservoir for funds in the case of a general emergency. They felt—and this is their considered action—they felt, however, that in such an event, funds would be available from other sources, such as the Federal Reserve System, et cetera, and it is not sound economically to maintain one agency purely for that purpose.

If I may make another suggestion at this point, because I am referring to our consideration of this legislation, and this Home Loan Bank System, that is that I believe that it is fundamentally unsound to have a system that ties up banks and building and loan associations and savings and loan associations in one system. They are essentially different kinds of institutions, and to put them together in one package is fundamentally unsound.

I want to say this, too, that we do not need the system. In the savings banks we do not use it. We have no intention of joining it, and I wish that Congress would just amend this law so as to take banks out of the system entirely. That is what I would like to see done. It is all right to have a system for the savings and loan associations; that is perfectly all right, to devise such a system as they need, but leave us out. We are no part of it, and do not want it. We are part of the banking system.

Mr. PATMAN. You refused to join the F. D. I. C., did you not?

Mr. BENSON. Some savings banks did and some did not.

Mr. PATMAN. There are only three in it?

Mr. BENSON. More than 60.

Mr. PATMAN. Some went out?

Mr. BENSON. What you have in mind is that in the State of New York we went out, because we devised our own State insurance system for savings banks.

Mr. PATMAN. You did devise your own system?

Mr. BENSON. Yes, sir.

Mr. PATMAN. How much money did that system have in it?

Mr. BENSON. About \$35,000,000.

Mr. PATMAN. How much are your potential liabilities?

Mr. BENSON. About \$5,000,000,000.

Mr. PATMAN. Is your system still working?

Mr. BENSON. Oh, yes. It has done good work.

Mr. PATMAN. How much do you pay in?

Mr. BENSON. One-tenth of 1 percent premium.

Mr. PATMAN. How long have you been requiring this \$35,000,000 against a potential liability of \$5,000,000,000?

Mr. BENSON. We went in after the first 6 months of the F. D. I. C., when we withdrew.

Mr. PATMAN. Do you consider that sufficient?

Mr. BENSON. It is growing every year.

Mr. PATMAN. Do you consider that sufficient?

Mr. BENSON. You mean, could it liquidate the \$5,000,000,000?

Mr. PATMAN. Do you consider that a safe and sound system?

Mr. BENSON. Yes, sir.

Mr. PATMAN. And \$35,000,000 now is sufficient to take care of \$5,000,000,000?

Mr. BENSON. Yes, sir.

Mr. PATMAN. You consider that one-tenth of 1 percent premium will be sufficient in the future?

Mr. BENSON. Yes, sir.

Mr. PATMAN. And you only accumulated \$35,000,000 since 1934?

Mr. BENSON. That is right. I could discuss that, but it would take too long.

Mr. PATMAN. Mr. Chairman, I want to ask him some other questions.

Mr. BENSON. May I finish my statement first?

Mr. PATMAN. Surely.

Mr. BENSON. As applied to the Federal savings and loan associations, such a liberalization will have the effect of encouraging loans on properties other than small homes. The practice of making large mortgage loans by Federal savings and loan associations would appear to be unwise since such loans would represent an undue concentration of risk and tend to rob the associations of their character as local home financing institutions. Unless the essential character of the savings and loan associations is to be changed, there is no necessity for this amendment in the Federal Home Loan Bank Act.

The other important change proposed in the Federal Home Loan Bank Act is to provide means of obtaining funds from the Treasury in time of an emergency by the sale of debentures of the Bank System. On its face it would seem that there could be no real objection to this proposal. I am not sure, however, whether this proposal is essential

to the proper functioning of the Home Loan Bank System if the savings and loan institutions are restricted in their operations to their proper sphere. If they are not to be so restricted and are to become equivalent to banks, then I should say that there is a grave doubt whether the Home Loan Bank Board should be given power to obtain money direct from the Treasury. It might well be that supervision of the changed type of institution might well be transferred to some other agency having general supervision over instrumentalities of a like nature.

AMENDMENTS PROPOSED RELATING TO THE INSURANCE CORPORATION

A number of amendments are proposed to the National Housing Act respecting the Federal Savings and Loan Insurance Corporation. Some of these are objectionable because they are part of the general scheme to create a third banking system and some are faulty in other respects.

The proposal to change the name of the Corporation to the "Federal Savings Insurance Corporation" serves further to obscure the distinction between banks and savings and loan associations or building and loan associations, as does the amendment making savings banks eligible for insurance in the Corporation. We believe that it is highly important to keep clearly marked the lines of demarcation between these two types of institution, particularly when dealing with the insurance of shares and deposits.

Savings banks and other banks furnish their own liquidity by maintaining a relatively high proportion of their assets in investments other than mortgages. Insurance of the liabilities of such banks is governed by considerations entirely distinct from those operating with respect to insurance of institutions whose assets are nonliquid.

It would not, therefore, be a sound proposition for savings banks to take advantage of such insurance. While the bill is, of course, permissive in this respect and no savings bank would be compelled to take up insurance unless it decided to do so, we consider that it is important to avoid unnecessary legislation that can only result in confusion.

If the powers of the Federal Savings and Loan Insurance Corporation are not to be extended in this connection, there is no reason to change the name. The change to the name "Federal Savings Insurance Corporation" could only serve to indicate to the public mind that the Corporation insured the liabilities of all the savings institutions. While it is true, as pointed out by the Home Loan Bank Board, that the Corporation insures savings and not loans, there can be no doubt that the change of the name has a deeper significance. The public will also believe that the change of name indicates an important change of powers and functions. The present name of the Corporation clearly describes its function as an insurer of savings and loan associations and should be continued.

Other proposed changes in the Federal Savings and Loan Insurance Corporation ignore the fundamental distinction between banks and savings and loan associations. It is proposed to reduce the share assessment from one-eighth of 1 percent to one-twelfth of 1 percent, with the evident thought that the rate should correspond to that paid by the banks to the Federal Deposit Insurance Corporation. In-

insurance premiums should vary directly with risk. The existing premium set-up recognizes the variation between the risk involved in depositing funds with an institution which spreads the risk over many varied forms of investment and purchasing shares of an institution which concentrates the risk largely in one type of investment. This risk differential is also recognized by the lower dividends and interest paid by banks as compared to the dividends paid to savings and loan shareholders.

Another point to remember in comparing premium rates is that the banks pay to the F. D. I. C. premiums on a large volume of deposits in accounts over \$5,000, which are not insured. Consequently, the true premium paid by the banks is in excess of one-twelfth of 1 percent. The sponsors of this legislation evidently recognize that the Federal Savings and Loan Insurance Corporation fund is not as yet adequate for the insurance of shares of savings and loan associations, since the bill also provides for a Government subsidy to the Corporation in the form of the discontinuance of the cumulative feature on dividends paid by the Corporation on the Government capital furnished by the Home Owners Loan Corporation. No dividends will be paid until the 5-cent statutory reserve has been established. We submit that if the reserve of the Corporation requires reinforcement, it should be at the expense of the insured associations rather than at the expense of the general taxpayer.

Here again the Home Loan Bank Board compares the situation of the Federal Savings and Loan Insurance Corporation to the Federal Deposit Insurance Corporation which received one-half of its \$300,000,000 original capital from Government sources and pays no dividends on the capital. The situations are not comparable. The F. D. I. C. situation was part of the original understanding when the Corporation was established. Government support to this extent was furnished to induce the stronger banks to participate. In this case, however, the subsidy is apparently being offered so that premium savings may be furnished to the insured institutions. Also the Government contribution in the case of the F. D. I. C. is relatively minor when we compare the total deposits insured by the F. D. I. C. with the total of shares insured by the Federal Savings and Loan Insurance Corporation.

We also consider that the proposed change in the method of payment of insurance on Federal savings and loan shares is unsound. Under the present law the shareholder is entitled to not more than 10 percent in cash and the remainder in non-interest-bearing debentures of the Insurance Corporation, as determined by the Corporation's Board of Trustees. The amendment would permit the Corporation to make payments wholly in cash. Thus the Corporation would be permitted to insure the liquidity as well as the solvency of the associations. This is a further step in the unsound departure from the long-recognized principle that investments in savings and loan shares are long-term investments. Such shares should not be bought by those who may need their money on immediate withdrawal, and therefore there is no reason to furnish the shareholders with cash immediately upon the failure of a savings and loan association.

Mr. FORD. Do you mean to say that if a savings and loan association were closed the shareholders would get their money in cash?

Mr. BENSON. Under the proposed amendment, they may, if the Board so approves or wishes, pay them in cash in full. Under the present law, as I understand it, it cannot be done. They can pay no more than 10 percent in cash.

Mr. FORD. Will you read the language in the bill that authorizes that?

Mr. BENSON. I have not the bill in front of me. I think that I can find it.

It is on page 19, section 15—

In the event of a default by an insured institution, the Corporation shall promptly determine the insured members thereof and the amount of each insured account, and shall make payment of the insured accounts in such insured institution to each insured member as soon as possible upon surrender and transfer to the Corporation of each insured account free and clear of any lien or other encumbrance either (1) by making available to each insured member a transferred insured account in an insured institution not in default in the same community in an amount equal to the insured account so transferred, or (2) in such other manner as the Board of Trustees may prescribe.

So there is no limitation to 10 percent.

Mr. FORD. But there is nothing mandatory there. It is permissive. It says "as soon as possible."

Mr. BENSON. Yes.

Mr. FORD. That gives the Board a wide latitude.

Mr. BENSON. Yes; that is true. I did not say that they have to, but they may, under No. 2, pay in cash in full if they wish.

Mr. FORD. You do not assume that a Board clothed with responsibility for the solvency of all of the building and loan associations would jeopardize that solvency by paying out in cash in one or two instances?

Mr. BENSON. I am not saying what they will do. I am saying what the bill says, that they may do it if they wish to. I do assume that they would be wise men in the administration of the act—yet the bill says that they may.

Mr. PATMAN. Read that part again, "as soon as possible."

Mr. BENSON (reading).

shall make payment of the insured accounts in such insured institution to each insured member as soon as possible upon surrender and transfer to the Corporation of each insured account free and clear of any lien or other encumbrance either—

Now, the methods—

(1) by making available to each insured member a transferred insured account in an insured institution not in default in the same community in an amount equal to the insured account so transferred, or (2) in such other manner as the board of trustees may prescribe.

The limitation of 10 percent in cash is completely removed.

Mr. PATMAN. But the requirement is also removed.

Mr. BENSON. Yes; that is true. They may not pay anything.

Mr. SPENCE. That phrase "as soon as possible" is qualified in those two ways.

Mr. BENSON. That is correct.

Mr. FORD. There is a double qualification, in addition to a wide latitude on the part of the Board, and the mandatory 10 percent is eliminated entirely, which seems to me is in its favor instead of

against it, unless you are assuming that the Board will just go out and throw the money away.

Mr. BENSON. The present law says not more than 10 percent, so that the 10 percent is not mandatory now, and, by inference, the new law would be not more than 100 percent if they wished to.

Mr. FORD. I am just trying to get information. As I read that section, I could not see the warrant for that assumption. Maybe it is there. I am not a lawyer, and I do not know all of the legal terms and legal language and legal phraseology, but it seems to me that there is a wide latitude given to the Board there, and we are assuming that the Board will protect the interests of its Corporation in dealing with any particular matters that come up.

Mr. BENSON. Yes, sir.

Mr. Chairman, I have just a little more, and you have been very patient. I appreciate it.

The CHAIRMAN. Proceed, Mr. Benson.

Mr. BENSON. The soundness of the insurance plan for savings and loan companies is of deep concern to the members of the American Bankers' Association because of any effect it might have on the system of the deposit insurance. The system should not be set up for insurance on a combination of types of institutions.

I will say that again, because I want you to get that: The system should not be set up for insurance on a combination of types of institutions. We have one system already operating for bank deposits. That is the point that I tried to make before. The system should be confined to the savings and loan institutions. These institutions have always been considered nonliquid in character with the preponderance of their investments in home mortgages. The type of insurance required for such purpose is vastly of a different character than that required for insurance on demand deposits. It is our feeling that the present general plan of the savings and loan insurance is proper for the type of institution insured.

In conclusion: Our members are vitally concerned with any proposed legislation which would tend to confuse the distinction between banks on the one hand and savings and loan associations and building and loan associations on the other. They are adapted to perform entirely different functions in our economic and financial structure. Our members are even more vitally interested in any proposals which would change the characteristics and functions of savings and loan associations and convert them into banks.

We have attempted briefly to give the reasons for our views on these proposals. Speaking personally, and without knowledge of the views of my associates, I believe that, if Congress decides that as a matter of policy, legislation of this character should be enacted and thus eliminate the substantial differences between savings and loan associations and banks, then Congress should seriously consider the necessity as a matter of policy of doing another thing.

It should consider the desirability of equality of regulation by the same agency. If a savings and loan association is to perform functions of a bank, holding itself out to the public as accepting what are equivalent to demand deposits, investing its funds in assets similar to those of banks, then it should be supervised by the same central agency which regulates our banks. It would not be a wholesome condition for two institutions, performing somewhat similar functions,

to be regulated by different supervisory agencies with different views as to interest rates, competitive practices, and so forth.

That is my statement, gentlemen, and I thank you for listening.

Mr. LUCE. Mr. Chairman—

The CHAIRMAN. Mr. LUCE.

Mr. LUCE. You doubtless understand that a building and loan association is composed in part of investors and in part of borrowers.

Mr. BENSON. That is right.

Mr. LUCE. About four or five to one is the ratio—four or five investing to one borrowing.

Mr. BENSON. Yes.

Mr. LUCE. In the normal course of business there come times when a building and loan association has more money in its till than it can lend on mortgages. What would you do with the balance?

Mr. BENSON. Keep it in cash, or put it in Government bonds.

Mr. LUCE. You would restrict it, then, to an income of 2 or 2½ percent?

Mr. BENSON. The purpose is, first, a home-financing institution.

Mr. LUCE. But I want to know what it would do with the money in its till in excess of what it can lend on housing, where it can put that money so as to earn a decent return on it.

Mr. BENSON. It ought to remain in a liquid condition so that, when those loans are available, they can have cash in order to make them.

Mr. LUCE. All of the money? It may be several hundred thousand dollars.

Mr. BENSON. Yes; I would say yes. I think that that is the purpose of the institution; it is a home-financing institution.

Mr. LUCE. And it would like to do that, you grant?

Mr. BENSON. It would like to do it.

Mr. LUCE. It would like to lend its money on mortgages if it can.

Mr. BENSON. Yes.

Mr. LUCE. But if it cannot lend a temporary surplus in that way, you would have it restricted to two or two-and-a-half-percent earnings?

Mr. BENSON. I should think it should carry out its purpose.

Mr. LUCE. Answer my question—

Mr. BENSON. Yes.

Mr. LUCE. Whether you think that a building-and-loan association ought to be confined to earning only 2 or 2½ percent on the money that it cannot lend on mortgages.

Mr. BENSON. Yes; I think it should invest in just those things I mentioned—Government bonds.

Mr. LUCE. Very well. Turn now to another line of inquiry.

Banks were instituted in this country for commercial purposes as an aid to business. In the course of time, however, there was need for other forms of banking. There was started in my home State, in Boston, some 100 years ago, the Boston Five-Cent Savings Bank, and it is now one of the strongest and most prosperous institutions in the country, and it takes deposits as low as 5 cents.

Now, 50 years ago, when I was a young man starting in business, the publication of a magazine with a dollar subscription, after 2 months the bank requested me to withdraw my deposit on the ground that it did not want to bother with a small sum. I think, then, that

we may take it for granted that 50 years ago banking in this country was still a commercial business.

You have explained the different types of banking, which are, first, commercial banks; second, deposit banks; and, third, there is a building-and-loan association.

Mr. BENSON. Yes, sir.

Mr. LUCE. In the course of the last 50 years we have seen developed a combination of the first and second. Fifty years ago it was not dreamed of. Now, sir, it is a legal principle, well known, that a litigant should not come into court without clean hands. Applying that principle, sir, why do you deny the building-and-loan association the opportunity to invest its funds, when you are continuing the practice, under the same roof, of combining commercial banking and investment banking?

Let me go further and say that in my own State we have a law on the statute books today, and it has been for many years, requiring the maintenance of a brick wall, without any aperture, between a commercial bank and a savings bank. I never go into my national bank today without shivering when I see the savings-bank window in a national bank.

How do you defend that?

Mr. BENSON. Well, I have been trying to point out the difference between banks which accept deposits and building-and-loan associations.

Mr. LUCE. That is all right, sir. We will accept that. I want to find out how you defend the combination of the commercial bank and the depositing bank.

Mr. BENSON. Well, you are talking about one bank, such as a national bank, taking both demand deposits on checking accounts and savings deposits?

Mr. LUCE. Yes.

Mr. BENSON. And conducting the two departments in one bank?

Mr. LUCE. Yes.

Mr. BENSON. The laws of the United States permit that, sir.

Mr. LUCE. That is not the question—what the laws permit. You have tried to convince us that there is a menace in allowing savings banks and building and loan associations from entering into your field, and I am pointing out to you that the principle involved is the same principle maintained in a great part of the United States in combining in one institution commercial savings and deposits, too; and I want to call your attention to the fact that a great part of the hardships suffered by the country after the banking holiday of 1933 was due to that very thing—that the people who suffered most severely, because they had the most to lose, were those who put their deposits into a national bank.

Now, sir, it seems to me that before you come here and tell us, "Beware of the building and loan association," that you should clean house; that you should stop this intermingling of commercial banking and deposit banking.

How do you justify that?

Mr. BENSON. As I say, you write the laws. We do not.

Mr. LUCE. I am not writing the laws now. Your practice throughout the greater part of the United States is to combine the two types.

of banking, and you come here and protest against a third type of banking stepping over the line.

Mr. BENSON. I think that our system of banking is being conducted in a safe, sound, and satisfactory manner. If you want my candid opinion on that, I think it is all right, and that the job is being well done.

Mr. LUCE. Why do you object to other types of banking conducting their business in a safe, sound, and satisfactory manner and crossing the line into your field?

Mr. BENSON. I do not want people to think that they are banks, because they are not, and I object to having a third banking system set up in this country. I think that our existing banking systems are all right.

Mr. LUCE. But your banking system is already known to the people as having two branches: the commercial-banking branch and the other branch—names do not count. The fact is that you are maintaining a joint system of banking between commerce and thrift, which has brought great disaster in the United States.

Mr. BENSON. I cannot admit that. I think it is working all right.

Mr. LUCE. Did it work all right in 1933?

Mr. BENSON. Did it make any difference what type of banking it was? Every type of banking was in trouble then.

Mr. LUCE. I recall that the building and loan associations came through that period magnificently.

Mr. BENSON. I cannot agree with that. I know one State where 1,000 of them failed.

Mr. LUCE. I speak mostly of the situation in my own State.

Mr. BENSON. Yes, sir; you have some cooperative associations in your State, and they have worked very well. But that has not been true in other States at all.

Mr. LUCE. Do you concede that you are perfectly consistent?

Mr. BENSON. I am not here to criticize the building and loan associations in the slightest way, and I have not done it. I say don't confuse the two things. Banks are banks, and they are another thing.

Mr. LUCE. I am accepting your own division into three parts, pointing out to you that you defend the union of two of them, and criticize the addition of a third.

Mr. BENSON. Yes, sir; I do criticize the addition of a third banking system to the already-existing banking systems of this country as entirely unnecessary.

Mr. SPENCE. You were speaking of Pennsylvania?

Mr. BENSON. Yes, sir.

Mr. SPENCE. The majority of them in the Nation failed there.

Mr. BENSON. I did not know that it was a majority, but I did have Pennsylvania in mind. That is just the State that I had in mind.

Mr. LUCE. That was due to a defective State law.

Mr. BENSON. That may be.

Mr. PATMAN. I would like to ask the witness a few questions, if Mr. Luce has finished.

It is my understanding that about 77 percent of the assets of the savings banks for the entire Nation are in two States, New York and Massachusetts. Is that right?

Mr. BENSON. You are talking about mutual savings banks?

Mr. PATMAN. Yes; or all savings banks.

Mr. BENSON. Well, now, let me give you some figures on that. The savings, for instance, in the banks of this country are over \$24,000,000,000. Of that, \$10,000,000 are in the mutual savings banks—that is about 40 percent of the whole of the savings accounts—

Mr. PATMAN. I am talking about savings banks now.

Mr. BENSON. Shall we confine it to mutual savings banks?

Mr. PATMAN. Just savings banks. Seventy-seven percent of the assets are in 2 States, and 33 States do not have any savings banks at all.

Mr. BENSON. That is approximately correct.

Mr. PATMAN. Now let us see how these two systems operate. You take a building and loan association and a Federal savings and loan association. Do their depositors have anything to do with the selection of their officers and those that control the association and investments?

Mr. BENSON. No.

Mr. PATMAN. They do not have anything to do with it?

Mr. BENSON. Not in my State.

Mr. PATMAN. I know that they do not in New York, but I am talking about the country generally, where they do.

Mr. BENSON. In 17 or 18 States.

Mr. PATMAN. You think only 17 or 18?

Mr. BENSON. Seventeen or 18 States have mutual savings banks.

Mr. PATMAN. Let us get it down to the State of New York, since most of the savings banks are in two States, including New York. Now, during recent years you have had to decrease your dividends considerably, haven't you?

Mr. BENSON. Yes; we have.

Mr. PATMAN. And you select officers regularly, I presume?

Mr. BENSON. Yes.

Mr. PATMAN. How often?

Mr. BENSON. Our officers are elected by our trustees.

Mr. PATMAN. Each year, or every 2 years?

Mr. BENSON. It depends on the charter, the bylaws of the bank. In my bank, they hold office during the pleasure of the board.

Mr. PATMAN. Do the depositors have anything to do with the selection of these trustees?

Mr. BENSON. No, sir.

Mr. PATMAN. They have nothing to do with it. How can you say you come here representing them, when they had no authority to appoint you?

Mr. BENSON. I did not say that I came here to represent them. I came here to represent the American Bankers' Association, of which I am president.

Mr. PATMAN. But Mr. Williams is also representing the American Bankers' Association, and he said that he represented 45,000,000 depositors in these savings banks.

Mr. BENSON. Yes, sir.

Mr. PATMAN. And if they do not have any voice in the selection of these trustees, I just wondered where he got that authority.

Mr. BENSON. Through the State law. They prescribe how it shall be done.

Mr. PATMAN. In other words, the trustees may select the other trustees?

Mr. BENSON. That is right.

Mr. PATMAN. What have you been paying to your depositors, say, last year, in dividends?

Mr. BENSON. Two percent.

Mr. PATMAN. And the year before?

Mr. BENSON. Two percent.

Mr. PATMAN. When was it higher than that?

Mr. BENSON. Well, it was 4 percent, I believe, 8 or 9 years ago.

Mr. PATMAN. And it has been reduced to 2 percent?

Mr. BENSON. That is right, and that is by regulation of our State banking board, which controls the rate of interest that we shall pay.

Mr. PATMAN. It is my understanding that you are the president of the Dime Savings Bank at Brooklyn?

Mr. BENSON. That is correct.

Mr. PATMAN. That is the sixth largest in the country?

Mr. BENSON. You have it right there.

Mr. PATMAN. I am sure that you are proud of your fine institution—I would be—\$195,000,000 of deposits, and I believe that the largest has \$516,000,000, the Bowery Savings, but they pay the same amount as you do?

Mr. BENSON. Same amount.

Mr. PATMAN. I wonder what the president of the Bowery Savings Bank receives annually?

Mr. BENSON. I do not know.

Mr. PATMAN. I wonder if the salaries have gone down with the dividends. Do you know?

Mr. BENSON. No; I do not know, sir.

Mr. PATMAN. What does your bank pay its president?

Mr. BENSON. You mean what my salary is?

Mr. PATMAN. Well, if you want it that way.

Mr. BENSON. Must I answer that, Mr. Chairman, for the record?

Mr. PATMAN. Certainly. I insist on it. It is very material.

The CHAIRMAN. It is a matter that is easy to ascertain, I suppose.

Mr. PATMAN. A telephone call would get it, and I want the information as to this bank and many of the others.

Mr. BENSON. My salary is \$52,500.

Mr. PATMAN. How much was it 8 years ago?

Mr. BENSON. I was not president at that time.

Mr. PATMAN. How long have you been president?

Mr. BENSON. Six years.

Mr. PATMAN. What did you receive when you first went in?

Mr. BENSON. When I first went with the bank?

Mr. PATMAN. As president; yes.

Mr. BENSON. Oh, it was slightly less. I forget. They have given me some small increases from year to year.

Mr. PATMAN. In other words, your salary has gone up, while dividends have gone down?

Mr. BENSON. Yes, sir.

Mr. PATMAN. I wonder if that is the way with the mutual savings banks.

Mr. BENSON. I do not know.

Mr. PATMAN. Is there any way of getting this information?

Mr. BENSON. The banking department of the State of New York has it.

Mr. PATMAN. They have all of that information?

Mr. BENSON. Yes, sir.

Mr. PATMAN. In connection with this insurance fund of the State of New York, I would like to ask you a little bit about that. Do you pay one-tenth of 1 percent into a common fund, and is that administered by certain people in the State of New York?

Mr. BENSON. Yes.

Mr. PATMAN. Who administers that fund?

Mr. BENSON. The Savings Trust Co.

Mr. PATMAN. Who organized the Savings Trust Co.?

Mr. BENSON. It was organized under a special act of the New York State Legislature by the savings banks. Its stock is entirely owned by the savings banks, and its trustees are savings banks' officers and trustees.

Mr. PATMAN. In other words, it is in charge of the trustees of the different savings banks in the State of New York?

Mr. BENSON. That is right.

Mr. PATMAN. That is one-tenth of 1 percent. Is that paid on all deposits, or just up to a certain amount?

Mr. BENSON. All deposits.

Mr. PATMAN. It is paid on all deposits.

Mr. BENSON. And they are all insured, too.

Mr. PATMAN. And there is no exception? All deposits are insured, whether \$5,000 or \$100,000?

Mr. BENSON. Yes, sir.

Mr. PATMAN. And you feel that one-tenth of 1 percent is ample to cover that?

Mr. BENSON. I think so.

Mr. PATMAN. If that is true, why couldn't the F. D. I. C. safely insure all deposits for the insurance premium that it is now receiving?

Mr. BENSON. I had not thought about that. I would rather not answer it, without giving it some more careful thought.

Mr. PATMAN. It is limited to \$5,000 now, but it occurs to me that if you can insure them all for one-tenth of 1 percent, the F. D. I. C. could, on their present rate, insure all of them.

You were talking about the encroachment in your field of banking activity of other institutions. Is it not a fact that the banks are also encroaching into the building and loan field to some extent, by making these long-term home loans, over a period of from 20 to 25 years?

Mr. BENSON. Practically the only home loans that are available are Federal Housing Administration insured loans, and they run from 20 to 25 years, and if we are going to invest our money, we have got to take them, and we are going to take them.

Mr. PATMAN. And you are encouraging banks to take them?

Mr. BENSON. I am taking them in my own bank. I am not doing anything about any other bank.

Mr. PATMAN. In your speech at Dallas, I believe, day before yesterday, you encouraged the bankers to expand their activities and take in all types of loans that are safe.

Mr. BENSON. I urged them to fully serve the financial needs of the community.

Mr. PATMAN. Including long-term loans?

Mr. BENSON. If that is what the public wants; yes.

Mr. PATMAN. Is that consistent with your policy of liquidity that you are always advocating?

Mr. BENSON. Yes. These loans are really more liquid, because they are payable in installments, and we gradually get the money in again. I think that that is a little better than the old style of a straight mortgage, without any installments.

Mr. PATMAN. You think it is all right for the banks to get into that field?

Mr. BENSON. When you say "banks," you are talking about savings banks?

Mr. PATMAN. You were talking to just the banks in Texas. I do not think you were talking to just the savings banks. The Texas Bankers Association is composed principally of commercial banks.

Mr. BENSON. No one would put commercial banks and put demand deposits to any extent in mortgages.

Mr. PATMAN. Not to any great extent, but you consider that they should invest in F. H. A. long-term mortgages.

Now, in connection with the appointment of these trustees, on which I had not finished, in the State of Massachusetts, that our good friend, Mr. Luce, is from, do you know the law about the appointment of trustees to administer mutual savings banks?

Mr. BENSON. Of Massachusetts?

Mr. PATMAN. Yes.

Mr. BENSON. I cannot say that I do; no.

Mr. PATMAN. Is it not a fact that under that law they appoint themselves, so to speak, the incorporators and trustees, and they can always fill vacancies, and the depositors never have a voice in the affairs of that bank? Do you know whether or not that is true?

Mr. BENSON. No; I do not—is that Massachusetts?

Mr. PATMAN. Yes.

Mr. BENSON. No; I do not know.

Mr. PATMAN. Do you know whether or not it is a fact that a large part of the funds of these savings banks is invested in the stock of commercial banks?

Mr. BENSON. I know that they invest in the stocks of commercial banks, but my understanding is that it is a very small proportion of their total assets.

Mr. PATMAN. A very small proportion of their total assets?

Mr. BENSON. Yes, sir.

Mr. PATMAN. You do not think that any of your mutual savings banks would resist any effort on the part of the Government to cause the passage of laws that might bring them under Federal control or supervision, because they were not willing to fully disclose to the public at all times their activities? There is nothing like that behind it?

Mr. BENSON. Nothing that I know of.

Mr. PATMAN. In the State of New York, what reports do you make? Do you report to the State supervising agency?

Mr. BENSON. Yes. We make two reports a year. One is a report on the banking department forms and the other is a report of an examination that their trustees personally make of the bank assets,

condition, and affairs, and at two different times a year we make that report, and twice a year we publish to the public our asset and liability statement.

Mr. PATMAN. Now, I have investigated the law to find out how long the banks have been making real-estate loans, and I have discovered that prior to 1913—and I believe that they Federal Reserve Act became a law 2 days before Christmas 1913—prior to that time banks could not make real-estate loans at all. Is that your understanding?

Mr. BENSON. In the savings banks we could. That has been our principal investment.

Mr. PATMAN. But commercial banks could not make any type of land loan at all.

Mr. BENSON. I think that that is probably correct.

Mr. PATMAN. That is prior to 1913. Then in 1913 the law was passed allowing them to make 5-year loans at 50 percent of the appraised value. Then—and I am giving you this information to show you how the banks have encroached on these long-term loans, on the activities of other institutions.

Then, on September 7, 1916, there was another amendment granting them more power and authority in making long-term loans on land—that is, for more than 5 years.

In 1927 the law was further amended, and in 1934 and 1935, so that gradually the banks have been getting into the business of making these long-term loans.

Mr. Chairman, I ask permission to insert this statement in connection with that in the record at this point.

(The statement referred to is as follows:)

COMMERCIAL BANKS ENCROACH UPON FIELD OF SAVINGS AND LOAN ASSOCIATIONS

During the past 25 years there has been a progressive encroachment by banks upon a field which traditionally has belonged to savings and loan association:

1. Prior to the Federal Reserve Act of 1913 national banks were not allowed to make any mortgage loans. This act allowed national banks outside of central reserve cities to make farm-mortgage loans for terms up to 5 years and up to 50 percent of appraised value. Mortgage loans on nonfarm properties were not allowed. Banks in central reserve cities were not allowed to make any mortgage loans. (Public, No. 43, 63d Cong., sec., 24.)

2. On September 7, 1916, for the first time, national banks were authorized to make nonfarm real-estate loans. The terms, however, were restricted to not more than 1 year and not more than 50 percent of actual value. The intent was that the loans should be only short-term loans which were non-competitive with the long-term loans made by savings and loan associations. (Public, No. 270, 64th Cong.)

3. It was not until February 25, 1927, that the allowable term of non-farm-mortgage loans by national banks was extended from 1 to 5 years. (Public, No. 639, 69th Cong., sec. 16.)

4. Prior to June 27, 1934, when the National Housing Act was passed, national banks were not allowed to make long-term amortized mortgage loans. At this time they were authorized to make such loans, if they were insured by the F. H. A. under title II. (Public, No. 479, 73d Cong., sec. 505.)

5. Uninsured long-term amortized loans were first allowed by the amendments of August 23, 1935. Since then national banks have been permitted to make such loans up to 60 percent of value, for terms up to 10 years, if the loan is amortized at a rate sufficient to retire 40 percent of the principal within 10 years. In 1935 national banks were also authorized to renew or extend loans previously made, without any limitation as to maximum term or percentage of appraised value. (Public, No. 305, 74th Cong., sec. 208.)

In addition to the progressive liberalization of lending powers of national banks from the standpoint of type of loans allowable, the statutes have been

successively amended to increase the aggregate amount which national banks could loan on the security of real estate:

1. By the Federal Reserve Act of 1913 the aggregate amount of farm-mortgage loans which national banks outside of central reserve cities could make, was set at 25 percent of capital and surplus, or one-third of time deposits. (Public, No. 43, 63d Cong., sec. 24.)

2. By amendment of February 25, 1927, the aggregate amount of loanable by national banks on real-estate security was increased to 50 percent of savings deposits, or 25 percent of the paid-in and unimpaired capital and surplus, at the election of the bank. (Public, No. 639, 69th Cong., sec. 16.)

3. The amendments of June 27, 1934, increased the aggregate amount of real-estate loans which national banks could hold to 50 percent of the paid-in and unimpaired capital, or 50 percent of savings deposits. At the same time construction loans with maturities of 6 months or less were defined as ordinary commercial loans; by statute they were not to be considered real-estate loans. (Public, No. 479, 73d Cong., sec. 505.)

4. Further increases in the amount loanable on real estate were made by the Banking Act of 1935. This allowed such holdings up to 60 percent of time and savings deposits, or an amount equal to the paid-in and unimpaired capital and surplus, whichever is the greater. (Public, No. 305, 74th Cong., sec. 208.)

Savings and loan associations have remained in the field of long-term amortized loans. Commercial banks, on the other hand, have been departing from the traditional field of commercial banking and have been steadily encroaching upon the legitimate field of savings and loan associations. "Let the shoemaker stick to his last."

Mr. PATMAN. So, while the building and loan associations have been getting into the business of the banks to some extent, the banks, on the other hand, have been getting into the business of the building and loan associations—that is right, isn't it, Mr. Benson?

Mr. BENSON. I cannot admit it as being just as you say it. We have, for over 100 years, been making real-estate loans in savings banks. It has been our principal business, and we have been doing that before building and loan associations were ever thought of. We were there long before they were. It is true that we are now doing it on an installment basis, and that is just common sense, to have a good number of installment mortgages, and it is nothing new with us. We have always made mortgage loans. In fact, in our communities we have been the principal source of furnishing money on home-mortgage loans. These savings and loan associations, except in a few cases, were very small. My bank has \$110,000,000 in mortgage loans, principally in small loans in and around Brooklyn.

Mr. PATMAN. Mr. Luce, there are five people who are saving money to every borrower in these building and loans, so I cannot understand why you insist that they should not be considered as savings institutions, when most of the business of those people is composed of savings.

Mr. BENSON. I am not objecting to these institutions in any way.

Mr. PATMAN. Mr. Chairman, it is after 12, and I know that there is an important matter coming up on the floor, and we will have to be there.

The CHAIRMAN. Mr. Williams wants to interrogate him for just a few minutes.

(To the witness.) Will you be here tomorrow?

Mr. BENSON. I do not want to be.

Mr. PATMAN. I will be willing to wait.

The CHAIRMAN. You may proceed, if you are not through.

Mr. PATMAN. That is all right. I will ask the other witness my other questions.

Mr. BENSON. Mr. Williams will be here.

The CHAIRMAN. Now, Mr. Williams.

Mr. WILLIAMS. I do not believe that we ever did get the number of mutual savings banks as distinguished from savings banks. You started to answer that question. What is the relationship between them, as to numbers?

Mr. BENSON. Of course, there are a number of mutual savings banks.

Mr. WILLIAMS. How many?

Mr. BENSON. Something like 600.

Mr. WILLIAMS. Does that cover the whole field of savings banks?

Mr. BENSON. No. Commercial banks, both State and National, do accept savings deposits.

Mr. WILLIAMS. Oh, I understand that. I am not talking about that, but about what we call savings banks.

Mr. BENSON. There are very few banks that have purely savings that are not mutual savings banks. There are some, but they are not numerous. I do not know how many.

Mr. WILLIAMS. You do not know how many?

Mr. BENSON. No, sir.

Mr. WILLIAMS. There are—what is that number—563 in the country, I believe.

Mr. BENSON. Those are mutual savings banks.

Mr. WILLIAMS. Those are all the savings banks, is it not. That is what I am trying to get at.

Mr. BENSON. No.

Mr. WILLIAMS. I am talking purely about savings banks. I am not talking about the savings division of a commercial bank. How many savings banks are there in the country?

Mr. BENSON. You said 563. That is just about the right number.

Mr. WILLIAMS. But you now say that that is only the number of mutual savings banks.

Mr. BENSON. In addition to that, there are a few savings banks that are stock savings banks. Just how many I do not know; a few of them. I never counted them. They are not numerous.

Mr. WILLIAMS. What is the fundamental difference between a savings bank and a building and loan association?

Mr. BENSON. In the savings banks, we accept deposits from depositors, and it is a liability of the bank to the depositor.

Mr. WILLIAMS. What is the situation in a building and loan association now?

Mr. BENSON. There he buys a share of stock. He is a stockholder.

Mr. WILLIAMS. But that may be repurchased from him, as you say, just as an account may be withdrawn from your bank?

Mr. BENSON. Yes.

Mr. WILLIAMS. There is an obligation to pay him, the shareholder, just as there is an obligation on the savings bank to pay the depositor his deposit?

Mr. BENSON. No. The savings and loan association may repurchase. They do not have to.

Mr. WILLIAMS. I say, there is an obligation just the same there, as the obligation of the bank to repay?

Mr. BENSON. It is of a different character.

Mr. WILLIAMS. Why?

Mr. BENSON. One is a creditor; the depositor is a creditor, and the other is a shareholder, a proprietor.

Mr. WILLIAMS. But there is the obligation to pay him. He has an investment in there in the same sense, in reality, as the depositor.

Mr. BENSON. I do not think so. One is a creditor and the other is not.

Mr. WILLIAMS. But there is an obligation on the part of the institution to pay both of them, isn't there?

Mr. BENSON. In the second place, an account should—

Mr. WILLIAMS. Answer that question. Isn't there?

Mr. BENSON. I don't think so.

Mr. WILLIAMS. You do not think there is any obligation on the bank to pay the shareholder the interest that he has in the bank?

Mr. BENSON. You call it a bank. I say it is not a bank.

Mr. WILLIAMS. I don't care what you call it.

Mr. BENSON. I do. I say it is not a bank.

Mr. WILLIAMS. What is the difference what you call them? I am talking about the principle that is involved.

Mr. BENSON. It is clear to me that the people that put their money in the bank are depositors. The corporation owes them that money. If they do not pay, they are insolvent. With the building and loan association, the people that have that money in there are shareholders, and if they do not pay them, they are not insolvent.

Mr. WILLIAMS. But the obligation is there to pay them, and as long as they are solvent they do pay them?

Mr. BENSON. Yes.

Mr. WILLIAMS. Just as they pay their depositors?

Mr. BENSON. All right.

Mr. WILLIAMS. Those shares may be withdrawn?

Mr. BENSON. Yes.

Mr. WILLIAMS. It may be paid on at any time, just as the depositor may increase his deposits in his savings account from time to time.

Now, what is the difference in the manner in which they handle their funds?

Mr. BENSON. These two types of institutions?

Mr. WILLIAMS. Yes.

Mr. BENSON. The banks—

Mr. WILLIAMS. I am talking, of course, about the savings banks always.

Mr. BENSON. In the savings bank, we recognize the right of the depositor to withdraw his money. In my State we can require 60 days' notice. As a matter of practice, we have not done it for many years. Therefore, in order to pay him, we have to maintain a degree of liquidity in order always to be ready to pay him. When he comes in the bank, and hands his passbook over the counter, he gets it. We do not question him—we do not put him on the list, and do not ask him to wait. We give him his money.

That is not the building and loan practice, and it never has been.

Mr. WILLIAMS. Then the depositor in the savings bank can get his money at any time?

Mr. BENSON. Yes.

Mr. WILLIAMS. Without notice?

Mr. BENSON. Without notice.

Mr. WILLIAMS. What is the difference between that and the demand deposit in a commercial bank?

Mr. BENSON. The only difference is that we may, if we have to, require 60 days' notice, no longer, and at the end of 60 days we have to pay him, or close our doors.

Mr. WILLIAMS. Do you always require that notice?

Mr. BENSON. No; we never require it. As I said, I have been with my bank for 22 years, and we never required any notice except during the bank holiday, and then the law made us.

Mr. WILLIAMS. What do you invest your deposits in?

Mr. BENSON. Mortgages; first mortgages on improved real estate.

Mr. WILLIAMS. Of any kind?

Mr. BENSON. Of any type—improved real estate.

Mr. WILLIAMS. You do not combine them into the home mortgage?

Mr. BENSON. We do not.

Mr. WILLIAMS. What do the building and loan associations do?

Mr. BENSON. Up to now, they have been home-loan mortgage institutions for practically all of their funds. Now it is proposed to allow them to invest otherwise up to 30 percent and the purposes for which they may loan is enlarged.

Mr. WILLIAMS. Do you consider that it is safe to invest your funds in other mortgages?

Mr. BENSON. Yes.

Mr. WILLIAMS. Why not the building and loans?

Mr. BENSON. I did not say that it was not safe for them to do so. I say it changes the character of the institution.

Mr. WILLIAMS. Why not change it?

Mr. BENSON. If Congress wants to change it, that is the prerogative of Congress, but we think that Congress ought to know what they are doing when they pass this law.

Mr. WILLIAMS. We thank you for coming down here and telling us that.

Now, after all, you do not seem to point out any difference to us.

Mr. BENSON. I tried to. I am sorry if I failed.

Mr. WILLIAMS. It looks to me like you simply do not want the building and loan associations or any other associations to enter into this extra mortgage field.

Mr. BENSON. No; that is not right.

Mr. WILLIAMS. What is the objection to it?

Mr. BENSON. We do not want people to think that these institutions are banks. We do not want them to look like banks, and we don't want them tied up in the same system with banks.

Mr. WILLIAMS. Do you mean to say that the stockholders in these building and loan associations do not know what they are doing today?

Mr. BENSON. I do not know what they know, but I think this, and I know this from experience, that these institutions dress themselves up to look as much like banks as they can.

Mr. WILLIAMS. You are afraid that they are going to get some of your business?

Mr. BENSON. We are not afraid of their competition at all.

Mr. LUCE. In New England, these institutions are all called banks, cooperative banks.

Mr. BENSON. Yes; you do have cooperative banks up there.

Mr. WILLIAMS. That simply means a building-and-loan association—is that right?

Mr. LUCE. Yes; the same thing, and I am pointing out that they use, and for many years have used, the name of bank in connection with these institutions.

Mr. WILLIAMS. You have not heard of any bad results from the use of that name?

Mr. BENSON. No, sir.

Mr. WILLIAMS. I see no objection, as I said awhile ago, to the name; it is a question of the function that they perform, and I do not see any material difference in it.

Now, what is the amount in the savings banks of the country?

Mr. BENSON. In the purely savings banks?

Mr. WILLIAMS. Yes.

Mr. BENSON. About \$10,000,000,000.

Mr. WILLIAMS. What is it in the savings departments of the commercial banks?

Mr. BENSON. \$14,000,000,000.

Mr. WILLIAMS. Now, the building-and-loan associations have less than \$7,000,000,000, haven't they?

Mr. BENSON. I think that that is right, but I am not familiar with that figure.

Mr. WILLIAMS. On the other hand, the insurance companies of the country have over \$27,000,000,000?

Mr. BENSON. Yes; in assets; that is right.

Mr. WILLIAMS. So, after all, the building-and-loan association is the small savings institution of the country, and it is the one whose activities your larger institutions want to limit?

Mr. BENSON. No. I say that there is a perfectly proper place for it, but we do not think that they should be made to look like banks. We think that people should understand the difference. We think that they should have their own system, and leave us out.

Mr. WILLIAMS. You do not think that there is any difference, except just in the appearance?

Mr. BENSON. I think the difference is fundamental. They are different kinds of institutions.

Mr. WILLIAMS. But they both invest primarily in real-estate mortgages?

Mr. BENSON. They do to a larger degree than we do. We have about half of our resources in mortgages.

Mr. WILLIAMS. And you invest, in addition to that, in Government securities and approved securities, and so do they?

Mr. BENSON. They are not allowed to do anything but invest in Government securities, as I understand.

Mr. WILLIAMS. But now this bill proposes to give them an opportunity to invest in other securities, whatever may be available.

Now, you do not mean to say, do you, that the building and loan association cannot purchase anything except Government securities?

Mr. BENSON. That is the present law, isn't it?

Mr. WILLIAMS. Is it?

Mr. BENSON. Mortgages, Government securities, and home-loan bank stock. That is my understanding of the present law.

Mr. WILLIAMS. That is the security that they may put up for advances by the home-loan bank, but that is not a limitation upon the securities that they can purchase, is it?

Mr. BENSON. I understand it is.

Mr. WILLIAMS. I do not think it is. That is controlled, is it not, by the State law?

Mr. BENSON. For the State institutions; but then there are the Federal savings and loan institutions.

Mr. WILLIAMS. All right. And what about your State institutions? They are in the great majority.

Mr. BENSON. They have invested practically all of their funds in mortgages up to now.

Mr. WILLIAMS. And that is controlled entirely by the State law?

Mr. BENSON. That is right.

Mr. WILLIAMS. And that permits them to invest in a wide range of securities in addition to Government securities, does it not?

Mr. BENSON. I do not think it does. I do not know the laws of all of the States in that respect, but I would say that those I do know do not permit them to invest in any type of securities.

Mr. WILLIAMS. You have no such restriction as that on your banks?

Mr. BENSON. Oh, yes. We are restricted to these legal investments, mortgages, and certain specified bonds.

Mr. WILLIAMS. I say, you have no such restriction as that? You can invest in other legal securities?

Mr. BENSON. Yes.

Mr. WILLIAMS. Outside of the Government.

Mr. BENSON. Yes.

Mr. WILLIAMS. And you do that?

Mr. BENSON. That is right.

Mr. WILLIAMS. Now, what percentage of your savings have you invested in real-estate mortgages?

Mr. BENSON. About 50 percent.

Mr. WILLIAMS. That is, as a whole, I am talking about, not your particular bank, but the system.

Mr. BENSON. The average would be very much the same.

Mr. WILLIAMS. What percentage is in purely home mortgages?

Mr. BENSON. I would say that half of all mortgages, at least, maybe 60 percent, in homes.

Mr. WILLIAMS. That would be about 25 percent of your total assets?

Mr. BENSON. Twenty-five or 30 percent of our total assets.

Mr. WILLIAMS. Do you know what it is as applied to the building and loan associations?

Mr. BENSON. That has been their principal investment. That has been the purpose of their formation.

Mr. WILLIAMS. Have you the percentage?

Mr. BENSON. No; I have not the figures that have been given me.

Mr. SPENCE. How many of those savings banks are you authorized to speak for?

Mr. BENSON. I am speaking as the president of the American Bankers Association.

Mr. SPENCE. Do you know the wishes of all of them?

Mr. BENSON. Yes. I was authorized by the governing board of the association to appear here and tell this story, through delegated authority, of course.

Mr. KEAN. Did any of the mutual savings banks fail during 1933?

Mr. BENSON. Not that I know of.

The CHAIRMAN. The committee will meet again tomorrow at 10:30.

Thank you, Mr. Benson.

(Thereupon, at 12:15 p. m., an adjournment was taken until Friday morning, May 19, 1939, at 10:30.)

AMENDMENTS OF 1939 TO FEDERAL HOME LOAN BANK ACT

FRIDAY, MAY 19, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10:30 a. m., Hon. Henry B. Steagall (chairman) presiding.

Members present: Messrs. Steagall, Williams, Spence, Ford, Brown, Patman, Gore, Mills, Martin, Folger, Monroney, Luce, Crawford, Johnson, and Kean, and Miss Sumner.

The CHAIRMAN. The committee will come to order.

Mr. White, will you come around, please, sir?

Are you in the banking business, Mr. White?

Mr. WHITE. No, sir; I am not in the banking business.

The CHAIRMAN. All right; we will be glad to have you discuss this bill, and you may proceed without interruption.

WILLIAM R. WHITE, SUPERINTENDENT OF BANKS OF THE STATE OF NEW YORK

Mr. WHITE. Mr. Chairman, I have a very brief statement here that I would like to read to you.

I am glad to have this opportunity to appear at this hearing on House bill 5535, which would enlarge the powers of the Federal Home Loan Bank Board, of the Federal Savings and Loan Insurance Corporation, and of Federal savings and loan associations.

I should like to bring to the attention of the committee for its consideration a resolution adopted at a recent meeting in Washington of the executive committee of the National Association of Supervisors of State Banks. State bank supervisors from 21 States were present at the meeting, and the resolution was adopted by a unanimous vote.

The resolution expresses the opposition of the association to the bill at present under consideration and to its companion measure, Senate bill 2098.

The State bank supervisors are of the considered opinion that some of the provisions of this bill are definitely unsound, but their principal reason for opposing the proposed amendments is more fundamental. They believe that no amendments to enlarge the powers of the Federal Home Loan Bank System with respect to savings and loan associations should be considered until the chartering and supervisory functions with respect to such associations are transferred to

the Comptroller of the Currency or other Federal bank-supervisory agency and the Federal Savings and Loan Insurance Corporation is transferred as a separate unit to the Federal Deposit Insurance Corporation. We believe this is necessary in order that the activities of savings and loan associations may be coordinated with the services rendered by our banking system.

During the last 8 or 9 years Federal and State bank-supervisory authorities have made great progress in improving policies and methods of bank supervision. They have coordinated examination procedure, established methods to curtail easy chartering, and have done much to eliminate unsound competition among banking institutions which was responsible for many of our banking troubles of the past.

In the meantime, however, a separate system of Federal savings and loan associations has been in process of development in the field generally served by the banks, but without being required to meet the conditions imposed upon banks in matters of supervision and competitive practices.

Although the original purpose in providing for the establishment of Federal associations was to assist communities not adequately served by savings and home-financing institutions, new Federal associations were established in some communities already adequately served by banking institutions. These associations and others which have been induced to convert from State to the Federal system have competed with established banking institutions for savings and home mortgages. Their advertising has featured high dividend rates and the demand withdrawal feature of shares, while bank supervisors have been attempting to soft pedal the appeal based on interest rates and to emphasize the fact that the investments of savings and loan associations, which consist principally of mortgage loans, should represent savings which are also long term in nature.

Thus we see that much of what we as bank supervisors are trying to build up is being threatened, if not actually impaired, by a new and competing system.

The bills at present before Congress would expand the powers of the Federal Home Loan Bank Board and of Federal savings and loan associations and would prepare the way for the conversion of this system of institutions into a system of Federal savings banks, independent of bank supervisory authorities and not subject to the restrictions imposed upon mutual savings banks and upon State and National banking institutions which accept savings. This is evident from the additional powers which are sought in the proposed bills, from the provision which would contract the name of the Federal Savings and Loan Insurance Corporation and from the amendment which would authorize that agency to insure deposits in mutual savings banks, in spite of the fact that Congress has already created the Federal Deposit Insurance Corporation to insure bank deposits, which Corporation does now, in fact, insure deposits in mutual savings banks.

The bill now before this committee if enacted into law would tend to promote further the development of a system which has already expanded beyond the needs of the public, and which threatens to create again in this country the same overbanked condition which caused many of our troubles of recent years. We are not directing

our criticism to policies of the Federal Home Loan Bank Board, because we believe that the fault lies in the nature of the system and that abuses will continue to occur until that system is coordinated with our banking structure. Accordingly, we desire to recommend to this committee that this bill not be enacted. It is our firm opinion that the solution to the present problem is dependent upon making Federal savings and loan associations subject to the supervision of the Comptroller of the Currency, and subjecting the Federal Savings and Loan Insurance Corporation to the Board of Directors of the Federal Deposit Insurance Corporation.

I respectfully request that this committee give consideration to the views of the State bank supervisors as expressed in this resolution.

I will be glad, Mr. Chairman, to answer any questions.

Mr. FORD. I just want to ask one question.

You say that these banks were put into regions that were already adequately served. When you say that you mean there were other institutions that could do the business that those new institutions were planned to do? Would it be safe to say that, in any instance, while the institutions were there, that they were adequately serving the community; and if they were, do you think that somebody would start another institution; and if so, that they had not been, at all, cautious? If they were adequately serving, the community, I do not see why another institution should have gone in there, and that they would not have any field for their operations.

Mr. WHITE. With respect to that, I can say there is always room for difference of opinion, and we have found in the past, in the matter of chartering new banks, that in communities that were really adequately served, there frequently developed a small group which thought the community was not being adequately served, and which succeeded in selling their argument to the chartering authorities, with the result that more, or perhaps more than one more bank, was established in that same community; and experience has certainly shown us that the community would have been much better off, if the new banks had not been chartered.

Mr. FORD. Now, maybe, from the standpoint of the existing bank, that might have been true, but would that altogether be true of the community?

Mr. WHITE. I think it was certainly true with respect to the community, after we closed one or more banks in the community as the result of the community being overbanked.

Mr. FORD. Well, what kind of banks were they? When you say adequately, you mean there were other building-and-loan associations there, or just straight banks?

Mr. WHITE. I am not distinguishing between the types. I think we meant any type of banking institution, State or national, mutual or otherwise, which accepts savings and which makes loans secured by mortgages.

Mr. FORD. Well, I think, probably, had that been true, if that were absolutely true, then is it your opinion that the fatalities among these new organizations would have been pretty heavy, as a result of their going into fields already adequately served?

Mr. WHITE. I would not wish to accept that as a criterion, because I feel that, the few years that this system has been in existence, has

not been sufficient for it to demonstrate whether there was a need or not, or if it has a very weakening effect on the banking system.

Mr. FORD. I am just asking for information as to what you mean when you make that statement, "already adequately served," and that is prompted, to some extent, by the volume of complaints that come over the desks of Congressmen and a number of other bodies, as to their inability to get the type of loans they want.

Of course, when the Federal Housing Administration came along and the banks began to go into the business of loaning money under the F. H. A., the situation became somewhat relieved. But the banks did not always jump under the F. H. A. in the beginning, but they were rather slow in taking it up. Some of the banks—not all of them, but some of them entered into it immediately and made a tremendous volume of loans, but I think, when you make that broad statement that they were put in districts that were already adequately served—

Mr. PATMAN. He said "adequately served by banks" in the statement.

Mr. FORD. I am just wondering if he means adequately served by banks and were meeting the conditions we were trying to remedy and there was a broader field for home mortgages.

Mr. PATMAN. I would like to ask the witness some questions, Mr. Chairman.

The CHAIRMAN. Mr. Patman, you may proceed.

Mr. PATMAN. I believe you are the supervisor of banks in New York State, including the mutual savings banks and others of like character. Do the mutual savings banks make a report to anyone in New York State, except to you and your office?

A. No; they render no report to any public official in New York other than the banking department, except that they are required to give some information to the taxing authorities in connection with the payment of taxes.

Mr. PATMAN. Do you make this report public, when it is filed with you?

Mr. WHITE. Yes; those reports are published at the end of the year.

Mr. PATMAN. Well, now, you say those reports are made annually. You mean each company files a report at the end of the year?

Mr. WHITE. Yes; I believe that that report now is required in December.

Mr. PATMAN. Does that report show fully the condition of the company; it gives all of the assets and liabilities and enumerates the different types of assets?

Mr. WHITE. I believe that it does, Mr. Patman. I am sorry that I have not got all of the details of that report with me.

Mr. PATMAN. Does it indicate how their investments are made, as to whether they are made in the stock of the commercial banks, or railroad stocks, or other stocks?

Mr. WHITE. I have with me a copy of my annual report, which analyzes quite fully, for last year, the mortgage accounts of all of the savings banks, and the condition of those mortgage accounts, the amount that they are in arrears, the interest that is paid on them, also the amounts held in the portfolios of the various different types of securities.

Mr. PATMAN. Do you name the securities? Do you give the names of the different types of securities?

Mr. WHITE. The names of the individual issues, that is, the issuing corporations?

Mr. PATMAN. Yes; the name of the stocks or bonds?

Mr. WHITE. I think not; but that shows by classifications, such as railroad and utilities and Government and State and municipal bonds.

Mr. PATMAN. But you get full information from each company, do you not?

Mr. WHITE. That is correct.

Mr. PATMAN. In other words, each company will tell you how each dollar is invested?

Mr. WHITE. We have that information from our examination reports, of course.

Mr. PATMAN. In your own reports?

Mr. WHITE. That is correct.

Mr. PATMAN. How much money is invested in these banks; what percent would you say is invested in building homes or in home-loan paper?

Mr. WHITE. The average savings bank in New York has about 50 percent of its assets in mortgages.

Mr. PATMAN. In mortgages, including homes, of course?

Mr. WHITE. Yes; including homes.

Mr. PATMAN. That is, city and municipal and railroad bonds, but I suppose they can invest in stocks of railroads, also, can they not?

Mr. WHITE. No; no stocks. If I can pick up a copy of a report here, I can give it to you in just a second.

Mr. PATMAN. Do you have any considerable number of these bonds in default, held by mutual-savings banks in New York?

Mr. WHITE. I would rather you would not hold me to this, but I believe the savings banks in New York have reduced their railroad-bond holdings about half in the last 4 or 5 years, and my recollection is that the amount held by the mutual-savings banks is in the neighborhood of \$415,000,000.

Mr. PATMAN. In New York State?

Mr. WHITE. In New York State, and that is out of the total deposits of the savings banks, which are, I think, \$5,400,000,000.

Mr. PATMAN. Are many of the bonds in default held by mutual-savings banks in New York, not only railroad bonds, but all bonds?

Mr. WHITE. I would say a small percentage, on the average, are in default. I am sorry I have not got a copy of my annual report, because I have those figures in it in detail which report, of course, is published and available to the public.

Mr. PATMAN. Does this report that you receive from each company give the operating expenses of the banks?

Mr. WHITE. I believe that it does, but I will not be certain about that.

Mr. PATMAN. Does it give the salary of the president?

Mr. WHITE. No.

Mr. PATMAN. Does it give any of the salaries?

Mr. WHITE. No; it gives no salaries.

Mr. PATMAN. You do not know what the operating expenses of an institution are?

Mr. WHITE. Well, of course, we know all that from our own examination of the banks; yes. All that information is contained in the examination report made by the department.

Mr. PATMAN. So you have that information?

Mr. WHITE. Yes; we have all that information.

Mr. PATMAN. What does the average president of a large savings bank in New York receive, annually; that is, the typical salary? Take, for instance, the largest one, and that is the Bowery, is it not?

Mr. WHITE. The Bowery Savings Bank, yes; has the most deposits.

Mr. PATMAN. How much does the president of that concern receive?

Mr. WHITE. I am sorry, I could not answer that question without referring to the report.

Mr. PATMAN. It occurs to me you ought to remember things like that. What about the Emigrant Bank in New York; do you know what the president or the chairman of the board receives?

Mr. WHITE. No; I cannot recall those figures, either.

Mr. PATMAN. You do not recall any one in the whole State?

Mr. WHITE. Well, I perhaps might, but none occurs to me at the moment.

Mr. PATMAN. Do you have any records here indicating the salaries?

Mr. WHITE. No; I have not. That information is taken off the examination report made by a department examiner.

Mr. PATMAN. Well, I wonder if you would furnish this committee this information, picking out the 25 largest in New York State for the last 10 years, and show in one column the operating expenses for each year; column 2, the salary of the highest paid executive officer; column 3, the next highest and then the fourth column the dividends paid to depositors? Would that information be available in your office?

Mr. WHITE. Oh, yes; that information would be available in our office.

Mr. PATMAN. You would not object to furnishing that, would you, for the past 10 years?

Mr. WHITE. That is for the past 10 years?

Mr. PATMAN. Yes; and that might include the last report.

Mr. WHITE. Well, I would like to have an opportunity to see just how difficult it is to get that information together, and communicate with you about it.

Mr. PATMAN. I was thinking that, since you have the information, you ought to agree to furnish it to us, because it is material, and if you agree to furnish it, I know you will; and if you do not furnish it, we might want you to come back down here again and ask you some more questions. It might save you a trip.

What does the word "mutual" mean to you, in the name of a bank?

Mr. WHITE. I suppose that term connotes a group of people banded together in an organization, which they own according to the amount that they have invested in it.

Mr. PATMAN. And in which they participate in the management and direction of the concern?

Mr. WHITE. Well, of course, two types of mutual institutions in New York. We have the savings and loan associations and, in general, the holders of shares of the savings and loan associations

are accorded a vote in the affairs of the corporation. That principle has never been applied with respect to the mutual savings banks.

Mr. PATMAN. Now, in your State, according to the New York law, the trustees only consult themselves to fill vacancies on the board, is that right?

Mr. WHITE. That is correct.

Mr. PATMAN. The depositors are never consulted?

Mr. WHITE. The depositors are not consulted.

Mr. PATMAN. No reports are made to the depositors?

Mr. WHITE. No; I certainly would not agree with that statement. I think that fairly adequate reports are made to the depositors.

Mr. PATMAN. But they give them no voice in the management of the affairs of the concern?

Mr. WHITE. They are not permitted to vote for the trustees or for the officers.

Mr. PATMAN. Or the ones who direct the concern?

Mr. WHITE. That is correct.

Mr. PATMAN. Now, do you not believe that, when it is a mutual concern, the people who make the concern possible should have a voice in the management?

Mr. WHITE. Bills which would attempt to give the depositors a vote in the affairs of savings banks have been introduced in the Legislature in New York, and have been considered from time to time, and I think it has been the belief of the New York Legislature that it was impracticable to work out a system whereby so many depositors could effectively participate in the management of an institution.

Mr. PATMAN. Would not that same objection—would not that same objection be just as consistently urged against any corporation, including the concerns you mentioned, when the shares of stock are sold?

Mr. WHITE. You mean in the case of a savings and loan association?

Mr. PATMAN. Yes.

Mr. WHITE. In general, I would say yes.

Mr. PATMAN. And there are too many of them, there are too many stockholders in a concern—

Mr. WHITE. Of course, the depositors in some of the large savings banks run into hundreds of thousands, I think, and I doubt that there are any savings and loan associations that approach that figure.

It might be possible to work out something of that sort. Frankly, I think something of that sort might be worked out, if it were the belief of the Legislature of New York that there was any abuses to be corrected in that connection.

Mr. PATMAN. Well, in case of the New York Life Insurance Co.—take the New York Life—that is a great life-insurance company, and they have trustees selected, I presume, in the same way that you have them in the mutual savings banks, except they do give the policyholders a voice, do they not?

Mr. WHITE. Yes; there are provisions in the insurance law whereby the policyholders can express their wishes. I do not know just what they are in detail.

Mr. PATMAN. They are quite voluminous, are they not, the policyholders in the New York Life?

Mr. WHITE. No question about that.

Mr. PATMAN. I imagine you have more stockholders in the New York Life than you have in every mutual savings—than you have depositors in every mutual savings bank in New York?

Mr. WHITE. I would not want to express any opinion on that at all, Mr. Patman.

Mr. PATMAN. How many of your savings banks belong to the Federal Deposit Insurance Corporation?

Mr. WHITE. I believe three.

Mr. PATMAN. Three? Several joined at first, did they not?

Mr. WHITE. Yes; I believe that all of them were in what was known as the temporary fund.

Mr. PATMAN. The temporary fund. That was in the 1933 law?

Mr. WHITE. Yes.

Mr. PATMAN. Then they came out when the 1935 act was passed, all except three?

Mr. WHITE. Frankly, I have forgotten whether the F. D. I. C. was amended more than once or not, Mr. Patman, after it was originally enacted. It seems to me they were in the fund about a year.

Mr. PATMAN. I wonder why they do not care to become a part of the F. D. I. C.; do you know?

Mr. WHITE. Of course, they have set up in New York a fund which is provided for under the New York law, and which operates, to a considerable extent, on a similar basis as the F. D. I. C.

Mr. PATMAN. But they do not have the distribution of risk in New York State, do they?

Mr. WHITE. I would say there is a very—my opinion is that there is sufficient distribution of risk; yes.

Mr. PATMAN. I remember one time, when Mr. Johnson was testifying, as you are. He is the next man to Mr. Benson, with the Dime Savings Bank in New York, although I do not remember his position.

Mr. Luce, a member of the committee, asked him some questions about it, and he said they needed a distribution of risk all over the Nation; that it should not be confined to small areas that would not be served, anyway. That is the way I understood him, and I was just wondering if he is right about it.

Like it is, you have about \$5,400,000,000 in deposits in the mutual savings banks in New York State alone; is that right?

Mr. WHITE. That is the figure.

Mr. PATMAN. What is the size of your reserve fund to take care of any losses?

Mr. WHITE. I am sorry, but I have not got that figure in mind, Mr. Patman.

Mr. PATMAN. Well, for your information, one of the witnesses said here—and I think it was Mr. Benson—anyway, it was said it was \$35,000,000. Do you consider \$35,000,000 a sufficient amount to protect \$5,600,000,000 in the mutual savings banks, with the assessment of one-tenth of 1 percent, and all deposits insured?

Mr. WHITE. I would like to answer that question in this way: That, in my opinion, the fund, as it is set up in New York, is sufficient for the purpose for which it is created.

Mr. PATMAN. For what purpose was it created?

Mr. WHITE. To insure the deposits of the mutual savings banks.

Mr. PATMAN. Which includes the \$5,400,000,000?

Mr. WHITE. That is right.

Mr. PATMAN. And you think \$35,000,000 sufficient to protect that?

Mr. WHITE. I think, in view of the sound condition of the savings banks of New York, that that amount, at this stage, is sufficient.

Mr. PATMAN. That being true, then the insurance corporation connected with the Home Loan Board—I believe it has about \$115,000,000, with risks aggregating about \$2,000,000,000—that should certainly be in a very fine condition then, if your is in a fine condition with \$35,000,000 as against potential liabilities of \$5,400,000,000.

The mutual savings banks object to Federal supervision; is that one of the reasons why they do not come into the F. D. I. C.?

Mr. WHITE. I would not say that they do. I do not recall having heard the subject discussed.

Mr. PATMAN. The resolution that you referred to a minute ago—that is not based upon any selfish motive on the part of the banks, is it, on account of the competition that might be involved?

Mr. WHITE. This resolution, of course, is a resolution of the supervisors of the State banks.

Mr. PATMAN. Not the banks themselves?

Mr. WHITE. Most certainly not.

Mr. PATMAN. Not connected with the banks, in any way?

Mr. WHITE. No.

Mr. PATMAN. All right; that is all, Mr. White.

Mr. CRAWFORD. Mr. Chairman, I would like to ask a few questions.

The CHAIRMAN. Go ahead, Mr. Crawford.

Mr. CRAWFORD. Mr. White, so far as you know, what is the amount of the deposits insured by the F. D. I. C.?

Mr. PATMAN. Just a moment, Mr. Crawford.

You will furnish the information I asked for, if it is possible to do so?

Mr. WHITE. Yes.

Mr. PATMAN. And if not, you will communicate with me or the chairman and furnish what you can?

Mr. WHITE. That is correct.

Mr. CRAWFORD. Do you have in mind those figures?

Mr. WHITE. I have not. I would prefer not to attempt to state that.

Mr. CRAWFORD. What I want to find out from you, if I can, is the relative ratio between the amount of deposits insured by the F. D. I. C. and the amount in the insurance fund of the F. D. I. C. as against those deposits as compared with your \$35,000,000 fund, related to your \$5,400,000,000.

If I recall the figures correctly, I do not think you are so far out of line with the F. D. I. C.

Mr. WHITE. I think it compares probably very favorably, but I did not expect to be questioned along that line today, and I am sorry to say I am not prepared with the figures.

Mr. CRAWFORD. That is a matter that can be checked up at any time.

Mr. WHITE. It is not out of line, Mr. Crawford, if the F. D. I. C. has about \$400,000,000.

Mr. PATMAN. Are you talking about the capital structure, or the insurance fund?

Mr. CRAWFORD. I am talking about what is accessible to pay losses.

Mr. PATMAN. That includes the capital structure then, does it not, of the F. D. I. C.?

Mr. CRAWFORD. Yes; undoubtedly.

The CHAIRMAN. Before you leave that, may I interrupt?

Mr. CRAWFORD. Yes, Mr. Chairman.

The CHAIRMAN. The F. D. I. C. has a couple of billions, in addition to which they have the right to borrow on their loan obligations.

Mr. PATMAN. I was talking about the capital, alone.

Mr. CRAWFORD. I am restricting my inquiry directly to the fund which has been created through the assessment of premiums against the members of the F. D. I. C.

The CHAIRMAN. They can expand their capital three times and have the Treasury pick it up. That takes it up to close to \$900,000,000. Then they are authorized to borrow \$250,000,000 in addition to that, from the Reconstruction Finance Corporation, and if the Reconstruction Finance Corporation does not make the loan, then the Treasury can supply it. In addition to that, they borrow on their own obligations. That is substantially a correct statement, I think.

Mr. CRAWFORD. Why do you feel that your experience with your insurance fund of \$35,000,000 and the experience of the F. D. I. C. has been insufficient to establish what you might term precise data to use as a yardstick, or do you feel that the experience of the last few years has been sufficient to establish precise data to use as a yardstick, or determine whether or not these premiums that you are now charging are sufficient both in your case and in the case of the F. D. I. C.? What is your judgment on that?

Mr. WHITE. Well, certainly, a great deal of data would be developed in any study of that kind.

Mr. CRAWFORD. I am speaking about whether, in your opinion—I am trying to find out if, in your opinion, the experience that you established in fund, and the experience since the F. D. I. C. was established, would prove to us precisely, based on data of that experience, that we are now on a sound basis, so far as premiums are concerned? I want to get your opinion.

Mr. WHITE. You have in your mind a definite conclusion on this subject, once and for all?

Mr. CRAWFORD. Yes.

Mr. WHITE. I would say that it would be much better to use the data that will be available within the next few years.

Mr. CRAWFORD. In other words, go along and get some more experience before we draw any definite conclusions?

Mr. WHITE. I would say so; yes.

Mr. CRAWFORD. I think you are pretty sound in that statement.

Now, do you feel, then—you may not want to answer this question, and perhaps it is not a proper question to ask you—as superintendent of banks of the State of New York, is it your opinion that any operating banks now, which, in due course, will have to be closed, in order to protect the F. D. I. C. in its operations? As the bank commissioner, you may not want to answer that question, and I will not insist on it.

Mr. WHITE. Well, I would say that it would be impossible to answer it. Certainly, we have liquidated, I would say, the great bulk of our troubles in the banking field, through the cooperation of the

Federal Deposit Insurance Corporation, with the office of the Comptroller of the Currency and the various State bank supervisors.

Mr. CRAWFORD. Let us put the question the other way, then. In your opinion, then, as the banking commissioner of the State of New York, you do not feel that it will be necessary for any banks now operating in New York to be closed or to be merged in with some other institutions in order to protect the structure of the Federal Deposit Insurance Corporation insofar as the New York banks are concerned?

Mr. WHITE. I think in all States we will find from time to time that the banking structure can be strengthened by consolidations.

Mr. CRAWFORD. That includes New York State?

Mr. WHITE. That would include New York State; yes.

Mr. CRAWFORD. That is all.

Mr. SPENCE. With reference to the distribution of risk, are you familiar with the experiences in Kansas and Nebraska with the insurance of deposits in banks, and also Oklahoma and Texas and several other States?

Mr. WHITE. Yes.

Mr. SPENCE. Are you familiar with that?

Mr. WHITE. No; I am not familiar with that. I have read statements concerning the experiences of those States, but I do not consider myself at this time to be familiar with it.

Mr. SPENCE. None of those insurance organizations were successful, were they?

Mr. WHITE. I think that none of them were successful.

Mr. SPENCE. And that demonstrated absolutely the necessity of the distribution of risk, did it not?

Mr. WHITE. I do not feel that I could—that I would wish to draw that conclusion. I think there were other weaknesses than the fact that they were confined to the individual States.

I think the most important thing for a sound banking system is adequate bank supervision and adequate bank management; and I feel that we have that type of bank supervision today, which means that the Federal Deposit Insurance Corporation, coupled with that supervision, will be successful.

Mr. SPENCE. Then you think that the efficiency of the Federal Deposit Insurance Corporation then might create competition in the States because of the efficient management and supervision of the banks, and judging from that, you can safely inaugurate a system of insurance in State banks?

Mr. WHITE. I do not exactly understand your question. Are you asking me if I believe—

Mr. SPENCE. You say that you think the insurance system in the States failed because of insufficient supervision of the banks. Now, under the Federal Deposit Insurance Corporation there is sufficient supervision of the banks?

Mr. WHITE. Yes, sir.

Mr. SPENCE. Then you believe that would justify the States in going into competition with it and insuring their own banks, as against the insurance of the Federal Deposit Insurance Corporation?

Mr. WHITE. I would not put it that way. I merely meant this: That I do not believe that any prior system of insurance was coupled with adequate supervision and examination procedure.

Mr. SPENCE. Was not the failure of these other insurance organizations largely attributable to the fact that the risks were not diversified; for instance, when bad years came to agriculture, the agricultural interests of those States, the banks failed, and was not that largely responsible for the failure of those insurance corporations?

Mr. WHITE. It was, undoubtedly, a factor. Now, whether—

Mr. SPENCE. Do you think diversity of interest is necessary? Do you not think that proved that the diversity of interest is necessary to make safe that character of insurance?

Mr. WHITE. I think that diversity of risk is an important factor, but I do not believe it is the all-important factor, or that it is the sole factor.

Mr. FORD. Might I ask a question?

Is it not just possible that—New York State confined its insurance to the savings banks, did it not?

Mr. WHITE. Yes; that is correct.

Mr. FORD. It might be possible that that group of banks, since New York is one of the largest—when there is a financial trouble in the country, there is a heavy demand on New York, and failures all over the country affect New York adversely; and if that situation is protected by the F. D. I. C. we, as savings banks, can safely carry our own insurance, just like corporations—big corporations—sometimes think they can do that safely.

You are doing that because you feel that you are being protected by the F. D. I. C., which is a factor in protecting them, because these savings banks, outside of New York, break, and that makes demands on New York. That might affect your particular situation.

Is not that about the psychology that created that fund?

Mr. WHITE. I doubt if that factor originally entered into the picture. Very definitely it is a factor.

Mr. FORD. I seem to recall a statement made at the time when it was organized, that there was a feeling that, since the rest of the country was now fairly safe, so far as bank runs were concerned, they felt they could organize their own insurance corporation, and by reason of the protection that accrued to them as a result of the widespread protection outside, they could get along adequately.

Mr. WHITE. I never heard that argument advanced.

Mr. FORD. I do not remember who wrote it, but I saw it some place, and it struck me at the time as being something like the old saying, "Well, let George do it, and we will do it on a small scale, and we will be protected by reason of his strength."

Mr. SPENCE. Mr. White, you seem to think that the passage of this legislation will induce the home-loan savings institutions to invade the field of banking; is that your idea?

Mr. WHITE. Yes, sir.

Mr. SPENCE. Just how do you think they are going to invade the field of banks? Just in what specific manner do you think that is possible?

Mr. WHITE. Well, by chartering saving and loan associations in communities that do not need those associations, but are adequately served at the present time.

Mr. SPENCE. You think the banks have been willing to lend adequate sums for the building of homes?

Mr. WHITE. I would not want to attempt to speak for every section of the United States, but in New York I certainly feel that is definitely the case.

Mr. SPENCE. Are you anticipating that after the insured F. H. A. loans the banks are rather going to invade the field of the home thrift and home financing institutions? Is not that in your mind?

Mr. WHITE. I do not understand exactly what you mean by invasion of this field by the banks because, after all, the banks have had the power for many years to accept savings deposits, and they have been authorized for many years to make loans on mortgages. So they have been chartered to operate in that field by the various States.

Mr. SPENCE. It is a joint field. You talk about the building and loan associations invading the field of banks. It is a joint field in which they both can operate. So I suppose you believe that, because of these insured mortgages, the banks will more largely get into that character of business, do you?

Mr. WHITE. I would say that most banks are anxious, these days, to obtain sound mortgages.

Mr. SPENCE. They have not been doing that very rapidly in the past, have they?

Mr. WHITE. I think there has been a great deal of misunderstanding on that subject and some misinformation passed around the country. I believe that, by and large, the banks realize, as well as everybody else, and perhaps better than everybody else, that they have got to continue to make loans in order to stay in business, and it is to their own selfish interest, if you care to put it that way, to make loans. There have been very few cases ever brought to my attention in the past few years, when the banks have arbitrarily declined to make loans on mortgages or otherwise. There may always, of course, be some difference of opinion on the subject of whether a loan is justified in a particular instance, or not.

Mr. SPENCE. This very legislation was passed as an inducement to the banks—the Federal Housing Administration insured loans as an inducement to banks to lend on this character of property; and if they had been perfectly willing to have done it and have adequately met the demands, I do not presume there would have been any such legislation enacted; is not that true?

Mr. WHITE. I think it is quite possible for any legislative body to adopt legislation at times without having complete information concerning the facts that are involved, and I think that this legislation may have been adopted at a time when there was some misunderstanding of the needs of this country.

Mr. SPENCE. Then you do not think the Congress had the full picture before it when it enacted this legislation, and there was no necessity for it?

Mr. WHITE. I have not made the statement that there is no necessity for this legislation, because I am not familiar with all of the communities in this country, and it may be possible that the Federal savings and loan associations can serve a proper place, under the proper system, in some communities in this country. I am not doubting that.

Mr. FORD. If they were limited to certain places, you would not have any objection to them. How would you make that limitation?

Mr. WHITE. Under the present system I do not know.

Mr. SPENCE. You said the mutual savings banks in New York had loaned 50 percent of their assets on mortgages, as I understood you.

Mr. WHITE. In the past they have lent more, I think, than 50 percent. At the present time the consolidated picture is 50 percent, I think.

Mr. SPENCE. What proportion of that was for home financing mortgages?

Mr. WHITE. I would say the great bulk of it, but I cannot answer that question offhand.

Mr. PATMAN. Will you let me see your last report? I believe you said you had one with you.

Mr. WHITE. I thought I had it with me, but I left it at the hotel.

Mr. SPENCE. Could you approximate the amount that was loaned on homes by these institutions?

Mr. WHITE. I would prefer not to attempt to do that.

Mr. SPENCE. Do they not also lend on large buildings, commercial buildings?

Mr. WHITE. When you speak of home financing, do you mean apartment houses?

Mr. SPENCE. Do they not lend on commercial buildings and business buildings?

Mr. WHITE. Yes; to some extent.

Mr. SPENCE. They lend on apartment houses?

Mr. WHITE. Yes; they lend on apartment houses in New York.

Mr. SPENCE. Would not that character of loan be, in the aggregate, a greater sum than the loans on homes?

Mr. WHITE. You mean commercial buildings, buildings for commercial purposes?

Mr. SPENCE. Commercial purposes and apartment houses and large structures in New York. Is not that a majority of their mortgage loans?

Mr. WHITE. I would say not. As I say, I do not have that figure in mind.

Mr. PATMAN. About the dividend rate of these mutual savings banks, do they all pay 2 percent, or some pay 1½ percent?

Mr. WHITE. I think some of the banks in New York, on certain parts of individual deposits, pay less than 2 percent, but 2 percent is the maximum in New York.

Mr. PATMAN. Under the law of New York, can a mutual savings bank and other bank write life insurance?

Mr. WHITE. A law was passed a year ago, which authorized mutual savings banks in New York to set up savings life insurance departments similar to the plan which has been operated in Massachusetts.

Mr. PATMAN. So they can write life insurance. What is the limit on any one risk?

Mr. WHITE. I am afraid I cannot answer that, but I think it is \$1,000. That phase of the business is subject to the supervision of the insurance department, so I hope you will not hold me to this.

Mr. PATMAN. I know, but the assets of a savings bank are responsible for the life insurance?

Mr. WHITE. No; they are not.

Mr. PATMAN. They are separate and distinct?

Mr. WHITE. Separate and distinct; yes.

Mr. PATMAN. Where do the earnings go?

Mr. WHITE. Well, we hope to be able—I think there are only three or four savings banks in New York which have opened these savings bank life-insurance departments, and they may not open a department without first obtaining the joint approval of the superintendent of banks and the superintendent of insurance.

Mr. PATMAN. Are the same trustees, trustees for the insurance company?

Mr. WHITE. That is correct, yes; but the department is separate, and we expect to properly apportion and allocate the expense of running the insurance department to that department.

Mr. PATMAN. Pro rate the expenses between the two departments?

Mr. WHITE. That is correct.

Mr. PATMAN. This talk about a shoemaker sticking to his own last does not come with very good grace from concerns like that, does it, who are invading the life-insurance field?

Mr. WHITE. Well, on that subject, I would like to say that I do not believe that the Savings Bank Life Insurance Act ever had the approval, in its present form, of the savings banks of New York.

Mr. SPENCE. How much of that business do they do?

Mr. WHITE. As I say, I think there are only four banks that have entered the field in New York. I think that the amount of business that they are doing is certainly up to expectation, but I have not the figures on it.

Mr. WILLIAMS. How many savings banks have you in New York?

Mr. WHITE. I think the figure is 132.

Mr. WILLIAMS. What part of them are mutuals?

Mr. WHITE. They are all mutuals.

Mr. WILLIAMS. There are over 600 banks in the country—do you know what the figure is?

Mr. WHITE. The number of mutual savings banks in the country?

Mr. WILLIAMS. No; I mean the savings banks. I am trying to get somebody to tell me how many savings banks there are, as distinguished from mutual savings banks.

Mr. PATMAN. Will you let me name the different classes, Mr. Williams? I have it right here.

There are 488 savings banks; there are 21 savings institutions, 25 institutions for savings, 5 banks for savings, 6 savings-fund societies, 8 mutual savings banks, 6 savings societies, 2 savings institutions, 2 societies for savings.

Mr. WILLIAMS. Only 8 mutual savings banks in the United States?

Mr. PATMAN. Yes; by name.

Mr. WHITE. That division apparently is made by name and not on the basis of the law under which they operate.

Mr. WILLIAMS. Let me see, now, if there is not any other fundamental difference between mutual savings banks and stock savings banks?

Mr. WHITE. I would say there is a very definite difference; yes.

Mr. WILLIAMS. That is what I am trying to talk about. I want to know how many mutual savings banks, real mutual savings banks, there are, as distinguished from the stock company banks.

Mr. WHITE. In the United States?

Mr. WILLIAMS. Yes; in the United States?

Mr. WHITE. I am sorry I cannot give you that figure.

Mr. WILLIAMS. You have that figure for New York?

Mr. WHITE. Yes; in New York we have no stock savings banks.

Mr. WILLIAMS. They are all mutuals?

Mr. WHITE. Yes; all mutuals.

Mr. WILLIAMS. None of them are eligible for insurance in the Federal Deposit Insurance Corporation?

Mr. WHITE. Yes; they are all eligible.

Mr. WILLIAMS. They are all eligible for insurance under the Savings and Loan Deposit Insurance Corporation?

Mr. WHITE. I did not understand you to say that. They are all eligible for insurance in the Federal Deposit Insurance Corporation.

Mr. WILLIAMS. That is not what I asked you.

Mr. WHITE. I misunderstood you.

Mr. WILLIAMS. They are not eligible for insurance in the other corporation?

Mr. WHITE. As I understand it, they would not be at the present time.

Mr. WILLIAMS. There is legislation proposed, as I understand, to make them eligible?

Mr. WHITE. That is correct.

Mr. WILLIAMS. How many savings banks in the country are in the F. D. I. C.?

Mr. WHITE. Well, I think there are three from New York—I do not know about the other States. I do not believe that the mutual-savings banks in Massachusetts are members of that fund, because I think, in Massachusetts, there is a State fund for savings banks.

Mr. WILLIAMS. I was going to ask you that very question, whether there were any other States that have a State fund for the insurance of mutual banks.

Mr. WHITE. I believe Massachusetts has such a fund.

Mr. WILLIAMS. Massachusetts and New York. Any other State?

Mr. WHITE. Not that I know of.

Mr. WILLIAMS. Where are these savings institutions located, savings banks?

Mr. WHITE. What other States?

Mr. WILLIAMS. Yes; generally.

Mr. WHITE. Well, I do not know. I think there is a minority of States which have savings banks.

Mr. WILLIAMS. The fact is, that there are very few States, outside of a few Eastern States, that have them, at all?

Mr. WHITE. I think that is correct. My recollection is something like 12 or 15 but I would not want to say positively.

Mr. WILLIAMS. What is your competition with reference to doing business—generally, who are you in competition with, as savings banks? Who are their competitors?

Mr. WHITE. All banking institutions that accept savings deposits, I would say, to some extent, compete with them. Certainly, the baby bonds compete with them, and I would say the bond market, perhaps, generally, and the Postal Savings is certainly a competitor.

Mr. WILLIAMS. The savings and loan institutions?

Mr. WHITE. Yes; the savings and loan institutions.

Mr. WILLIAMS. The building and loan associations, which is the same thing—how many of those do you have in New York?

Mr. WHITE. Savings and loan associations? We call them savings and loan associations in New York.

Mr. WILLIAMS. They call them by different names in different places, as I understand; yes.

Mr. WHITE. They are practically the same. I think we have about 275 or 280 in New York.

Mr. WILLIAMS. How many Federals are there?

Mr. WHITE. I cannot answer that question.

Mr. WILLIAMS. I understand your objection to this legislation is the fact that the Federal saving and loan associations would be established where they were not needed. That is one objection, as I understand, and one of your main objections to this legislation?

Mr. WHITE. Yes; I said that I thought that would happen in some cases, and I felt that it was inherent in the present system.

Mr. WILLIAMS. That law already provides that, of course.

Mr. WHITE. That is correct.

Mr. WILLIAMS. This law does not change that principle?

Mr. WHITE. Yes; that is correct.

Mr. WILLIAMS. And you think that the legislation was a mistake in the first place?

Mr. WHITE. I would say that, in certain respects, it is a mistake. I have not, understand, questioned the usefulness of the Federal Savings and Loan Associations in some communities in this country.

Mr. WILLIAMS. Where have they been established where they were not needed?

Mr. WHITE. I think I could bring to you cases where they have been established in New York, where they were not needed.

Mr. WILLIAMS. I wish you would do that for the record, right now.

Mr. WHITE. I have not brought with me the records in question, but I will be glad to send them to the chairman.

Mr. WILLIAMS. We will be glad to have it, because the statement has been made by the Administrator of the Board that they do not think that has been true, and we would like to find out about it.

There has been some statement here by the president of the American Bankers' Association, about his fear of establishing a third banking system. Do you look upon this that way?

Mr. WHITE. It seems to me that it has moved in that direction, and I think this legislation is designed to further that purpose.

Mr. WILLIAMS. What do you mean by a third banking system? I wanted to ask him that question. I want you to say what you mean by a third banking system. In the first place, what are the two that we have now?

Mr. WHITE. I assume he has in mind the State banking system and the National banking system, and he looks upon this as a third.

Mr. WILLIAMS. In what way would you say this is a new system differing from the State and National banking systems?

Mr. WHITE. Well, I think it is new from the standpoint that it is set up under a separate jurisdiction of the Federal Government; that the savings and loan associations are not made subject to the supervision of the existing bank authorities.

Mr. WILLIAMS. But all banks are?

Mr. WHITE. The banks are under the supervision, yes, of either the State or the Federal authority.

Mr. WILLIAMS. Do you not think that a system, engaging in an entirely different plan, should be separate and distinct?

Mr. WHITE. I feel that the difference is only in theory, and that in practice, they are competing with the banks.

Mr. WILLIAMS. You mean they are competing with the banks, because they are making real-estate loans?

Mr. WHITE. Yes; because they are soliciting savings and making mortgage loans.

Mr. WILLIAMS. What objection is there to that?

Mr. WHITE. I do not think there has been any objection to it, so long as that service is provided in the communities that need it.

Mr. WILLIAMS. Do not your banks do that?

Mr. WHITE. Yes, sir.

Mr. WILLIAMS. What objection have you got to some other institution doing the same things?

Mr. WHITE. My objection is this: That I think that a great deal of our trouble in the past has been due to too many banks; and I further believe that, if this Federal savings-and-loan association system is allowed to expand, we will have overbank conditions in other areas in this country, and, in fact, in areas that we have just been working on and cleaning up in the last few years; and I think that this system lends itself to that development even more than it would under the system which permitted the abuses to occur in the past.

I say that because, as I see it, the purpose of the people on the boards, or the authority which has jurisdiction over the Federal savings-and-loan associations, will strive toward the objective of broadening out that service and establishing more associations throughout the country; whereas, as a State bank supervisor, and I think I voice the feeling of all bank supervisors, when I say that our objective is to strengthen and maintain the banking system that we already have, and that anything of this sort should be treated merely as a secondary proposition.

Mr. WILLIAMS. I cannot see that this is entering into any new field. As I understand, your division of the banking system is in the State, and we have the national banking system. It is not my idea of a banking system, at all. I think we should have two systems, which could be a system which furnishes, on one hand, what we might call capital credit, long-time credit; whereas the other should be a commercial system, which furnishes short-time credit to the commercial interests of the country.

I think that the banking interests of this country ought to be divided along those two lines, and I do not care whether you call them building-and-loan associations or savings banks, or commercial banks. Do you agree with that idea?

Mr. WHITE. Well, in theory, I think there is a lot to be said for it. In practice, I doubt if it can ever be worked out in this country.

Mr. WILLIAMS. The savings banks and building and loans are engaged in one field of activity, are they not?

Mr. WHITE. Our savings banks and savings and loans?

Mr. WILLIAMS. Yes.

Mr. WHITE. Yes.

Mr. WILLIAMS. You are not engaged in furnishing commercial credit to the country, at all, are you?

Mr. WHITE. Not in those fields; no, sir.

Mr. WILLIAMS. Neither one of you?

Mr. WHITE. That is correct.

Mr. WILLIAMS. Those institutions are both savings institutions, on the one hand?

Mr. WHITE. Yes; that is correct.

Mr. WILLIAMS. You invite savings and take the people's money?

Mr. WHITE. Yes, sir.

Mr. WILLIAMS. And you both invest it in long-time securities?

Mr. WHITE. In general, yes.

Mr. WILLIAMS. Well, now, there is a general demarcation of your activities from a commercial bank's activities in the country, is there not?

Mr. WHITE. Yes, sir.

Mr. WILLIAMS. And you are both engaged in the same field?

Mr. WHITE. We should add to that, that the commercial banks quite generally also accept savings deposits.

Mr. WILLIAMS. I understand, of course, they have very large savings and time deposit divisions.

Mr. WHITE. Yes.

Mr. WILLIAMS. In fact, whether they are banks or building and loan associations, they engage in that activity, too?

Mr. WHITE. That is correct.

Mr. WILLIAMS. And it is, perhaps, as a practical proposition, impossible, especially in the smaller communities, to separate the activities in the commercial banks; that is, from the long-time credit and short-time credit, it is, perhaps, impossible or impracticable.

But what I cannot see is the objection of the savings institutions, whether it be a savings institution, a savings bank, or building and loan association, objecting to this legislation, when you are both engaged in the same general field of activity, and that is, to get the deposits or get the money from the people on deposit, or to their credit, their savings, and then invest that in long-time securities.

It looks to me like any legislation that would help one would help the other.

Mr. WHITE. Well, I think to understand our argument, you must accept what we believe to be a sound premise, and that is, that too many banks in any community is an unsound thing and that it leads to trouble.

Mr. WILLIAMS. Do you simply want to cut out legislation here that would be beneficial because a few people might take advantage of it to organize a bank that perhaps will not be successful?

Mr. WHITE. I do not exactly understand your question. I think it would be unfortunate to start a bank, unless there is reasonable assurance that it can be successful.

Mr. WILLIAMS. The establishment of a bank now, generally, is under the supervision or jurisdiction of the banking authorities?

Mr. WHITE. Yes; that is correct.

Mr. WILLIAMS. State and national?

Mr. WHITE. Yes.

Mr. WILLIAMS. And it is their policy not to permit the establishment of a bank of any kind or character when, in their judgment, they think it is not necessary, or that it will not be successful?

Mr. WHITE. That is correct.

Mr. WILLIAMS. That answers it, does it not?

Mr. WHITE. That answers it, but, unfortunately, those same authorities have no authority over the establishment of Federal savings and loan associations.

Mr. WILLIAMS. If the board here does not have it, who does have that authority?

Mr. WHITE. I believe the Federal Home Loan Bank Board is a chartering authority for the Federal Savings and Loan Associations.

Mr. WILLIAMS. Undoubtedly they have the same authority as the bank commissioners in the State, or the Comptroller of the Currency in national banks, with reference to the chartering of national banks, and with reference to the chartering of State banks. What difference is there in it? You do not adopt a bad motive, an evil purpose, to one and not to the other, do you?

Mr. WHITE. I would answer that question by saying this: That I believe, in order to carry out a sound program with respect to the chartering of banking institutions, you should have a uniformity of objectives and coordination of the chartering authority, so that that objective can be carried out along one line, and eliminate any possibility of one group attempting to build up its own at the expense of the other, and at the expense of the depositing public.

Mr. WILLIAMS. Will you have the Comptroller of the Currency determine in New York or Missouri whether or not there should be a State bank established?

Mr. WHITE. We have a working agreement with the Comptroller of the Currency whereby we will not open a new bank or charter a bank without first consulting him and getting his opinion on it, and I think we have never established branch or bank without his approval.

Mr. WILLIAMS. With reference to State banks?

Mr. WHITE. Yes.

Mr. WILLIAMS. Do you think that is a sound policy?

Mr. WHITE. I certainly do.

Mr. WILLIAMS. For the Comptroller of the Currency here in Washington to determine whether or not there should be a State bank opened?

Mr. WHITE. I did not say the Comptroller of the Currency should make that determination—at least, I did not intend that implication. I feel there should be cooperation between the Federal and State banking authorities in supervisory matters and in chartering policies.

Mr. WILLIAMS. Suppose there is a conflict of opinion, a difference in ideas, as to whether a bank should be located in a certain place?

Mr. WHITE. Well, I think that, when those conflicts exist, we would simply have to sit around a table and try to negotiate the matter and try to reach a decision. I suppose it would be possible—I suppose it is quite probable there will be disagreements, from time to time.

Mr. WILLIAMS. In that case, whose opinion is to control?

Mr. WHITE. I would say that the chartering authority should have jurisdiction of a particular application.

Mr. WILLIAMS. That would be the State, in case it is a State?

Mr. WHITE. The State, in case it is a State.

Mr. WILLIAMS. Would you be in favor of placing the determination of the location of a Federal savings institution in the hands of the Comptroller of the Currency?

Mr. WHITE. I feel that, as a State bank supervisor, I should not presume to give the Comptroller of the Currency new duties, but I think there should be a common chartering authority for all of these national banking institutions.

Mr. WILLIAMS. All of them?

Mr. WHITE. Yes, sir.

Mr. SPENCE. One question, Mr. Chairman.

All of the representatives of the saving banks seem to be objecting to making them eligible for the Federal Savings and Loan Insurance. It is perfectly optional. I cannot see why they are not being given a privilege, and if they are being given such a privilege, they do not have to exercise it, unless they want to. What do you say about that?

Mr. WHITE. I would say that a savings bank, if it wanted Federal insurance, can obtain it with the Federal Deposit Insurance Corporation, and should obtain it there, because I feel that the nature of the liability is much more similar to that of the commercial banking institution.

Mr. SPENCE. But you say they have gotten out of the Federal Deposit Insurance Corporation. Did you not make that statement, that those who were in had withdrawn?

Mr. WHITE. Yes; I said, in the beginning, the savings banks of New York were in the temporary fund. That is right.

Mr. SPENCE. And this bill gives them the further privilege of taking the insurance; that they have no insurance now, but they can come up and get it, and I do not see how that will injure them.

Mr. WHITE. Of course, I believe we should have some demonstrated need for that kind of insurance, or a provision of law of that character, before it is enacted, because I think you may lead to further confusion. I think, in the absence of a demonstrated need for it, it should not be enacted.

Mr. SPENCE. But it is left up to the institution, itself, as to whether it needs this character of insurance or not; and if it does not feel that it needs it, it does not have to take it. There is no compulsion about it.

Mr. WHITE. There is no compulsion about it; no.

Mr. SPENCE. It seems to me you are here objecting to a privilege that is given to you, that you do not have to exercise unless you want to.

Mr. LUCE. Mr. Chairman, for the sake of the record I will insert here, from the report of the Comptroller of the Currency, and for Mr. Williams' information, that there were 56 insured savings banks and 506 noninsured banks, a total of 562, I think.

That 73 banks are classified as private and none of them are savings banks.

Mr. PATMAN. As to what date?

Mr. LUCE. This is the latest report of the Comptroller of the Currency. My memory leads me to think that the Comptroller has abandoned an attempt to discriminate between private savings banks and other private banks. My impression has been that the number of private savings banks is not large enough to cut any figure.

Mr. PATMAN. Only three of those savings banks, Mr. Luce, were from New York State, or New York State banks?

Mr. LUCE. Yes.

Mr. FORD. Mr. Luce, might I indicate at this point—

Mr. LUCE. I just want to continue my statement, that is all.

Mr. FORD. Go ahead.

Mr. LUCE. Now, I am approaching this, Mr. Witness, from a purely disinterested, or rather, many interests, because I love savings banks as much as I love cooperative banks, and I love national banks and insurance companies, because, personally, I have risks in all of them.

This situation, however, presents itself, and I am reading from a special report of the real-estate committee to the board of directors of an insurance company, dated May 12, 1939. I do not know that I have any right to use this, but I imagine my fellow directors will not protest against it. It describes the situation so effectively that it may be well for the committee and the witness to have it in mind. I will read two paragraphs:

All the local banks, Federal savings and loan associations, and insurance companies are faced with the same necessity of securing mortgage investments. Extensive advertising is one method used to get results, as shown by any of the newspapers or periodicals which devote attention to real-estate interests. In the April 29, 1939 issue of the Banker & Tradesman, 12 pages of the first 13 were given mostly to advertisements that mortgage money was available on attractive terms. In the smaller localities, local banks have the inside track because of their knowledge of the people and where the need of financing exists.

In this State, there are so many eager banking and lending sources, and the number of borrowers is so limited, that those needing mortgage money are not the seekers but rather the sought, reversing the old-time process. The great length to which lenders will go to secure mortgage investments is shown by the Springfield Institution for Savings, which has conducted a systematic advertising campaign in the Springfield Press, reciting that the bank has a million dollars to loan on Federal Housing Administration mortgages; that it will pay all the expenses of title examination, of drawing and recording of all papers, and all inspection costs. It is keeping its banking rooms open each Monday night for 2 months solely for the purpose of receiving applications for mortgages.

With that picture in front of us, will you tell us, explicitly, why it is the right and proper thing for this Congress to give special advantages to one class of lender; why we should not start three horses at the post, without any handicap?

Mr. WHITE. Three horses?

Mr. LUCE. Why not leave it to themselves to fight it out on the basis of competition? And before you answer that question, I would like to have this view made clearly in your testimony, the distinction between an absolutely new Federal loan association and a converted cooperative bank or building and loan association.

Do you desire to have it part of the record that, in your judgment, there have been new Federal associations permitted in localities where they already had sufficient banking facilities?

I have mixed up my questions, sir, and you may answer one at a time, please.

In the first place, why should we put a handicap on any one of three or four lending institutions?

Mr. WHITE. Well, I do not believe this is a case of deciding how we shall referee a race between three competing horses.

I think that, from the standpoint of the State banking supervision, we are concerned about the public being trampled underfoot. What we want to prevent is competition that will be harmful to the public again in the manner in which competition in the over-bank areas was harmful before.

Mr. LUCE. I think I just read you a paragraph showing new competition already existed between the insurance companies and the banks.

Mr. WHITE. You mean competition in the mortgage field?

Mr. LUCE. In the mortgage field, to find people who are willing to borrow the money. What I am driving at is this: Why do the savings banks come here and say that the building and loans shall be handicapped in the race?

Mr. WHITE. Of course, I am not here representing any group of banking institutions. I am here representing the State bank supervisors.

Mr. LUCE. Then you take a hand in it.

Mr. WHITE. Yes, sir.

Mr. LUCE. And why?

Mr. WHITE. Because we believe that the furtherance of this system will result in the abuses that existed some years ago, and from which we are now recovering.

Mr. LUCE. Do you think those abuses may return if the building and loan association puts its surplus fund into the market?

Mr. WHITE. In the market?

Mr. LUCE. In the market; yes.

Mr. WHITE. I would say that that abuse would return when Federal savings and loan associations enter communities that are already adequately served.

Mr. LUCE. You have not yet proved to us that fact.

Mr. WHITE. What?

Mr. LUCE. You have not brought out clearly the fact that a new institution has been established contrary to law. The law is explicit in the matter. You have not shown to us that any new association has been brought forth.

Mr. WHITE. As to that, I can only make the statement that, in my opinion and in the opinion of a great many other State bank supervisors and Federal bank supervisors, that has been the case.

Mr. LUCE. Would you furnish us the names of any places where the Washington authorities have broken the law by permitting the establishment of new institutions?

Mr. WHITE. I would like to make myself perfectly clear on that point, that I am not accusing any authority of breaking the law.

Mr. LUCE. You are; if your statement is correct.

Mr. WHITE. I am only bringing out the point that we disagree that there is any real need for some of these institutions that have been established.

Mr. LUCE. Are you able to furnish us the names of any places where an absolutely new institution has been formed, where, in your judgment, the existing facilities were sufficient?

Mr. WHITE. I think it is quite possible to do that.

Mr. LUCE. That will be very well for the record. Now, outside of that, do you believe that we should handicap one of the horses in this race?

Mr. WHITE. I cannot visualize this problem from that point of view at all. I do not believe it is our function to decide which one of the horses here should have the advantage, or whether or not they should all have the same advantage. I believe that the question is how many horses will the track accommodate; that is our problem.

Mr. LUCE. That will probably come about, with the prevailing tendency for the Government to interfere and regulate all business; but I would rather not go into that. I do not see the advantage of society interfered with by a competitive system.

Mr. WHITE. All I can say on that is that I think it has always been the policy in this country, since we first had a regulated banking system, to make a finding with respect to the need for a bank in any community. It is not a new idea at all; it is one that has been recognized for years.

Mr. LUCE. Well, I happen to know of a community close to where I pass my summers where the authorities permitted the continued existence for many years of two little banks and there was not enough business there for one.

I contest your statement, sir, that interference has been made by the Government with competition in localities.

Mr. WHITE. After those two banks were established, there was difficulty, of course, in eliminating one of them. That is apt to be a painful proposition. The objective we are striving for is to prevent the establishment of saving-and-loan associations or banking institutions of any character, that are not essential to the welfare of the community.

Mr. LUCE. Of course, we agree with you in that, sir. That is an admirable position, but you do not yet answer this question of mine: Why we should handicap one of the horses.

Mr. WHITE. I think, if you have got an institution, no matter what institution it is, if it has functioned adequately in the past, that you should not displace it with another; you should rather leave it operate, and prevent others from coming in. I think that is only a fair proposition.

Mr. LUCE. I think you will find no dispute with you on that point by the committee, but what we are trying to find out is, whether or not a third system of banking should be authorized.

Mr. WHITE. That is the nub of this whole controversy. I think the answer to that is, that we need adequate competition in the mortgage-lending field, but we do not need more than is necessary.

Mr. LUCE. Then would you deem it wise to cut out one of the two from the mortgage field?

Mr. WHITE. I do not know the number of banks that have been eliminated, but certainly a great many have been eliminated in the last few years, and I think that the banking authorities here in Washington, generally, would agree with me that most of the surplus banks are out of the picture, now.

Mr. LUCE. Well, would you cut out the mutual savings banks and leave it all to the insurance companies?

Mr. WHITE. No; I most certainly would not, because we must consider the liability side of the picture, as well as the asset side, and the savings banks, from that standpoint serve an entirely different function.

Mr. LUCE. We had the head of one of the big insurance companies before us the other day, with a desire to go into the mortgage business from the Atlantic to the Pacific Oceans, and the House saw fit to give it to him.

What I am wondering is, what the basic reason is for interfering with competition in the mortgage field.

Mr. FORD. Mr. White, you would put the banks on the basis of giving them a certificate of convenience and necessity; is that the idea you have in mind?

Mr. WHITE. Yes; I would say they have been on that basis for many years.

Mr. FORD. Well, you said, just before that, that you are trying to cure something that happened before, when there were too many banks. Apparently, in the past, convenience and necessity was not considered, but a bank got a charter, if it was able to get it.

Mr. WHITE. Unfortunately, the practice under the law was not identical with the theory and with its purpose.

Mr. FORD. What you are objecting to now is, you think there are several points of objection to these amendments, but one is that the purpose of the amendment, as I get it, is to, in the first place, create what we would say would be adequate Federal Reserve System for mortgage-loan institutions, or a system on parallel lines with the Federal Reserve, with reference to commercial banks. That is the first purpose.

The second is to let down the bars to some extent and permit the large building and loan associations, who have these pools, we are told about of money that they cannot use in strictly the home-loan field and to permit them to use a certain amount of that money in other types of mortgages than home loans. That is the second.

Is that your objection? Do you object to that? Do you object to safeguarding these home-loan mortgages against the time when there might be a crisis and give them adequate protection in the way of calling on, even if they have to, the Treasury to bolster them in time of crisis?

Mr. WHITE. To the extent that it involves converting them into another banking system, I am opposed to it.

Mr. FORD. It has not been made very clear to me that there are many that do not do another kind of banking business, even though you keep them strictly within the mortgage field. They are asking for some relaxation on rules that govern the types of mortgages that they take, and they are asking for as much as 30 percent of their assets to be invested in other than home loans, or home loans of four family units, or \$20,000 limit.

Now, they are asking to go beyond that, and the reason given for it is that, in certain large communities, where there are big home-loan banks, very often they have a tremendous pool of surplus funds that they cannot get out into small home loans, and they want—if I am getting you incorrectly, tell me about it—they want the opportunity to use 30 percent of their funds in other than home loans?

Mr. WHITE. Yes, sir.

Mr. FORD. In apartment houses, we will say; and instead of 4 units there may be 20 units?

Mr. WHITE. I think you have got to bear in mind, though, that the development of the mortgage picture is tied up with the development of that other picture, and that they are advertising for these shares, and have been advertising, and have been obtaining this money, and building up their share liability, and then they come and say, "We have all of this money; the public has brought it to us, so we have to have wide investment powers."

The CHAIRMAN. All right, Mr. Williams.

Mr. WILLIAMS. I want to ask you about this resolution. Who is the father of it?

Mr. WHITE. This resolution?

Mr. WILLIAMS. Yes.

Mr. WHITE. I might say that there are a number of resolutions along this line.

Mr. WILLIAMS. I am talking about the resolution adopted by the executive committee of the National Association of Supervisors of State Banks, which was issued out of Washington?

Mr. WHITE. That is correct.

Mr. WILLIAMS. That is the one I am talking about.

Mr. WHITE. What is the question on that, Mr. Williams?

Mr. WILLIAMS. Who wrote it?

Mr. WHITE. Well, I think the committee on State bank supervisors wrote the resolution.

Mr. WILLIAMS. Where are they? Have they an organization here in Washington?

Mr. WHITE. No; the committee is made up of the State bank supervisors from each of the Federal Reserve districts.

Mr. WILLIAMS. Do you know who the committee is that formulated this resolution, the members of it?

Mr. WHITE. I have not got the minutes here and I cannot tell you who wrote the resolution, I am not able to say who drafted it, but it represents the views of the committee after discussing the matter.

Mr. WILLIAMS. Does it represent the views of all of the supervisors of State banks of the country?

Mr. WHITE. A resolution similar to this resolution was adopted at the Hot Springs convention of the National Association of State Bank Supervisors last fall, and I think some 30 States were represented, and that resolution was unanimously adopted.

Mr. WILLIAMS. It could not have been this resolution, because this points out some specific objections to this particular legislation, which was not introduced at that time.

Mr. WHITE. That is correct. The resolution, last fall, objected to the development of these savings and loan associations along the present lines, and recommended as this resolution does, that these associations be placed under the jurisdiction of the bank supervisory authority.

Mr. WILLIAMS. There are 4 different objections set out in one of the paragraphs, and under the heading "C" I find this statement:

Permit the conversion of the State associations into Federal savings and loan associations, even though such conversion is not authorized by State law.

Now, where, in this act, is there a provision of that kind?

Mr. WHITE. I have not got a copy of the act before me, but I understand that that provision is contained in the act. If I am in error on that, I will be glad to correct it.

Mr. WILLIAMS. I do not see where you are going to find it in this law. If it is in it, I want to know it, myself.

Mr. FORD. So do I.

Mr. WHITE. Could I ask the privilege to submit a memorandum to this committee on that subject?

Mr. WILLIAMS. Yes; if there is a provision in this law which permits the conversion in violation of the State law, of course we want to know it.

Mr. WHITE. I will be very happy to write to the chairman.

Mr. WILLIAMS. To convert State institutions into Federals in violation of the State law?

Mr. WHITE. I do not know that we said "in violation."

Mr. WILLIAMS. Well, it says, "even though not authorized by State law."

Mr. WHITE. Yes; that is a little different.

Mr. WILLIAMS. All right, if that is not authorized by State law, we would like you to point it out.

The CHAIRMAN. He said he would submit it later.

Mr. WILLIAMS. That is all right.

Mr. CRAWFORD. Mr. Chairman, may I ask Mr. White another question?

The CHAIRMAN. Yes, Mr. Crawford.

Mr. CRAWFORD. Mr. White, has the superintendent of banks in your State closed any banks of that type, or brought about the merger of any banks of that type, in the last 5 or 6 years?

Mr. WHITE. No bank has been closed for liquidation in New York since 1933, I believe. There have been very few consolidations.

Mr. CRAWFORD. Were those consolidations in any way energized or prompted by the State banking department's influence, in any way, directly or indirectly, or did—what were they, State banks or mutual banks?

Mr. WHITE. State banks; yes, sir.

Mr. CRAWFORD. Do you have any other cases similar to that under consideration at the present time?

Mr. WHITE. No; although I certainly do not want to say that there will be no cases in the future.

Mr. CRAWFORD. Well, I understood you to say, awhile ago, that in your opinion there would not be any cases in the future, and that is what puzzled me in connection with your testimony.

Mr. WHITE. I did not mean to say that. I think I either misspoke myself or you misunderstood me.

Mr. CRAWFORD. I understood you to answer that some of the principles underlying the philosophy back of the whole F. D. I. C. program was to the effect that machinery would be set up which would tend to check the granting of charters or franchises or permits to open lending and banking institutions, and that thereby you would have machinery which would prevent you from getting into the mudholes that we got into during the period up to 1933.

Mr. WHITE. I think that is a part of that policy, yes; and I believe it is being admirably carried out.

Mr. CRAWFORD. Now, going to the proposition of a disagreement coming up between the State banking department and the Comptroller of the Currency, to the opening of institutions by the granting of new charters, if the Comptroller says that, in his opinion, they should not be—a new institution should not be given a charter to operate, and the State banking department says that, in its opinion, it should be given a charter, and the State banking department proceeds to grant the charter, what influence, if any, does the Federal

Deposit Insurance Corporation have in that proposition, if the bank to be opened desires insurance?

Mr. WHITE. If it desires insurance?

Mr. CRAWFORD. Yes.

Mr. WHITE. If it desires insurance, of course the Federal Deposit Insurance Corporation can prevent the bank from being formed, or can deny it insurance, as I understand it.

Mr. CRAWFORD. In other words, the Federal Deposit Insurance Corporation is the check which has been injected into the picture by the action of Congress, that gives you the balance between a disagreement in opinion as between the Comptroller of the Currency and the State banking department, is it not?

Mr. WHITE. That is correct.

Mr. CRAWFORD. And, in your opinion, that is a sound procedure to follow?

Mr. WHITE. Yes, sir.

Mr. CRAWFORD. If the Federal Deposit Insurance Corporation does not take any position, from time to time, when such cases develop, the Federal Deposit Insurance Corporation does not, in your opinion, tend to disintegrate? In other words, suppose the Federal Deposit Insurance Corporation says, "All right; we will go along with the State and insure these deposits, whether the Comptroller of the Currency thinks it is a good idea, or not"; that would not be such a constructive step on the part of the Federal Deposit Insurance Corporation, would it?

Mr. WHITE. No; it would depend, in the first instance, upon the policy of the State. In New York we have not chartered more than one or two commercial banking institutions in the last 7 or 8 years.

Mr. CRAWFORD. Let me ask it this way, then: If the State banking department of New York proceeds to ride roughshod over, we will say, the good business judgment of the Federal authorities, is not the banking situation such that we can block the movement of the State banking departments by refusing to insure departments, and thereby prevent a bank from operating, because the people would not deposit their money in that bank on account of the noninsurance of their deposits?

Mr. WHITE. Yes; that is correct.

The CHAIRMAN. All right, Mr. Powers.

Mr. PATMAN. Mr. Chairman, on one point that you mentioned I want to read just two or three excerpts from the testimony of Mr. George C. Johnson, treasurer, Dime Savings Bank, of Brooklyn, N. Y., when he appeared before the committee on March 13 last representing the National Association of Mutual Savings Banks. Mr. Luce was questioning him, and in reply to that questioning he said:

Mr. JOHNSON. We do not want them to give us an 80-percent limit. With an 80-percent limit I feel we should have to form a mutual-insurance fund, which we already have in the F. H. A., and in which we would have a better geographical distribution of the risk than we could have if we had it only in New York State. It is possible the savings banks in New York could get together and form a pool for insurance on the same plan, but one of the requirements for insurance is to get a distribution of your risks, and we could not do that.

Mr. LUCE. That is all right; but it does not meet my point. My point is, Why do you come to Washington to get an 80-percent limit? Why did the State assembly only give you a 66 $\frac{2}{3}$ -percent limit?

Mr. JOHNSON. Because it was a very much better safeguard.

Mr. LUCE. Why do you come here instead of going to Albany?

Mr. JOHNSON. Because Washington is the place to get a broad insured plan. We cannot get a broad insured plan if we confine it to our own locality, and you have already given us here in Washington a perfectly satisfactory plan, and we want to continue it.

Mr. LUCE. But you do not answer my question. Why do you not go to Albany instead of coming to Washington? You come here because it is easy; is that it?

Mr. JOHNSON. No, sir. Albany cannot give us a country-wide plan. It can only control New York State.

Mr. LUCE. But you can get an 80-percent plan for New York State.

Mr. JOHNSON. We do not want it without we can form mutual insurance. We do not want an 80-percent plan without we can form mutual insurance.

Mr. LUCE. New York State is not big enough.

Mr. JOHNSON. No; New York State is not big enough; it would not give us the geographical distribution. It is big enough as far as getting volume in money is concerned; yes.

Mr. CRAWFORD. Mr. White, do you know of any savings bank or any State or national bank in your State today that is furnishing long-term capital to private industry?

Mr. WHITE. Any commercial bank?

Mr. CRAWFORD. Commercial bank or mutual savings bank or savings bank.

Mr. WHITE. Yes; I think there are.

Mr. CRAWFORD. What kind of industry is it?

Mr. WHITE. Well, I think that almost all types of industries, or many types of industry, would be represented.

Mr. CRAWFORD. You mean to say your banks are buying the stocks and bonds and debentures on a long-term basis, for private capital use?

Mr. WHITE. Well, I would not want to call it "capital investment." I think it is—

Mr. CRAWFORD. Let me restate my question, then: Are any of the mutual savings banks or State banks or national banks in the State of New York, insofar as you know, furnishing long-term capital, through the purchase of stocks and bonds and debentures, long-term paper, for private industry; if so, what sort of industry is being so financed?

Mr. WHITE. Well, I think the answer to that is in the affirmative; that such loans are being made, but not in the form of investments in stocks, but in the form of long-term loans, running from 5 to 7 or 8 years.

Mr. CRAWFORD. You do not call that long-term paper, do you? I do not. Let me ask you this way—

Mr. WHITE. You did not define the term in your question.

Mr. CRAWFORD. All right, are they buying stocks, preferred or common stocks?

Mr. WHITE. No, sir.

Mr. CRAWFORD. None of them?

Mr. WHITE. No, sir.

Mr. CRAWFORD. Are they buying bonds running 10 to 25 years?

Mr. WHITE. Yes, sir.

Mr. CRAWFORD. What kind?

Mr. WHITE. I think there are some industrial bonds of a much longer period than that that are being bought, not in great volume, because they are not available, at least not of the type of investment, generally, that banks think is proper.

Mr. CRAWFORD. Can you give me an idea of what kind of bonds they buy, of what types of industry?

Mr. WHITE. In industries such as food, oil, steel, tobacco.

Mr. CRAWFORD. Are debentures included?

Mr. WHITE. Yes, sir.

Mr. CRAWFORD. Under what authority do they buy them, a State permit, or F. D. I. C. ruling, or what ruling?

Mr. WHITE. I do not think there is anything—to my knowledge, there is nothing in the law preventing commercial banks from buying debentures.

Mr. CRAWFORD. That is all.

Mr. SPENCE. Mr. White, I want to call your attention to one thing in the amendment that provides, "Said conversion shall not be in contravention of State law."

Mr. WHITE. That is correct. I think, with this bill before me, I can now explain that point. We say, "The conversion will be permitted, even though the law of the State did not authorize it." This says that it shall not be permitted if the conversion would be in contravention of the State law.

Mr. SPENCE. That is practically the same thing.

Mr. WHITE. I happen to be a member of the bar, and if I might beg to differ with you on that subject, I think there is a very great distinction in whether the law prohibits an act or whether it merely fails to authorize it. I assume this is drawn with the purpose of permitting conversion in States where there is no law to prohibit it, but where there is no law authorizing it.

Mr. GORE. With further reference to this resolution to which Mr. Williams referred, do you concur in the recommendation that the Federal savings and loan insurance corporation be merged with the F. D. I. C.?

Mr. WHITE. We do not say merger; we say that we believe—

Mr. GORE. That is the language that I read there this morning.

Mr. WHITE. It is our firm opinion that the solution to the present problem is dependent upon making Federal savings and loan associations subject to the supervision of the Comptroller of the Currency and subjecting the Federal Savings and Loan Insurance Corporation to the Board of Directors of the Federal Deposit Insurance Corporation.

Mr. GORE. What different interpretation do you put on "subjected" and "merged"?

Mr. WHITE. I assumed you meant, when you used the term "merge," that you would merge one into the other and have one fund. That is not our thought. We believe the two funds should be maintained separately but under a common authority.

Mr. GORE. A common examining authority or supervising authority?

Mr. WHITE. A common administrative authority; yes.

Mr. GORE. Why would you need two separate funds for that?

Mr. WHITE. Because they are insuring two different types of risks, and because—I assume we would meet opposition to putting it all into one common fund.

Mr. GORE. I wonder if the motive back of the desire is to prevent the establishment of any more institutions?

Mr. WHITE. I tried to explain our motive a number of times. Our motive is to have the administration of the two funds under one authority, so that the activities of the two can be better coordinated.

Mr. GORE. I might say to you that I have enjoyed your explanation of your motive, but there is still quite a variance between this resolution and the evidence that has been presented to us. Would not a restriction or reduction in the number of banks or this restriction you are asking for—would not that have the result of causing a contraction of credit?

Mr. WHITE. Well, as I said earlier, I would not feel myself in position to speak for the others, but I believe that the banking system in New York is meeting the credit needs of the public.

Mr. GORE. Why, then, do we have so much cry from the State of New York that business cannot obtain the proper loans to function?

Mr. WHITE. Well, if I may answer that frankly, I would say that I believe it is due to the invitation for that type of criticism, and to a misunderstanding, and to the feeling on the part of the people that they should be able to get credit, whether they deserve it or not, and without regard to the fact that there may be and are corporations that give credit.

Mr. GORE. Do you not think, though, that, leaving out these opinions that you have just expressed—do you not think a reduction in the number of banks, a reduction of competition, has resulted in the contraction of credit, country-wide?

Mr. WHITE. I would say not. I would think that the question of whether there is sufficient credit available or not can better be determined with regard to the amount of reserves and uninvested funds which the banks have, rather than the question of how many banks there are.

Mr. GORE. Well, the amount of funds in reserve may have a correlation to the amount of credit available. I may have a large reserve, but it may not be available to the public as credit.

Mr. WHITE. Well, assuming that you have the profit motive and you have the funds available for investment, you will invest them if you have the opportunity.

The CHAIRMAN. All right; we thank you, Mr. White.

Mr. WHITE. I thank you, Mr. Chairman.

The CHAIRMAN. Mr. Powers, will you come around, please?

STATEMENT OF FRANK P. POWERS, PRESIDENT, STATE BANKERS ASSOCIATION OF MINNESOTA

Mr. POWERS. Mr. Chairman and members of the committee, my name is Frank P. Powers, and I am president of the State Bankers Association of Minnesota and president of the Kanabec State Bank.

You gentlemen are familiar with the constructive work which the Federal Deposit Insurance Corporation is doing to correct situations which exist as a result of overbanked communities by encouraging consolidations and mergers of banks to strengthen their financial structure and better serve the financial needs of their communities. For example, another bank in my home town of Mora, which has a population of 1,200, has been merged with my institution on the recommendation of the Federal Deposit Insurance Corporation and the State banking department. This merger was not recommended because of any danger of the insolvency of the other bank but be-

cause the size and needs of the community were not sufficient to warrant the existence of two banking institutions.

However, we are now confronted with a situation where several institutions operating under an entirely different system but in the same competitive field have entered our community. Federal Savings and Loan Associations are making mortgage loans to local borrowers and selling their shares to local investors, although their principal officers are located in cities 50 and 70 miles away.

The broadening of the lending and investment powers of these associations, as proposed in the bill before you, permitting them to purchase investments which are legal for trust funds, would surely encourage these associations to seek more and more investors for their shares, since they could invest the funds so received in investments providing a higher return than is now possible. Such a result, in the example which I have given you, might well defeat the efforts of the F. D. I. C. to provide sound banking facilities in my community.

Moreover, our bank, which is a local institution locally owned, has always stood eager and able to supply the borrowing needs of our community. We have had the power under our State laws to make mortgage loans ever since our bank was originally chartered in 1917. In fact, it is my impression that Minnesota laws have always permitted its State-chartered banks to loan on mortgages, and it is believed the same is true under the laws of other States. At the present time about 50 percent of our assets are represented by loans, and we have about \$100,000 loaned on real-estate mortgages. Thus it can be seen that there is no lack of lending facilities in our community.

Another situation with which I am familiar and would like to bring to your attention relates to the attempt of the Home Federal Savings and Loan Association, of Spring Valley, Minn., to establish a branch office in Rochester, Minn., last fall. This association made application to the Federal Home Loan Bank Board to establish such a branch office in that city. Rochester, with a population of 20,600, was then being served by four banks, two State and two National, all with savings departments, having an aggregate capital, surplus, and undivided profits of \$832,000, and aggregate deposits of \$8,360,000. In addition, two State-chartered building and loan associations were operating in that city. The Minnesota Bankers Association and the American Bankers Association opposed the granting of the application by the Board on two grounds: (1) That section 5 (e) of the Home Owners' Loan Act provides, in respect to the selection of localities for the establishment of Federal savings and loan associations, that no charter shall be granted for such an association "unless the same can be established without undue injury to properly conducted existing local thrift and home-financing institutions," and since the law prohibits the granting of the charter for such an association unless such condition was met, the spirit of the law would be violated if an association was permitted to establish a branch office without also meeting this condition; and (2) that since section 7693 of the Minnesota Statutes prohibits banks from establishing branches anywhere within the State it would be in effect an invasion of the State's autonomy to permit the establishment of a branch by a Federal savings and loan association.

No branch office has been established to date. It is understood that the present Home Loan Bank Board has taken the position that

as a matter of comity it disapproves of the establishment of branch offices of Federal savings and loan associations in States the laws of which prohibit branch banking. However, as we all know, the composition of supervisory bodies changes with time and there is no assurance that the successors to the present incumbents on the Board will hold to the same position.

It is believed that this committee might well consider the advisability of continuing the chartering and supervision of these associations under their present supervisory authority or transferring these functions to one of the existing Federal agencies charged with the chartering and supervision of banks. Such consideration is particularly important at this time in view of the apparent change in the character of these associations which would be affected by this bill.

As I have already indicated, my bank and the other banks in my State are being met with the competition of Federal savings and loan associations. There can be no objection to such competition in the mortgage-lending field, but we believe that if these associations are to assume the characteristics of banks they do have a strong competitive advantage in the higher rate of return they are permitted to offer on the investment of savings.

Let us analyze this differential in the dividend rate paid by these associations and the interest rate paid by banks on savings and thrift deposits. Banks are required by law or regulation to maintain certain reserves in cash. Sound banking policy also requires the maintenance of a secondary reserve in highly liquid securities—usually United States Government obligations. There is, of course, no return on the cash reserves, and with the present low interest rates on Government obligations, only a slight return on the secondary reserves. Thus, the interest on savings deposits has had to be reduced to practically the lowest rate ever paid.

Now let us consider the reserves of Federal savings and loan associations. They are required by law to build up a 5-percent reserve of their aggregate share accounts. In addition, the Home Loan Bank Board recommends that an additional reserve be maintained which, with the required reserve, would equal 10 percent of the aggregate share accounts. These reserves, however, apparently do not have to be maintained in cash or in highly liquid securities. They may be invested in mortgages and under the amendments in the bill before you in municipal, railroad, and even corporate securities, depending on the laws of the State in which they are located.

If Federal savings and loan associations were required to keep the same percentage of their reserves in cash as is required by banks and maintain their secondary reserves in the same liquid securities as banks do, I venture to say that they would be unable to maintain the high dividend rate which they now find it possible to pay on their shares.

No one can deny that competition on a basis of equality is salutary. However, it is equally true that there can be destructive competition which is detrimental not only to the competing institutions but to the public welfare as well.

(Thereupon, the committee adjourned, subject to the call of the chairman.)

AMENDMENTS OF 1939 TO FEDERAL HOME LOAN BANK ACT

TUESDAY, MAY 23, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

Hearings on H. R. 5535 were resumed at 10:56 a. m., Hon. Henry B. Steagall (chairman) presiding.

Other members of the committee present: Mr. Williams, Mr. Spence, Mr. Ford, Mr. Brown, Mr. Patman, Mr. Sacks, Mr. Mills, Mr. Martin, Mr. Monroney, Mr. Luce, Mr. Crawford, Mr. Gamble, Mr. Johnson, Mr. Kean, and Miss Sumner.

The CHAIRMAN. The committee will come to order.

Mr. Gilman, will you come around, please?

This is Mr. A. George Gilman, of Malden, Mass., chairman of the committee on Federal legislation of the National Association of Mutual Savings Banks, President of the Malden Savings Bank, Malden, Mass., and vice president of the savings division of the American Bankers Association.

Mr. Gilman, we will be glad to have you discuss this bill, and if you have a prepared statement that you would like to present before submitting to interrogation, we will meet your wishes.

STATEMENT OF A. GEORGE GILMAN, CHAIRMAN, COMMITTEE ON FEDERAL LEGISLATION, NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS

Mr. GILMAN. Mr. Chairman and gentlemen of the committee, my name is A. George Gilman and my home is in Malden, Mass. I am president of the Malden Savings Bank, a mutual institution. I am appearing here today in my capacity as chairman of the committee on Federal legislation of the National Association of Mutual Savings Banks and I am speaking on behalf of all the mutual savings banks in the country.

At the outset I desire to say a little in explanation of the type of institution which I represent. These savings banks are mutual institutions, all of the assets of which are held by the trustees for the benefit of the depositors. They have no stock.

These institutions were founded in this country over a century ago for the purpose of providing a safe investment medium for savings in small amounts. Their growth and development have been characterized by the self-sacrificing efforts of public-spirited citizens who have

devoted their time as trustees without compensation to the successful investment of the funds entrusted to their care.

As of January 1, 1939, these institutions held the savings of 15,156,553 depositors. The total assets of these institutions aggregated \$11,571,017,036.

It is not surprising that institutions with such a background and tradition have grown rapidly in the territory in which they were first established and that they have had a remarkable record for safety. It is also not surprising that we should regard our record with pride and that savings and loan associations should seek to model their institutions closely upon the savings bank form.

It should be understood that the mutual-savings banks are found mainly in the Northeastern section of the country; that is to say, in the New England States and in New York, New Jersey, Pennsylvania, Maryland, and Delaware. There are also a few mutual-savings banks in Ohio, Indiana, Minnesota, Wisconsin, Washington, and Oregon. You will understand, therefore, that what I have to say is chiefly concerned with these sections of the country.

It is not my purpose to discuss the broad underlying features of the bill before you. It is my understanding that the president of the American Bankers Association has discussed this aspect of the proposal. My purpose in appearing is to discuss certain specific features of the bill in which our mutual-savings banks have a general interest.

The amendments to the Federal Home Loan Bank Act contained in sections 1 and 2 of the bill make eligible as collateral for advances by Federal home-loan banks to their membership any first mortgages and any securities which a member may lawfully have available which are acceptable to the Board in addition to the collateral eligible under the present law. The proponents of this measure indicate that the purpose of this broadening of the types of eligible collateral for such advances is to enable the Federal Home Loan Bank System to serve savings banks and insurance companies more effectively as a reserve system. There has been no demand by the savings banks for this liberalization of the Federal Home Loan Bank Act. At the present time there are only eight or nine savings banks which are members of the System, and it is understood that the principal reason for most, if not all, of these institutions becoming members was to avail themselves of the exemption from social-security taxes derived from membership in the Federal Home Loan Bank System, and not from any benefits which they might receive from the System as a reserve system.

Mr. PATMAN. Do you mean to say that they do not have to come under the social-security law, if they are members?

Mr. GILMAN. I understand that if they are a member of the Home Loan Bank System, they are exempt from social security.

Mr. PATMAN. And that is the principal reason they came in?

Mr. GILMAN. I know that some of these institutions that belong had that in mind, as getting this exemption.

Mr. SACKS. Do you know how many mortgages the H. O. L. C. took over from the mutual-savings institutions in 1934 and 1935?

Mr. GILMAN. I do not know the number.

Mr. SACKS. Didn't they take over a considerable amount?

Mr. GILMAN. They did. They did a very fine service.

Mr. SACKS. They did a fine service?

Mr. GILMAN. Yes.

Mr. FORD. Wouldn't this do about the same thing, if another crisis occurred?

Mr. GILMAN. If I may, I would like to finish this very short statement, and then perhaps I can answer that question.

We believe that it would be far better to confine the Federal Home Loan Bank System exclusively to the building and loan type of association.

If this change was made the necessity for these amendments would be largely eliminated, except possibly with respect to F. H. A. insured mortgages. It would seem, however, that the act could be liberalized to make all types of F. H. A. insured mortgages eligible without going to the extent of making any first mortgage eligible as collateral for advances of Federal home-loan banks.

Section 13 of the bill contains an amendment which would permit all institutions which are eligible for membership in Federal Home Loan banks to obtain insurance by the Federal Savings and Loan Insurance Corporation. Since the only type of institution which is eligible for membership in the Federal home loan banks and whose accounts are not already eligible for insurance by the Insurance Corporation is a savings bank, this amendment is apparently designed solely to make the deposits of savings banks eligible for such insurance, and that such is its purpose has been indicated by the sponsors of the bill. We cannot see the advantage of this amendment. Adequate insurance protection is already afforded depositors in savings banks, either through insurance by the Federal Deposit Insurance Corporation or by the insurance funds set up by the mutual savings banks of my State of Massachusetts and the mutual savings banks of New York. To provide another source of insurance would merely create confusion without serving any useful purpose. It is difficult to conceive of any savings bank availing itself of the insurance provided by the Federal Savings and Loan Insurance Corporation when it has these other insurance facilities already available.

I have endeavored to demonstrate that the amendments contained in this bill, which have been designed to attract savings banks into the Federal Home Loan Bank System, are not desired by the saving banks themselves. There is another important feature of this bill which I should like to discuss. This relates to the conversion of the savings and loan associations from the home financing institutions they were originally intended to be into what are in substance Federal savings banks. It is for you gentlemen in Congress to determine whether there is a public need for the establishment of Federal savings banks. I am not in a position to say whether additional mutual savings banks, under State or Federal auspices, might be desirable in certain parts of the country. I can state, however, that no such need has been demonstrated in the Northeastern States where the present mutual savings banks have been long established.

Section 8 of the bill amends subsection (c) of section 5 of the Home Owners' Loan Act by broadening the investment powers of savings and loan associations, both with respect to the percentage of assets which may be invested in mortgages other than home mortgages, and with respect to other types of securities, even permitting the investment of any portion of the assets of such associations in "securi-

ties which are legal investments for fiduciaries and trust funds." No more apt definition, generally speaking, could have been found of the list of securities in which savings banks are permitted to invest. Since there is no limit upon the amount of funds that may be invested in such securities, a savings and loan association might reconstruct its investment portfolio in such a manner that eventually it would, like a typical savings bank, have only about 50 percent of its assets in mortgages and the remainder in legal securities. Since a mutual savings bank is primarily a savings medium designed to take care of both the short-term and long-term savings of its depositors, it is essential that it maintain such a proportion of its assets invested in more liquid securities than mortgage investments. Such is not the case with savings and loan associations unless their traditional function as a medium for investment of long-term savings exclusively is to be changed.

The purpose of this broadening of the investment powers, as indicated by the sponsors of this bill, is to enable the Federal savings and loan associations to employ their funds profitably when satisfactory home-mortgage loans are not available. If these associations were to invest a substantial portion of their funds in such legal securities, they would necessarily have to select those securities having the greatest element of risk in order to obtain securities having a sufficiently high interest rate to enable them to maintain the dividend rate which they are paying on their shares. You realize, of course, that the laws of some States are very liberal with respect to legal investments leaving the determination of the soundness of the individual security largely to the discretion of the management of the institution. While it is true that the investors in these associations would be protected against loss as the result of such an investment policy through the insurance of their accounts by the Federal Savings & Loan Insurance Corporation, nevertheless it seems undesirable to encourage the management of such associations to adopt such an unsound investment policy. Savings banks are not tempted to invest on the basis of return since the rate paid their depositors under the regulations of their supervisory authorities is relatively low.

The amendment continued in section 9 of the bill providing for the conversion of a Federal savings and loan association into a mutual savings bank, and the amendment in section 11 changing the name of the Federal Savings & Loan Insurance Corporation to the Federal Savings Insurance Corporation are further indications of the purpose of this legislation to convert Federal savings and loan associations into institutions which are substantially the same as mutual savings banks.

I have no intention of discussing the substantive features of the changes in the insurance provisions proposed in the bill as we have no direct interest in them. I should like to point out, however, that the change in the method of payment of insurance does not seem warranted unless the insured institutions are to become substantially deposit institutions necessitating the insurance of their liquidity rather than their solvency. While the bill before you leaves the method of payment to the discretion of the Board of Trustees of the Insurance Corporation instead of expressly authorizing them to make payment in full in cash, as the Bulkley-Steagall bills did last year,

nevertheless the intention appears plain that full cash payments are contemplated.

I should like to emphasize that our whole interest is the protection of the deposits entrusted to our care, and this is dependent upon the maintenance of a sound banking structure in the Nation. I am well aware that one of the causes of the banking difficulties in 1933 was that the country was over-banked. We should all hate to see this condition repeated, and it is my recommendation that if it is proposed to establish a system of Federal savings banks that such proposal should be made a part of a study of the whole banking structure of the country in order that it may be correlated with the existing systems.

This completes my statement on the bill you have before you. I have been informed, however, that at earlier hearings on this bill there was some discussion of a proposal to exempt from the Federal normal income tax the shares of State-chartered savings and loan and building and loan associations. On this subject I would like simply to emphasize that all mutual, thrift institutions should be treated on the same basis. Every argument that could be made for the exemption from taxation of the shares of a savings and loan association or building and loan association could be made with equal force with respect to deposits in a mutual savings bank. We are not, however, asking for the exemption of the deposits in our banks from Federal taxation as we believe that such exemptions are not in the public interest and that there are already too many of them in our Federal tax laws.

Thank you, Mr. Chairman.

Mr. FORD. I would just like to ask one question. You say that there is no demand on the part of the savings banks for this legislation.

Mr. GILMAN. None. Mutual savings banks, may I emphasize, because there are stock-savings banks..

Mr. FORD. All right. We will say mutuals. You do not have to join?

Mr. GILMAN. It so happens that in some of the States they are not eligible, due to the fact that their States have not passed legislation permitting them to join. That is so in Massachusetts.

Mr. FORD. But you would not have to join it? There is no compulsion to your going in?

Mr. GILMAN. No.

Mr. FORD. In that case, since it would not affect you in any way, why oppose it?

Mr. GILMAN. Why propose it?

Mr. FORD. Why oppose it? It will not affect you, if you do not join.

Mr. GILMAN. We think it is confusing.

Mr. FORD. Why is it confusing? Give us a reason for the confusion.

Mr. GILMAN. Well, because the mutual savings-bank system in some States would permit it. Some would belong to it, and others would belong to the Federal Deposit Insurance Corporation, and it would be just one more complication.

Mr. FORD. There is no complication in the life-insurance field, or in the property-insurance field. There are numerous corporations in-

sureing, and there is no confusion there. I do not think the argument of confusion is valid at all.

Mr. GILMAN. Well, I will say that the Federal Deposit Insurance Corporation, when their act was passed, provided for the mutual-savings banks, and that seems to be an adequate place for them to insure their shares.

Mr. SACKS. How many have joined the F. D. I. C.?

Mr. GILMAN. I would assume, to my knowledge, at least 35 or 40 of them.

Mr. SACKS. Out of how many?

Mr. GILMAN. 540.

Mr. SACKS. They do not seem to want to go in that, either of them.

Mr. GILMAN. The situation, Mr. Congressman, is this, that these banks are under State regulation, and in the State of Massachusetts, the legislature of that State regulates the mutual savings banks and have not permitted them to join.

Mr. SACKS. If that is the case, is there any confusion up there about that situation?

Mr. GILMAN. Well, I should say that at the present moment it is understood that they are eligible to a State fund.

Mr. SACKS. What I am driving at is, the F. D. I. C. gave an opportunity to the mutual savings banks to come in under their insurance fund.

Mr. GILMAN. Yes.

Mr. SACKS. And only 35 out of 500 came in. In Massachusetts none came in because the State legislature did not pass an enabling act.

Mr. GILMAN. That is right.

Mr. SACKS. Has it created confusion?

Mr. GILMAN. I think there has been general confusion amongst the depositors in general as to the insurance of depositors. I am speaking here representing 540 or 550 mutuals over the country, so that I cannot confine myself to Massachusetts.

Mr. SACKS. What evidence of confusion have you had since the passing of the F. D. I. C. Act, among the mutual savings banks?

Mr. GILMAN. Well, because some of our mutuals are in the F. D. I. C., and some are not.

Mr. SACKS. That is true; you told me that, but I would like to find out what evidence you have of confusion having existed as the result of the passage of the F. D. I. C., which is similar to this.

Mr. GILMAN. Well, I know that even officers of banks do not understand it, and they are confused.

Mr. SACKS. Let us look at it this way: Have the depositors in these banks fallen off since the F. D. I. C. has come into existence?

Mr. GILMAN. They have not.

Mr. SACKS. Have they increased?

Mr. GILMAN. They have.

Mr. SACKS. Therefore, there has not been any confusion as far as the depositors are concerned, has there?

Mr. GILMAN. Perhaps not.

Mr. SACKS. It has not affected the status of the banks any, has it?

Mr. GILMAN. No.

Mr. PATMAN. You said that the reason that these savings banks came into the F. D. I. C. was because they would not be under the social-security law.

Mr. GILMAN. I said that there were some of them that I know of that joined because it was a feature, that they would not be subject to the social security.

Mr. PATMAN. You made a statement, a very significant one, in the beginning of your remarks, that your institution was organized for the benefit of its depositors. In other words, you serve those depositors?

Mr. GILMAN. That is right.

Mr. PATMAN. You feel that that is your first duty and obligation?

Mr. GILMAN. I do, and I happened to be present the other day when you were asking some questions, and, if the Chairman will permit me, I brought a statement that gives the minutest detail about the institution that I serve as president. It is a statement that we make to the members of the corporation and to the depositors.

Mr. PATMAN. Didn't these banks join the F. D. I. C. before the Social Security Act was passed?

Mr. GILMAN. I could not answer that.

Mr. PATMAN. If that is a fact, your statement is incorrect, that they joined to evade the Social Security Act?

Mr. GILMAN. The Social Security Act came in afterwards, I am quite sure.

Mr. PATMAN. You could not very well say that they joined for the purpose of evading an act that had not passed?

Mr. GILMAN. I said that I had been told by bankers that that was the reason that they belonged, on account of that feature. I would not consider it, myself, advantageous.

Mr. SACKS. Were there many that joined since the passage of the Social Security Act?

Mr. GILMAN. I do not think so.

Mr. SACKS. In fact, they have gone out of the F. D. I. C., instead of going into it, since the passage of the Social Security Act.

Mr. GILMAN. There have been some come-backs to the F. D. I. C. among the mutuals.

Mr. PATMAN. With regard to your serving your depositors, you serve your depositors just like a Federal savings and loan organization serves its depositors? That is right, isn't it?

Mr. GILMAN. They serve shareholders as we serve our depositors.

Mr. PATMAN. And they owe the same duty and obligation to their shareholders as you owe to your depositors?

Mr. GILMAN. I think they do.

Mr. PATMAN. If you are serving your depositors, and you are organized wholly and solely for their benefit, why is it that you do not give them a voice in the management of the affairs of your institution?

Mr. GILMAN. I would like to explain how they do have a voice in Massachusetts. That is the only State that I am familiar with.

Mr. PATMAN. I understand that they have a self-perpetuating body to conduct the savings banks in Massachusetts.

Mr. GILMAN. In Massachusetts, I think the 1930 figures are that the population was 4,249,000 people. Our mutual savings banks have about 3,000,000 depositors, and you can roughly see that the depositors are voters—

Mr. PATMAN. Oh!

Mr. GILMAN. Our Legislature of Massachusetts—

Mr. PATMAN (interposing). You are presuming that they are all voters.

Mr. GILMAN. No; I do not; but I contend that the Legislature of Massachusetts enacts the laws that we shall operate under, and our law is only permissive, giving us permission to do specific things, and I brought a copy of a recent issue of the statute that I would be glad to give to you.

Mr. PATMAN. Let us analyze that statement a little bit. You say that in your statement there are about 4,600,000 people in Massachusetts.

Mr. GILMAN. Four million two hundred thousand.

Mr. PATMAN. And about 3,000,000 depositors in mutual-savings banks?

Mr. GILMAN. Yes.

Mr. PATMAN. Sometimes one person has several deposits.

Mr. GILMAN. That is right.

Mr. PATMAN. How many people are there like that in your State? Do you know?

Mr. GILMAN. I could not tell you

Mr. PATMAN. Some of them would have a number of deposits—four or five or more—in different savings banks.

Mr. GILMAN. I think it is fair to say—

Mr. PATMAN. And there are a number of them with children.

Mr. GILMAN. That is right.

Mr. PATMAN. And a number of them do not vote for other reasons. Therefore, it is possible that it is just a very small number that participates to the extent of electing representatives in your legislature to determine your policies.

Mr. GILMAN. Well, I think that that would be a rather hard task in Massachusetts, but what I was trying to say is that a substantial number of voters, male and female, are depositors, in the ordinary ratio of depositors to voters.

Mr. PATMAN. Is it not a fact that it was proposed in your State to give them a voice, and that you and your organization opposed it, and are you opposed to giving them a voice now?

Mr. GILMAN. It has been proposed annually.

Mr. PATMAN. And you are opposed to it?

Mr. GILMAN. Yes; because it is a physical impossibility.

Mr. PATMAN. If you really believe that you are organized for the primary purpose of benefiting your depositors, why aren't you willing to give them a voice in the management of your affairs?

Mr. GILMAN. Because of the physical impossibility for a bank with 140,000 depositors to hold an annual meeting.

Mr. PATMAN. Couldn't you arrange it so that those who had deposits under a certain amount would not have a voice?

Mr. GILMAN. Have the law arranged so that—

Mr. PATMAN. So that the majority certainly would be able to determine the policies of your organization.

Mr. GILMAN. Wouldn't that be discrimination against the very man that you should not discriminate against, the man with a small balance?

Mr. PATMAN. I am not saying that you should, but if your statement is worthy of consideration, it could be answered in the way I suggested. I think all of them could participate myself, and I don't see any good reason why you should oppose their participation, any more than a large corporation should say:

We have so many shareholders, and we are not going to listen to them at all: we are going to have a self-perpetuating board of trustees that will take charge of this business.

Don't you think that any large corporation could just as logically and consistently make the contention that you are making now?

Mr. GILMAN. May I say this, that the corporation is not a management corporation, and they have the power of recalling all of the trustees that they elect from their body.

Mr. PATMAN. Who is the corporation? The corporation is the self-perpetuating body that has the right to recall you as a trustee of your corporation?

Mr. GILMAN. They can ask the trustees to do that, and they are the parent body.

Mr. PATMAN. How many are there in that board?

Mr. GILMAN. Eighty.

Mr. PATMAN. Out of 3,000,000 depositors—

Mr. GILMAN (interposing). May I correct that? There are only 36,000 in the institution that I represent.

Mr. PATMAN. That is, in the one institution?

Mr. GILMAN. In the one institution.

Mr. PATMAN. How are these 80 incorporators selected?

Mr. GILMAN. It is prescribed by the statute that they shall be men who have not taken advantage of the bankruptcy court and are citizens of the commonwealth, and when they remove from the commonwealth, they cease to be members of the corporation.

Mr. PATMAN. And these 80 represent 36,000 depositors in your institution?

Mr. GILMAN. They do, and they come from all classes and walks of life.

Mr. PATMAN. Who picks them?

Mr. GILMAN. They pick themselves.

Mr. PATMAN. And in event of a vacancy, they select the one to fill that vacancy?

Mr. GILMAN. They do.

Mr. PATMAN. And they represent 36,000, and the 36,000 have no voice at all?

Mr. GILMAN. These incorporators are their representatives, by statute. The legislature has stated, and I brought a brief on it for you, that these men can meet and form a corporation, but they have to go responsible for the expenses of the institution until such time as it is on a paying basis, can pay its own expenses. It is a contribution by them toward the starting of the institution, and from that day forward—

Mr. SACKS. By the way, following that line of reasoning out, there are salaries paid to the officers?

Mr. GILMAN. Yes.

Mr. SACKS. Who passes on the amount of the salaries?

Mr. GILMAN. The board of trustees.

Mr. SACKS. Do the 36,000 have anything to say about it?

Mr. GILMAN. No.

Mr. SACKS. Therefore the board of trustees votes salaries to the officers who operate the institution? Is that right?

Mr. GILMAN. Yes. That is the duty of the Board.

Mr. SACKS. What redress could a group of men among the 36,000 have if they thought that the salaries were too high?

Mr. GILMAN. Well, the men running the institutions come from all walks of life—

Mr. SACKS. But I am talking about the 36,000, not the Board. For example, say that 20,000 of them decided that the fiscal officer was making too much money, and they wanted a cut, what redress would they have?

Mr. GILMAN. If 20,000 decided on that, they would clear it right up at any time.

Mr. SACKS. Say that 5,000 decided that?

Mr. GILMAN. That would be a minority.

Mr. SACKS. How could they do it?

Mr. PATMAN. A minority can be right.

Mr. SACKS. How can they do it?

Mr. GILMAN. May I suggest, from experience, that public sentiment alone will do it.

Mr. PATMAN. It must be a democracy, then.

Mr. GILMAN. Mr. Congressman, may I say this—that if the members of the Committee would accept this statement that I brought, and it is not just a bank statement of figures; it is descriptive material of the deposit liabilities and what our institution has to pay them with on market values as of this time, and there is even a schedule of expenses—

Mr. PATMAN. You have enough copies there for each member?

Mr. GILMAN. I think I have.

Mr. PATMAN. Suppose, Mr. Chairman, that we ask the clerk to pass them around.

All right. Now, I have your statement that if 5,000 wanted to change things, the trustees would consider it, but they would not have to do it; they would not be compelled to do it?

Mr. GILMAN. No; the law does not compel them—

Mr. PATMAN. All right; you have answered.

Is it not a fact that in recent years the cost of operating institutions has been going up annually, and that the dividends have been down annually? That is right, isn't it?

Mr. GILMAN. That is right.

Mr. PATMAN. Has it not occurred to you that it would be a wise thing for Congress to consider encouraging these Federal savings- and loan associations, where the people have a voice, where they can help to manage their own affairs, and where they will have higher dividends; that is, a greater return on their investment, with the operating expenses going down instead of going up?

Mr. GILMAN. Mr. Congressman, may I say that at no time have I opposed the establishment of Federal savings-and-loan associations, provided that it was in keeping with the act passed by this Congress, or the Congress then in session.

Mr. PATMAN. In other words, if we passed that, it is all right. You have no objection?

Mr. GILMAN. I believe that it was the intent of Congress that there would be no duplication of banking facilities if a territory were adequately served, and there was a suitable institution and one doing the work required in that field. I think that in that event the act of Congress was that no new and competing institution would be established.

Mr. PATMAN. I do not think that was considered.

Mr. GILMAN. I think it is in the act.

Mr. PATMAN. I do not know it, if it is. I considered that the commercial banks would look after theirs, and the mutual savings would look after theirs, and you are getting into the insurance business, too.

Mr. GILMAN. That was something that a very fine gentleman brought to us, and it was necessary to have someone service it. It has nothing to do with the mutual savings banks. It is an insurance company set up by an act of the legislature, and, as to the benefits that the institution receives—if it collects premiums it receives 3 percent on the premium, and if it runs a separate insurance group or agency then its expenses are allocated to the insurance, and none of that money is available for dividends to the depositor.

Mr. PATMAN. Have you invested much of your funds in bank stocks, common stocks of banks?

Mr. GILMAN. In the capital stock of banks; that is right. You will find a schedule covering that—

Mr. PATMAN. As distinguished from the preferred stock?

Mr. GILMAN. There might have been some banks that would have some preferred stock as a result of the troubles that we went through—

Mr. PATMAN. Yes; but how much of your funds, what percentage, is invested in the stocks of banks?

Mr. FORD. It is \$498,000.

Mr. GILMAN. The book price, and the market price, and the par are there.

Mr. PATMAN. Is there any large insurance company that you know of that will now insure deposits? Suppose that I wanted to make a deposit in a bank that is not in the F. D. I. C. Could I get insurance from any insurance company in the country against loss of that deposit?

Mr. GILMAN. I know of no such company.

Mr. PATMAN. Do you know of any company that has considered the business of taking the insurance of institutions that are not insured by governmental agencies? Do you know of any large company that has considered doing that?

Mr. GILMAN. I just know that at the time that the Federal Government was considering insurance on deposits, some of these companies made some calculations to try to set up some tables that would indicate what the premium should be, but I do not think they ever got to the point of saying what the premium should be, or any of the conditions surrounding it.

Mr. PATMAN. Anyway, they did not consider it at all?

Mr. GILMAN. I think they considered it was a problem beyond them.

Mr. LUCE. A Massachusetts savings bank has some things in common with a private hospital, has it not, or a philanthropic enterprise?

Mr. GILMAN. It has.

Mr. LUCE. And the depositor is just as free to withdraw his money as an ill man would be to decide not to go to the hospital?

Mr. GILMAN. That is right. I might say, in connection with liquidation of savings banks, that we have had only one in 120 years, and this one happened to be in an industrial section of the State, where the textiles moved out, and they liquidated at \$1.14. Now, like in all mutual groups, the fortunate fellow was the one in the group of depositors who stayed. The man who drew his deposit and his accumulated dividend as of the date of withdrawal received his full amount on deposit and the normal accumulation, but those who stayed for the final liquidation of the institution were remaindermen and received the balance there, which happened to be \$114 for each \$100.

Mr. SACKS. Can you tell us what the salaries are, for example, to the officers of these banks?

Mr. GILMAN. Of our officers? I will be very happy to tell you mine.

Mr. SACKS. I do not mean yours. You are the president?

Mr. GILMAN. I am.

Mr. SACKS. What is your salary?

Mr. GILMAN. \$16,000.

Mr. SACKS. How many other officers do you have?

Mr. GILMAN. I have three others.

Mr. SACKS. What are their salaries?

Mr. GILMAN. I have a treasurer who receives \$5,000, and an assistant treasurer who receives \$4,500, and another assistant treasurer who receives \$3,000.

Mr. SACKS. Are those all of the salaries paid?

Mr. GILMAN. Those are all of the salaries, with the exception of the clerks. We have a total of 29 people.

Mr. SACKS. Twenty-nine people?

Mr. GILMAN. Yes; including the officers.

Mr. SACKS. You have no vice presidents?

Mr. GILMAN. They are inactive. It is an honorary position.

Mr. SACKS. And they do not get paid?

Mr. GILMAN. No.

Mr. SACKS. So it is not altogether a philanthropic institution?

Mr. GILMAN. It is just like any other mutual insurance company or mutual company; the man who serves it, gives his work to it, is paid a compensation.

Mr. SACKS. And he controls it, does he not?

Mr. GILMAN. He does not.

Mr. SACKS. I mean that he controls it through the board that you mentioned.

Mr. GILMAN. I have never had the ability to swing 80 normal men who have reached the age of discretion, which means in this case getting up to 50 or better, and who are the usual businessmen, and some of them men that work at the bench, and schoolteachers, and always the clergy, and they are not the easiest group to swing. I have never had occasion to try it, but I think that I would not be foolish enough to try it.

Mr. SACKS. There is nobody among the 36,000 that could affect you in anyway, is there?

Mr. GILMAN. You are familiar with this phrase, of people becoming articulate, and I think it is fair to say this, that in the State

as a whole there are about 10,000 incorporators, and 3,472 trustees in these particular mutual banks, where there are two billions of deposits, referring to my own State, and those are men coming from all walks of life, particularly men of responsibility in the community, and I feel that those men have in the past and will become articulate and express themselves if the occasion should require.

Mr. SACKS. That is true.

Mr. GILMAN. And they will not put up with management that is not in the interest of the depositor.

Mr. SACKS. If the situation should ever arise, however, the 36,000 would have no redress except to change the law of the State?

Mr. GAMBLE. They can take their money out at any time.

Mr. GILMAN. A simpler move than that is to step into the office of the commissioner of banks and prefer your charges against that officer, and it is his duty to investigate the situation.

Mr. SACKS. He cannot change salaries.

Mr. GILMAN. He certainly can.

Mr. SACKS. Under the act?

Mr. GILMAN. He does.

Mr. SACKS. I wish all of the States were like Massachusetts, especially those States where the situation has not operated so well. Take Pennsylvania, for example; would you deny the people of Pennsylvania the right to have their protection under this insurance?

Mr. GILMAN. They had had it.

Mr. SACKS. You know the situation in Pennsylvania?

Mr. GILMAN. In a general way.

Mr. SACKS. That did not operate in any way like Massachusetts. There the losses were heavy, and the banks were not operated as well.

Mr. GILMAN. Were they mutuals?

Mr. SACKS. Yes; a lot of mutuals.

Mr. GILMAN. I am not familiar with the mutuals in Pennsylvania. I may be uninformed.

Mr. SPENCE. You said that your organizations, when they joined the F. D. I. C., were exempted from the provisions of social security.

Mr. GILMAN. I said that these banks that joined the Federal Home Loan Bank System understood that they would be exempt from the Social Security Act, in that that was an instrumentality of the Government, and they were members of it.

Mr. SACKS. But that is not exactly correct. When they joined, there was no Social Security Act, and therefore they could not have escaped it.

Mr. GILMAN. Some joined since the act, Mr. Congressman.

Mr. SACKS. I do not think that there have been many that joined since the act at all. When those corporations originally joined, there was no Social Security Act.

Mr. SPENCE. Do you mean to say that the banks that are members of the F. D. I. C. are not subject to the Social Security Act?

Mr. GILMAN. I think at the present time that is so.

Mr. SPENCE. Then the banks have not discovered that yet.

Mr. GILMAN. Oh, yes. I think the American Bankers Association desire to have all banks subject to it. I think that they have made such a recommendation, that all be subject to the Social Security Act.

Mr. SPENCE. If those State banks that are members of the F. D. I. C. are not subject to the Social Security Act, they have not discovered that yet, in my State.

Mr. GILMAN. It is the Federal Home Loan Bank members that I referred to as thinking that they will be exempt. I do not know what the position is today of men who belong to the F. D. I. C. I know that some hope that that will be so. Personally I have no sympathy with that thought.

Mr. SPENCE. The F. D. I. C. is an instrumentality of the Government.

Mr. GILMAN. Isn't it a little bit different in its construction? I mean this, that the Federal Reserve banks made a contribution to create the F. D. I. C., and that was money that had been accumulated by the membership of banks throughout the country. It was Federal Reserve money, and they contributed, as did the Government, whereas, if I understand it correctly, the Home Owners' Loan Corporation advanced \$100,000,000 of 3-percent bonds to create that fund, and then there is an annual assessment. I think that there is that difference, but, as to what it means, I am not a lawyer and I would not dare to interpret it, for I might be wrong.

But I have no sympathy with the thought of being exempt from it, because I think the law has an object and I do not know why we should be exempt. Certainly we want our employees to participate, and it is a fine thing. We had asked for pension systems in our State prior to this, but it was not received very well, and this has made it possible for us to do something.

Mr. CRAWFORD. Mr. Gilman, in view of the fact that you and your institutions seem to be on trial here this morning, instead of there being a hearing on this bill, I would like to ask you a few questions.

First, how long have you been in this field of work?

Mr. GILMAN. Twenty-six years.

Mr. CRAWFORD. How many of the institutions in your State publish a report like this one that you submitted, for the benefit of their shareholders?

Mr. GILMAN. I know of five that get out a statement like that, and I brought that down for the benefit of those who might be interested. We are forced by law to publish once a year the report that we make to the commissioner of banks, which is similar to the one you have, with the exception that I treat book and market and par on securities in my statement, whereas the statute prescribes that they should be stated at par value, and this statement goes to the point of telling cost per thousand of assets for handling that money—in other words, what it costs the bank to do it. It is a very interesting and illuminating document, and it is a public document, too.

Mr. CRAWFORD. Do you know of any management in your State operating a similar institution that publishes any more informative statement than this one?

Mr. GILMAN. I do not know of any more informatory one.

Mr. CRAWFORD. How long have you been publishing a statement similar to this?

Mr. GILMAN. Ever since I went with the Malden Savings Bank, in 1933. Prior to that I was at the Hudson Savings Bank, as vice president and treasurer, and that was a small bank, of \$5,000,000, and we did not feel that we could afford to have that published, but I did have mimeographed copies of their reports made.

Mr. CRAWFORD. In other words, your philosophy all the way through, for many years, has been that your shareholders and asso-

ciates were entitled to full and complete information with reference to your operations?

Mr. GILMAN. That is right.

Mr. CRAWFORD. As far as you know, is that the practice among the managements of industrial concerns in America, including banks?

Mr. GILMAN. I am sorry to say that it is not.

Mr. CRAWFORD. Then you believe—

Mr. GILMAN (interposing). I believe that I am handling somebody else's money.

Mr. CRAWFORD. And it has been a practice that you followed through the years?

Mr. GILMAN. It is a lot easier, if they know your procedure and your conduct, if your foot slips, for them to say that apparently it did slip, but that you were trying. We have been going through times when management at best was a task, due to world conditions, and so forth, and I have always felt that the men who had the money at stake, the depositors in our institutions and in the mutual banks, are entitled to have such information.

Mr. CRAWFORD. It is also true that when you issue a lengthy statement similar to this, with your name on the bottom, you draw a bold comparison against your own ability to operate the institution that the public can refer to and use for the purpose of criticizing you at any time they please?

Mr. GILMAN. It is a record that can be used against me at any time.

Mr. CRAWFORD. Wouldn't you be very much pleased if the fellows who hold office in the Congress of the United States would file a similar report to the people, so that the people could come back and check on them in the same manner that your shareholders can, with reports like this in front of them—

Mr. PATMAN. Or what they propose to do.

Mr. CRAWFORD. Or what they propose, or things that they have done or have not done, the sins of omission and commission? Do you think that that would probably help us out?

Mr. GILMAN. I think that you would all enjoy knowing more about it. I do not know how Senators or Congressmen can know all of the ramifications of this great body down here, and I should think it would be pretty hard to follow them.

Mr. CRAWFORD. Referring to page 10 of your report, what do you mean by the statement that there has been a natural tendency to turn to "this type of investment while we have unsettled conditions"—meaning United States Treasury and Government bonds and notes, of which you hold \$6,182,000?

Mr. GILMAN. Well, because of their liquidity, for legislation has made Government securities available to be deposited against circulation. I believe that a bank can take those Government bonds and, if the Federal Reserve bank so desired, they could under existing enabling legislation issue currency against Government bonds.

Mr. CRAWFORD. In other words, you have purchased Government bonds because of their liquid character, which enables those bonds to be converted into currency, so that you can in turn take currency and liquidate your liability to the shareholders if they desired currency, and that is the motivating cause which leads you toward Government bonds? Is that a reasonable statement to make?

Mr. GILMAN. It is a statement that we are treating demand deposits of the poorer classes of people, who are apt to come for their money, in such a way that, within reason, we can meet their demands, and to meet them we require the most liquid form of investment.

Mr. CRAWFORD. That is what you meant when you said that your first responsibility was toward your depositors?

Mr. GILMAN. That is right.

Mr. CRAWFORD. If Government bonds could not be converted into currency by reason of this machine which the Congress has set up, do you think that your institution would be as much inclined to invest in Government I O U's as at the present time?

Mr. GILMAN. I think that there would be a hesitancy on the part of management, due to the excessive premium that Governments are selling at, and the low yield, because fluctuation in the market could very easily wipe out the surpluses of the institution, with the proportionally large volume that we have, roughly of 20 percent of the investment.

Mr. CRAWFORD. What does your capital consist of?

Mr. GILMAN. There is no capital.

Mr. CRAWFORD. Let us put it in this kind of language. I did not make myself clear. Your capital consists of surplus and reserve funds, does it?

Mr. GILMAN. A guaranty fund and a surplus. The guaranty fund is created by law when a dividend is contemplated being paid. It specifies that not less than one-eighth nor more than one-fourth of the total deposits shall be taken from earnings and carried into a guaranty fund which is not subject to use by the management without a petition to and the assent of the Commissioner of Banks until that amount has reached 7½ percent, and after that is taken out—that is the first item out of the earnings, and the next items are expenses and taxes, and from the balance a dividend is declared, prorated with every dollar in their institution, and that is about as nearly as possible as it can be with safety for the balance of the money, and there is a schedule there that shows you how much was left over after paying dividends in 5-year periods.

Mr. CRAWFORD. When you make these distributions—and we will call them dividends—they are made pro rata to each share?

Mr. GILMAN. In proportion to every dollar in the institution.

Mr. CRAWFORD. Suppose that I am a shareholder and I walk into your office and say that I do not like your management, or the color of your eyes, and don't like the amount of salary that you draw, and I want to withdraw all of my savings, whatever is coming to me at that particular day, would you fix up a check for me?

Mr. GILMAN. I think I would give your currency, for fear that the check might go bad.

Mr. CRAWFORD. Do you know of any better protection than that anywhere in our whole economic, industrial, and financial system for a shareholder?

Mr. GILMAN. I will say that it has worked for 120 years.

Mr. CRAWFORD. Do you know of any better protection than that?

Mr. GILMAN. I do not.

Mr. CRAWFORD. When it comes down to dollars and cents?

Mr. GILMAN. I do not.

Mr. CRAWFORD. Do you know anyone who is a stockholder in United States Steel, or in the A. T. & T., or the American Sugar Refining Corporation, or any other corporation in this country, that can do that?

Mr. GILMAN. No.

Mr. CRAWFORD. You never heard of such a case, have you?

Mr. GILMAN. No.

Mr. CRAWFORD. Now, is it the State of Massachusetts which makes these institutions successful, as a general rule, or is it the management at the head of these institutions which operate under the umpireship of the State of Massachusetts and its laws, which in turn are put on the statute books by the people? The reason that I refer to Massachusetts is because the gentleman from Philadelphia has complimented the State of Massachusetts for the work that it is doing, and I am looking to this \$16,000 that you have referred to as your salary; I want to find out in my own mind if you are worth \$16,000 or 16 cents.

Mr. GILMAN. I have often wondered myself.

The State of Pennsylvania and the State of Massachusetts are running neck and neck. There is a running argument down there as to whether they had the first mutual savings bank, or whether Massachusetts had it. The Providence Institution for Savings, in Boston, claims to have been incorporated as the oldest bank, and so does a Philadelphia bank, but I feel that the mutual savings banks throughout the country, even in Seattle, where there is a large one, unique as it may seem, have done exceptionally good work, have handled themselves through dark and stormy days and have done credit to the system.

But as to Massachusetts, there they have, it is true, pioneered some in the laws regulating these banks. The legislature itself has been most jealous of the conduct of these institutions and acts that incorporated them. As I said, they definitely nail down what we can do. For instance, we cannot take brokerage—we cannot accept and charge for anything, make a brokerage charge, or anything like that; it is prohibited in the law.

Mr. SACKS. It is not prohibited in other States.

Mr. GILMAN. I would not want to say, because I could not be familiar with all of them, but our legislature prescribes what we can do.

Mr. SPENCE. How is your interest rate fixed?

Mr. GILMAN. By the trustees, from earnings. The Commissioner—

Mr. SPENCE. Is there any limitation in the law?

Mr. GILMAN. There is a restriction in the law—a limitation on the dividend.

Mr. SPENCE. What is the restriction in the law?

Mr. GILMAN. It would be unsafe for me to give you that from memory, and it won't take me but a minute to look it up.

Mr. Chairman, may I read this clause, section 47 of the Massachusetts statutes, which states:

The income of such corporation, after deducting reasonable expenses incurred in the management thereof, taxes paid, and the amount set apart for the guarantee fund, shall be divided among its depositors or their legal representatives at periods of not less than 3 months nor more than 6 months, as determined by its

bylaws, in the manner set forth in this section, and all dividends shall be declared at least every 6 months from the income which has been earned and which has been collected during the 6 months next preceding.

Mr. SPENCE. The relationship there between the bank and its depositor is that of debtor and creditor?

Mr. GILMAN. That is right.

Mr. SPENCE. You do not issue any stock?

Mr. GILMAN. No; not at all.

Mr. SPENCE. If a man wants to deposit money, what do you give him in return?

Mr. GILMAN. We give him a passbook.

Mr. SPENCE. Does a depositor immediately acquire an interest in the surplus fund when he makes a deposit?

Mr. GILMAN. That is right. He has an interest in the reserve there proportional to his deposit.

The CHAIRMAN. Will you be here tomorrow?

Mr. GILMAN. I can be.

The CHAIRMAN. In view of the fact that important matters are impending on the floor of the House, the committee would like to get there; and if you will be back—

Mr. GILMAN. I will be very happy to do so.

Mr. PATMAN. I have information from the F. D. I. C. that only two banks have come into their system since the Social Security Act was passed. One was the East River Savings Bank, of New York, and the other was the Paterson Savings Institution, of Paterson, N. J. Both of them came in the last 30 days.

Mr. CRAWFORD. And may I say that on December 31, 1937, the Federal Deposit Insurance Corporation was insuring deposits in 56 mutual savings banks, instead of the 35 mentioned by the gentleman from Pennsylvania.

(Thereupon, at 12:05 p. m., an adjournment was taken until Wednesday morning, May 24, 1939, at 10:30 o'clock.)

AMENDMENTS OF 1939 TO FEDERAL HOME LOAN BANK ACT

WEDNESDAY, MAY 24, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

Hearings on H. R. 5535 were resumed at 11:07 o'clock a. m., Hon. Henry B. Steagall (chairman) presiding.

Other members of the committee present: Mr. Williams, Mr. Spence, Mr. Ford, Mr. Brown, Mr. Patman, Mr. Gore, Mr. Mills, Mr. Martin, Mr. Luce, Mr. Crawford, Mr. Gamble, and Miss Sumner.

The CHAIRMAN. The committee will come to order.

Mr. Gilman, will you come around, please?

STATEMENT OF A. GEORGE GILMAN, CHAIRMAN, COMMITTEE ON FEDERAL LEGISLATION, NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS—Resumed

Mr. GILMAN. Mr. Chairman, and members of the committee—

The CHAIRMAN. Mr. Gilman, if you wish to supplement your statement or your discussion of yesterday with a preliminary statement, we would be glad to have you do so. If not, the members of the committee would like to interrogate you.

Mr. GILMAN. With your permission, Mr. Chairman, I would like to answer a question that I could not answer yesterday, as to what record the mutual savings banks had in Pennsylvania. The question was asked if the mutual savings banks in Pennsylvania did not have some institutions that failed, and I could not answer that question. I now can answer it, that there were no closings of mutual savings banks in Pennsylvania as the result of the banking holiday or following that down to date. I have ascertained that there were none.

The CHAIRMAN. Since you have made that statement, let me ask you a question. You say that there were no failures due to the banking holiday, or following the banking holiday. In that connection it would be well to state what the record is with respect to what the failures had been among mutual savings banks up to that time. That will make your statement complete.

Mr. GILMAN. I could make a more complete statement as to the record of all of the mutual savings banks since their first chartered institution.

The CHAIRMAN. That is perfectly all right, but if you have the information with respect to the State of Pennsylvania, my suggestion is that the statement be made complete in that way.

Mr. GILMAN. I have not the record back of the holiday. I just looked it up because it was in answer to a definite question as to what had happened during the banking holiday and immediately afterward.

The CHAIRMAN. You do not know before that time?

Mr. GILMAN. I cannot say what happened before that time.

The CHAIRMAN. Mr. Williams.

Mr. WILLIAMS. What is the record in the whole country, just in general? How many bank failures have there been? and, of course, I am referring now to the mutual savings banks.

Mr. GILMAN. I have checked up, and I find that in the period of 120 years—and in the early days there were not so many banks and the deposits were not as large—but the total losses that have been recorded, as to which there were recoveries which are not in the record, were \$10,000,000, which, against the deposit liability, is one-thousandth.

Mr. PATMAN. Wait, now. How do you determine that deposit liability?

Mr. GILMAN. As against the total deposits as of this date, roughly, \$11,000,000,000 on deposit.

Mr. PATMAN. And the losses have only been \$10,000,000?

Mr. GILMAN. The losses that have been recorded.

Mr. PATMAN. Do you mean actual losses or banks having deposits aggregating \$10,000,000?

Mr. GILMAN. No; it was determined that there would be \$10,000,000 actual loss.

Mr. PATMAN. But did you know that for 58 years in this country the total deposits in commercial banks that failed only aggregated \$1,000,000,000, and that the losses were very small in the banks that failed prior to 1920?

Mr. WILLIAMS. How many failures have there been? Do you have that figure?

Mr. GILMAN. I could not say.

Mr. WILLIAMS. But there has been a \$10,000,000 loss by reason of these banks having been closed?

Mr. GILMAN. That is right, and there are recoveries to follow that, because the method used has been to scale the deposits, scale down and recognize 75 percent, or some such figure, and then they are set up, and many of those institutions paid out in full, but over a period, not as of the date of closing, but they liquidated finally, many of them.

Mr. WILLIAMS. Of course, there is a decided difference, as I see it, between the mutual savings banks and the commercial banks. What is the relationship of the man who has money in a mutual savings bank to that bank?

Mr. GILMAN. The owner of an interest equal to his deposit.

Mr. WILLIAMS. Then he is a stockholder in that sense?

Mr. GILMAN. In a sense, yes; but he does not have a stock certificate. He has a passbook.

Mr. WILLIAMS. That does not make any difference, the form or the evidence of it. He is a stockholder in that sense?

Mr. GILMAN. That is right.

Mr. WILLIAMS. Can he also be considered as a depositor?

Mr. GILMAN. He is recorder as a depositor.

Mr. WILLIAMS. That, again, makes no difference what we call him. But what is he?

Mr. GILMAN. The statute calls him a depositor.

Mr. WILLIAMS. He is entitled to get his deposit out of that bank at any time? Is that right?

Mr. GILMAN. He is entitled to withdraw his deposit and the dividends that have been declared thereon at his demand, with the exception of a protection by statute that a bank may require a notice if a large number of depositors do come in—require a notice of a period not exceeding 90 days, and he files notice of a desire to withdraw. Then his claim is recognized in sequence as to the date of his notice. That is purely for protection in an extraordinary emergency.

Mr. WILLIAMS. How does it work in practice?

Mr. GILMAN. It works very well in practice, Mr. Congressman. It is rarely ever used. In my experience I have never used it. I have known of its being used in only one case, and that was a case of a defalcation in a small institution in an industrial community in which the fears cleared themselves up shortly and the people were called in and paid against their notices before the date of the notices.

Mr. WILLIAMS. Then, in a sense, he is a demand depositor?

Mr. GILMAN. He is.

Mr. WILLIAMS. And he can withdraw his account in practice at any time?

Mr. GILMAN. Yes, sir; he can.

Mr. WILLIAMS. You do not do any commercial banking business at all?

Mr. GILMAN. We do not, Mr. Congressman. It is forbidden by law for us to do any commercial work.

Mr. WILLIAMS. Do you have deposits in the commercial banks?

Mr. GILMAN. Our cash reserves, our accounts, checking accounts, or our cash reserves, for the convenience of the business, are carried in the national banks and trust companies within the Commonwealth. In our particular State we are restricted to the State boundaries.

Mr. WILLIAMS. Then, if I were a depositor in your bank, and I wanted to withdraw my deposit, and I came to the bank, would I get the cash or a check on the commercial bank?

Mr. GILMAN. It would be at your selection.

Mr. WILLIAMS. Either one?

Mr. GILMAN. Either one.

Mr. WILLIAMS. But you do carry on a commercial banking business with your correspondent?

Mr. GILMAN. Only for the safekeeping of currency that we may use in the operation of the business, for the purpose of paying people when they make loans, or paying people when they ask for a check for their deposit, or when you purchase securities and pay for them.

Mr. WILLIAMS. You do not create any bank credit in the sense that commercial banks do, when they make a loan?

Mr. GILMAN. I would say that we do not. The only amount of credit we could create would be the amount on deposit, which is our cash reserve that is carried in the commercial bank. To that extent, that would give them funds that they use, but our deposit with them is demand, and we are not allowed to make a time deposit in a commercial bank.

Mr. WILLIAMS. In case a person gets a loan from a bank to build a house, in what way do you pay him?

Mr. GILMAN. The moneys are advanced to him as the building erection takes place, in small payments for his convenience.

Mr. WILLIAMS. That is advanced out of your bank to him as the building proceeds?

Mr. GILMAN. That is right.

Mr. WILLIAMS. It is not placed to his credit, and it is not transferred to the commercial bank against which he can check?

Mr. GILMAN. No.

Mr. WILLIAMS. Or against which you can check and pay him?

Mr. GILMAN. There are several reasons for that. He only pays interest on that portion that you have advanced. If you advanced \$300, that would be at interest as against his part of his mortgage, and the interest is not all due until you advance all of the funds.

Mr. WILLIAMS. Then you do not give him a guaranty or a promise to pay him any fixed interest when he makes a deposit?

Mr. GILMAN. It is prohibited by statute.

Mr. WILLIAMS. In that respect, again, he is exactly like a common-stock holder; he takes the risk incident to the business, and suffers a loss or gets a gain just as the business prospers or declines?

Mr. GILMAN. That is correct.

Mr. WILLIAMS. He is a stockholder in that sense?

Mr. GILMAN. He is.

Mr. WILLIAMS. You have an insurance system of your own in the State of Massachusetts?

Mr. GILMAN. We have.

Mr. WILLIAMS. That is true, I believe, in New York.

Mr. GILMAN. They have a system in New York. I am not as familiar with that as I am with the one in Massachusetts.

Mr. WILLIAMS. With respect to the State system, is the insurance confined just to New York, say, or to Massachusetts?

Mr. GILMAN. The Massachusetts one is confined to Massachusetts and to mutual savings banks, and I believe the New York State system is confined just to New York mutual savings banks.

Mr. WILLIAMS. What I mean is, Are there any other State systems?

Mr. GILMAN. The cooperative banks, which are similar to the building and loan associations, which are State-chartered institutions, do a similar business and have an insurance fund.

Mr. WILLIAMS. Where?

Mr. GILMAN. In the Commonwealth of Massachusetts. They have an insurance fund.

Mr. WILLIAMS. That is not what I am asking you about. What I want to know is, Are there any other States outside of New York and Massachusetts that have a State insurance system for the mutual savings banks?

Mr. GILMAN. I know of no other.

Mr. WILLIAMS. It is just confined to the State of New York and to the State of Massachusetts?

Mr. GILMAN. That is right.

Mr. WILLIAMS. What does your insurance cost you there?

Mr. GILMAN. May I explain its construction? That will incorporate the rate.

Mr. WILLIAMS. Briefly; yes.

Mr. GILMAN. I will simply say that there are over two billions of deposits, and the legislature created a fund limited to \$20,000,000, or 1 percent.

Mr. WILLIAMS. One percent of what?

Mr. GILMAN. One percent of the deposits—1 percent of two billion. The total deposits are a little over \$2,000,000,000, and the legislature passed an act permitting the banks to create a fund up to \$20,000,000 for the protection of the deposits, subject to call as needed, and there was called one-quarter of that amount, or \$5,000,000, and that amount has been held since that time.

Within 2 months the legislature extended this fund for a period of years and incorporated that we should pay into that fund an annual assessment of one-sixteenth of 1 percent of the total deposits for an accumulation.

Mr. WILLIAMS. What is that fund now?

Mr. GILMAN. That fund at this date is \$5,000,000 that has been called, and there is \$15,000,000 subject to call, with dues or assessments to follow. Actually to date there is \$5,000,000, of which the larger portion is in Government bonds, and in one situation we have assisted a bank, and the \$15,000,000 all may be called.

Mr. WILLIAMS. Who administers this insurance fund?

Mr. GILMAN. Directors that are elected by the banks. Banks are entitled to a vote, one vote for each \$10,000,000 or a fraction thereof on deposit, and they elect the directors, 15 directors, which must be trustees of the mutual savings banks of the State of Massachusetts. Those 15 directors administer the fund, and the statute provides that the commissioner of banks shall participate in its administration.

Mr. WILLIAMS. Have you ever had occasion to use that fund?

Mr. GILMAN. Once.

Mr. WILLIAMS. To save any of your banks?

Mr. GILMAN. Just once.

Mr. WILLIAMS. In what way is that done?

Mr. GILMAN. The act prescribes that it is for insurance on deposits and not for the protection of any other surplus funds. It is to see that the depositor obtains 100 cents upon a dollar, and the situation is examined to determine if there is a situation where it is unsafe and unsound for them to continue to accept deposits, and then the commissioner of banks certifies to the directors that that situation exists, and they are empowered by the act to proceed to take the necessary steps to correct the situation, which means advancing money that is subject to the demand of the depositors, so that the assets of the institution in hand, as revalued, plus the amount advanced, shall be adequate to pay off those deposits.

Mr. WILLIAMS. Would they be authorized, in case they thought it was necessary or the conditions were such as to require it, to close an institution and liquidate it?

Mr. GILMAN. The act provides for that. They can liquidate the institution, or they can continue to operate it, or they can merge it with some other similar institution.

Mr. WILLIAMS. Under your law, are all the banks required to enter into this insurance fund?

Mr. GILMAN. The act of the legislature compels them, automatically made them members and subject to the demand of the assessment, and to supervision and control.

Mr. WILLIAMS. How long have you had that system in effect in Massachusetts?

Mr. GILMAN. The system started in 1932 as a liquidity fund purely, it being then the opinion that it was just a matter of a sound current cash position, but in 1934 the act was amended as an insurance fund, known as the mutual savings central insurance fund.

Mr. WILLIAMS. Your banks make loans, or investments?

Mr. GILMAN. That is right.

Mr. WILLIAMS. For what length of time do you loan? What are the limits? What is the minimum and what is the maximum, if you have such?

Mr. GILMAN. There really is no limit on the time a mortgage can be written off, due to the fact that a demand mortgage can be written and subject to quick demand and it might go on for a great number of years. The common forms are, today, the mortgage for 3 years, and often you have a period of more than 3 years, and unless it is a demand mortgage, it must be amortized, if it is a 60-percent loan, at 2 percent, and if it is a 70-percent loan, at 3 percent, and those loans cannot exceed \$25,000. The 70-percent loan is limited to \$25,000 and amortized at 3 percent.

Mr. WILLIAMS. That is a State law?

Mr. GILMAN. That is a State law.

Mr. WILLIAMS. Do you mean that you can have no real-estate loan in excess of \$25,000?

Mr. GILMAN. No; I am talking about the 70-percent mortgage. We cannot loan 70 percent of the committee's value for more than \$25,000, but we can take mortgages on 60 percent of the committee's value for more than \$25,000.

Mr. WILLIAMS. Is there any limit on the amount?

Mr. GILMAN. I know of none.

Mr. WILLIAMS. Are these demand mortgages your common practice?

Mr. GILMAN. In certain sections of our commonwealth, through long-established practices, the clientele desire a demand mortgage for the convenience of paying it off, whereas with a time mortgage they are obliged to wait for maturity, and there are certain clientele that desire a demand mortgage.

Mr. WILLIAMS. What is your usual mortgage?

Mr. GILMAN. The 3-year mortgage is the most common form.

Mr. WILLIAMS. And that mortgage, I assume, is, of course, always renewed?

Mr. GILMAN. It is extended; we issue an extension for a period of not more than 3 years, but that has to be made after physical examination of the property and a certificate signed by at least two members of the board of investment.

Mr. WILLIAMS. Do you engage in any of the 20-year mortgages?

Mr. GILMAN. On the 3-percent-amortized mortgage, we do; we have a few at 20 years, but they are not very common.

Mr. WILLIAMS. Then your mortgage periods range all the way from demand to 20 years?

Mr. GILMAN. They do. I might add, if I may, that many of the banks are approved mortgagees under the Federal Housing Administration, and, of course, they would have mortgages in keeping with that act.

Mr. SPENCE. How long do the demand mortgages run?

Mr. GILMAN. During the period that the property is kept in a wholesome condition and the interest and the taxes are paid, as well as any amortization payment that is required. In other words, it is subject to inspection once in 3 years, and that inspection is made in written form, signed by two members of the board of investment, as to its value and condition.

Mr. WILLIAMS. To what extent have your members participated in the F. H. A. program?

Mr. GILMAN. It would be a guess. I would say that, of the 192 mutual savings banks in Massachusetts, probably 35 banks are approved mortgagees. Throughout the country I could not say, but I think it is larger as you leave Massachusetts. I think that there are more of those banks elsewhere that are approved.

Mr. WILLIAMS. When you come to investments, what are your periods of investment? What length of time do they cover?

Mr. GILMAN. With securities?

Mr. WILLIAMS. Yes.

Mr. GILMAN. There is no limit on the time of a bond that is bought, with the exception of a utility bond. Bonds of utility companies cannot exceed 30 years in time; they have to be matured within 30 years or they are not eligible for investment, and they have to conform, of course, to many other requirements than that. Of course, naturally, the bonds of the United States Government and the bonds of municipalities are not restricted as to time. The railroad bonds are not restricted as to time.

Mr. WILLIAMS. What, about, is the average? How do these maturities run?

Mr. GILMAN. An attempt is made, of the total amount of securities owned, to have at least 30 percent of the total in what we call short maturities, from 1 to 10 years, and the next 40 percent in 15 to 20 years, and the balance of 30 percent in other maturities of longer term.

Mr. WILLIAMS. I was interested in looking over your list of securities here. Is that typical and usual of a mutual savings bank?

Mr. GILMAN. It is a fair sample of the mutual savings bank portfolio, with the exception, I might say, that we own more, I think, of municipal bonds, bonds of cities, counties, and towns, than some of the other banks.

Mr. WILLIAMS. I notice that you list them three ways, the par, which perhaps even I can understand, but I am not sure that I understand what you mean by book value.

Mr. GILMAN. That is the amount that we set them up at on the books of the institution.

Mr. WILLIAMS. Does that mean what you paid for them?

Mr. GILMAN. No. The premiums are immediately charged off, and they are written down to par or less, because we anticipate that they will not mature at more than par.

Mr. WILLIAMS. It is what you carry them on the books?

Mr. GILMAN. Yes.

Mr. WILLIAMS. Then your market value is the market value at which they are selling at the current time, on the market?

Mr. GILMAN. That is right.

Mr. WILLIAMS. I notice that you have very few losses, or that your market value in very few cases is below your book or par value, except in the case of railroad securities.

Mr. GILMAN. That is right.

Mr. WILLIAMS. Where the losses seem to be very material.

Mr. GILMAN. Pretty substantial. I am guessing, because I have not the figure in mind, but it is something like 20 percent.

Mr. WILLIAMS. I think that it will figure in your bank over \$700,000 depreciation.

Mr. GILMAN. Yes; we figured it at about \$850,000 within the last year.

Mr. WILLIAMS. Does that reflect generally the situation with reference to the railroad bonds in the country?

Mr. GILMAN. The general portfolios of railroad bonds will show that depreciation in the market values, and it is not only in the secondary bonds, but in the high-grade rails, that is, the underlying liens.

Mr. WILLIAMS. Is it still your policy to buy railroad bonds?

Mr. GILMAN. Not to add to the list, to any amount, but to select those issues, and if the railroads are going to be regulated, I would say that we would continue that practice. If not, we could not continue to maintain our interest in that form of security.

Mr. WILLIAMS. How many of those railroad bonds have you?

Mr. GILMAN. I have not the report, but someone can read that par value.

Mr. WILLIAMS. The par value is \$4,397,000, while the market value as of May 1, is it—

Mr. GILMAN. May 1, 1939.

Mr. WILLIAMS (continuing). Is \$3,520,000 plus, making a net loss or depreciation of \$752,000 on the railroad bond account alone. That seems to be the only place where you have any depreciation to speak of.

Mr. GILMAN. That is right, at the present time.

Mr. WILLIAMS. I mean now, according to your statement.

Mr. GILMAN. Yes.

Mr. WILLIAMS. To get back to the question of insurance, to the F. D. I. C. or the Federal Savings and Loan Insurance Corporation, do you see any difference in principle between insuring deposits in the commercial banks and insuring your stockholders in the mutual savings banks?

Mr. GILMAN. The difference that I would see is the difference in the risk that is involved. I think that the commercial bank risk, and the building and loan or savings and loan institutions and the mutual savings bank deposits are totally different kinds of risks. I think that they are not exactly alike.

Mr. WILLIAMS. It seems to me that there is perhaps a fundamental difference in them. It looks like in the one case you are insuring the stockholder, and in the other you are insuring the depositor. Isn't that true?

Mr. GILMAN. I would treat it according to the nature of the business. I would say that that was the difference in the risk. I think that we could allow that a commercial institution is set up to take risks that are not taken by the building and loan institutions, or the Federal savings and loan institutions, or the mutual savings banks.

Mr. WILLIAMS. In the commercial banks, you have a stockholder's interest, and the capital stock acts as the cushion between the depositor and the failure.

Mr. GILMAN. That is right.

Mr. WILLIAMS. That is not true of the others.

Mr. GILMAN. Well, they have the same protection in the guaranty fund and surplus which belong to the depositor.

Mr. WILLIAMS. But in the other case you are simply insuring the owner of the institution, it seems to me.

Mr. GILMAN. Well, the stockholder has at stake moneys for the protection of the deposits. His capital is subject to that liability, and the depositor in the institution that has the guaranty fund and the surplus which belong to the depositor, that money is subjected to loss.

Mr. WILLIAMS. In other words, your theory is that the guaranty fund in the mutual savings bank takes the place of the capital stock of the commercial bank?

Mr. GILMAN. It does.

Mr. WILLIAMS. As a cushion between the depositor and the failure of the bank?

Mr. GILMAN. Yes.

I have here something that might bring that out. I have this:

For your information, on April 30, 1923, the Higganum Savings Bank, of Higganum, Conn., completed its liquidation, and after all expenses were paid each depositor on record received \$1.75 for every dollar on deposit. This is accounted for by the small number that would be left at the time of final liquidation.

Mr. PATMAN. They did not get interest over the period of years?

Mr. GILMAN. During the process of liquidation they would not. If they liquidate, of course, they cease to pay the dividends.

That explains how the depositor participates. That is the capital fund, in a sense, as is the capital stock in a stock corporation.

Mr. WILLIAMS. How do your dividends range during the years, say, during the last 8 years?

Mr. GILMAN. The dividends prior to 1933 for about 3 years were 5 percent. In 1933 they were reduced to 4½ percent. Following 1933, by order of the commissioner of banks, the mutuals in the State were reduced to 3½ percent, and our dividends have been maintained at 3 percent for the last 3 years.

Mr. WILLIAMS. Of course, you have to earn it before you can declare the dividend?

Mr. GILMAN. It is required that it be earned and collected. It has to be collected and then received by the institution. We cannot anticipate earnings. They must be earned and collected.

Mr. WILLIAMS. And if you made 6 percent, you could raise the dividends?

Mr. GILMAN. That is right.

Mr. WILLIAMS. And if you went down to nothing, of course, you could not pay any dividend?

Mr. GILMAN. That is right.

Mr. WILLIAMS. In other words, the man who deposits money in the mutual is an investor or stockholder, in the sense that he rises or falls in accordance with the income of the institution.

Mr. GILMAN. Yes. You might be interested to know that the statute provides that you cannot reduce your dividend below 2½ percent without the permission of the commissioner of banking. He has to give that permission for you to reduce your dividend below 2½ percent.

Mr. WILLIAMS. Regardless of whether you made it or not?

Mr. GILMAN. You cannot reduce it. If you have not earned it you have to go to him and display the situation and have his permission to reduce that dividend; and if you pay in excess of 5 percent, you have to have his permission.

Mr. WILLIAMS. Suppose that you have not made the 2½ percent and you went to him and he would not give you permission to reduce below that. What would happen.

Mr. GILMAN. He can give permission to take a certain part from the undivided profits account. I would not consider it good practice, but that would be permissible if he gave that permission.

Mr. WILLIAMS. If that procedure were followed very long you would be bankrupt.

Mr. GILMAN. Yes; and the restriction to pay in excess of 5 percent also is one that is a good precaution, and then it is paid in the form of an extra and on his permission.

Mr. WILLIAMS. I would like to introduce into the record at this point some figures that I have been trying to get, which I think are authentic. They come from the Chairman of the Federal Deposit Insurance Corporation. The question has been asked here many times as to the number of mutual and stock savings banks that are in the country, and the number that are insured. I have a statement from Mr. Crowley that there are 545 mutual saving banks located in 17 States, and the deposits in 48 of these are insured in this Corporation, and I refer to the Federal Deposit Insurance Corporation. The deposits in 497 are not so insured.

No, on December 31, 1938, there were 328 institutions operating under special charters or under general statutes pertaining to savings banks, which are generally called stock savings banks, and the deposits of 282 of these banks were insured by the F. D. I. C., and the deposits in 46 were not so insured.

I think that that covers the field that we have been talking about for some time, as to the number of those banks and the number insured and not insured.

Mr. SPENCE. Mr. Gilman, the depositor in the mutual savings bank is a creditor of the bank, isn't he? He can demand his deposit?

Mr. GILMAN. He certainly can. He is a creditor of the bank.

Mr. SPENCE. And he is a stockholder at the same time?

Mr. GILMAN. To the extent of his deposit.

Mr. SPENCE. Because the very instant he deposits his money, he has a proportionate interest in the Corporation?

Mr. GILMAN. That is right.

Mr. SPENCE. And, on liquidation, even though he deposited it yesterday, he would participate in the distribution of the surplus and the guarantee fund?

Mr. GILMAN. That is right.

Mr. SPENCE. How do you build up your surplus and guarantee fund?

Mr. GILMAN. By the requirement in the statute, when the earnings are determined to be earned and collected, there must first be taken from those earnings not more than a quarter nor less than one-eighth of 1 percent of the deposits from the earnings, which must be put into the guarantee fund, which is not subject to be used and to absorb losses unless permitted and ordered by the Commissioner. That creates a guarantee fund, and by statute that procedure must be followed until your guarantee fund equals 7½ percent of the total deposits, and that must be done before a dividend is declared. Then, after the expenses and the taxes come out, the dividend is taken therefrom, and the balance is put into a profit-and-loss account, or surplus account, where the losses are absorbed, and where the credits are placed.

Mr. SPENCE. The surplus and guarantee fund is inviolate? When you put it in there, you cannot touch it?

Mr. GILMAN. The guarantee fund is inviolate, but the profit-and-loss account or surplus account is a working fund, and when those two together equal 15½ percent, then you must pay an extra dividend. They cannot be created greater than 15½ percent. After that time there must be extra dividends declared.

Mr. SPENCE. There is no limitation as to when the depositing member obtains his interest in the corporation? He obtains his interest as a stockholder from the very instant he deposits his money?

Mr. GILMAN. That is right.

Mr. SPENCE. And if liquidation comes the next day, he would be entitled to participate in the distribution?

Mr. GILMAN. To the extent of his deposit.

Mr. SPENCE. I notice that your resources are direct obligations, except one character of investment. You have a few million dollars in bank stocks.

Mr. GILMAN. Yes.

Mr. SPENCE. How does it happen that you purchased bank stocks?

Mr. GILMAN. There is some history connected with that. When these institutions were first established, their method of investment was to deposit some money in a commercial bank, and that was for the purpose of supplying money for commercial purposes to the community. In most if not all of the cases, the communities have been built up around these banks, that is, the communities and the banks have gone forward together.

Now, the commercial banks were created, and these banks were empowered to take stock in the commercial banks to create the commercial banks, but it was restricted to stock in national banks, in our particular case to the New England States, and to stock in trust companies within the Commonwealth, and it was also conceived that it would lend stability to that branch of banking and promote commercial banking within the Commonwealth, and these institutions are substantial stockholders in the commercial banks of the New England States.

Mr. SPENCE. How long have you owned these stocks?

Mr. GILMAN. Some of those stocks, to my knowledge, have been owned 35 or 40 years.

Mr. SPENCE. For a long time you were subjected to double liability on that stock?

Mr. GILMAN. That is right.

Mr. SPENCE. What is your relationship with those banks? Is there any particular relationship with the banks that would make it advisable to hold the stock of the national banks?

Mr. GILMAN. We have no connection ourselves. We are customers of the bank usually, with a commercial deposit for our own convenience, and to participate in the accrual of bank stock for the benefit of the depositors over a period of years, and those investments have proved to be lucrative investments for the savings banks.

Mr. SPENCE. Do you borrow from the commercial banks?

Mr. GILMAN. No; we are not allowed to borrow money other than to pay depositors. It is prohibited.

Mr. SPENCE. Do those banks pay you on your deposits?

Mr. GILMAN. They did until the Banking Act prohibited it, and they are not allowed now. We had a preference for a short time of a small percentage.

Mr. SPENCE. All of this stock in those banks is in national banks?

Mr. GILMAN. No; trust companies within the Commonwealth, and national banks within the New England States.

Mr. SPENCE. What proportion of the stock is in trust companies?

Mr. GILMAN. It is very small, because we have not many. We have a few large trust companies, mostly institutions doing trust work.

Mr. SPENCE. When you lend on a building contract, I suppose that you adopt the course followed by the building and loan associations, that you advance your money as the building progresses?

Mr. GILMAN. Yes.

Mr. SPENCE. And you see that the liens for labor and material are paid?

Mr. GILMAN. Yes; we watch for mechanics' liens, and see that they are paid.

Mr. SPENCE. In other words, you do business practically the same as the building and loan associations do in the field that they operate in?

Mr. GILMAN. Yes; only that we have about 50 percent of our deposits in mortgages, so that we are about half in that mortgage business and half in securities. Our amount in so-called construction loans is small compared to the building and loan associations or to the cooperative banks, because that is their real field, and we do not do a great deal of that, although if a customer requires it, we grant a loan and the money will be advanced as the building progresses.

Mr. SPENCE. What interest do you get on your construction loans?

Mr. GILMAN. We now get 5 percent on construction mortgages.

Mr. SPENCE. Has that been your usual practice?

Mr. GILMAN. In the past, I would say that 6 percent was the rate.

Mr. SPENCE. What is the limitation by law?

Mr. GILMAN. There is no limitation.

Mr. SPENCE. There is no usury statute in Massachusetts?

Mr. GILMAN. There is some form of statute as to usury which I would hesitate to try to explain, because I would be totally uninformed. I just cannot tell it, but I know that 6 percent is the amount that the mutuals have been able to get.

Mr. SPENCE. Are there any other charges to the borrower?

Mr. GILMAN. No other charges, with the exception of the cost of examining the title, and of making the mortgage and note, and recording them.

Mr. WILLIAMS. Will you tell me as to whether or not you think the so-called legal list in which you may invest should be broadened?

Mr. GILMAN. Mr. Congressman, that is a very debatable question. The interest of the depositor comes first, and in broadening the list it is dangerous—it is needed very much, but an attempt to broaden it would indicate that we would have to go into industrial securities, which I personally am not satisfied are dependable to secure thrift deposits or savings deposits, which by and large are small deposits, of the small person of limited means.

Mr. WILLIAMS. Who is going to finance it?

Mr. GILMAN. Who is going to finance industry?

Mr. WILLIAMS. Yes; especially small industry.

Mr. GILMAN. Well, small industry would probably not put out bonds, so that we could not probably do that, but the commercial banks have handled the financing of industry, and I believe should, because they are close to the industrial picture. I would not consider that savings bank men would be well informed enough to know industry.

Mr. WILLIAMS. You would not favor, would you, the commercial banks as such financing long-time capital for industry?

Mr. GILMAN. Mr. Congressman, they do that now. They buy industrial bonds now, and they make loans of a longer period than they did prior to 1933 for industry. R. F. C. sponsorship has aided their loaning to industry.

Mr. WILLIAMS. What would be the matter with your banks entering that field? Don't you think that that is a very useful thing to do?

Mr. GILMAN. I think it is very useful, but I do think that industry is subject to more dangers than are the investments in utilities or in municipal bonds and other types of securities. The industrial bond fluctuates with the volume of business, more so than does the utility. The rail, to my mind, is the limit that we should go in connection with industry, and I think it is a situation which by regulation could be improved.

The CHAIRMAN. You would have been better off if you had eliminated railroad securities from your list of investments, would you not?

Mr. GILMAN. It would have been advantageous to the institution—not from an earning point of view, but from safety of principal.

Mr. WILLIAMS. Don't you believe that investment in the common stocks of a sound, well-regulated industrial concern is as safe as bank stock?

Mr. GILMAN. I question that being so, because of the regulations now that are governing the commercial banks and the national banks. I think that their regulation is the best it has ever been, and I think it is exceptionally fine, even to the point of not permitting destructive competition to exist which might injure any institution, as well as the controls of management, which are so much better than they were, and the matter of paying dividends and the matter of paying interest on deposits have now been regulated for the interest of the people that patronize the institutions and for the stockholders. It is a better institution as a result of that regulation.

Mr. WILLIAMS. Their stocks are secure by reason of their insurance in the F. D. I. C.?

Mr. GILMAN. It is because of the supervision that the F. D. I. C. gives. It makes their stock investments more safe.

Mr. SPENCE. Are any of the officers in the bank whose stock you hold active in the management of your institution?

Mr. GILMAN. No, sir; that is not allowed. We are restricted very much that way, and none of the management of any bank where we have stock have any connection with our institution.

Mr. SPENCE. None of them are in the active management of your concern?

Mr. GILMAN. No.

Mr. SPENCE. That is all that I have, Mr. Chairman.

The CHAIRMAN. Mr. Patman.

Mr. PATMAN. Mr. Gilman, I notice that you said that the banks are safer because of the supervision of the F. D. I. C. Don't you think that that same thing would apply to the mutual savings bank, if it makes the commercial banks safer? Why wouldn't it make the mutual savings bank safer?

Mr. GILMAN. I think it would. I think it would lend to their management, and those that are insured in the F. D. I. C. have the benefit of that.

Mr. PATMAN. I have made a rough guess of the number of people who are served by the mutual savings banks. I estimate that about 15,000,000 people, not more than that, are served now by mutual savings banks. There are about 15,000,000 people living in the territories and in the areas served by these banks. Do you consider that to be a fair estimate?

Mr. GILMAN. Yes; I would. The only thing is that there is a duplication there which you could not figure. We have about 1 borrower to 15 depositors. That is the ratio.

Mr. PATMAN. I say that about 15,000,000 people are served by the mutual savings banks.

Your main objection to this bill is that it is encouraging institutions to engage in the business that you are already serving, and to accommodate people that you are serving; in other words, instead of building up new institutions, that your institutions should be let alone to serve the people in the same way that these Federal savings and loan institutions now serve them. Am I correct in that or not?

Mr. GILMAN. No, sir. I emphasized in my testimony yesterday that I had at no place criticized these Federal savings and loan associations, other than the fact that I thought that they should conform to regulations established by the Congress for their conduct, and one of the phases was the establishment of them where there were no adequate banking facilities already existing.

Mr. PATMAN. You want one agency to pass on the question whether a bank is needed, and include in that Federal savings and loan associations and building and loan associations?

Mr. GILMAN. I am simply going by that part of the Act that covers that, that I have here.

Mr. PATMAN. If you would like to put that in the record, it would be all right, but I am not really referring to that.

Mr. GILMAN. The point I would make would be that part that says that unless the same can be established without undue injury

to properly conducted existing local thrift and home financing institutions—I think that was the intent of the act.

Mr. PATMAN. That being true, your associations have been operating over one hundred years, haven't they?

Mr. GILMAN. They have.

Mr. PATMAN. How long?

Mr. GILMAN. One hundred and twenty years—that is, the oldest one.

Mr. PATMAN. And they are now serving about one-ninth of the people?

Mr. GILMAN. That is right.

Mr. PATMAN. According to that, in the next 100 years they would be serving a little more if they progress in the future as they have in the past? It would possibly be a thousand years before they covered the entire country, if they progressed in the future as they have in the past?

Mr. GILMAN. I did not hold out that they would cover the country.

Mr. PATMAN. You did not have that in mind?

Mr. GILMAN. No; but the main object, in connection with the chartering, is that they will serve the communities where they are established on a basis of fair competition, and the kind of competition that is not destructive.

Mr. PATMAN. Mr. Williams appeared here the other day for the same organization that you are appearing for, the American Bankers Association, and he wanted to leave so that I did not get to ask him some questions that I wanted to ask him, but I think that I will ask you these questions.

Mr. Williams brought out that these Federal savings and loan associations are deceiving the people. Do you share that view, that they are deceiving the people in their advertising?

Mr. GILMAN. Yes; to the extent of some of the advertising which I happened to see when a large volume of it was delivered to the Home Loan Bank Board and left with them, in cases where they advertise Federal savings and loan banks, as guaranteed by the United States Government.

Mr. PATMAN. Do you think that that is deceptive?

Mr. GILMAN. I do not think that they are guaranteed by the United States Government.

Mr. PATMAN. Anyway, those phrases that you just named, you consider deceptive?

Mr. GILMAN. I think that they could be misleading, and they were to me.

Mr. PATMAN. That is right. What do you consider the word "mutual" to mean?

Mr. GILMAN. That each and every depositor shares equally in the institution as to its earnings, in the proportion—

Mr. PATMAN. It really means a cooperative?

Mr. GILMAN. To an extent, yes, it is a cooperative.

Mr. PATMAN. And that implies some voice in the management?

Mr. GILMAN. It does.

Mr. PATMAN. But they do not have it—that is, the depositors?

Mr. GILMAN. Only as I explained to you yesterday.

Mr. PATMAN. Yes. I would not like for you to go over that again. But the statement was made and the inference was left that you

people are here representing 45,000,000 depositors in the mutual savings banks. What I wanted to know is, where did you get your authority to represent those depositors? They did not elect you, and they had no voice in the management of these institutions nor in the selection of their officers. Evidently they have not attended any meetings of associations, or conventions.

So how do you get the authority to represent those people?

Mr. GILMAN. In my own individual case, in the first part of May, at a meeting of the council of administration of the National Association of Mutual Savings Banks, I was authorized to attend these hearings in their behalf, and to express such views as I have given, by vote, and they are the governing body of that association, elected by the membership.

Mr. PATMAN. Elected by the membership?

Mr. GILMAN. By the membership.

Mr. PATMAN. I know, but I am talking about the depositors, and not about the members, necessarily. How do you get authority to speak for the depositors? Just explain that?

Mr. GILMAN. By virtue of the fact that I am an executive officer of that institution.

Mr. PATMAN. I know, but the depositors do not have anything to do with your selection.

Mr. GILMAN. When the depositor made his deposit, he signed a statement to abide by the rules and regulations of the institution. When he made his original deposit he consented to the bylaws and the rules and regulations of the institution.

Mr. PATMAN. And therefore he is bound by what you say? He is subject to the management; and whenever he makes a deposit, he thereby agrees that you can vote for him in any way you want to?

Mr. GILMAN. As far as the institution is concerned.

Mr. PATMAN. And whatever you do in the future, he recognizes that as being his view, and you have a right to speak for him?

Mr. GILMAN. In matters pertaining to the institution; yes.

Mr. PATMAN. And, for that reason, you consider that you have a right to speak for those depositors?

Mr. GILMAN. I do at the institution that I represent.

Mr. PATMAN. Very well.

Now, on yesterday you said something about investing in United States Government bonds, because they were more liquid and you could get money any time you wanted to—that is right, isn't it?

Mr. GILMAN. That is right.

Mr. PATMAN. You do not belong to the Federal Reserve System, do you?

Mr. GILMAN. No.

Mr. PATMAN. How would you get money on these bonds in event of an emergency?

Mr. GILMAN. By the fact that we have, as has been brought out in this hearing, correspondent banks who are members of the Federal Reserve System. We are their clients. They represent us, and they will take our Government bonds—

Mr. PATMAN. So you get the benefit of the Federal Reserve System through your correspondent?

Mr. GILMAN. We do.

Mr. PATMAN. But suppose that in the event of an emergency everybody wants to sell bonds, and your correspondent wants to sell bonds, too, and everybody else wants to sell bonds, how would you cash them and get 100 cents on the dollar?

Mr. GILMAN. I assume that it would be the same situation as we experienced in 1933, a duplicating of that, when apparently there was a lack of currency, because the mutual savings banks of Massachusetts had plenty of Government bonds, but it just was not convenient to get cash.

Mr. PATMAN. And you would be in that same position in event of an emergency?

Mr. GILMAN. I think all institutions would be.

Mr. PATMAN. So that they are not so liquid as you would have us believe they are?

Mr. GILMAN. No, sir; but they are the best in the world that I know of.

Mr. PATMAN. I agree with you that we should not have deceptive advertising and that we should not use deceptive names, but it occurs to me that your name, "mutual," is just a little bit deceiving. But I shall not comment on it. But your own institutions up there in Massachusetts, don't they advertise 100 percent deposit insurance?

Mr. GILMAN. They are.

Mr. PATMAN. Now, what does that imply to your mind? What kind of insurance is that?

Mr. GILMAN. That the deposit is 100-percent insured, the total deposit.

Mr. PATMAN. By whom?

Mr. GILMAN. By the institutions themselves, by the money that they have advanced.

Mr. PATMAN. I know, but you do not say that in the ads.

Mr. GILMAN. Our ad says—

Mr. PATMAN (interposing). I know, but I have a copy of one before me.

Mr. GILMAN. I can only say that we are insured under an act passed by the legislature for that purpose.

Mr. PATMAN. We are talking about deceptive advertising. Now, here is a bank in Massachusetts, and I have a photostatic copy of their ad. It says that it is Worcester County's Institution for Savings at the corner of Main and Foster Streets, with \$50,000,000 on deposit, that it is safe and dependable, 110 years old, and has 100 percent deposit insurance, and \$5,000,000 surplus.

Now, if I were going along the highway and if I were to read that big sign on the roadside, I would think that that meant Federal insurance, wouldn't you?

Mr. GILMAN. No, sir; I would not.

Mr. PATMAN. Don't you think that since so much advertising is being given to Federal deposit insurance and to Federal savings and loan insurance, and the people being insurance-minded, and believing that the Government is behind these institutions, that your case represents an exception to the extent that you ought to make it plain that it is not Federal insurance?

Mr. GILMAN. Mr. Congressman, I doubt very much if the Government would permit us to have that stated on there, to use the word "Federal" when it is not.

Mr. PATMAN. No; you are just taking the other side. I am talking about the State side now. You leave the impression in that ad on that billboard, at least in my mind, that it is Federal insurance, because over the radio you hear about it, and in the newspapers you hear about it, about the Federal Government, through an instrumentality, protecting depositors in banks, and about the Federal Government, through an instrumentality, protecting savings and loan associations, and then you put up a big sign saying "100-percent deposit insurance." What other impression could you have except that the Government is behind that institution?

Mr. GILMAN. Well, I think that that would be a personal interpretation.

Mr. PATMAN. Don't you think that that is more deceptive and misleading than anything else that you might say about the Federal savings and loans?

Mr. GILMAN. I feel that the words stating that the Government guarantees the deposits is misleading.

Mr. PATMAN. I think so, too; I agree with you, but at the same time I think that the Government is behind these institutions, and I think Mr. Fahey the other day expressed the views of many people in connection with this Government when he said that the Government is really behind them and the Government will not let them fail. The Government cannot afford to, although it is an instrumentality of the Government that is backing them up. But here is a case where not even a Federal instrumentality is backing them up, but an insurance fund of only \$5,000,000, with liabilities of more than \$2,000,000,000. That represents about one-fourth of 1 percent, doesn't it?

Mr. GILMAN. We have more funds than that, because we have the ability to call on \$15,000,000 more.

Mr. PATMAN. I am talking about the actual fund.

Mr. GILMAN. Actually paid in?

Mr. PATMAN. Yes; and you have no distribution of the risk, do you?

Mr. GILMAN. All one class of risk.

Mr. PATMAN. Not as to class but as to geography. Don't you think that you need a geographical distribution of risk in order to make it the safest?

Mr. GILMAN. I would not think so. I think that it is a preferred risk, and that it is within one State.

Mr. PATMAN. A few days ago a representative of the same organization you represent said that geographical distribution was very necessary and highly desirable. That was the gentleman from the Dime Savings Bank in Brooklyn—Mr. Johnson, I believe his name was.

Mr. GILMAN. Mr. George C. Johnson.

Mr. LUCE. There is one question that I have to ask.

I have heard the allegation that national banks can exercise some share of control of the savings banks. Is that possible under the laws of Massachusetts?

Mr. GILMAN. It is not possible.

Mr. PATMAN. Is the reverse possible?

Mr. GILMAN. It is not.

Mr. PATMAN. For savings banks to have some control over national banks?

Mr. GILMAN. Only to the extent of their stock, and it is a very limited amount that they can own.

Mr. PATMAN. Do you know of any bank that is controlled by the savings banks in your State?

Mr. GILMAN. If all of the stock of all of the savings banks were pooled in one place, they would have control.

Mr. PATMAN. Of how many banks in your State?

Mr. GILMAN. I would say two.

Mr. PATMAN. Which ones?

Mr. GILMAN. The Second National Bank of Boston, and the Merchants National Bank of Boston.

Mr. PATMAN. What about the Day Trust Co.?

Mr. GILMAN. Well, they probably have that.

Mr. PATMAN. That would be three.

Mr. GILMAN. That is a small trust company.

Mr. PATMAN. And possibly others?

Mr. GILMAN. I know of no others.

Mr. PATMAN. But those three are controlled by the savings banks?

Mr. GILMAN. If they should pool their stock interests.

Mr. PATMAN. And voted together?

Mr. GILMAN. And voted together.

Miss SUMNER. Could I ask just one question, for the record?

It seems to me, the way you described this paper that they sign when they deposit the money, giving you the right to represent them, that that is nothing more or less than a power of attorney.

Mr. GILMAN. They subscribe to the bylaws of the institution, regulating the institution.

Miss SUMNER. And that gives you the right to represent them?

Mr. GILMAN. It does.

Miss SUMNER. In what respect would that be different from a power of attorney?

Mr. GILMAN. It is confined purely to the matters pertaining to the institution. It has no other powers other than as to the deposits and the regulations of that particular institution.

Miss SUMNER. So, by whatever name you call it, it is just a power of attorney, isn't it?

Mr. GILMAN. I am not a lawyer, and I do not know that it is. I know that they subscribe to the bylaws which govern the institution.

Mr. PATMAN. But your bylaws say nothing about your appearance here to represent them?

Mr. GILMAN. No.

Mr. PATMAN. Or to speak for them.

Miss SUMNER. Are your trustees all supposed to be depositors? Do they own stock?

Mr. GILMAN. They usually are depositors, but there is no stock.

Miss SUMNER. In other words, their interests are identical with the interests of the other depositors?

Mr. GILMAN. That is right.

Miss SUMNER. And they are in that respect similar to other people who go into courts of law and considered under the law to represent people with similar interests, simply on account of identity of interest?

Mr. GILMAN. Yes.

Mr. PATMAN. I only have two short questions, which will not take long if your answers are brief.

Mr. GILMAN. All right.

Mr. PATMAN. About this insurance corporation, in what respect is your local protection different from that of the States in which State insurance funds have failed? In a number of States, the State insurance funds have failed. I can mention my own State, Texas, Kansas, and many others.

Now, in what respect is your fund different from the set-up in those States?

Mr. GILMAN. In that the institution that is being insured already has a fund for its protection created by law, in a guaranty fund and surplus in addition to the assets of the institution and along with it they have the insurance fund.

Mr. PATMAN. Of course, some of the other States, and I know my own State, had those things.

Mr. GILMAN. I recall the history of that.

Mr. PATMAN. Now, you say that only one mutual savings bank had closed in a long time. I notice that in 1930 there were 196 in Massachusetts, and now there are only 193 mutual savings banks.

Mr. GILMAN. That was the result of consolidations. Small banks were consolidated to cut down the number. We are an industrial State, and there is overbanking in our particular type of institution.

Mr. CRAWFORD. I had a number of questions, but I don't want to take up the time to go into them, except one, on this question of representation. Suppose that I go to one of these banks in Massachusetts and sign this slip that you spoke about. How could those bylaws be changed?

Mr. GILMAN. On a vote, the notice being published in the daily paper. At a meeting of the trustee, they would pass on the bylaws, and the meeting would be called on notice given to that effect. It is quite a lengthy process, and it must be published in the paper.

Mr. CRAWFORD. You are not quite as severe on the depositors as the Department of Agriculture is on the farmer. He signs in advance that he will conform to the regulations now issued, and to any that may hereafter be issued.

Mr. GILMAN. No; we do not do that.

Mr. PATMAN. The Government is not a private institution.

Mr. CRAWFORD. The individual is circumscribed just the same.

Mr. PATMAN. The Government carries out its promises, always, but a private institution cannot always carry out its promises.

Mr. MARTIN. Under the laws of Massachusetts, are savings banks permitted to carry their assets at the market value?

Mr. GILMAN. There is no particular law, but it is a requirement of the department that they be carried at cost, or lower.

Mr. MARTIN. I notice that you carry yours at the market value.

Mr. GILMAN. No; that is set up for comparative purposes. This is a market statement of the condition as of that day, but those schedules will give you the book value. It is done to give a value for the assets.

Mr. PATMAN. Which column represents what you paid?

Mr. GILMAN. The book value represents what is paid, and there is a small premium that we charge off, because we have to anticipate that that premium will exhaust itself.

The CHAIRMAN. We thank you.

(Thereupon, at 12:15 p. m., the committee adjourned, to meet Thursday morning, May 25, 1939, at 10:30 o'clock on another matter in executive session.)

AMENDMENTS OF 1939 TO FEDERAL HOME LOAN BANK ACT

FRIDAY, MAY 26, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

Hearings on H. R. 5535 were resumed at 11:05 a. m., Hon. Henry B. Steagall (chairman) presiding.

Other members of the committee present: Mr. Spence, Mr. Ford, Mr. Brown, Mr. Patman, Mr. Gore, Mr. Martin, Mr. Hull, Mr. Monroney, Mr. Wolcott, Mr. Luce, Mr. Crawford, Mr. Simpson, Mr. Johnson, and Mr. Kean.

The CHAIRMAN. The committee will come to order.

Mr. Fahey is with us this morning to make a concluding statement on this bill. He has said that it will be necessary for him to leave the committee at about half past 11, so that I hope that we will not consume any time unnecessarily in delaying him.

STATEMENT OF JOHN H. FAHEY, CHAIRMAN, HOME LOAN BANK BOARD

Mr. FAHEY. Mr. Chairman and gentlemen of the committee, you have been most generous in giving us time to present to you our views with reference to this legislation, and I dislike to take any more of it. There are, however, a number of facts relative to statements presented by those who have appeared in opposition to this bill to which we would like to draw your attention.

The real point of the objections raised by those who oppose House bill 5535 is that there has been indiscriminate chartering of Federal savings and loan associations and that the granting of such charters represents a menace to mutual savings banks and the savings departments of commercial banks.

This complaint comes particularly from New York State and Massachusetts. It is not justified by the facts. May I direct your attention to the fact that in the entire country only 146 Federal savings and loan associations have been chartered since July 1, 1937—almost 2 years. Of these, 129 charters were issued to institutions which wished to convert from State to Federal charters and of course there was no addition to the number of new institutions in these cases. During this same period only 17 new institutions were chartered in the country. Ten of these were granted prior to January 1938. Only 7 new charters have therefore been granted in the entire country in the last 15 months. The Board is now and has been

exercising great caution in the granting of new charters, and they are not issued in areas where there is no need for them or where there are plenty of institutions able to supply the need for mortgage money on reasonable terms. During 1937 and 1938 new commercial banks and new branches of such banks were opened in the country to the number of 274, while during these 2 years a total of but 32 Federals were opened.

May I say also that in the period from 1933 to 1938, following the bank holiday, 1,098 new commercial banks have been opened in the country, and 379 branches of commercial banks. In the same period, the total of new Federals in the United States has been 719.

Because the burden of protest comes from New York and Massachusetts, let us examine the facts as to New York and Massachusetts. As of March 31, 1939, there were 64 Federal savings and loan associations in the State of New York. Fifty of these associations converted from State charters. Only 14 new associations under Federal charter have been organized in New York State. Four were chartered in 1934, 4 in 1935, 4 in 1936, and but 2 in 1937. No new charters have been granted in New York State since 1937.

That these new Federal associations were wanted and had a real opportunity to render valuable services is shown by their public acceptance. The assets of these 14 associations at the time charters were granted amounted to \$270,400. On April 30, 1939, the share capital had increased to \$19,735,300, or a gain of 7,221 percent. All 14 of these new Federal associations had been in operation since January 1, 1938. From that date through April 30 of this year the first mortgage loans granted by them increased from \$16,058,100 to \$25,798,800, or a gain of 60.7 percent during this 16-month period. No lending institutions in the State of New York showed any such corresponding gain.

The total assets of all 64 New York Federals at the date charters were granted amounted to \$89,095,800. On December 31, 1938, their combined assets totaled \$108,991,100, an increase in dollar amount of \$19,894,300, or a gain of 22 percent. The figures in both cases represent new savings entrusted to them by the public and almost entirely by workers. During this same period, that is from December 1, 1934, to December 31, 1938, the assets of the mutual savings banks of New York increased from \$5,857,013,000 to \$6,195,878,000, an increase in dollar volume of \$338,865,000, or a net increase of approximately 5.8 percent.

Surely there is here no evidence that Federal savings and loan associations in New York State, while recording gains which are significant are undermining or threatening to undermine the business of the mutual savings banks of New York State.

On March 31, 1939, there were 26 Federal savings and loan associations in the Commonwealth of Massachusetts. Three were chartered in 1935, 3 in 1936, and 20 in 1937. None have been chartered in that State for approximately a year and a half. All of the Federal associations in Massachusetts formerly operated under charters issued by the State. There has been, therefore, no increase in the number of institutions in the State of Massachusetts as a result of the granting of Federal charters.

The assets of all 26 Federal associations in the State of Massachusetts at the date of their charters amounted to \$76,216,800 and on

December 31, 1938, their combined assets totaled \$85,220,100. This was an increase in volume of \$9,003,300, or approximately 12 percent. During the same period the assets of the 195 mutual savings banks in the State increased from \$2,258,625,000 to \$2,377,139,000, or 5.2 percent. There is no evidence here that the conversion of cooperative banks in Massachusetts to Federal charters represents a threat to the mutual savings banks of Massachusetts.

I might add also, as to the suggestion of overbanking in the State of Massachusetts, that during the period since 1929, the number of cooperative banks, including Federals, has declined. In 1929 there were 227 such institutions in the State of Massachusetts. There are now, including Federals, 211.

The same situation applies in New York State. In 1929 there were 309 building and loan associations in the State of New York. There are now 280.

As to the suggestion that the development of Federals in any respect has threatened the commercial banks, the record as to savings in the period since 1929 carries its own story. In 1929 the commercial banks of the United States, including both national and State, had a total of savings deposits in their savings departments of \$15,139,333,000. This figure dropped gradually until 1933, when there was a low of \$8,137,835,000. At the end of 1938 the figure had risen to \$12,291,525,000.

There is, as in the case of the mutual savings banks, no evidence here that Federal associations are interfering with or undermining their business. As a matter of fact, undoubtedly because of the prompt initiation of the Federal Deposit Insurance Corporation, the commercial banks of the country got back their savings faster than any other class of institution in the country.

It might be said in this connection that the commercial banks of the country have not until recent years employed their savings or any of their funds on any large scale in the mortgage field. Not until the enactment of the Federal Reserve law in 1913 were they permitted to make mortgage loans for any great length of time. There was no disposition on their part to make urban home mortgages. Indeed, at the meeting of the American Bankers Association in Boston in 1913, when the report of the American Bankers' Association Committee was submitted, and the suggestion was raised that the act should permit them to make mortgage loans for as long as 5 years, there were loud protests against any such proceeding, and the idea was not approved by the Association. Up until 1922, despite the amendments to the act permitting the making of mortgages, the commercial banks of the country held only \$900,000,000 of mortgages. In the period immediately after 1922, in a very few years, the figures rose to 2½ billions of dollars. It dropped precipitantly during the panic period, but has now returned to about \$1,600,000,000. Of this approximately \$619,000,000 is represented by insured mortgages, although during the same period the commercial banks sold \$164,000,000 of the insured mortgages which they made, and took merely the brokerage in connection with them.

The mutual savings banks, having in their possession approximately 11 billions in savings, have about 2½ billions of what may be called home mortgages or residential mortgages.

Neither the commercial banks nor the mutual savings banks, until the passage of the F. H. A. legislation, were accustomed to making amortized mortgages or long-term mortgages of any kind. They invariably restricted their lending to 50 or 60 percent of the value of the property and for terms of 3 or not more than 5 years; and, notwithstanding the development of so-called building and loan business throughout the country, and the world, and the widespread acceptance of the amortized mortgage as the soundest method of financing home ownership, neither the mutual savings banks nor the commercial banks were disposed, until the legislation was passed insuring them a profit when they made long-term amortized mortgages, to make them at all on their own account.

I have made some references to the situation in the State of New York as to charters. I do not think that it is necessary to go into that situation much further. The figures which I have quoted to you relative to the record of chartering and the figures of the Federal associations in that State give you, I think, facts which you will be disposed to consider.

I might, however, refer to the fact that the Home Owners' Loan Act, the original act, provided for the issuing of charters to local mutual thrift institutions in which people may invest their funds and in order to provide for the financing of homes, and the Board, under the terms of the act, was directed to give "primary consideration to the best practices of local mutual-thrift home-financing institutions in the United States."

In developing the charters for these institutions, we not only drew on the experience throughout the country, and the world, for that matter, and developed what is generally accepted as the soundest and best charter which has yet been evolved in the country, but in that process there was incorporated in the charter a large number of provisions which have been in operation in the State of New York from the beginning as governing the operation of building and loan associations.

It is therefore rather difficult to follow the Commissioner of that State when he objects to provisions in the charters of the Federal associations which for years have been incorporated in the charters of the associations of his own State.

Now, some references have been made here to the name "Savings." I think it is unnecessary to dwell upon it at any length, but may I say that there just is no consistency whatever in the use of the word "savings" or "banks" in connection with the operation of thrift institutions of various types in the United States.

There has been a theory on the part of some of the mutual-savings-bank people that there was some kind of a monopoly inherent in the word "savings," and that it applied only to their institutions. The agitation some years ago went so far as to bring about the passage of a law in the State of New York, under which only mutual savings banks and savings and loan associations were permitted to use the word "savings" at all. That statute, which is a part of the New York banking law, says that—

No bank, trust company, national bank, individual partnership, unincorporated association or corporation other than a savings bank, or a savings and loan association, shall make use of the word "saving" or "savings" or their equivalent in its banking business, or use any advertisement containing the word

"saving" or "savings" or their equivalent, nor shall any individual or corporation other than a savings bank in any way solicit or receive deposits as a savings bank; but nothing contained herein shall be construed to prohibit the use of the word "savings" in the name of a savings and loan bank in the State of New York, or in the name of a trust company all of the stock of which is owned by not less than twenty savings banks.

Any bank, trust company, national bank, individual, partnership, unincorporated association, or corporation violating this provision shall forfeit to the people of the State, for every offense, the sum of \$100 for every day that such offense shall be continued.

Yet, in spite of that, without advertising "savings," but merely maintaining savings departments, the commercial banks in the State of New York have in their care hundreds of millions of savings.

In other sections of the country than the Northeast the title of "Savings Bank" covers, as a matter of fact, commercial transactions as well as purely thrift transactions. That is true of the State of Iowa, where more than 300 banks carry the name of "Savings Bank" which engage in commercial business, making loans of all kinds, as well as loans on urban homes.

In the case of the mutual savings banks of Massachusetts, for example, they are empowered under the law to purchase acceptances, and they are also allowed to make loans on three-name paper, as well as collateral loans of various kinds.

It can hardly be said, therefore, that the use of the word "savings" means in the case of institutions of the mutual-savings-bank type, or the stock-company savings bank, that their operations are limited to the thrift field.

I referred a moment ago to the stock-savings banks in the State of Iowa. In that State the last report for June 30, 1938, showed that for 300 banks, which are real savings banks in that State, loans and discounts represented 55.5 percent of their total assets, as compared with 59.5 percent of the total assets in the case of the commercial banks of the State.

I might add in that connection that 33 of our 48 States have specific statutes relative to the use of the word "savings" by thrift institutions of various types, and the fact is that in the country, as a whole, these thrift institutions in the main perform almost exactly the same service so far as the public is concerned, except as to demand deposits, that the mutual savings banks do in the Northeast.

Mr. PATMAN. The mutual savings banks do not have demand deposits, do they?

Mr. FAHEY. They do not. They are not supposed to have demand deposits. They have a right to resort to 90 days' notice, and, as a matter of fact, during the depression, the banking-holiday period, practically every mutual savings bank in the United States suspended immediate payments, and for a very considerable period thereafter they limited the amount that any depositor in the savings bank could withdraw in cash.

In other words, the officers of the banks assumed the responsibility of telling the depositor how much of his money he could have. That dam was in time lifted, but it continued for a very considerable period.

Then, you know, in the case of the life-insurance companies, the granting of policy loans was also suspended.

The only point in talking about that sort of thing is the fact that when a real emergency arises, none of these institutions in the past has been in a position to meet the important demands, and they cannot be in a position to do so unless the reserve mechanism of the country is such that it can respond to the demands of any emergency, so that all of these institutions are in a position to take advantage of that facility when the need arises.

Reference was made here to competitive advertising, some of it objectionable. I will not take the time of the committee to go into that.

Mr. PATMAN. Does the Federal Trade Commission have jurisdiction over deceptive advertising?

Mr. FAHEY. Yes; we have supervisory authority over it.

Mr. PATMAN. I mean the Federal Trade Commission.

Mr. FAHEY. Yes; the Federal Trade Commission would have authority over it.

In this case there is a long, elaborate story. The real fact of the matter is that after the banking holiday, when Federal deposit insurance and Federal savings and loan insurance became available, and in view of the difficulties and hardships of the depression, which undermined the confidence of the people in financial institutions, those which were able to get insurance were strongly tempted to exaggerate in their advertising and their statements the benefits of the insurance and the fact that they were so fully protected.

I am glad to say, however, that the total number of cases in the entire United States was very small. The Federal Deposit Insurance Corporation and our own Corporation took vigorous steps to stop anything of that kind wherever it occurred. The number of cases was very few, and it should be said that, as a matter of fact, uninsured institutions of various types were among the worse offenders in the claims that they were making as to their strength, and as to the weakness of the insurance plan, and they did not need it.

As a matter of fact, insofar as the State mutual funds are concerned in both New York and Massachusetts, the public never has been given any comprehensive information as to the character of those funds and the protection afforded so far as the public is concerned, and there are not filed and made available publicly, on any scale whatever, annual statements as to the condition of those funds.

We would be glad to place at the disposal of the committee, if anyone is interested, the regulations which have been issued by our Board relative to advertising, and, indeed, the whole story of this advertising experience. We are very confident that it will satisfy this committee or any fair-minded group that there is no ground for reasonable complaint as to the control of unfair advertising.

Mr. SIMPSON. Will you enlarge a bit on the question as to the extent to which these associations have under existing law or may under this bill become what have been termed before the committee banks of deposit, from a procedural standpoint?

Mr. FAHEY. Let me explain, Mr. Congressman, that under the act, the Federal associations to which reference has generally been made are not permitted to take deposits at all, and do not take deposits—I mean so-called cash deposits which are subject to demand withdrawal. The State-chartered associations in some cases are permitted,

under restrictions, to take cash on deposit, and those cases are very few and far between.

Mr. SIMPSON. It was developed here, or at least I have the impression that it was testified that certain institutions exist where the money could be withdrawn in small amounts at the wish of the depositor.

Mr. FAHEY. Let me say, as to that, that the fact is that in the savings and loan association type of institution, building and loan association, or cooperative bank—and they are all the same type of thing under different names—just as in the case of the mutual savings bank in normal times, because of the monthly payments that are being received on amortized loans and the new money that is usually flowing in all the time, they are under any ordinary circumstances able to pay immediately if a shareholder wishes his money. If they are not, and there is not enough cash on hand, then the shareholder's name is placed on the list and when there is enough cash in hand he can then have his money.

Now, practically the same thing is true of the mutual savings bank. Under ordinary circumstances it can—and it usually does—carry a considerable amount in cash on hand at all times, but the savings bank is confronted with the same difficulty that any other institution is in time of crisis. How is it going to realize quickly on the mortgages it has in hand, or on the securities that it has in its portfolio?

Of course, the experience in the period from 1932 to 1933 showed conclusively that the liquidity represented by securities for which there was supposed to be an immediate market was a real element of danger, because as rapidly as they attempted to sell A. A. securities the prices declined, because they were selling into what amounted to a bottomless pit, and the values of the securities remaining in their portfolios were being steadily depreciated in price.

Now, in any normal time a savings bank or similar institution can dispose of high-grade securities for which there is a ready market, but in times of stress they cannot do so without intensifying the panicky condition.

Mr. SIMPSON. So far as normal times are concerned, and so far as the law is concerned, must the depositor await the convenience of the directors before he gets his money?

Mr. FAHEY. In the case of thrift institutions of the building and loan type?

Mr. SIMPSON. Yes.

Mr. FAHEY. That is true, if they do not happen to have the cash on hand.

Mr. SIMPSON. If they have the cash on hand, must the depositor still wait until the directors see fit to pay him?

Mr. FAHEY. I think that the situation varies in that respect. I would not attempt to tell you, offhand, the variations from one State to another. Undoubtedly some of the gentlemen here can tell you that.

Mr. SIMPSON. I am thinking that if they are in a position where they must pay that money back in a limited time, they could be under the same type of supervision with respect to reserves as savings banks.

Mr. FAHEY. As to examination and supervision, I fear that some of the suggestions which were advanced here by opponents of the bill have led to a misunderstanding. Of course, every one of these insti-

tutions is being examined, and it files reports either to the State authorities or to the National Banking System, and, in the case of the insured corporation, of course there is an independent examination and supervision constantly of the Federals. But there is no lack of adequate examination and supervision here; and let me say again that if the committee were so disposed and wished to go into it, I am sure that they would be satisfied that the examination system and the supervision system which have been developed under the Federal home-loan bank has no superior in this country.

I may add here that, despite the experience of recent years, the systems in many of the States are a long way from being satisfactory.

Mr. Chairman, I think that that is all that I care to present to the committee.

The CHAIRMAN. Mr. Fahey, we thank you very much——

Mr. LUCE. May I ask a question?

The CHAIRMAN. Certainly.

Mr. LUCE. Mr. Fahey, I am not disturbed on the ground that you have too many thrift institutions, but I confess to some disappointment that no more have been created.

When you started out, my impression was that you had a corps of organizers through the West and South. Has that been kept up?

Mr. FAHEY. As you know, at the beginning, in the original act Congress appropriated a certain amount of money to enable the Board to bring to the attention of communities which were without service, or where service was needed, the opportunities presented by the Federal charter. That money was used and exhausted, and Congress was not disposed to continue it any further.

Of course, with respect to the number of charters, Mr. Luce, you understand that I have analyzed the situation only in New York and Massachusetts, from which the principal complaint came. Now, in the country as a whole, remember that there are thirteen-hundred-odd Federal associations. There are such associations in practically every county in the United States today, a large proportion of them in areas where there was no service available whatever.

Not only that, but in the State of New York, to which reference has been made, we have here a complete statement relative to the facts as to the chartering of each one of those institutions, and if you had he time, or were disposed to examine it, you would find that in every case it was needed, and in every case notice of the charter was given, hearings were held and care was exerted, and that each one of these institutions, as soon as it got into its stride, experienced an extraordinary growth and is rendering an extraordinary service.

The CHAIRMAN. Mr. Fahey, I am sure that the members of the committee are glad to accommodate your situation, and I will remind you that your time is about up.

Mr. FAHEY. Thank you, Mr. Chairman.

May I add that other members of the Board are here and will be glad to proceed to answer any questions that the committee is disposed to ask.

Also, may I say that there are three or four amendments providing for a better definition of the terms "home mortgage" and "first mortgage," which we would like to submit to the committee.

The CHAIRMAN. All that will be given consideration at the proper time, but it is not necessary for you to delay your departure.

Mr. FAHEY. Thank you, very much; and may I reiterate our thanks to the committee for its patience and for giving us so much time? I think that it should prove exceedingly useful. After all, this Board has no patent ideas that it wishes to apply to the evolution of this system. It welcomes the aid of the members of this committee; and, moreover, this whole question of home financing and the proper protection of savings of the men in the street is of such great importance that the time that the members of the committee have been generous enough to give to it serves a most useful purpose.

The CHAIRMAN. We wish to thank you.

Mr. FAHEY. Thank you, Mr. Chairman; and the other members of the Board are here and would be glad to go along with you.

(Thereupon, the committee adjourned to meet next Wednesday at 10:30 a. m.)

AMENDMENTS OF 1939 TO FEDERAL HOME LOAN BANK ACT

THURSDAY, JUNE 1, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

Hearings on H. R. 5535 were resumed at 10:30 a. m., Hon. Henry B. Steagall (chairman) presiding.

Members present: Messrs. Steagall, Williams, Spence, Ford, Brown, Patman, Monroney, Gifford, Luce, Crawford, Gamble, Simpson, Kean.

The CHAIRMAN. The committee will come to order.

Mr. Wiggins, will you come around, please?

We have with us Mr. A. L. M. Wiggins, of Hartsville, S. C., whom you all know, a former president of the South Carolina Bankers Association, and at the present time chairman of the committee on Federal legislation of the American Bankers Association.

Mr. Wiggins, the committee would like to hear you further with reference to this bill, and Mr. Patman desires to interrogate you.

Mr. PATMAN. Maybe he has a prepared statement that he would like to make.

STATEMENT OF A. L. M. WIGGINS, CHAIRMAN, COMMITTEE ON FEDERAL LEGISLATION, AMERICAN BANKERS ASSOCIATION

Mr. WIGGINS. Mr. Chairman, I would like to say that I am asking your indulgence, to let me shoot from the shoulder, that I have no written statement.

There seems to be some question as to my status, and in order to clear that up, I will say that I am the president of a small country bank that is a member of the Federal Reserve System, a State bank, the Bank of Hartsville, S. C.

I am also engaged in the mercantile business, and, like most people in small towns, in a lot of other things, included among which is a building and loan association that I organized 19 years ago, and I am very much a building and loan association man.

Our building and loan associations in little towns of 5,000 people have done as much to build up our communities and to help our people accumulate money and savings as any institutions in the country.

I understand that a number of people have appeared here representing the larger banks in the larger cities, and I am trying to

approach this problem and ask your indulgence to discuss it briefly from the standpoint of the country banker.

In the first place, there is no question in my mind but that building and loans and the banks are in competition for the investor's money. I understand that that question has been raised here from time to time, but in our case certainly some of the people have taken the money out of the bank and put it in the building and loan. Therefore, it would be ridiculous to say that they are not in competition to a certain extent for the funds of the investor.

Of course, we are also in competition with Uncle Sam and the Postal Savings System, which from my standpoint worries me a lot more, and we are also in competition for investments with the insurance companies and with other agencies.

So, as a country banker, I would say very definitely that there is competition, naturally, between building and loan associations and banks, both for funds and to some extent for investments.

Now, as a banker, I have no objection to competition, because I feel that that is vital in our system of economics in this country, but I do not like some of the sort of competition that we have from some of this building and loan business. I think it is a little bit misleading to the public. For instance, a woman decides to take some money out of the bank where she is getting 2 percent, and to put it in a building and loan, where they tell her she will get 4 percent and where the Government guarantees her principal. That is the story from the public standpoint. Whatever the technical plan of advertising may be, the facts are that the public in our part of the country believe that they can take their money over to the building and loan association, put it there whenever they get ready, get 4 percent interest on it, and then withdraw it whenever they please, and that the Government guarantees it.

Now, of course we know that that technically is not correct, but that it what the public believes today, and, of course, as has often been said, it is not what a thing is, but what people think about it that counts. In other words, they get an idea that they will get a higher rate in a building and loan than they can get in the bank, and they get, according to what they are told, all of the advantages that they have in a bank deposit, that it is liquid, that they can get it when they please, and that it is guaranteed by the Government.

Mr. WILLIAMS. Would you mind an interruption?

Mr. WIGGINS. Not at all. Go right ahead.

Mr. WILLIAMS. What is wrong with that statement? You say that is technically incorrect. Why is it not absolutely true?

Mr. WIGGINS. I think it depends on what is intended by Congress for this system of building and loan associations to do. If it is intended to be a demand deposit, guaranteed by the Government, then I think that that is what the public thinks it is, and if that is what Congress intended under this act, you are correct.

Mr. WILLIAMS. Isn't it true? Isn't that what it is—that is what I am trying to ask you.

Mr. WIGGINS. Well, if it is, it represents a new conception of the function of the building and loan association, different from any conception that I have ever had in operating one for 19 years.

Mr. WILLIAMS. Do you mean to say the only difference is that they cannot withdraw their deposit any time that they want to?

Mr. WIGGINS. The principal difference is this, and I will give you an illustration. We are not members of the Federal home loan bank, nor are we a Federal savings and loan association. We are just a country, State building and loan association. We operate on the old style, that is to say, we sell no paid-up stock. We take no casual funds that come in. We start a series of building and loan stock of the first day of April every year, and the only way that anybody can put a dollar into that association is to put in \$1 per share on the first day of every month. Whenever that dollar per share per month, plus the earnings that have been accumulated, equals \$100, they get \$100 dollars. They are stockholders.

Mr. SPENCE. Do they have to withdraw their share when it is paid up?

Mr. WIGGINS. Yes, sir. When it is paid up they have to take the \$100 and surrender their stock. They are stockholders. They know they are stockholders. They do not know what the return is that they are going to get. They do not know whether it will run 78, 80, 82, or 84 months to be worth \$100, but our experience has been that it takes, at the present rate of interest, about 7 years, or \$84 in monthly payments, to yield the investor \$100.

Mr. WILLIAMS. Then it is not true that the depositor or the stockholder can withdraw his money at any time that he wants to?

Mr. WIGGINS. Not in our building and loan.

Mr. WILLIAMS. Is that generally true of building and loan associations?

Mr. WIGGINS. It is generally true if the building and loan associations do not have the money; then it cannot be withdrawn, because they are merely stockholders in it, and they are not creditors any more than in any other stock corporation where you can sell your stock. A building and loan association will buy the stock in when they have the money, and under the old plan only a limited part of the earnings, and in some cases no earnings, were paid to those who sold their stock before it matured.

Mr. SPENCE. What has been the practice in your association when a depositor wanted to withdraw? How much time does it take him to get his money?

Mr. WIGGINS. As long as it is necessary for us to accumulate the money to pay him off.

Mr. SPENCE. How long is that?

Mr. WIGGINS. Within a month or so, usually. In our case, we start a series every year. We sell about 1,000 shares. In other words, in our community they are paying in about \$84,000 a year and taking down about \$100,000 a year. But there is no paid-up stock. There are no casual depositors. It is purely a matter of installment stock buying.

Now, we have been operating that way for 19 years. We have never had but one loss of \$200. It is purely mutual. We have no salaried officers. We employ a trust company there to act as bookkeeper and pay them a percentage, 3 percent, on the stock payments for their services. All of our officers serve without pay. We have no charge for the investigation and appraisal of property. We do that as a part of the mutuality of a service institution in our community.

Mr. WILLIAMS. There is no relation of depositor to a bank there?

Mr. WIGGINS. Not the slightest.

Mr. WILLIAMS. It is purely a stockholder's concern?

Mr. WIGGINS. That is right.

Mr. WILLIAMS. And what he receives on his investment depends upon the earnings of the institution?

Mr. WIGGINS. Upon the earnings of the institution.

Mr. WILLIAMS. It is the same as any other stockholder in a stock company of any kind?

Mr. WIGGINS. That is right.

Mr. WILLIAMS. And if there are no earnings, he gets none?

Mr. WIGGINS. That is right.

Mr. WILLIAMS. Is there any limitation on his earnings?

Mr. WIGGINS. No. He gets it all, whatever it is.

Mr. WILLIAMS. And if there are not any earnings, of course, he gets nothing on the money that he has invested? Is that right?

Mr. WIGGINS. That is right.

Mr. SPENCE. The borrowing member is also a stockholder?

Mr. WIGGINS. That is right.

Mr. SPENCE. As he pays on his stock, he pays off his loan?

Mr. WIGGINS. That is right.

Mr. WILLIAMS. What I wanted to know, if you know, is whether or not that is the general practice of the building and loan associations in this country.

Mr. WIGGINS. Well, Mr. Williams, that is my understanding of the whole theory behind the building and loan associations, the original theory that they were mutual, that they were stock companies where a group of people joined together and put money into stock into an association that would loan to their members, and when their earnings and payments on their installment stock are equivalent to \$100 per share, either the loan was paid off if they were a borrowing member, or if they were a saving member, they got \$100 in cash.

Mr. WILLIAMS. It seems to me that there is a vital difference between that relationship and that of a depositor in a bank, because in one case, so far as the element of insurance is concerned, you are insuring the depositor, and on the other hand you are insuring the owner of the institution.

Mr. WIGGINS. That is exactly right, and that is one point I was going to make a little further along in my discussion at some length, because I think that there is a vital difference.

Mr. CRAWFORD. May I ask him a question, Mr. Chairman?

The CHAIRMAN. Mr. Crawford.

Mr. CRAWFORD. Insofar as your experience and observation go, there has not been and there is not now any general contractual liability on the part of the building and loan associations to act in response to the demand requirements of the participants?

Mr. WIGGINS. That is correct. He is a stockholder.

Mr. CRAWFORD. And if there is a conception in the form of the intent of Congress or in the mind of anyone now which supports this advertising that you see on the printed page and hear over the radio, is it not also in violation or in contradiction of the philosophy which has heretofore governed in connection with building and loans, and also in violation of our whole philosophy of demand deposits, of proportional banking, and of the philosophy of building and loans?

Mr. WIGGINS. That is exactly my approach to this problem, that it is a question of what theory Congress is going to adopt for building and

loan associations in this country. Are they going to adopt a theory that they are corporations in which stockholders put their money for mutual profit, on the one hand, as is the historic type of building and loan association through our part of the country, or are they going to adopt the policy that there is a demand liability of the institution to those who put their money in it? That is a matter, as I see it, for Congress to determine, as to which policy they are going to follow.

Mr. CRAWFORD. To the extent that it is to be a demand-liability relationship, if that is to be our changed approach—to the extent that it is to function as a demand liability, will we not have also to revamp our whole approach to the investment of these funds, to the end that all institutions will be automatically liquid when the demand comes?

Mr. WIGGINS. Absolutely.

Mr. CRAWFORD. That goes right into the whole question of the handling of the savings of our people, and touches directly and dovetails into the studies that are now being carried on before the Temporary Economics Committee?

Mr. WIGGINS. That is correct.

Mr. CRAWFORD. And it opens up the whole field?

Mr. WIGGINS. It opens up the whole field, including the banking field.

Mr. FORD. Let me ask him something there.

Is this what you object to, Mr. Wiggins, that the Federals are creating the impression that a deposit in a Federal building and loan association is practically the same as a deposit in a bank, because your funds are always available?

Mr. WIGGINS. That is true; yes.

Mr. FORD. And what you would like to have eliminated is the advertising that is creating that impression?

Mr. WIGGINS. That is correct, and the policy is in that direction, unless that is what Congress wants to do; and if they want to do it, I think that they should say so.

Mr. SPENCE. When you have available funds, you do pay on demand, do you not?

Mr. WIGGINS. Surely; we pay just as any other corporation would that had any liquidation agreement with its stockholders; we pay whenever the money is available.

Mr. WILLIAMS. You do not mean to say that that is the policy of the ordinary corporation?

Mr. WIGGINS. I said where they had any agreement for liquidation of their stock.

Mr. WILLIAMS. Do you think that that agreement ought to be there?

Mr. WIGGINS. I think it ought to be in the case of a mutual building and loan association which has as its definite objective the accumulation of earnings on the investment.

Mr. WILLIAMS. How are you going to have a real investment institution and at the same time have it liquid overnight?

Mr. WIGGINS. There are two ways. You can have an investment institution in which the investments are required to be of such a liquid nature that they can liquidate whatever type of investments they make, or, on the other hand, you can have an institution in which the

Government of the United States guarantees the liquidity of and puts the money up when the liquidity is called for.

Mr. WILLIAMS. Outside of Government insurance or guaranty, I do not understand how you can have a general investment policy on long-term securities and at the same time have an entirely liquid institution.

Mr. WIGGINS. You cannot do it.

Mr. WILLIAMS. That is what I am saying.

Mr. WIGGINS. And yet it seems to be proposed in this measure that you do that very thing.

Mr. GIFFORD. What is your liquidation agreement, that you referred to?

Mr. WIGGINS. Our liquidation agreement is merely this, that the Corporation will undertake to buy the stock of any member at any time, and pay for that stock the amount paid in, so long as the capital is unimpaired, and a reasonable proportion of the earnings that have accrued to that stock up to the time that the stock is sold, provided that the funds of the Corporation are available for that purpose, and if they are not available for that purpose, that no new loans will be made until that stock is purchased.

Mr. GIFFORD. Have you any competition in your section from any Federal organization?

Mr. WIGGINS. We have, and I am sorry to say that my old building and loan association is on the way out, and not from the lack of money. As a matter of fact, last year we had to send back to a lot of our subscribers to the new issue of stock, part of their subscriptions, because we could not get the loans to justify the amount of money that we had. We are facing that to an increasing extent on the series starting last April. In fact, we refused to advertise the new issue of stock, except to our present members, but have vigorously advertised to get loans.

Now, our difficulty arises from the fact that we have been fairly conservative. We usually lend at 75 percent of the value, and the payments required are to liquidate the loan within 7 years, which means that a man who borrows \$1,000 pays \$15 per month at 6 percent interest, \$10 on the stock and \$5 on the interest; he pays that for about 7 years, and then the accumulation of earnings has paid off the loan.

But, naturally, we find many cases of more liberal terms, both in the number of years and in the amount that is loaned on the particular security, so that competitively we are practically being put out of the picture.

Mr. GIFFORD. By the Government?

Mr. WIGGINS. By the Government, through this Federal savings and loan plan of longer terms and of lending more money on the same collateral.

Mr. GIFFORD. Under the plea that they are doing more for the people? Is that right?

Mr. WIGGINS. Well, I will leave that to you.

Mr. GIFFORD. Oh, well, it is very important. I had to go down and remonstrate about the Federal savings and loan associations, in order to try to save our own building and loan association, which is just exactly the position that you are in. Think of a Congressman having to oppose what may be more beneficial to his people in trying to save a building and loan association. It is not a happy position to be put in.

Mr. WIGGINS. I may say, since you asked the question, that it is my personal opinion that many crimes against sound business have been committed in the name of the social good.

Mr. GIFFORD. The savings and loan associations in my district are taking much larger loans than our own building and loan association will, and it is proverbial now that they can withdraw what they put in practically at any time now.

Mr. WIGGINS. Yes, sir.

Mr. SIMPSON. Is this Federal association to which you referred a former State association?

Mr. WIGGINS. Yes, sir; a former State association that became a Federal savings and loan. I have no criticism of them. We have another association in our town which is not a Federal savings and loan association, but a member of the Home Loan Bank System, and I have no criticism of either one of them.

Mr. WILLIAMS. What length of loan do the building and loan associations make on homes?

Mr. WIGGINS. What length?

Mr. WILLIAMS. What is the maturity?

Mr. WIGGINS. The maturity depends on the earnings of the series. Usually it runs 7 years.

Mr. WILLIAMS. Do you think it sound to extend that to 12 or 15 years?

Mr. WIGGINS. On the average type of low-income buildings, homes erected by people of low incomes in our community, I think it is rather dangerous to lend money on a higher percentage of value than 75 percent and on longer terms than the 7 years. The greatest strength that we had through all the depression, in which we had no withdrawals of stock that amounted to anything, and no cashing in of the stock, and in which we had no losses whatever—the greatest strength during that period was from the fact that the amortization requirement of \$10 per month per thousand put most of the loans that were made back when prices were higher where they were amortized down to the point that the man could not afford to throw up his security, to give it up. He had too much in it, so he carried it on to maturity.

Mr. WILLIAMS. Don't you think that it would make it easier for the average income to pay over a longer period of time at a lower rate, to encourage home owning?

Mr. WIGGINS. I think it will; yes. It will encourage more people to put money into homes if they can borrow for longer terms, and higher amounts at lower rates.

Mr. WILLIAMS. But you do not think that that is a sound policy?

Mr. WIGGINS. I personally think that we are pursuing a policy of lending in this country that will build up a vast reservoir of long-term investments that through a period of time will fold back on the guarantors of these funds and cause untold losses to somebody.

Mr. WILLIAMS. You do not recognize that we have an overbuilt condition in the country now, do you?

Mr. WIGGINS. No, sir. I think that from a home standpoint, we have an underbuilt condition.

Mr. WILLIAMS. What do you think, from a national standpoint, that it should be in numbers? How many homes per year should be built?

Mr. WIGGINS. That would be a rank guess on my part. I have no way of estimating it.

Mr. LUCE. In my State, Mr. Wiggins, our shares mature at \$200 instead of \$100, making the time about 14 years. Can you tell me if \$100 is a common thing throughout the country?

Mr. WIGGINS. One hundred dollars is common in our section of the country. I don't know how general it is throughout the country. We do have, however, some at \$200, and we have some at 25 cents a week per \$100.

Mr. PATMAN. What becomes of that \$100 when matured?

Mr. WIGGINS. When it matures and they get it in cash?

Mr. PATMAN. Yes, sir. Does it go to the local bank?

Mr. WIGGINS. Usually, yes; it goes into the local bank temporarily, but most people, when they see \$1,000 that they are going to get on December 1, when our next series matures, they naturally have some plan of what they are going to do with that \$1,000 at that time.

Mr. GIFFORD. I will have to leave, but I want to say for the record that I think this is the first sane man we have had before the committee.

Mr. SPENCE. Are the terms of your loans prescribed under the statute under which you are organized?

Mr. WIGGINS. No, sir. We operate under a State board of banking, that controls both the banks and the building and loan associations.

Mr. SPENCE. Is there a wide diversity in the terms that they grant to building and loan associations?

Mr. WIGGINS. Yes; there is. Some of the building and loan associations in our State, State associations, sell paid-up stock. That is, they will take \$1,000 and give a certificate for the \$1,000.

Mr. SPENCE. But as soon as it is paid up in your building and loan association, the requirement is that it be withdrawn?

Mr. WIGGINS. That is right.

Mr. SPENCE. I think that that is the usual custom in building and loan associations.

Is there any limitation on the loans?

Mr. WIGGINS. No; except that the bank examiners require that the loans be sound, in the same way that they require it in the banks.

Mr. SPENCE. What are the longest terms that they grant?

Mr. WIGGINS. State associations?

Mr. SPENCE. Yes.

Mr. WIGGINS. Usually 11 or 12 years is about as long as any of them run.

Mr. SPENCE. And the terms under which you lend are the terms under which you made application to the banking commissioner?

Mr. WIGGINS. Yes.

Mr. FORD. Did the H. O. L. C. take over any of your loans?

Mr. WIGGINS. No, sir. I think that they did take over one, since you mentioned it.

Mr. WILLIAMS. Since it is evident that we are not going to finish with this gentleman, and the House is in session now, I suggest that we adjourn.

Mr. CRAWFORD. May I ask Mr. Wiggins one question?

The CHAIRMAN. Yes.

Mr. CRAWFORD. Mr. Wiggins, just on the point that you mentioned a minute ago, did I understand you to say that on this last April 1

you had an oversubscription for the shares that you were going to offer?

Mr. WIGGINS. Yes, sir.

Mr. CRAWFORD. In other words, in that respect your credit is just as good as that of the United States Government?

Mr. WIGGINS. We have no trouble getting all of the money we want.

Mr. CRAWFORD. I say that because the impression is often given that the people are no longer willing to subscribe for shares or certificates or whatever you want to call them in private industry in this country, and you have demonstrated here to me that they are willing to do that at least in your institution.

Mr. WIGGINS. So far as I know, we have never been asked a question as to whether or not our stock was insured or guaranteed.

Mr. BROWN. It is rather difficult to sell bank stock.

Mr. WIGGINS. I should say yes, that it is difficult.

(Thereupon an adjournment was taken until Friday morning, June 2, 1939, at 10:30 o'clock.)

AMENDMENTS OF 1939 TO FEDERAL HOME LOAN BANK ACT

FRIDAY, JUNE 2, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

Hearings on H. R. 5535 were resumed at 10:47 a. m., Hon. Henry B. Steagall (chairman), presiding.

Other members of the committee present: Mr. Williams; Mr. Spence; Mr. Ford; Mr. Brown; Mr. Patman; Mr. Mills; Mr. Martin; Mr. Monroney; Mr. Gifford; Mr. Luce; Mr. Crawford; and Mr. Simpson.

The CHAIRMAN. The committee will come to order.

Mr. Wiggins, come around, please, sir.

If you have any further statement you wish to make, we shall be glad to hear it, and after that members of the committee may wish to interrogate you.

STATEMENT OF A. L. M. WIGGINS, CHAIRMAN, COMMITTEE ON FEDERAL LEGISLATION, AMERICAN BANKERS ASSOCIATION— Resumed

Mr. WIGGINS. I have, Mr. Chairman, two or three additional items, that I would like to mention; and of course if any of the gentlemen wish to ask questions as I go along, it is entirely all right.

The CHAIRMAN. Very well.

Mr. WIGGINS. I undertook to bring to your attention yesterday that the character of building and loan associations as we formerly knew them in our part of the country has been considerably changed, in part as the result of the legislation passed, and will be increasingly changed with the amendments proposed to this act, making them more and more like banks, and confusing the public; and I would also call your attention to the fact that they are losing a great deal of what I conceive to be mutuality in the development of recent years of many of them. That mutuality, of course, is an important characteristic, because it carries with it a certain tax exemption—which mutuality seems to carry in many lines of business in this country.

As a matter of fact, a lot of the building and loans are not really mutual, in the sense that they are operated for the primary benefit of all those who put their money in them, but many of them are organized and operated primarily to provide a salary for some man who gets them up, and the expenses of the operation usually trickle into the hands of one or two people.

I raise the question as to whether the real mutuality of these building and loans has been preserved to the extent that they would be entitled to the special privileges given in the matter of tax exemption.

It seems to me that this proposed amendment undertakes to do two things. First, there is a certain perfecting of the administrative details, which I think no one can question as to their soundness and desirability.

Mr. PATMAN. Just a moment on the tax-exemption question. Are building and loans in South Carolina exempt under the State law?

Mr. WIGGINS. They are exempt, yes; mutual building and loans in South Carolina are exempt.

Mr. BROWN. Most of the States have similar tax laws.

Mr. WIGGINS. I think so. I think that that is a general proposition—that mutual building and loan associations have a certain degree of tax exemption. The income to the stockholders in the building and loan associations in our State is not exempt, but the income of the association itself is exempt.

Mr. PATMAN. I wonder if the witness would object if I were to ask him some questions on points that have not been covered. Would you object to that?

Mr. PATMAN. I wonder if the witness would object if I were to ask him some questions on points that have not been covered. Would you object to that?

Mr. WIGGINS. Any way that is the most satisfactory to you, Mr. Patman.

Mr. PATMAN. Of course, we are principally interested in this particular bill. Have you outlined your objections to this bill—one, two, three, four, and so forth?

Mr. WIGGINS. No. I am working down to the five specific suggestions that I have.

Mr. PATMAN. And you have them in your testimony of yesterday?

Mr. WIGGINS. No. I did not get very far in my original statement yesterday.

Mr. PATMAN. Would you mind naming them?

Mr. WIGGINS. I would prefer, if you are going to put it that way, to go ahead with my statement, and then answer the questions.

Mr. PATMAN. I will waive that, then, because I want to ask you other questions.

We hear much about loans to little business. You are connected with the banking business in South Carolina and elsewhere, and other lines of business, and I believe that you are a good witness to give the information that I would like to have.

As a banker, would you let anyone have money to go into the grocery business in your home town?

Mr. WIGGINS. Mr. Patman, you have asked the question, and if you will allow me to answer it I would like to answer it.

Mr. PATMAN. All right, sir.

Mr. WIGGINS. About 5 years ago a young man came to me with \$300 and wanted to go in the grocery business. He needed \$1,000. I talked to him about the sort of business he was going in, and how he was going to operate it, and whether he was going to do a credit business or not. I loaned him the money. I had nothing but my faith in him to succeed in that business, and it was one of the most delightful loans that I have ever made, because that young man last year had a taxable

income of over \$4,000. He owns his home and he has a net worth of about \$10,000.

Yes, sir; we make loans.

Mr. PATMAN. But generally do you think that applies? Don't you think that there is danger of outside competition that cannot be met in the local community now?

Mr. WIGGINS. I fully agree that to lend money today to a man to engage in the retail mercantile business—and I am engaged in that business—is very dangerous and risky, and the chances are the average man who borrows money will not be able to pay it back out of the profits of that business.

Mr. PATMAN. What is the principal reason?

Mr. WIGGINS. Well, of course, I feel that the chain-store competition is one of the principal factors in destroying the ability of the independent merchant to make a profit.

The CHAIRMAN. I want to ask him a question here.

That was one loan that was made on character?

Mr. WIGGINS. Yes, sir.

The CHAIRMAN. Which I highly commend. Do you think it is practicable for the Federal Government to establish and operate successfully any lending system that takes character as its reliance or security?

Mr. WIGGINS. You mean, a Government bank to make character loans?

The CHAIRMAN. I mean, can a man operating a Government lending institution in Washington go out in the various communities of the United States and intelligently judge human character with sufficient accuracy to make such loans successfully in those communities?

Mr. WIGGINS. I think that they can make the loans, but they will never collect them.

The CHAIRMAN. That is what I am talking about, to operate that kind of a business successfully. That would call for such a judgment as would be generally held by the men charged with the operation of these lending institutions?

Mr. WIGGINS. Yes, sir.

The CHAIRMAN. Because if that is so, anyone in charge of a Government lending institution, unless he were directed to distribute money without assurance of repayment, would refuse to make such loans?

Mr. WIGGINS. Necessarily, if they expected to get the money back.

Mr. PATMAN. Mr. Wiggins, reference was just made to the grocery business. Do you know that that same situation applies to all other lines of business in which the national corporate chains are engaged?

Mr. WIGGINS. To a large extent; yes, sir.

Mr. PATMAN. And you know that it would not be safe, ordinarily, except in exceptional cases, one of which you have mentioned, to make loans to your neighbors and friends to go into business in your home town in a line of business in which the national corporate chains are engaged, that would come in and crush them?

Mr. WIGGINS. It is a rare case in which such a loan would be reasonably safe.

Mr. PATMAN. Don't you think that that has more to do with the failure of banks to make loans to small business than any other reason?

Mr. WIGGINS. In the distributive trades, I think it has.

Mr. PATMAN. In other words, as a banker you could not safely make a loan to one who wanted to go in the grocery business, or the drug business, the variety store business, the shoe business, the tire business, or any other line of business in which the national corporate chains are engaged?

Mr. WIGGINS. Except under special circumstances to an individual who would contribute some of the capital.

Mr. PATMAN. I wonder, since you are speaking for the American Bankers' Association, if you remember how that association stood on this legislation when it was originally proposed and passed in 1932. I refer to the legislation that is now before the committee.

Mr. WIGGINS. I do not. I do not know what the position of the American Bankers' Association was.

Mr. PATMAN. Do you think that the savings and loan associations are infringing on the functions of the commercial banks?

Mr. WIGGINS. I think that they are replacing the savings divisions of the country banks, and I can speak only for the country banks, because that is where my experience lies.

Mr. PATMAN. But you are representing the biggest ones here, as well as the small ones.

Mr. WIGGINS. Yes; but the American Bankers' Association is largely an association of small banks.

Mr. PATMAN. It is? I did not know.

Mr. WIGGINS. There are a few large ones in it, but the large majority of the members, of course, are small banks.

Mr. PATMAN. Naturally that would be so, because most of the banks are small. But large banks belong to it the same as the others?

Mr. WIGGINS. Yes.

Mr. PATMAN. You referred to your building and loan association. About 20 years ago, when I first started out, I bought a home on the installment plan. I went to the building and loan association, and I got a loan of \$3,500 to build this house, and they required me to take so much stock—I guess about \$3,500 in stock, would it not be?

Mr. WIGGINS. Yes.

Mr. PATMAN. And I paid so much a month on that stock, and I paid so much interest on the loan. Is that the way you do?

Mr. WIGGINS. That is right.

Mr. PATMAN. I discovered, after I paid on that stock for 2 or 3 years, that if that building and loan association went broke I still had to pay that up just the same.

Mr. WIGGINS. You would not in South Carolina—

Mr. PATMAN. How would it happen down there?

Mr. WIGGINS (continuing). Because an offset is required. The stock is put up as part security for the mortgage.

Mr. PATMAN. I think that our law should be amended, because it seems to me that that is absolutely right. But in most States I presume it is just like it is in Texas?

Mr. WIGGINS. I am not familiar with the State laws on the building and loans.

Mr. PATMAN. In fact, that is the only instance I know of where an offset is required—in the State of South Carolina. I am glad that you have that.

Do you believe that the commercial banks should be engaged as savings banks, too, or should they be separated?

Mr. WIGGINS. In the small communities I think that unquestionably they are the proper agency to handle the savings accounts.

Mr. PATMAN. I notice that you say in the small communities. What size bank would you say should be permitted to engage in both activities?

Mr. WIGGINS. Well, I had not thought through that, and I am not—

Mr. PATMAN. I will admit that in a small community, possibly a bank could make a go of it, if they had a savings department, too; but how big should a bank be—I mean where should the line be drawn? Should it be a \$4,000,000 bank, or a \$5,000,000 bank, or a \$6,000,000 bank that should be allowed to do both, and above that only one, or where should the line be?

Mr. WIGGINS. That would be rather difficult to determine. My observation is that most of the larger commercial banks do not accept any substantial amounts of savings. In the case of my own bank, about 40 percent of our deposits are interest-bearing deposits, and about 60 percent are noninterest-bearing.

Mr. PATMAN. Would you say that the population of a town that the bank was located in should have more to do with it?

Mr. WIGGINS. I think that they go together.

Mr. PATMAN. You would consider both the population of the town and the size of the bank?

Mr. WIGGINS. Yes.

Mr. PATMAN. If you were separating them now, would you give me an idea of what kind of exemption you would have? Would you exempt all banks in towns of 5,000 people or less, or 3,000 people?

Mr. WIGGINS. Well, I do not say that I would separate them. I have not seen any evils growing out of the savings business by a commercial bank.

Mr. PATMAN. In the State of New York, in 1934, they passed a law making it unlawful for commercial banks to advertise for savings accounts, and, not only that, but they made it unlawful for a bank to use the word "saving" or "savings" in connection with its name. It is evident that the State of New York wanted to separate them, would you not think, from the passage of that law?

Mr. WIGGINS. It would seem to be so.

Mr. PATMAN. But you have never seen evil in connection with commercial banks taking savings?

Mr. WIGGINS. Not in our part of the country.

Mr. PATMAN. But you do realize that in small communities it is all right to have both, but in large city may they be separated, or should we consider separating them?

Mr. WIGGINS. Well, I would not say that you should consider it. I think, of course, that it is a matter that might well be studied. I have not really studied it.

Mr. PATMAN. Do you know the extent to which service charges on checking accounts cover the operating expenses of the banks now, as compared to, say, 1933?

Mr. WIGGINS. Well, of course, to an increasing extent service charges, and charges based on analyses of accounts, have come to

play a larger part in the income of the banks, a notable increase in the last few years.

Mr. PATMAN. I notice that a New Jersey bank announced the other day that no longer would that bank pay interest, even on time deposits, and some of the other large banks in New York City stated that they were considering adopting the same policy. Does that seem to be the trend?

Mr. WIGGINS. The trend is toward a reduction of interest rate, on account of the difficulty in investing money, and the fact that the deposits are, in effect, payable on demand.

Mr. PATMAN. Is it not a fact that the commercial banks have drifted away from their traditional and proper function, of making commercial loans, in recent years?

Mr. WIGGINS. I would not say that they have drifted away. I would say that they have been forced—

Mr. GIFFORD. The loans have drifted away.

Mr. WIGGINS. That is right; the loans have drifted away.

Mr. PATMAN. Let us see about that. You know that the Government has caused to be made, through its instrumentalities, lots of loans involving billions of dollars?

Mr. WIGGINS. That is so.

Mr. PATMAN. Do you not think that the failure of the banks caused the Government to do that?

Mr. WIGGINS. When you talk about what the Government has done, and why the Government has done it, in the matter of lending, it is such a broad field that we would have to break it down. For instance, as to the Farm Credit Administration, the causes or the conditions which brought about the creation of the present Farm Credit Administration are quite different from those in other fields in which the Government has engaged in lending.

Mr. PATMAN. In 1928 loans held by commercial banks represented over 70 percent of the total loans and investments, but this ratio has declined to about 40 percent now.

I have several statements that I would like to insert in the record with my remarks, and I would like to have that permission now.

The CHAIRMAN. That is perfectly all right, of course, but let me ask this in that connection: What is the amount of loans carried by the Government at this time that might be classified as commercial bank loans? That is something that we should like to know in this connection.

Mr. WIGGINS. Mr. Chairman, I think that the crop-production credit loans of the Farm Credit Administration in many cases might be classed as commercial loans.

The CHAIRMAN. Do you know what the total is?

Mr. WIGGINS. I do not. Of course, the R. F. C. possibly make some loans that may be classed as commercial loans.

The CHAIRMAN. The R. F. C. does not have any large amount of loans outstanding.

Mr. WIGGINS. That is true.

Mr. CRAWFORD. Would you put in your classification of commercial loans the commodity credit loans?

The CHAIRMAN. Well, I doubt that they would be so classed at this time.

Mr. WIGGINS. Well, the commodity credit loans, to a large extent, are being carried by the banks.

The CHAIRMAN. Now they are, but that type of loan is not an independent transaction of the bank. The banks carry those loans under an agreement with the Government, by which they share the interest, and under which the Government is obligated to take up the loan.

Mr. WIGGINS. That is true. The loans are unsound, and the Government guarantees them, and therefore the banks take them on the governmental guaranty, rather than on the collateral.

The CHAIRMAN. But before this plan of governmental financing of commodities, transactions of that kind were financed by the banks or by private individuals.

Mr. WIGGINS. Yes, sir.

Mr. PATMAN. I will not ask you about all of them, but since there has been so much said about the Government getting into the banking business, I want to put some statements into the record that I believe will offset those statements, to some extent, because I have a feeling that the banks have failed to make these loans, when they should, and that the Government was compelled to get into that business. That is my feeling. Of course, I have an open mind on it, and I would like to be convinced the other way if anyone can convince me. But I have prepared a statement of the protective and liberalizing Federal legislation for commercial banks. I will not read them all, but there are about 17 of them that I have enumerated, and I will just put that statement into the record in connection with my remarks here.

Now, the Federal Government has provided outlets for loans by commercial banks. You take, for example, the F. H. A. The banks have taken over most of those loans, haven't they?

Mr. WIGGINS. The banks have made a great many of them.

Mr. PATMAN. Under title II, out of a total business of \$1,300,000,000, the banks obtained \$619,000,000, and under title I, out of \$733,000,000, the banks took over \$528,000,000. Under title I the banks have taken 72.1 percent, and under title II almost half.

So the Government has actually been furnishing the banks some business.

Mr. WIGGINS. In the case of the F. H. A., yes.

Mr. PATMAN. Take, for example, certain States. Let us take California, the State that our friend, Congressman Ford, is from. Eighty-four percent of the F. H. A. business there is done by the commercial banks. In Indiana it is 78 percent, in New Jersey 64 percent, and in Pennsylvania 72 percent.

In regard to the Government taking over the loans that the commercial banks should make, I would like to invite your attention to the number of loans that have been made by the Government. Through the production credit associations, 205,923 loans were made last year, aggregating \$166,160,663, and it occurs to me that the Government would not have gone into that particular business if the banks had been making these loans.

Do you contend otherwise?

Mr. WIGGINS. No, sir; I think that you are largely right. The Government went into that business at a time when very few people were willing to make crop-production loans.

Mr. PATMAN. Take commercial loans. The R. F. C., from the report filed by Mr. Jones in 1939, on February 2 of this year has authorized 7,371 loans to business enterprises, aggregating \$447,324,578. Now, the banks were allowed first to take those loans, if they wanted to, but they refused; but the banks did participate in 1,661 of these loans, totaling \$61,492,756.

Is it not true that the R. F. C. always gives the local bank preference; and that if the local bank will take the loan, the R. F. C. will not have anything to do with it?

Mr. WIGGINS. I happen to be on the R. F. C. committee in our part of the country, and that is a requirement—that the applicant must state that he has applied to the local bank for credit.

Mr. PATMAN. Yes. Now, you take the installment credit companies. Two thousand three hundred and thirty-one of them were in operation in 1935. They are doing a billion dollars' worth of business a year. Don't you think that if the banks were making these loans, as some of them could, that there would not be such a demand for the installment companies? It occurs to me that the installment companies are taking over a lot of the business that the banks should have.

Mr. WIGGINS. To an increasing extent, the banks are undertaking to take over that type of business, but the installment finance companies got into that game, at high interest rates, earlier than the banks in some of the States were permitted to do so. In South Carolina it took 5 years to get the legislature to authorize the banks of our State to make that type of loan. Since they have authorized it, the banks are making them freely.

Mr. PATMAN. And the personal finance companies are doing a lot of the business that the commercial banks might do?

Mr. WIGGINS. Yes.

Mr. PATMAN. I notice from the census report of 1935 that there are 4,015 personal finance companies doing quite an enormous business.

Mr. FORD. But if a bank undertook to loan money and charge the rate of interest that some of these finance companies do, it would be criticized for it. Those fellows charge from 20 to 25 percent.

Mr. WIGGINS. Forty-two percent is the very general rate.

Mr. PATMAN. I am not saying they should charge the same rate of interest.

Mr. FORD. But the finance company charges that rate by reason of the tremendous expense involved in financing the risks that they undertake.

Mr. BROWN. In our section of the country there has been no money lost in connection with crop-production loans, has there?

Mr. WIGGINS. The crop-production associations have been very successful through our part of the country. They do not make any unsound loans in our section.

Mr. PATMAN. I have a statement regarding financial aid given by the Federal Government to commercial banks since 1932. So much has been said about business being taken away from them that I want to enumerate all of these benefits.

The H. O. L. C. disbursed \$525,000,000 of bonds to commercial banks in exchange for defaulted mortgages. This represents 26 percent of the estimated \$1,995,000,000 of home-mortgage holdings of commercial banks at the end of 1932. The highest proportion of loans refinanced by any other type of lender was 13 percent. In other words, commer-

cial banks received approximately twice as much as any other type of institution in proportion to their holdings of home mortgages.

The R. F. C. made loans to 5,816 active banks in the aggregate amount of \$1,138,000,000, principally during 1932 and 1933. Notwithstanding these loans, 2,128 of these banks subsequently failed. However, 3,688 were enabled to continue, thereby saving many stockholders from loss and double liability.

In addition, the R. F. C. disbursed \$984,000,000 to closed banks.

Because commercial banks needed more capital, the R. F. C. in 1932 agreed to supply banks with capital. Total investments by the R. F. C. in such bank stock amounted to \$1,099,000,000, of which about half is still outstanding. This help prevented a great many banks from closing. The number of banks in which the R. F. C. invested stock was 6,139.

Then I think that the banks were helped through the Farm Credit Administration, and I assume that it is conceded that the Federal Deposit Insurance Corporation is something that has tried to help the banks, and then there is the aid given to the banks by the H. O. L. C., which I have already mentioned.

I think that I will file all of these statements instead of going over them with you.

Then I have a statement here showing the bank holdings of the public debt. I mention this for the reason that it is my belief that the banks have had an incentive to get out of the business that they would usually perform, because they could always buy Government bonds, and although they were at a low rate of interest, they were safe, they were liquid, and, having that incentive to purchase Government bonds, they have done that rather than to make commercial loans; and I notice that in 1939, out of a total interest-bearing debt of \$39,442,000,000, the members of the Federal Reserve System, member banks of the Federal Reserve System and the Federal Reserve banks themselves, hold nearly sixteen billions of these bonds. Of course, the interest on those bonds amounts to quite an enormous sum; I presume four or five hundred million dollars a year—that would be my guess—and that would cause a banker to have less incentive to make commercial loans, would it not, when he can always buy Government bonds, which are tax exempt?

Mr. WIGGINS. Not at the rate he has to buy bonds; no banker that I know of would buy Government bonds if he could make commercial loans.

Mr. PATMAN. Do you think the banks have been just as active and alert in trying to get loans as they were prior to 1929?

Mr. WIGGINS. I would say that the bankers of the United States have exercised more ingenuity and have spent more money advertising, have employed more men to go out and solicit, have scrutinized every application with a greater degree of care, have undertaken to rework every application for credit that did not qualify on the first examination so that they might qualify, than at any time in the history of the American banking system.

Mr. PATMAN. That is, in the recent past?

Mr. WIGGINS. That is now.

Mr. PATMAN. Well, is it not strange that the R. F. C. continues to make loans? They are making money on these loans. The R. F. C. has put out billions of dollars, and has made money, and has actually

collected these loans. The R. F. C. is not in position to do this as well as the local banks, is it?

Mr. WIGGINS. Mr. Patman, if I may interrupt, if you will break-down the operations of the R. F. C. as between their vast operations and the particular field of making these industrial loans, you would find that in that particular field they have not been so successful, and if you will take the report of the Federal Reserve Bank of New York, that also engages in direct loans to industry, their recent report, you will find that their conclusion is that you cannot make that type of loan safely, nor can you charge enough to take care of the losses by way of discount and interest.

Mr. GIFFORD. May I interrupt there? They had a hurricane in New England, and I could quote to you many loans granted by the Disaster Loan Corporation, where the conditions imposed were such that some of the communities refused to take the loan after it was granted, and the local banks actually took those loans.

So I claim that the banks have done everything in the world that they can to take sound loans.

Of course, the R. F. C. can do what it does do, for it borrows money at 1 percent and gets 5. The crop-production associations generally get out of the red because of the profit that they make on the securities that they are allowed to hold. I know; I went through their books. The spread between what they got the money for, and the interest that they charged, took care of the losses. Then the R. F. C. certainly cannot boast, because they have that profit, and it is an immense profit. The H. O. L. C. say that they lose nothing. But, when you consider the billions of dollars involved, and the fact that they can get money at 2 percent and put it out at 5 percent, even though they have staggering losses, they can make money. Isn't that the answer?

Mr. WIGGINS. That is true to a large extent. In addition to that is the contribution of capital by the Government, on which the Government gets no return.

Mr. SPENCE. How large is your town?

Mr. WIGGINS. Six thousand people.

Mr. SPENCE. How many banks do you have?

Mr. WIGGINS. Two.

Mr. SPENCE. How large is your bank?

Mr. WIGGINS. Our bank has deposits averaging about \$1,350,000.

Mr. SPENCE. How large is the other bank in your town?

Mr. WIGGINS. It has deposits averaging about \$450,000.

Mr. SPENCE. How many building associations do you have?

Mr. WIGGINS. There is one in liquidation. One of the old-style ones has given up the ghost, and is going out. There are three building and loan associations in our town—

Mr. SPENCE. And yours is the oldest?

Mr. WIGGINS. Mine is the old country style.

Mr. SPENCE. Which is the new style building and loan association?

Mr. WIGGINS. There is a new one that is a member of the Home Loan Bank System. That one makes loans for longer periods of time, takes in the money that anybody brings at any time and in any amount.

Then the other is a Federal savings and loan association, and that operates very much the same way, except that it is under a Federal charter.

Mr. SPENCE. Will the new style building and loan associations agree to pay the depositor a definite interest rate?

Mr. WIGGINS. No, sir. They do not do that in our town.

Mr. SPENCE. How long has your building and loan association been organized?

Mr. WIGGINS. Nineteen years.

Mr. SPENCE. Were there two banks in town at that time?

Mr. WIGGINS. Yes, sir.

Mr. SPENCE. Why did you organize the building and loan association?

Mr. WIGGINS. Because it lends itself to the monthly savings of the wage earners and the salary earners.

Mr. SPENCE. Did you find that you could operate it in conjunction with your bank and bring success to both?

Mr. WIGGINS. We do not operate it in connection with the bank. It is operated as a separate organization.

Mr. SPENCE. I guess that the same people control both?

Mr. WIGGINS. Except that the building and loan is a mutual association in which the stockholders select their directors and officers.

Mr. SPENCE. But I suppose it is controlled, is it not, by practically the same people?

Mr. WIGGINS. In effect, it is.

Mr. SPENCE. What has been the effect of the new style building and loan associations organized in your town?

Mr. WIGGINS. They are getting the business on a basis that we cannot lend our money on.

Mr. SPENCE. Why do they do that?

Mr. WIGGINS. They lend it on longer terms, and on less payment by the month, and on a higher proportion of the value of the security pledged. In other words, they give more liberal terms than we do.

Mr. SPENCE. In regard to the interest, what is the difference in the interest payments?

Mr. WIGGINS. We charge 6 percent. We have no appraisal fee, no loading of any sort, except that they have to furnish an attorney's certificate of title, and the cost is limited to \$15. That is the only expense.

Mr. SPENCE. Do you impose any fines or penalties?

Mr. WIGGINS. We do, on late payments made on the stock.

Mr. SPENCE. What kind of penalties do you impose?

Mr. WIGGINS. I think it is 5 cents a share, something like that.

Mr. SPENCE. Do these new mutual building and loan associations impose those penalties?

Mr. WIGGINS. Not that I know of. I just do not know.

Mr. SPENCE. Is that a considerable source of money?

Mr. WIGGINS. No, sir. We collect very little that way. We do not want to collect any that way if we can help it.

Mr. SPENCE. What have you paid to your depositors? What has been the rate of interest that you have paid to your depositors?

Mr. WIGGINS. That is a question that would require a great deal of explanation, when you talk about the rate of return to a member of a building and loan association, because you have to lay down your

formula by which you are going to answer the question. If you ask that in terms of the semiannual return received, the rate would be one thing, or the annual return received would be another, but at the end of a particular time, our people pay in an average of \$800 to \$840, over a period of 6½ to 7 years, and get back \$1,000, so that they get 20 to 25 percent on the total investment for that period of time.

Mr. FORD. That is about 2.3 percent annually.

Mr. WIGGINS. No, sir; it figures—

Mr. PATMAN (interposing). Would you mind if I finished my questions, so that I could have them close together?

Mr. WIGGINS. May I correct this statement? Actually, on an annual basis, it figures something around 5¼ percent, because, you see, they start off paying only the \$1.

Mr. SPENCE. Could you approximate it? Could you tell us what the actual return is, in interest, to the depositor?

Mr. WIGGINS. Do you want that as of the end of the 7-year period, or do you want it on a basis of annually?

Mr. SPENCE. Annually.

Mr. WIGGINS. As I say, it will figure something better than 5 percent.

Mr. SPENCE. What will the other building-and-loan associations, under the new plan, pay?

Mr. WIGGINS. They are paying 4 percent, and the rest of it goes into reserve and salaries.

Mr. SPENCE. They agree to pay the depositor 4 percent?

Mr. WIGGINS. They make no contract to pay him. They just say that they have always paid 4 percent and hope to continue to pay 4 percent.

Mr. SPENCE. Do you tell the depositors in your association that you have always paid?

Mr. WIGGINS. We do not tell a depositor anything. We sell stock, and tell them that they will get all of the profits earned.

Mr. SPENCE. But there is a depositing member and a borrowing member in your association, is there not?

Mr. WIGGINS. No, sir; we have no depositing member.

Mr. SPENCE. The man who is buying stock in a building-and-loan association is a depositing member, is he not?

Mr. WIGGINS. No, sir; he is just buying the stock on the installment plan.

Mr. SPENCE. But it works out the same way.

Go ahead.

Mr. PATMAN. Let me finish on this R. F. C. proposition.

Mr. CRAWFORD. May I ask Mr. Patman how much time he will take?

Mr. PATMAN. It won't take long.

Mr. CRAWFORD. What do you mean by "long"?

Mr. PATMAN. Of course, I do not want to be restricted.

Mr. CRAWFORD. But I want to find out how long you will take.

The CHAIRMAN. Mr. Crawford, we will give you time.

Mr. WIGGINS. May I say that I have to leave town this afternoon?

Mr. PATMAN. I won't take long; I will assure the gentleman of that.

In regard to Mr. Jones, I would like to read this statement that he made in a recent speech in regard to the earnings of the R. F. C.:

Although Government-owned, we have operated as a private enterprise. Our expenses have been less than 1 percent, which we have paid from earnings. We have also paid interest on the money we have borrowed, and loaned from earnings, and have accumulated an operating surplus of more than \$200,000,000.

I wonder, Mr. Wiggins, how the total amount of your operating expenses, including salaries of officers, compares with the total amount paid as interest on deposits.

Mr. WIGGINS. I did not quite get that question.

Mr. PATMAN. In other words, I have been looking over reports made by the Comptroller of the Currency, and the F. D. I. C., and it occurred to me that the banks are paying more in salaries to officers than they are paying in interest on all of their deposits. Do you have any information on that?

Mr. WIGGINS. Not for the banks as a whole. In our case, our total salaries of all employees—

Mr. PATMAN. I am not talking about your particular bank, but about all banks.

Mr. WIGGINS. No; I could not answer that.

Mr. PATMAN. I want to file a statement showing the principal savings institutions in the United States, by years from 1920 to 1939, and the amounts held by them, and I would like to file the testimony of different bankers on this legislation when it was before Congress in 1932, and I would also like to file a statement answering Mr. Benson's remarks, Mr. Philip A. Benson, on May 18. This statement was prepared by Mr. Fred T. Greene, president of the Federal Home Loan Bank of Indianapolis, in the sixth district.

I presume that you know Mr. Greene.

I believe that is all the time that I want to take, Mr. Chairman. I know that other members of the Committee would like to ask questions, and I shall not take any more time. Mr. Wiggins wants to go away this afternoon.

The CHAIRMAN. I do not want to shut you off.

Mr. PATMAN. I will just file the most of mine in the record, anyway. (The statements submitted by Mr. Patman for the record are reproduced below.)

WHAT THE COMMERCIAL BANKS HAVE DONE

Since 1932 the Federal Government has helped commercial banks in a number of ways. Through the Home Owners' Loan Corporation, the Farm Credit Administration, the Reconstruction Finance Corporation, and the Federal Deposit Insurance Corporation, the Federal Government has disbursed billions of dollars to commercial banks. By legislative favor they have reduced the interest rate to be paid on savings deposits and have eliminated the payment of interest on demand deposits. Lending powers of national banks have been broadened and provisions for advances by Federal Reserve Banks have been liberalized. Through the operations of the Federal Housing Administration, the Commodity Credit Corporation and the Reconstruction Finance Corporation, loans by commercial banks have been encouraged, through subsidies granted by the Federal Government. Despite all of these favors commercial banks are not now serving the public as well as before the depression.

1. Commercial banks have drifted away from their traditional and proper function of making commercial loans. In 1928 loans held by commercial banks represented over 70 percent of total loans and investments, but this ratio has declined to about 40 percent. "Other loans" representing the traditional commercial bank loan, have declined from 30 percent of total loans and investments in 1928 to 20 percent in 1938. Total loans by all Federal Reserve member banks declined from \$25,155,000,000 in 1928 to \$12,833,000,000 in 1933. In September 1938 they were little higher, being only \$12,937,000,000.

"Other loans" held by banks declined from \$10,991,000,000 in 1928 to \$4,972,000,000 in 1933. In September 1938 they were only \$6,364,000,000 or about 40 percent less than in 1928.

2. Prior to the depression commercial banks usually made no charges on checking accounts. At the present time, under local clearing-house rules, substantial income is derived from charges on checking accounts. Commercial banks not only pay no interest on such demand accounts but they make charges for servicing them.

3. Since 1933 commercial banks have been increasing their disbursements to salaries and wages. In 1933 the total disbursements for salaries and wages by members of the Federal Reserve System was \$306,000,000, by 1936 it had increased to \$352,000,000, and in 1937 was \$372,000,000. At the same time interest paid depositors has declined. (Source: Federal Reserve Annual Reports.)

A brief chronological summary of protective and liberalizing Federal legislation for commercial banks follows, noting especially the trend from short- to long-term lending, interest rates on deposits, service fees, and financial agencies of the Government benefiting banks.

1. 1913, Federal Reserve Act (38 Stat. 251) permitted 5-year, 50-percent-value loans only on farm lands in amount of 25 percent of capital and surplus or 33 $\frac{1}{3}$ percent of time deposits.

2. 1916 amendment to above (39 Stat. 754) allowed 1-year loans on other than farm land, all loans being restricted to property security within 100 miles from bank.

3. 1927 amendment to above (44 Stat. 1226) allowed 5-year term on all real-estate loans and increased amount so lent from 33 $\frac{1}{3}$ to 50 percent of time deposits.

4. 1932, Reconstruction Finance Corporation created (47 Stat. 5) with broad power to lend to banks and purchase assets of banks and make other commercial loans. These powers were extended and increased in 1933, 1934, and 1935 (47 Stat. 6, 714; 48 Stat. 121, 141, 318, 1198; 49 Stat. 1).

5. March 9, 1933, Bank Conservation Act (48 Stat. 2) gave the President and Secretary of Treasury emergency powers over currency and banking and empowered Comptroller of Currency to rehabilitate national banks by conservatorship, reorganization, etc., quickly and easily.

6. May 12, 1933, an act giving the Federal Reserve Board power to require increase or decrease of reserve requirements of member banks to meet credit expansion.

7. June 13, 1933, Home Owners' Loan Corporation wholesale operations (48 Stat. 128).

8. June 16, 1933, Banking Act of 1933 (48 Stat. 162) increased national bank investment powers, restricted safe-deposit business; created the Federal Deposit Insurance Corporation; authorized Federal Reserve Board to extend discounts, advancements and accommodations to member banks and otherwise modernized and liberalized features of control of members by the Board. Members not allowed to pay interest on demand deposits nor to pay on time deposits in excess of the rate prescribed for State banks or by the Federal Reserve Board. Double liability of national bank stockholders was removed. Investment powers increased. Reserves for deposits made more flexible and safe.

9. January 30, 1934, Gold Reserve Act of 1934 (48 Stat. 337).

10. June 19, 1934, Silver Purchase Act of 1934 (48 Stat. 1178).

11. June 27, 1934, National Housing Act created Federal Housing Administration (48 Stat. 1246) and also provided that national banks be allowed to classify 6-month construction loans on real estate as commercial loans, eligible for discount.

12. June 14, 1935, an act restricting national-bank loans to officers of such banks (49 Stat. 375).

13. August 23, 1935, Banking Act of 1935 (49 Stat. 684), made further revisions in banking law not covered in 1933 act. Authorized national banks to make a 10-year, 60-percent-of-value amortized loan on real estate, 40-percent of principal to be paid up in term, also allowed to make title II Federal Housing Administration loans. Amount of such loans not to exceed 60 percent of time deposits or unimpaired capital stock and surplus. National banks authorized to invest in National Mortgage Association bonds and certain other Government

guaranteed bonds. The Federal Deposit Insurance Corporation laws were revised to include savings banks. Reserve Board power increased for expansion or contraction of credit to banks. Interlocking directorates prohibited.

14. February 3, 1938, an act increasing security investment powers of national banks (52 Stat. 26).

15. April 25, 1938, an act further restricting loans to officers (52 Stat. 223).

16. May 25, 1938, an act for protection of depositors from loss (52 Stat. 442).

17. June 16, 1938, an amendment of preceding act, modernizing the same further (52 Stat. 767).

The matter of deposit fees and other checking charges made by banks is controlled by local bank agreements and not by statute.

FEDERAL GOVERNMENT HAS PROVIDED OUTLETS FOR LOANS BY COMMERCIAL BANKS

1. By outright guarantee of Federal Housing Administration title I loans the Government has guaranteed commercial banks an interest rate of 9.7 percent on \$528,000,000 of loans. Commercial banks benefited largely from the provision, as they wrote 72.1 percent of the \$733,000,000 of title I loans made through the end of 1938 (exhibit 1).

2. More than any other type of lender, commercial banks have benefited from Federal Housing Administration insurance under title II. Of the \$1,300,000,000 of Federal Housing Administration premium-paid loans at the end of 1938, commercial banks held \$620,000,000, or almost half. In addition, commercial banks collected commissions on \$164,000,000 of Federal Housing Administration loans which they sold through the end of 1938 (exhibit 1).

3. In States which handle the largest proportion of Federal Housing Administration business, commercial banks have been responsible for the largest portion of Federal Housing Administration business under title II. In California, commercial banks did about 85 percent of the Federal Housing Administration home mortgage business (exhibit 2).

4. The Reconstruction Finance Corporation has given commercial banks the benefit of take-out agreements on \$57,552,558 of loans to business and industry. In addition, the Reconstruction Finance Corporation has taken participation in other loans to business and industry in which commercial banks have an interest of \$61,492,756.

5. Under similar take-out agreements the Reconstruction Finance Corporation, through the Commodity Corporation, has agreed to purchase, if tendered, \$387,152,033 of loans held by banks for the purpose of financing the orderly marketing of agricultural commodities.

EXHIBIT 1

INSURED MORTGAGE ACTIVITY OF COMMERCIAL BANKS AS OF DECEMBER 31, 1938

A shown in the following table, commercial banks held at the end of 1938 over \$619,000,000 in Federal Housing Administration insured title II mortgages. This represents 47.6 percent of the total premium-paying mortgages insured by the Federal Housing Administration. In addition to this amount, commercial banks sold through the same date over \$164,000,000 of these mortgages.

Out of a total of \$733,000,000 in Federal Housing Administration title I business, commercial banks handled almost \$530,000,000, or 72 percent of the total.

	Total Federal Housing Administration business	Total commercial banks
Title II.....	\$1,300,446,241	\$619,535,147
Percent.....	100	47.6
Title I.....	\$733,350,548	\$528,726,918
Percent.....	100	72.1

EXHIBIT 2

VOLUME OF FEDERAL HOUSING ADMINISTRATION BUSINESS HANDLED BY
COMMERCIAL BANKS IN SELECTED STATES DURING 1937

The following table shows that in four important States which handled the largest proportion of Federal Housing Administration business during 1937, commercial banks accounted for the greatest percentage:

State	Total Federal Housing Administration business	Total commercial banks	Percent of total
California.....	\$89,880,000	\$76,268,000	84.8
Indiana.....	12,281,000	9,368,000	78.4
New Jersey.....	23,532,000	15,086,000	64.8
Pennsylvania.....	29,968,000	21,816,000	72.1

FAILURE OF COMMERCIAL BANKS TO FULFILL THEIR FUNCTION

The function of commercial banks is to provide short-term and medium-term credit facilities for agriculture, industry, and commerce. The history of the commercial banks over the last two decades is the history of failures in fulfilling that function. Commercial banks have lost important sectors in their legitimate field of business to other private institutions or to the Government. The following paragraphs, although incomplete, are designed to exemplify this process.

1. AGRICULTURAL CREDIT

Because of the failure of commercial banks to meet the short-term credit needs of farmers production credit associations were organized under the Farm Credit Act of 1933. On March 31, 1939, these associations reported 205,923 loans outstanding in an aggregate amount of \$166,160,663.

The Reconstruction Finance Corporation from the beginning of operations to February 2, 1939, has made more than 3,000,000 commodity loans to 1,500,000 farmers, averaging less than \$400. Probably 150,000 stockmen received loans averaging \$1,600. All in all, the Reconstruction Finance Corporation has authorized \$1,840,774,178 agricultural loans through the Commodity Credit Corporation and other agricultural agencies to producers of cotton, corn, wheat, tobacco, and other farm products. In addition, \$199,072,648 Reconstruction Finance Corporation loans were authorized for livestock and agricultural credit corporations.

2. INDUSTRIAL AND COMMERCIAL LOANS

Because of the failure of commercial banks to meet the credit needs of industry and commerce the Reconstruction Finance Corporation and the Federal Reserve banks had to assume a good deal of the functions of commercial banks in recent years. From the inception to February 2, 1939, the Reconstruction Finance Corporation has authorized 7,371 loans to business enterprises aggregating \$447,324,578. Banks have participated only in 1,661 of these loans, totaling \$61,492,756.

By act of June 19, 1934, Congress authorized the Federal Reserve banks to extend direct credit to established businesses for the purpose of furnishing working capital. For the period from June 19, 1934, to December 28, 1938, the Reconstruction Finance Corporation received 9,336 applications amounting to \$398,898,000. Of these applications, 2,653 were approved, amounting to \$175,011,000.

3. FOREIGN TRADE CREDIT

Because of the failure of commercial banks to provide credit facilities for foreign commerce Congress in 1933 authorized the creation of the Export-Import Bank of Washington, D. C. Since its inception to December 31, 1937, the Export-Import Bank has made commitments aggregating \$134,055,838 and has disbursed \$42,833,560.

4. INSTALLMENT CREDIT

Installment purchases of durable consumer goods totalled approximately \$11,000,000,000 in 1929 and \$3,500,000,000 in 1938. Commercial banks have lost a great portion of this business to specialized installment finance companies. According to the business census of 1935 there were 2,331 installment financing companies in operation. Their average portfolio in 1936 was approximately \$1,000,000,000, their turn-over three times, and the total volume of business \$3,000,000,000.¹ It is estimated that approximately one-half of the total installment retail sales is being financed by such companies. The remainder is shared by dealers, personal loan departments of commercial banks, personal loan agencies, etc.² Hence, the importance of commercial banks in this field is negligible.

The Government has also entered the field of installment credit. To aid in the distribution and sale of electrical equipment, the Electric Home and Farm Authority, operated by the Reconstruction Finance Corporation, has financed \$15,573,318 installment sales for home electrical appliances from August 1935 to February 2, 1939.

5. PERSONAL LOANS

Similarly, the considerable expansion of personal loan agencies in the last few years indicates that there is a demand for personal credit which is not being met by commercial banks. According to the Business Census of 1935 there were 4,015 personal finance companies. Their annual volume of business is estimated to be in the neighborhood of \$500 million.³ The expansion of personal loan companies was paralleled by the continuous growth of credit unions under State and Federal charter. By the end of 1915, there were only 48 credit unions, with total assets of \$471,000. At the end of 1938, the number of credit unions had increased to 7,500, and the volume of assets to about \$120 million.

SPECIAL LEGAL FAVORS GRANTED TO COMMERCIAL BANKS BY THE GOVERNMENT SINCE 1933

Since 1933 the Federal Government has granted the following special favors to commercial banks:

1. Provisions for advances by the Federal Reserve banks have been liberalized (see attached memorandum).

2. Members of Federal Reserve System not allowed to pay interest on demand deposits (12 U. S. C. 371a, June 16, 1933), amended August 23, 1935.

3. Members of Federal Reserve System not allowed to pay interest on time deposits at a rate in excess of rate prescribed (1) for State banks, or (2) by the Board of Governors of the Federal Reserve System (12 U. S. C. 371b, June 16, 1933), amended August 23, 1935.

4. Double liability of national-bank stockholders was removed by 12 United States Code 64a, June 16, 1933, as amended August 23, 1935.

5. The mortgage-lending power of national banks was extended June 27, 1934 (48 Stat. 1263) to permit banks to classify real-estate-construction loans having maturity under 6 months as commercial loans in which such banks may invest up to 50 percent of their paid-in unimpaired capital, and which are eligible for discount. This lending power was further extended by act of August 23, 1935 (49 Stat. 706, 717) which continued the 5-year, 50-percent real-estate-loan limitation except for 10-year, 60-percent amortized loans, 40 percent of the principal of which will be paid up in such 10-year period subject to renewal or extension not so restricted. No such restrictions on title II, Federal Housing Act, loans. National banks authorized to make such loans in amount up to 60 percent of time deposits or unimpaired capital stock and surplus fund.

¹ According to a recent study of the Brookings Institution on Consumers' Credit.

² Personal information from Finance Section of the Bureau of Foreign and Domestic Commerce.

³ Information from American Association of Personal Finance Companies, Washington, D. C.

COLLATERAL ELIGIBLE FOR DISCOUNT AND ADVANCES BY FEDERAL RESERVE BANKS

By the original Federal Reserve Act, as approved December 23, 1913, Federal Reserve banks were allowed to discount for member banks only commercial paper such as 90-day notes, drafts, and bills of exchange, and acceptances. All security loans to customers, except those secured by United States Government bonds (which then existed in very small volume) were excluded from rediscount as is clear from the original section 13 of the Federal Reserve Act.

The original act followed the lead of the Bank of England and foreign central banks which restricted their business largely to dealings in short-term commercial paper. The fundamental attribute of eligible paper, in the minds of framers and early administrators of the Federal Reserve, was that it be liquid, and liquidity was conceived in terms of self-liquidation of a commercial transaction.

The original zeal of the Federal Reserve authorities for reforming credit practice, through transformation of the holdings of member banks into liquid, short-term, double-name, commercial paper, wore off after a time, and regulations under section 13 were restated, in softer terms.

On September 7, 1916, the Federal Reserve Act was amended to permit a Federal Reserve bank to make advances to a member bank on the latter's promissory note, secured either by paper eligible for discount or for purchase in the open market or by United States Government bonds or notes. The advances might be made for a period not exceeding 15 days. As a result of this amendment member-bank borrowing from Reserve banks has been more by advances than by rediscounting and the collateral employed has been more largely Government securities than eligible commercial paper.

The amendments of 1932, 1933, and 1934 enlarged the list of collateral securities that may be used to procure advances from the Reserve bank so that the list now includes United States certificates of indebtedness, the obligations of the Federal intermediate credit banks, Federal farm mortgage bonds and Federal home-loan securities. While the maximum period for which advances might be made against securities was kept at 15 days, the period for advances against paper eligible for rediscount or purchase was extended to 90 days.

As for emergency periods, even greater liberality was extended. Under the Glass-Steagall Act of 1932, it was provided that, in the case of individual banks, advances might be made to them on the basis of other securities than the usual eligible and acceptable assets, the loans to be made to members of a clearing house for distribution to the individual bank.

The Banking Act of 1935 went a step further and authorized any Reserve bank to make advances to any member bank on its time or demand notes having maturities of not more than 4 months and which are secured to the satisfaction of the Reserve bank. Each note, however, must bear a rate not less than $\frac{1}{2}$ percent per year higher than the highest discount rate in effect at the Reserve bank on the date of the note. The higher rate on such advances is assumed to be sufficient to disincline any member to resort to them except in emergency and after all its paper eligible for discount and all its Government obligations are exhausted. It is under the authority of this amended section 10 (b) first originally added in 1932 as an emergency measure, that regulation A was issued by the Federal Reserve Board. This regulation establishes certain types of mortgages as eligible collateral for advances under this section. The types of eligible mortgages are listed in the memorandum of April 22.

FINANCIAL AID GIVEN BY THE FEDERAL GOVERNMENT TO COMMERCIAL BANKS
SINCE 1932

1. The H. O. L. C. disbursed \$525,000,000 of bonds to commercial banks in exchange for defaulted mortgages. This represents 26 percent of the estimated \$1,995,000,000 of home mortgage holdings of commercial banks at the end of 1932. The highest proportion of loans refinanced by any other type of lender was 13 percent. In other words, commercial banks received approximately twice as much as any other type of institution in proportion to their holdings of home mortgages. (Exhibit A.)

2. Through the operations of the Farm Credit Administration in refinancing farm mortgage loans, the Federal land banks and the Land Bank Commissioners have refinanced about \$440,000,000 of farm mortgage loans which the commercial banks were no longer willing to carry. (Exhibit B.)

3. The R. F. C. made loans to 5,816 active banks in the aggregate amount of \$1,138,000,000, principally during 1932 and 1933. Notwithstanding these loans 2,128 of these banks subsequently failed. However, 3,688 were enabled to continue, thereby saving many stockholders from loss and double liability. (Exhibit C.)

4. In addition the R. F. C. disbursed \$984,000,000 to closed banks. (Exhibit C.)

5. Because commercial banks needed more capital, the R. F. C. in 1932 agreed to supply banks with capital. Total investments by the R. F. C. in such bank stock amounted to \$1,099,000,000, of which about half is still outstanding. This help prevented a great many banks from closing. The number of banks in which the R. F. C. invested stock was 6,139. (Exhibit C.)

6. The Federal Deposit Insurance Corporation through the end of 1938 made total disbursements, in connection with the failure of 255 insured banks, of \$76,000,000. These disbursements made possible the payment to depositors in these banks of \$132,000,000. This year there has been a severe banking situation in New Jersey which has required the F. D. I. C. to disburse millions of dollars in that State. (Exhibit D.)

7. The Secretary of the Treasury supplied the F. D. I. C. with \$150,000,000 of capital and the Federal Reserve banks paid in \$139,299,557. The R. F. C. is authorized to purchase \$250,000,000 of F. D. I. C. obligations when necessary and if the R. F. C. fails to purchase this amount the Secretary of the Treasury is directed to purchase that portion of the \$250,000,000 which is not purchased by the R. F. C. In addition, the Secretary of the Treasury is directed to purchase an additional \$250,000,000 if the F. D. I. C. believes such purchase necessary. The Secretary of the Treasury is also directed, in his discretion, to purchase any other obligations of the F. D. I. C. These sums made available to the F. D. I. C. are almost exclusively for the benefit of commercial banks. (Exhibit D.)

EXHIBIT A

MAY 29, 1939.

AID GIVEN TO COMMERCIAL BANKS BY H. O. L. C.

Commercial banks received approximately \$525,000,000 of H. O. L. C. bonds in exchange for their defaulted mortgages. This figure of \$525,000,000 represents 26 percent of the estimated \$1,995,000,000 of home mortgage holdings of commercial banks at the end of 1932. In proportion to their holdings of mortgages on 1-4 family homes, therefore, commercial banks received approximately twice as much as any other type of lending institution. This is shown by the following table:

Type of lender	Estimated holdings of mortgages on 1 to 4 family nonfarm homes, Dec. 31, 1932	H. O. L. C. disbursements	
		Amount	Percent of 1932 holdings
Commercial banks.....	\$1,995,000,000	\$525,000,000	26
Savings and loan associations.....	5,756,000,000	770,000,000	13
Individuals.....	7,000,000,000	880,000,000	13
Mutual savings banks.....	3,375,000,000	410,000,000	12
Life-insurance companies.....	1,835,000,000	165,000,000	9
Total.....	19,961,000,000	2,750,000,000	13

EXHIBIT B

MAY 29, 1939.

AID EXTENDED TO BANKS BY THE FARM CREDIT ADMINISTRATION

According to the Farm Credit Quarterly for December 31, 1938, the total of loans and discounts made from 1933 through 1938 to all banks amounted to \$2,321,370,000. Later reports indicate that 86.5 percent of this amount went to refinance existing indebtedness. Twenty-two and one-tenth percent of this figure was advanced during this period to banks. Applying these percentages it may be estimated that the Farm Credit Administration extended aid to banks in an amount of about \$443,381,670.

EXHIBIT C

AID GIVEN TO COMMERCIAL BANKS BY R. F. C.

ACTIVE BANKS (\$2,237,307,999)

1. Loans to banks (\$1,138,217,337): Loans were authorized to banks in the aggregate amount of \$1,334,744,454 to 5,816 going banks, principally in 1932 and 1933. One hundred and ninety-six million three hundred and seventy-eight thousand three hundred and seventeen dollars of this amount was not used. One billion one hundred and thirty-eight million two hundred and seventeen thousand three hundred and thirty-seven dollars was used and 93 percent has been repaid. Notwithstanding these loans, made to aid these banks, 2,128 of them failed after receiving the loans, but 3,688 were enabled to continue, thereby saving many stockholders from loss and double liability.

2. Investments in preferred stock, capital notes and debentures of banks (\$1,099,090,662): Banks needed capital more than loans in 1932 and 1933. The R. F. C. bank capital program was in operation prior to the creation of the F. D. I. C. and the announcement that the R. F. C. had agreed to supply banks with capital stopped or prevented many bank runs. The R. F. C. was given authority to buy preferred stock, capital notes and debentures in banks and to make loans on preferred stock in banks, by an act of Congress approved March 9, 1933. R. F. C. agreed to put capital in 6,853 banks in an aggregate amount of \$1,349,234,714. Seven hundred and fourteen of these banks did not take the capital, finding they could get along without it, but the R. F. C. agreement to furnish the capital enabled these banks to carry on with confidence. The actual investments in bank capital, excluding \$47,500,000 invested in preferred stock of the Export-Import Bank, totaled \$1,099,090,662. Approximately 49 percent is still outstanding. This assistance to banks through the provision of capital prevented a great many more banks from closing.

LOANS TO CLOSED BANKS (\$983,701,788)

Because of the great number of banks that failed, the limit of \$200,000,000 in the original R. F. C. Act for loans to closed banks was removed June 14, 1933. Total funds distributed to closed banks amounts to \$983,701,788.

LOANS TO BUSINESS AND INDUSTRY (\$57,552,558)

As an incentive toward the resumption of lending, banks were asked to cooperate with R. F. C. in making business and industry loans through the execution of participation agreements and take-out commitments. These take-out agreements insured banks against loss on that part of the loan covered by the agreement. In addition to \$61,492,756 of participation loans taken for their own account, banks held \$57,552,558 of loans having a take-out agreement from the R. F. C.

COMMODITY CREDIT CORPORATION (\$387,152,033)

Under similar take-out agreements, loans held by banks for the purpose of financing the orderly marketing of agricultural commodities, which the Commodity Credit Corporation has agreed to purchase if tendered, aggregate \$387,152,033.

EXHIBIT D

FEDERAL DEPOSIT INSURANCE CORPORATION

1. The capital stock of the Federal Deposit Insurance Corporation was paid in as follows:

November 1933, Secretary of the Treasury-----	\$150,000,000
January and April 1934, Federal Reserve banks-----	139,299,557
Total-----	289,299,557

The Reconstruction Finance Corporation is authorized by law to purchase obligations of the Federal Deposit Insurance Corporation up to \$250,000,000 when necessary. If the Reconstruction Finance Corporation fails to purchase this amount, the Secretary of the Treasury is directed to purchase that portion of the \$250,000,000 which the Reconstruction Finance Corporation does not purchase.

In addition, the Secretary of the Treasury is authorized and directed to purchase an additional \$250,000,000 if the Federal Deposit Insurance Corporation believes such purchase necessary.

The Secretary of the Treasury is also directed in his discretion to purchase any other obligations of the Federal Deposit Insurance Corporation.

Total assets of Federal Deposit Insurance Corporation December 31, 1938-----	\$421,622,327
Obligations which Reconstruction Finance Corporation and Treasury Department are authorized and directed to purchase when necessary-----	500,000,000
Total-----	921,622,327

2. As of December 31, 1938, the Federal Deposit Insurance Corporation was insuring 13,709 banks with 61,000,000 accounts showing balances of \$48,000,000,000, of which \$21,700,000,000 was insured.

3. From the beginning of operations through 1938, 255 insolvent insured banks were closed. Three were subsequently reopened or taken over by other insured banks. Two hundred and fifty-two were liquidated or merged with the aid of loans from the Federal Deposit Insurance Corporation. The 479,829 depositors in these banks had total deposits of \$135,758,000, of which \$131,783,000 was promptly made available.

On December 31, 1938, the total disbursements made or pending to depositors of closed banks in settlement of their claims and to merging banks for loans and purchase of assets, including expense and other incidental charges, were \$76,016,341.86. Recoveries are estimated at \$54,918,156.26, resulting in a net estimated loss of \$21,098,185.60.

4. On February 14, 1939, the New Jersey Title Guarantee & Trust Co., Jersey City, was closed by the Federal Deposit Insurance Corporation. Nearly 40,000 depositors had insured deposits of between \$17,000,000 and \$18,000,000. Frozen assets of the bank totaled \$15,575,646.

5. The Jersey City clean-up program is an example of the method in which the Federal Deposit Insurance Corporation aids commercial banking.

The New Jersey Title Guarantee & Trust Co. was closed on February 14, and on February 20 a merger of the West Bergen Trust Co. into the Trust Co. of New Jersey was announced. The Reconstruction Finance Corporation was to supply \$6,000,000 for the purchase of new preferred stock, and the Federal Deposit Insurance Corporation was to lend \$15,000,000 on the less satisfactory assets of the two banks. It is estimated that the Federal Deposit Insurance Corporation will receive a return on these assets of only 40 percent, although it usually realizes a return of about 70 percent from assets upon which it has made loans to effect mergers.

Bank holdings of the public debt

[Millions of dollars]

December 31—	Total interest-bearing debt ²	U. S. Government bonds held by ¹ —				Percent of total held by all member banks	Percent of total held by Federal Reserve System
		Reporting member banks, New York City	All member banks	12 Federal Reserve banks	Total Federal Reserve System		
1920.....	\$23,745		\$2,619	\$287	\$2,906	11.0	12.2
1921.....	23,183		2,581	234	2,815	11.1	12.1
1922.....	22,483		3,754	436	4,190	16.7	18.3
1923.....	21,643		3,603	134	3,737	16.6	17.6
1924.....	20,712		3,874	540	4,414	18.7	21.3
1925.....	19,983		3,728	375	4,103	18.7	20.5
1926.....	18,823		3,389	315	3,704	18.0	19.7
1927.....	17,686	\$974	3,978	617	4,595	22.5	26.0
1928.....	16,991	1,094	4,312	228	4,540	25.4	26.7
1929.....	16,029	1,112	3,863	511	4,374	24.1	27.3
1930.....	15,774	1,239	4,125	729	4,854	26.2	30.8
1931.....	17,528	1,768	5,319	817	6,136	30.3	35.0
1932.....	20,448	2,603	6,540	1,855	8,395	32.0	41.1
1933.....	23,450	2,362	7,254	2,437	9,691	30.9	41.3
1934.....	27,944	3,544	10,895	2,430	13,325	39.0	47.7
1935.....	29,596	3,826	12,268	2,431	14,699	41.5	49.7
1936.....	33,699	4,209	13,545	2,430	15,975	40.2	47.4
1937.....	36,715	3,595	12,372	2,564	14,936	33.7	40.7
1938.....	38,899	3,857	13,222	2,564	15,786	34.0	40.6
1939 ³	39,442	4,026	13,351	2,564	15,915	33.8	40.4

¹ Includes both direct obligations of and obligations fully guaranteed by the United States. Data from annual and monthly reports of the Board of Governors of the Federal Reserve System. Data prior to 1927 on New York City member banks not readily available.

² Data from annual and monthly reports of the Treasury Department.

³ Total interest bearing debt as of Mar. 31; U. S. Government bond holdings as of Mar. 29.

SAVINGS AND LOAN ASSOCIATIONS ARE GOOD CUSTOMERS OF COMMERCIAL BANKS

It seems strange that commercial bankers should oppose legislation benefiting savings and loan associations when savings and loan associations are among the best customers of commercial banks. Savings and loan associations rarely keep cash on hand as they are not deposit institutions. The cash that they need for their regular operations they usually keep on deposit with commercial banks. At the present time these bank deposits made by savings and loan associations may be estimated at about \$200,000,000.

PROCEEDINGS OF AMERICAN BANKERS ASSOCIATION, BOSTON, MASS.,
OCTOBER 7-10, 1913

The 1913 session of the American Bankers Association was held at Boston, Mass., on October 7-10, 1913. The Glass-Owen bill to establish the Federal Reserve System had then passed the House of Representatives and was pending before the Senate. The Committee on Banking and Currency of the House of Representatives had drawn up the bill, and it was approved by the House, without the holding of any public hearings. The Senate committee, however, prepared a copy of 33 questions covering the various phases of the legislation and which were sent to bankers generally for reply. The currency commission of the American Bankers Association, composed of 15 members, held a meeting at Atlantic City on June 18, 1913, to discuss this questionnaire.

On August 22 a conference was called at Chicago and the clearing-house organizations of the country and the bankers associations of the different States were invited to send representatives to confer with the currency commission of the American Bankers Association. The meeting lasted 2 days.

When the regular convention of the American Bankers Association was held in Boston, Mass., its currency commission, headed by A. Barton Hepburn, chairman, prepared a report opposing the pending Glass-Owen bill. This report stated: "The bill in its present form imposes unwise hardships upon the banks and equally unwise hardship upon the general public" (p. 78).

The report condemned the Glass-Owen bill as "socialistic." "There are a great many different kinds of socialism; but, however, the various theories differentiate, they all agree upon the fundamental proposition that the Government—that is, the community as a whole—should own all the real estate, all manufacturing enterprises, all banks, all transportation companies—in short, all money-making utilities. This proposition of the Government to take the bank's capital in the manner provided, carried to the extreme, would easily accomplish, so far as the national banks are concerned, this contention on the part of the Socialists. For those who do not believe in socialism it is very hard to accept and ratify this proposed action on the part of the Government" (p. 79).

The fundamental amendment sought by the Chicago conference were as follows:

1. Representation by private bankers on the Federal Reserve Board, and limitation of powers of the Federal Reserve Board.

2. Optional contributions to the capital of Federal Reserve banks instead of forced subscription under penalty of death.

3. The new currency notes to be the obligation of the banks instead of the Government, and their current and final redemption in gold instead of "gold or lawful money."

4. The right of the owner of the property to have some voice in the placing of a part of its reserve funds, with approved reserve agents as now, instead of all being impounded by law, and from the earnings of which the Government is to abstract a part.

After the reading of the currency commission report, Mr. E. J. Hill of Norwalk, Conn., offered the following resolution:

Resolved, That the report of the Currency Commission be received and placed on file.

Resolved, That we approve the work of the Currency Commission, and that we ratify and endorse the action of the Chicago conference, the conclusions they reached and the recommendations they made.

Resolved, That we urge upon Congress the wisdom and necessity of incorporating into the proposed law the amendments recommended by the Chicago conference, all of which have been elaborately presented to the Committee on Banking and Currency of the United States Senate, in which body the proposed law is now pending.

"Any law passed by Congress, in order to be effective and realize, in full measure, the hopes of those who are seeking currency reform, must command the approval and enlist the cooperation of the banks of the country, both State and National" (p. 80).

Mr. Thomas McRae, of Prescott, Ark., opposed these resolutions, stating, "I think it is unfortunate that this great currency commission, that has done such noble work for currency reform, should insert in its report at this juncture reflections upon the pending administration currency bill by characterizing it as socialistic" (p. 86). He stated further, "The issue here is this: Shall the banks control the currency or shall the Government control it? I believe the Government should issue and control it. The bill so provides. I want the best and soundest currency that we can possibly have—that will be good everywhere" (p. 87). He added, "I am unwilling as a member of this association to remain silent and let it go forth to the country that these resolutions are unanimously adopted by the American Bankers Association and the language of the report unchallenged. They do not reflect the sentiment of the great majority of the country bankers." (The speaker was here interrupted with the cry of "You are wrong") (pp. 88-89.)

Mr. J. H. O'Neil, of the Federal Trust Co. of Boston, Mass., proposed the following resolution, which was seconded by Mr. McRae:

Resolved, That we applaud the action of the President, the Secretary of the Treasury, and Congress in their efforts to give this country an elastic as well as a safe currency, and pledge them our hearty support toward the enactment of proper legislation to that end" (p. 96).

The convention was then adjourned until half past 2 without taking action on any of the pending resolutions.

In the afternoon session of the same day, October 8, the action taken in the morning of requiring the vote on the resolutions by States was reconsidered, and those votes taken during the morning were expunged from the record.

In the afternoon the O'Neil amendment was seconded by Mr. Hepburn and accepted by Mr. E. J. Hill, of the currency commission, and was voted unani-

mously. The resolutions approving the report of the currency commission, as introduced by Mr. E. J. Hill, were likewise approved, the resolutions being voted upon separately. The first resolution "*Resolved*, That the report of the currency commission be received and placed on file" was adopted by voice vote, Chairman Reynolds stating, "All in favor of the adoption of that resolution will say aye; opposed, no. The ayes seem to have it. The ayes have it, and the resolution is adopted" (p. 112).

There were two negative votes opposing the work of the currency commission. Mr. McRae voted against the resolution which urged upon Congress the wisdom and necessity of adopting the amendments recommended by the Chicago conference.

Mr. John L. Hamilton, of Hoopston, Ill., objected to the report of the Chicago conference as it recommended that national banks be allowed to make real-estate loans for maturities of 12 months only. He suggested that the "committee be instructed to recommend an amendment to this measure making the term of those loans at least 5 years" (p. 105). At this point there were cries of "No! No! No!" (p. 105). He later withdrew his proposed resolution.

Principal savings institutions in United States (1920-38)

[Amounts in millions of dollars]

Year	Life insurance assets ¹	Commercial banks time deposits	Mutual savings banks assets	Building and loan association assets	Governmental pension and trust funds	Postal savings	Baby bonds	Total
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	
1920.....	7,646	10,005	5,619	2,534	246	157	-----	26,207
1921.....	8,263	10,883	6,040	2,891	335	152	-----	28,564
1922.....	8,992	11,717	6,352	3,343	444	138	-----	30,986
1923.....	9,945	13,391	6,905	3,943	559	132	-----	34,875
1924.....	10,950	14,399	7,365	4,766	679	133	-----	38,302
1925.....	12,166	15,884	7,913	5,509	830	132	-----	42,434
1926.....	13,600	17,070	8,422	6,334	993	134	-----	46,553
1927.....	15,152	17,936	9,011	7,156	1,174	147	-----	50,576
1928.....	16,785	19,626	9,688	8,016	1,420	152	-----	55,687
1929.....	18,316	19,187	10,006	8,695	1,675	154	-----	58,033
1930.....	19,762	19,125	10,295	8,824	1,929	175	-----	60,110
1931.....	21,055	17,880	11,192	8,412	2,179	347	-----	61,065
1932.....	21,636	13,559	11,134	7,745	2,418	785	-----	57,277
1933.....	21,802	10,389	10,967	6,972	2,671	1,187	-----	53,988
1934.....	22,805	11,255	11,065	6,445	2,918	1,198	-----	55,686
1935.....	24,210	12,357	11,173	5,884	3,208	1,205	62	58,099
1936.....	25,913	13,250	11,409	5,620	3,574	1,232	316	61,314
1937.....	27,347	14,193	11,645	5,706	5,025	1,268	800	65,984
1938.....	28,775	14,359	11,572	5,712	6,169	1,252	1,238	69,077

¹ Including fraternal associations.

Sources: (1), (2), (3), (4), (6), Statistical abstract of the United States; (5), data for 1937 from a study made by the United States Treasury Department. Data for other years estimated; (7), annual reports of the Secretary of the Treasury.

Annual increase or decreases in the totals shown on the above table are as follows:

1921.....	+2,357	1927.....	+4,023	1933.....	-3,289
1922.....	+2,422	1928.....	+5,111	1934.....	+1,689
1923.....	+3,889	1929.....	+2,346	1935.....	+2,413
1924.....	+3,427	1930.....	+2,077	1936.....	+3,215
1925.....	+4,132	1931.....	+955	1937.....	+4,670
1926.....	+4,119	1932.....	-3,788	1938.....	+3,093

TESTIMONY BY BANKERS ON ORIGINAL FEDERAL HOME LOAN BOARD LEGISLATION,
MAY 31, 1930

In the House hearings on the original Federal Home Loan Bank Act, Mr. Thomas E. Monks and Mr. Charles H. Mylander were the official representatives of the Ohio Bankers Association. In his testimony, Mr. Monks favored the liberalization of the collateral acceptable by Federal home loan banks to include

all types of mortgages; short- as well as long-term and mortgages on all types of properties.

"Mr. MONKS. We object to the 8-year term mortgage in there, mortgages that have to run 8 years. We object to the bank——

"Mr. REILLY. Now, wait. What more do you want to put in there of limitations?"

"Mr. MONKS. No limitations.

"Mr. REILLY. Any kind of mortgage?"

"Mr. MONKS. Any kind of mortgage that is fit to be rediscounted should be taken into consideration" (p. 302 House Hearings on H. R. 7620).

Mr. Mylander testified that if the Federal Government was to take care of mortgage lending institutions, it should take care of all of them, including commercial banks. After testifying that the building and loan competition with banks was "of the meanest character," Mr. Mylander stated, "If you are going to take care of mortgage lending institutions, take care of all of them" (p. 318 House Hearings on H. R. 7620).

Mr. Mylander complained that mutual savings banks were not properly taken care of in the bill to establish the Federal Home Loan Bank System:

"Mr. MYLANDER. The next point that I want to make is that I am a little bit surprised after the previous contact that I have had with this committee, that the mutual savings banks are so far shut out of the provisions of this bill" (pp. 311-312 House Hearings on H. R. 7620).

In view of the testimony of Mr. Williams before the House committee to the effect that banks were not opposed to the original Federal Home Loan Bank Act, it is interesting to note that the American Bankers Association presented, through Mr. E. E. Mountjoy, deputy manager, on March 29, 1932, a resolution opposing the home loan bank bill then pending.

"Mr. MYLANDER. At a meeting of the interim committee of the American Bankers Association held in Washington on March 21, 1932, it was resolved that the American Bankers Association vigorously opposed the home loan bank bill (S. 2959; H. R. 7620) as setting up a permanent banking system which is unnecessary and which would interfere with the operations of the present banking system" (p. 414, House Hearings on H. R. 7620).

The subsequent testimony brought out the fact that there were only six members of the committee who had voted this resolution. It is clear that the position of the American Bankers Association today is unchanged from what it was 7 years ago. Their grounds for opposition are the same.

Following the introduction of this resolution, Mr. Mylander and Mr. Luce had the following colloquy:

"Mr. LUCE. But you, yourself, would not attach much strength to a resolution of that kind, would you?"

"Mr. MYLANDER. I think I should.

"Mr. LUCE. Well, let me assure you that the Members of Congress do not."

Mr. Reilly then obtained from Mr. Mylander a statement that the American Bankers Association did not pass on the bill at their annual conference.

When the Senate Banking and Currency Committee was conducting hearings on the original Federal Home Loan Bank Act, Mr. J. Morrison, then president of the savings division of the American Bankers Association, testified against the pending bill. He said that "savings banks and building and loan associations should be prohibited from borrowing money except for short times and then only to meet an emergency. They should be prohibited from making any new loans or investments while they owe borrowed money" (p. 381, Senate Hearings, pt. 2). He predicted that if members of the Federal home loan banks were permitted to borrow money during normal times it would result in overbuilding. The following quotation from his testimony, representing a criticism in ability of the Federal home loan banks to issue debentures in times of emergency, is particularly significant in view of the provision in the pending bill which would eliminate this difficulty:

The plan "will not prevent a recurrence of collapse of real estate credit because when a credit crisis arises the Federal home loan bank will be unable to sell bonds just as the Federal Land Bank is unable to sell its bonds" (p. 382, Senate Hearings, pt. 2).

The interim committee of the American Bankers Association, meeting in Washington, D. C., on January 27, 1932, sent the following statement to be placed in the record of the Senate hearings:

"That the American Bankers Association take the position that action by Congress on the proposed home loan bank bill be deferred until it can be ascertained how successful the Reconstruction Finance Corporation will be in dealing with the problems involving accumulated mortgages. This, for the reason that the Reconstruction Finance Corporation can give the needed relief, with the exception of stimulating the building of new homes which it would seem inadvisable to encourage at this time, the present need being to render assistance to existing home ownership; and for the further reason that it is unwise public policy for the Federal Government to create additional banking corporations of a permanent character" (p. 383, Senate Hearings, pt. 2).

The above resolution throws an interesting light on the statement by Mr. P. R. Williams (p. 4) on May 17, 1939, before the present House committee: "It is quite evident that the vast majority of bankers were in favor of Federal home-loan banks."

Mr. Rome C. Stephenson, past president of the American Bankers Association, appeared before the Senate committee opposing the original bill to establish the Federal Home Loan Bank System (pp. 277-81, Senate Hearings, pt. 2).

Since 1932 the American Bankers Association has changed its official attitude toward the original Federal Home Loan Bank Act. In his statement of May 18, 1939, before the House committee, Mr. Philip A. Benson, now president of the American Bankers Association, stated of the conditions when the Federal Home Loan Bank Act was passed, "It was, of course, proper that Congress should take the same constructive steps for the benefit of building and loan associations and their shareholders as was done for banks and their depositors, altering, of course, the remedy to the type of institution to be aided by the legislation."

Mr. G. Wallace Tibbetts, president of the Exchange Trust Co. of Boston, Mass., placed in the records of the Senate hearings on the Federal Home Loan Bank Act telegrams from the following men in opposition to the bill then pending: Herbert W. Scott, manager of the Boston Clearing House Association; Mr. Albert G. Keith, trustee of the Massachusetts Savings Bank; Mr. Rutherford E. Smith, president of the Dorchester Savings Bank and on the executive committee of the Massachusetts Savings Bank Association (p. 238, Senate Hearings, pt. 2).

Mr. B. C. Hardenbrook, vice president of the First National Bank and First National Trust & Savings Bank of Chicago, Ill. (Mr. Traylor's bank) testified before the committee that he was opposed to the bill:

"Mr. HARDENBROOK. I am opposed to it. I might say 'we' are opposed to it, because if I understand it, the real purpose of this bill is to permit people to acquire homes" (p. 269, Senate Hearings, pt. 2).

At a meeting held in St. Louis, Mo., on February 7, 1932, the administrative committee of the Missouri Bankers Association adopted a resolution which they forwarded to the Senate Committee on Banking and Currency. In this resolution they opposed the bills to establish the Federal Home Loan Bank System. Their reasons were as follows:

1. The bill will not meet the present emergency purposes.
2. It will tend to encourage and promote a revival of home construction, "which we deem highly inadvisable."
3. The bill contemplates indefinitely borrowing by these beneficiary institutions.
4. The proposed legislation is so far-reaching as to require great care and investigation before being placed on the statute books.
5. The \$150,000,000 Federal advance is a large item for the Federal Budget but still is insufficient to handle the problem of mortgage indebtedness. Moreover, the debentures to be sold will not be guaranteed by the United States Government and, therefore, cannot be successfully sold in competition with the actual obligations of the Government.
6. Frozen institutions will not benefit by the law inasmuch as the type of securities which are acceptable for advances are already liquid and readily salable at or near par.
7. Many of the proposed members operate under State laws and could not participate until State enabling legislation is enacted.
8. The creation of additional Federal bureaus is opposed (p. 643, Senate Hearings, pt. 2).

FEDERAL HOME LOAN BANK OF INDIANAPOLIS,
Indianapolis, Ind., May 23, 1939.

Mr. W. F. PENNIMAN,
*Deputy Governor, Federal Home Loan Bank System,
 Federal Home Loan Bank Board,
 Washington, D. C.*

Re: Philip A. Benson remarks on May 18 on H. R. 5535.

DEAR FRED: The thoughts which occur to me as being helpful in the refutation of Mr. Benson's assertions regarding H. R. 5535 are as follows:

MUTUAL SAVINGS BANKS

Mr. Benson is president of a mutual savings bank which should be taken as *prima facie* evidence that he believes these institutions are of benefit to the people of the country. Mr. Benson should remember that mutual savings banks exist in only about 15 States largely confined to the northeast section of the country. The great Middle West has no mutual savings banks, and their nearest counterpart is the savings and loan associations which in many cases for a half century have operated on a plan very similar to the mutual savings bank plan.

For example, here in Indianapolis, the Railroadmen's Building and Savings Association (now the Railroadmen's Federal Savings and Loan Association) has been in business for 50 years and prior to the depression was the second largest financial institution in the State of Indiana, exceeded only by the Lincoln National Life Insurance Co. of Fort Wayne. This institution like many other large institutions operated exclusively with optional share accounts, paid its withdrawals on demand and for all practical purposes served the city of Indianapolis in exactly the same manner as the Dime Savings Bank serves the people of Brooklyn. The only important difference in the financial structure of the Railroadmen's Building and Savings Association and that of the Dime Savings Bank was the fact that most of the funds of the Railroadmen's were invested in mortgage loans rather than in securities.

BANK COMPETITION

Mr. Benson asserts that his remarks are made not "in the selfish interests of our institutions from a competitive standpoint." After making this assertion, Mr. Benson devoted some sixteen and a half pages to complaining about the competition of Federal savings and loan associations. In one breath, Mr. Benson praises the mutual savings banks and in the next breath he seeks to deny the great bulk of the country the advantages of similar institutions. His cry against the "third banking system" will not hold water in view of the fact that the mutual savings banks are in the main entirely free from any Federal supervision as they are State supervised and generally are not members of either the Federal Reserve System or the Federal Deposit Insurance Corporation and hence to my mind are in the category of being neither "fish or fowl."

On page 2, Mr. Benson alleges that the support for this bill comes from the institutions involved and the supervisory authority. Certainly Mr. Benson is not naive enough to suggest that the changes which are made in the savings bank code in the State of New York come from the general public rather than from the State savings bank association and the State superintendent of banks, the supervisory authority. Mr. Benson well knows that the banking legislation governing his own institution is largely instigated, fostered, and made into law at the request and upon the efforts of himself and his fellow savings bankers with the aid and cooperation of the State banking authorities.

USE OF THE WORD "SAVINGS"

It is interesting to note that in the last paragraph on page 3, Mr. Benson says "These institutions were performing a useful function in their field, namely, the encouragement of investments in homes and the accumulation of savings for that purpose." Mr. Benson had better get together with his fellow objectors on whether State chartered building and loan associations have the function of the "accumulation of savings."

ABILITY TO PAY DIVIDENDS

I believe it is a fact that can be proved that the large savings banks in the metropolitan area of New York City sponsored State legislation giving the superintendent of banks power to force a reduction in interest to be paid savings depositors by savings banks in New York State largely to aid the metropolitan savings banks, which, because of unsound investment portfolios, had seen their earnings fall off to a point where these banks could no longer pay the interest rate being paid by their fellow savings banks in other parts of New York State. My reason for this contention is the fact that many of the metropolitan savings banks made large straight loans on New York City tenement buildings, which loans were renewed year after year without amortization on properties in which the value was declining, and that their investment portfolio which they carried to maintain liquidity was to a large extent invested in railroad bonds, many of which have defaulted. In other words, these savings banks were not forced to curtail their interest rate on savings so much because of a general decline in mortgage interest rates and a decline in interest rates on investments, but because of the fact that such a large proportion of their own mortgage loans and investment portfolio are loaded with past mistakes which they have not had the courage to face. Fortunately, the savings-bank liquidity of which Mr. Benson by implication boasts has never been put to a real test, nor has the solvency of these institutions been tested against today's values on the properties on which they hold mortgage loans and that portion of their securities which have tended downward.

BANKS IN THE MORTGAGE BUSINESS

On page 5, Mr. Benson alleges that it is improper for a bank which pays its depositors on demand to be in the mortgage business, yet the very type of institutions which comprise the membership of the American Bankers Association, which Mr. Benson represents, are becoming mortgage-loan banks and investing a very large proportion of their assets in home-mortgage loans through the F. H. A. plan on the theory that the Government insurance of home mortgages makes them a liquid asset. I maintain that if it is good banking for a commercial bank to become the principal source of home-mortgage money, then there certainly is nothing to Mr. Benson's arguments against savings and loan associations which invest their funds in home mortgages to pay their withdrawals on demand.

REQUIREMENT OF PERIODIC PAYMENT ON SAVINGS AND LOAN SHARES

On page 6, Mr. Benson assumes that the right of associations to accept funds on an "optional share" basis is a new departure in savings and loan practice. If Mr. Benson will examine the savings and loan laws of his own State, where the savings and loan associations are supervised by the same superintendent of banks as is his own savings bank, he will find that in New York State chartered associations have long had the right to accept funds on optional savings accounts, just as they have here in Indianapolis and in many other States of the Union.

RIGHT TO REPURCHASE ON DEMAND

Again, if Mr. Benson will examine the laws governing savings and loan associations in his own State, which are supervised by the same supervisory authority as his bank, he will find that State-chartered associations in New York can pay withdrawals on demand without causing the investor to pay a fine, fee, or forfeiture.

Mr. Benson alleges that Congress did not permit in the Home Owners' Loan Act of 1933 that savings and loan associations should either accept "optional savings" or pay withdrawals on demand. Of course there is no reference to either of these points in the Home Owners' Loan Act of 1933. On the contrary, the Federal Home Loan Bank Board is required to give credence to the best practices in local mutual thrift and home-financing institutions. In the judgment of many students of the problem the best practice in the local mutual thrift and home financing institutions is to do away with fines, fees, and forfeitures and to make the savings of the people as available as is possible. Certainly Mr. Benson's institution is local, certainly it is a thrift institution, and certainly it is engaged in home-financing practice. Therefore, in my judgment, if the Federal Home Loan Bank

Board had set up the Federal savings and loan associations patterned almost exactly after the Dime Savings Bank, it would have been complying with the spirit and the letter of the Home Owners' Loan Act of 1933 in this regard.

On page 7 Mr. Benson says that the savings and loan associations have made a point of indicating in their advertising that moneys advanced by shareholders are repaid on demand. As far as this district is concerned, I believe this is absolutely an untrue statement. The vast majority of savings and loan advertisements have been very carefully worded in this respect and have not made false promises about immediate liquidity at all times. However, many institutions have, year in and year out, followed the practice of meeting withdrawals promptly, and many of our associations have a long-time record in this respect.

FEDERAL SAVINGS AND LOAN ASSOCIATIONS VERSUS MUTUAL SAVINGS BANKS

On page 7 Mr. Benson implies that it would be bad for the country to have a Federal system of mutual savings banks. Again I do not see how he reasons that a State-chartered mutual savings bank is good for the people of New York State but a federally chartered mutual savings bank would be bad for the people of Michigan where there is not a single mutual savings bank.

On page 8 Mr. Benson implies that it would be bad if the savings and loan associations "are primarily 'savings' rather than 'loan' associations." How in the world can any savings institution have money to loan if it does not attract money through savings, and since when did it become contrary to good public policy for either the State or the Federal Government to sponsor and encourage savings on the part of the mass of the people through the creation of sound local savings institutions under strict supervision?

On page 9 Mr. Benson implies that it is all right for a commercial bank or a mutual savings bank to take its demand deposits and invest them in the mortgages on "large apartment houses or hotels." If this is bad policy for a savings and loan association, which Mr. Benson maintains must always be a semifrozen institution, then certainly it is just that much worse for a demand-deposit bank to put its demand deposits into such mortgages.

Mr. Benson further implies that it is all right for what he terms a semifrozen institution to invest its funds in a large number of small mortgages. If a savings and loan association must be a semifrozen institution, even when its funds are invested in a large number of small mortgages, then it is certainly worse for Mr. Benson to advocate that banks which are "loaded with idle funds" to invest "in just such mortgages" (mortgages on large apartment houses or hotels). Certainly this is inconsistent. If it is all right for a bank with its demand deposits to invest in mortgages on large properties, then it is certainly all right for a savings and loan association which has the protection of "going on notice" in time of trouble, a protection which a commercial bank does not have.

On page 9, Mr. Benson certainly contradicts the first sentence of the fourth paragraph on page 1 of his remarks, in which he emphasized the fact that he was appearing not from selfish interests from a competitive standpoint, when he says "this provision would permit savings and loan associations in most States to invest in any security which is legal for savings banks." Mr. Benson states that it is important for Congress to know the practical effect of this proposed change. Mr. Benson does not say what the practical effect is but by implication states that the practical effect is to provide the 30 or more States which have few or no mutual savings banks with the very type of institution which Mr. Benson heads.

AMENDMENTS TO THE FEDERAL HOME LOAN BANK ACT

Mr. Benson alleges that the primary reason that mutual savings banks have not come into the Federal Home Loan Bank System is that they believe it is unsound to borrow money for reinvestment. This seems to me to be inconsistent with any set-up which attempts to make its investors creditors rather than part owners. If Mr. Benson looks upon the depositors in his bank as creditors it would seem to me that his bank is engaged in the very practice which he condemns, namely, using creditor funds for making investments. If Mr. Benson uses creditor funds for making investments in his bank then he is in a much more precarious position because his depositing creditors can call upon him for his funds at any time, while the savings and loan association which has its principal creditor obligations in the form of Home Loan Bank advances knows exactly the amount which will be due and payable at stated

future intervals over a 10-year period. The savings and loan association is therefore engaged in a much more sound practice than is the bank which takes demand creditor deposits and reinvests them in long-term securities of any kind.

At the bottom of page 11, Mr. Benson maintains that the savings banks do not believe in the establishment of a reservoir of funds in case of emergency because there is in existence the Federal Reserve System. Practically none of the New York mutual savings banks belong to the Federal Reserve System, and they created the Savings Bank Trust Co. in New York, which in a small way performs for the savings banks much the same function as does the Federal Home Loan Bank System for those savings banks and savings and loan associations which are members thereof. If the mutual savings banks of New York do not believe in an organization like the Federal Home Loan Bank System, why did they organize the Savings Bank Trust Co.?

On page 12, Mr. Benson advocates the unification of supervision of the various types of banking institutions. If Mr. Benson really believes this, why don't all mutual savings banks come under Federal supervision through membership in the Federal Reserve System or the Federal Deposit Insurance Corporation?

AMENDMENTS FOR THE FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

Mr. Benson's long dissertation on the differences between insured demand deposits and insured nondemand deposits is refuted by Mr. Benson himself insofar as mutual savings banks are concerned, on page 6, when he says, "However, the association may require the shareholder to take his turn, just as savings banks may require a period of notice before withdrawal." It would appear from this that there is more similarity between a Federal association and a mutual savings bank than there is between a mutual savings bank and a commercial bank because in the commercial bank the great bulk of its deposits must at all times be paid on demand. What the mutual savings banks are really arguing about is deposit insurance per se and they are admitting that the progress of the insured Federal savings and loan association is beginning to be felt by the mutual savings banks.

In some States, the commercial banks feel the same toward mutual savings banks as does the American Bankers Association toward the Federal savings and loan association. In fact, here in Indiana, commercial banks have it fixed so that no further mutual savings banks can be organized. The State bankers associations in many States are the principal reason why many States are not served by mutual savings banks. The commercial banks with their stock structure have argued that mutual banking was unsound and the public should be served only by banks in which some small group was willing to put up some funds in bank stock to serve as a cushion for losses for the depositors. In practically all States, as was the case in national banks, these stockholders were not only required to put up their own stock but to assume double liability in case the bank failed. In return for assuming either single or double liability, the stockholders were given the rights to make as much profit out of the bank's operations as the traffic would bear and were given a certain monopoly on the banking needs of the community.

Despite that fact that Mr. Benson is at the head of a mutual savings bank, he is expressing the viewpoint of the stockowning managements of the commercial banks of the country who want to maintain their monopolies in providing credit for the various communities for the profits that arise. Various banking laws have taken away the double liability features of the bank stock and the rights and prerogatives that went with the assumption of this double liability need likewise to be reduced.

Sincerely yours,

FRED T. GREENE, *President.*

The following section 258, effective April 1, 1938, repeals a similar section, 279, effective April 23, 1934, taken from McKinney's Consolidated Laws of New York—Banking Law.

BANKING LAW, SAVINGS BANKS

SECTION 258. PROHIBITION OF UNAUTHORIZED SAVINGS BANKS AND USE OF THE WORD "SAVINGS"; EXCEPTION AS TO SCHOOL SAVINGS

1. No bank, trust company, national bank, individual, partnership, unincorporated association, or corporation other than a savings bank or a savings and loan association shall make use of the word "saving" or "savings" or their equivalent in its banking business, or use any advertisement containing the word "saving" or "savings," or their equivalent, nor shall any individual or corporation other than a savings bank in any way solicit or receive deposits as a savings bank; but nothing herein shall be construed to prohibit the use of the word "savings" in the same name of the savings and loan bank of the State of New York or in the name of a trust company all of the stock of which is owned by not less than 20 savings banks. Any bank, trust company, national bank, individual, partnership, unincorporated association, or corporation violating this provision shall forfeit to the people of the State for every offense the sum of \$100 for every day such offense shall be continued.

The CHAIRMAN. Mr. Wiggins had some things that he wanted to offer, and I would like to give him the time to do so.

Mr. PATMAN. What he does not state, he could put in the record.

Mr. WIGGINS. Mr. Chairman, if I may take the liberty of saying so, it seems to me that a great many of these questions have reference to other than this immediate legislation, and when, if, and as legislation on the subject of banks lending money comes before this committee, I am going to ask the privilege of discussing that matter in some detail.

The CHAIRMAN. You need not fear that anything you say will not be properly addressed to some sort of legislation that is pending before this committee at the moment. We have bills of many kinds! [Laughter.]

Mr. WIGGINS. Mr. Chairman, I will briefly conclude the statement that I had in mind.

It seems to me that the problem largely is one of whether or not it should be the policy of the Government to widen the field of operations and extend the powers of the building and loan associations which are now known as savings and loan associations, in which widening they seem directly to take the place of existing financial institutions. If that is the purpose of Congress, then it seems to me that it should be clearly stated, and should be approached directly instead of indirectly. It seems to me that we are doing something by indirection rather than coming out in the open and saying, "Here is what we want to do." But the net result is the same, except that the public is misled.

Now, if the plan is to widen the powers of building and loan associations through this legislation, then it seems to me clearly that there is a duty and an obligation to protect, restrict, and regulate the operation of those businesses in the public interest, and in that connection I have two or three suggestions to make; but, before making them, I would like to say this, that this bill, in broadening the investment powers of building and loan associations, seems to be riding two horses in different directions at the same time in that they have insurance and use the advertising and all the means at their disposal to get people to bring money into them in order to have resources with which to make loans for homes, and then they turn around and say that they want

the power to go out and make investments beyond those on the building of homes, in the general real-estate business, and even to the extent of engaging in the purchase of railroad bonds, municipal bonds, utility bonds, and all other investments that are legal investments under the State laws under which the respective associations exist in order to find a use for their funds.

So I call your attention to the fact that there, again, is a diversion from the original purpose of the building and loan associations, and more and more they are edging off into the field of more general investments. The second conflict in principle, it seems to me, is that while designed primarily to make the long-term investments, the effort now being made is to make the money used in long-term investments repayable on demand. It simply does not follow that you can lend money for 20 years and at the same time can get the money tomorrow, and yet that is what apparently is attempted under the broadening powers in this proposed legislation; and, of course, it is only through the contribution of the Government that that becomes possible.

I am not going into the matter of insurance except to mention this fact, which I think is of particular significance in the matter of insurance, and I will compare it without any other reference to the Federal Deposit Insurance Corporation, but I would like to point out this very definite distinction, and there are several differences, that when you insure deposits in a bank, the Federal Deposit Insurance Corporation has the protection of a cushion in the capital, surplus, and undivided profits of that bank. All of that must be lost before the Federal Deposit Insurance Corporation loses a dollar on the insurance of the deposits in the bank. You are insuring there the liabilities of the bank. You are not insuring the stockholders of the bank. They lose it all.

Now, when you insure the building and loan association, you are insuring the stockholder; you are insuring the fellow that takes the risk and puts his money in the business, and there is no cushion whatever except such surplus earnings as may have been set aside as a reserve fund, which in most cases is very small. You are insuring the investment, the capital, and not insuring the liabilities. You have no cushion, or practically no cushion, between your insurance fund and the loss in the case of the building and loan association, but in the case of the bank you have the capital, surplus, and the undivided profits.

That raises the question of rates, and of the method of figuring insurance, and I take this position, that we do not know enough today to know what rate is reasonable, proper, and fair, either in the F. D. I. C. or in this corporation here. As a matter of fact, we do know that up to now the building and loans have put in \$4,000,000 in an insurance corporation, and that the Government has put in \$110,000,000 to insure the building and loans, and that they are insuring \$1,400,000,000 of investments. That means that the building and loans themselves have put up 0.3 percent of the amount of the stockholders' investments that have been insured. I call that matter to your attention because I think it is of particular importance in figuring on the rates, or on any change of rates, or any change of method in this whole insurance proposition.

I had a number of other suggestions on insurance, but will go on to the conclusions which I wish to state in the next few minutes, and then, if Mr. Crawford or others wish to ask questions I will have a few minutes left.

I would like to suggest for your consideration five specific matters in connection with this proposed legislation:

First, that after a policy is determined as to what kind of an institution these buildings and loans are to be, and if they are to be institutions of long-term investment, with their funds in the nature of deposits rather than of stock, and the liability of the Insurance Corporation is to see to it that these funds are available on demand, it seems to me that that should be clearly stated in the law. If it is not the intention of Congress, if it is not so stated in the law, then it seems to me, in fairness to other institutions, that the building and loans should not be permitted by any device whatsoever to broaden that which Congress intended and that which the law provides—in other words, a definite restriction as to the representations that the building and loans may make on all of these matters that we have been discussing.

In the second place, so far as I know there is no limitation as to the amount a building and loan association can lend on any one loan. The banks have very definite limitations. If you are widening the powers of building and loan associations, and converting them into savings banks, then is it not wise to surround and safeguard those savings banks with such regulations as experience has shown are desirable in the case of savings banks? So far as I know, a building and loan with a small amount of stock can make a large single loan. Then, as to the limiting of investments: If you say that they are permitted to invest in any legal bonds or securities for savings banks in any particular State, then it seems to me that they should be restricted as to the proportion that may be invested in particular types of securities, just as saving banks are. If the door is wide open—and that is a matter, of course, for Congress to determine—then safeguards should be placed around their operations in the public interest.

In the next case, I think one of the contributing factors to the terrific experience that the banks and the building and loan associations throughout the country and the tremendous losses and failures that we had was the almost-uncontrolled establishment of new banks and new building and loan associations. It seems to me that there should be a very definite control, in the public interest, of the establishment of new building and loan associations, with a great deal of care in seeing that there is, first, a public need, and, in the second place, that there is enough business there to sustain such an institution on an income and a profit basis before it is established.

Generally speaking, the banking supervisory authorities of this country today are following that policy in the establishment of new banks, and it would seem that a similar requirement should be made in the case of building and loans. Otherwise we may face an unsound growth of new financial institutions of this kind or others, which in the end will come to grief.

And, in the last case, Mr. Patman, it seems to me that it is clearly in the public interest to provide in the law itself a prohibition against

the establishment of branches of building and loan associations. Already you may know that there are cases on record in which building and loan associations have established branches not only in their own State, but have crossed State lines. Feeling as I do about the wide expansion of branches of all kinds, and chains of all kinds, which I believe to be against the public interest, I suggest very definitely a prohibition in this case particularly, because it is recognized in the law that these institutions are primarily designed to serve an area of 50-mile radius, and yet apparently there is no prohibition, so far as I can find, against the establishment of branches within a State, or even across State lines.

Mr. PATMAN. A Federal savings and loan institution could establish branches anywhere in the United States?

Mr. WIGGINS. I should think so.

Mr. PATMAN. That is a new point that had not occurred to me.

Mr. WIGGINS. I thought that that might appeal to you.

The CHAIRMAN. In that connection, the committee would like to be informed as to the extent to which branches have been established.

Mr. WIGGINS. I think that it has been to a negligible extent up to the present time, but the fact that it has been done at all is evidence that it is possible within the law. I understand that it is the policy of the Federal home-loan bank to prohibit branches in States that by State law prohibit branches of building and loan associations as a matter of policy. That is my understanding.

Mr. PATMAN. Have they adopted a policy of letting them extend across State lines?

Mr. WIGGINS. Mr. Patman, I have this information, which I got from sources that I rely upon, and if it is incorrect I would be very much surprised—I understand that the United States Building & Loan Co., of Butte, Mont., a State-chartered company, secured a Federal charter as the First Federal Savings & Loan Association. It then acquired the Prudential Building & Loan Co., of Salt Lake City, Utah, and transferred its main office to Salt Lake City, and has continued to operate a branch at Butte, Mont.

That is the information that I have in that particular case.

The CHAIRMAN. Of course, you understand that branch banking was only able to extend its operations by a gradual process. This country would never have tolerated an open, Nation-wide system of branch banking, because everybody throughout the entire country, except the individuals who thought they saw an opportunity for selfish gain by establishing branch banks, have condemned branch banking. The national association opposed it uniformly by resolution, and it was not until a recent administration at Washington, under the leadership of a great financier, now gone to his final reward, that there was a departure from the views always expressed prior to that time by the bankers themselves and their association.

The limitation to be afforded by State law, of course, is a delusion. Large banks that want the right to monopolize banking franchises throughout this country, in communities where banking facilities have been swept away during the depression, will always be able to secure, by practical methods, legislative permission to establish branches of different kinds within a certain territory or the other. If branch banking is sound and desirable and in the best interest of the people

of the United States, we ought to say it by legislative enactment by the Federal Government. I do not know of any other instance in which Federal authorities, those responsible for the supervision and control of national banks, have ever been ready to defer to State authorities about anything, but when it comes to branch banking, the national banking system ought to be the best system; it ought to set an example; it ought to be a pattern.

But I am addressing myself to something that is not now before the committee.

Mr. GIFFORD. Should a building and loan association chartered by a State be allowed to go Federal without permission of the State which created it?

Mr. WIGGINS. Did you ask me if I think it should be permitted?

Mr. GIFFORD. Do you protest that action? that is, should they be able to change their character without permission of the State itself? Is that an invasion of rights, to be criticized?

Mr. WIGGINS. I do not know that you can prohibit that.

Mr. PATMAN. Don't they just give up the State charter and take up a Federal?

Mr. GIFFORD. Never mind the way they do it. They go Federal, after being allowed to get the people's money.

Mr. PATMAN. If you carry that to its logical end, you would say that a State corporation, incorporated under the laws of the State of Delaware, should not be allowed to give that charter up and be incorporated under the laws of your State.

Mr. GIFFORD. The permission of the State seemingly ought to be secured.

Mr. PATMAN. To give up a charter?

Mr. GIFFORD. Yes; to immediately go into competition, and real competition, with other institutions of their own State. Of course, there is tremendous competition between the Federal savings and loans and our own associations.

Mr. WIGGINS. Mr. Chairman, if I may—

The CHAIRMAN. Of course, the law under which banks that were State institutions can go into the national system has a provision which at least attempts to safeguard the rights and wishes of investors and stockholders, in that it requires a vote of either a majority or two-thirds.

Mr. WIGGINS. With reference to your observation, Mr. Chairman, may I say that that is one of the problems in this particular legislation. It certainly is one of the major problems of government and one of the things that disturbs so many of us, and that is that we do these things not as you mentioned in the case of branch banking, by going a long way in one step, but we just take a step, and every step we take gets us a little further away from where we were and a little nearer to something that we do not want to get to. It is a step at a time that, it seems to me, is carrying us off of our course.

Mr. PATMAN. What about the holding company bill? You ought to take that bill up, and pass it, Mr. Chairman.

Mr. GIFFORD. I have a resolution here, Mr. Chairman, that I would like to have inserted in the record.

(The resolution referred to is as follows:)

RESOLUTION ADOPTED BY EXECUTIVE COMMITTEE, NATIONAL ASSOCIATION OF SUPERVISORS OF STATE BANKS, WASHINGTON, D. C., APRIL 24, 1939

Whereas the National Association of Supervisors of State Banks on numerous previous occasions, through its district organizations, its executive committee, and in convention assembled, has called attention to the fact that a system of Federal savings and loan associations is being established in this country without due regard to the effect thereof upon the existing banking structure; that such associations have been established in communities already adequately served by existing banking organizations; that such associations constitute an independent system of institutions not subject to the supervision of any Federal bank supervisory agency; and that the competitive practices of such associations have frequently been contrary to principles recognized by all bank supervisory authorities; and

Whereas there has been introduced in the Congress bills (S. 2098, H. R. 5535) which would expand the powers of the Federal Home Loan Bank Board, the Federal Savings and Loan Insurance Corporation, and Federal savings and loan associations generally; and

Whereas the effect of such bills would be to prepare the way for conversion of the present system of Federal savings and loan associations into an independent system of Federal savings banks; and

Whereas, such bills, among other things, would (a) divert such associations from their function as home-financing institutions, the primary purpose for which Congress authorized their creation, by relaxing existing restrictions upon the amount of shareholders' funds which may be loaned upon properties other than homes, and modifying present limitations upon the size of individual loans and the location of property upon which such loans may be made, (b) authorize the Federal Home Loan Bank Board to supervise State associations which are insured by Federal Savings and Loan Insurance Corporation or are members of a Federal Home Loan Bank, thereby unnecessarily duplicating the supervision now exercised by the States; (c) permit the conversion of state associations into Federal savings and loan associations even though such conversion is not authorized by State law; (d) contract the corporate name of Federal Savings and Loan Insurance Corporation to "Federal Savings Insurance Corporation"; and authorize such Corporation to insure deposits in mutual savings banks although the Congress has established the Federal Deposit Insurance Corporation for the express purpose of insuring bank deposits and such corporation does in fact now insure deposits in mutual savings bank; and

Whereas it is the considered opinion of the executive committee of the National Association of Supervisors of State Banks that the proposed amendments above outlined are unsound in principle and that no amendments enlarging the powers of the Federal Home Loan Bank Board, the Federal Savings and Loan Insurance Corporation, the Federal savings and loan associations should be considered for enactment until the power to charter and supervise Federal savings and loan associations has been transferred to a recognized bank supervisory authority in order that the activities of such associations may be coordinated with the banking structure of this country: Now, therefore, be it

Resolved, That this committee on behalf of the National Association of Supervisors of State Banks hereby records its opposition to the above-mentioned bills and recommends that the chartering and supervisory functions of the Federal Home Loan Bank Board with respect to Federal savings and loan associations be transferred to the Comptroller of the Currency or other bank supervisory agency; that provision be made that no charters for such associations be issued in the future until written consent thereto has been obtained from the bank supervisory authority of the State in which any such association is to be formed; and that the management of the Federal Savings and Loan Insurance Corporation be vested in the board of directors of the Federal Deposit Insurance Corporation.

Mr. MARTIN. Did I understand you to say that you did not approve of large commercial banks maintaining savings departments?

Mr. WIGGINS. If I said that, I certainly did not intend to. I said that I had not made any study of the matter of the size of an institution determining whether and to what extent it might properly engage in savings, that I knew that in small communities it was almost necessary for banks to engage in savings as well as commercial busi-

ness in order to exist, and I have never found any reason why a bank should not engage in both, regardless of size.

Mr. MARTIN. I would like to ask you another question now. I think you said that your home town has about 6,000 population, and that you have two banks.

Mr. WIGGINS. Yes, sir.

Mr. MARTIN. And three building and loans.

Mr. WIGGINS. Yes, sir. We had four, and one of them is going out of business.

Mr. MARTIN. And one of the three is a Federal savings and loan?

Mr. WIGGINS. Yes, sir.

Mr. MARTIN. In which the stock is guaranteed by the Government?

Mr. WIGGINS. Yes, sir.

Mr. MARTIN. Do you find that individuals are taking money out of your banks there to buy that stock?

Mr. WIGGINS. To some extent; yes.

Mr. MARTIN. Is that growing?

Mr. WIGGINS. Well, it is a continuous sort of attrition. I would not say that it is any greater or any less. It is just that from time to time a person will take out two or three thousand dollars and put it in the building and loan.

Mr. PATMAN. The building and loans also carry a deposit with your bank, don't they?

Mr. WIGGINS. One of them does, yes; our building and loan does, but it never has any money to deposit. We keep it loaned out.

Mr. MARTIN. I just wondered what the experience was in your State. In our State we find that they are taking the money out of the banks and buying this "guaranteed" stock of the Federal building and loans.

Mr. CRAWFORD. Mr. Wiggins, going directly to the bill, would you mind expanding a little bit on that thought you dropped about making these time contracts repayable on demand and applying your statement directly to this bill and the provisions in the bill?

Mr. WIGGINS. My recollection is that the only provision in this bill on that subject is one relating to insurance. I am not entirely familiar with the sections. I will be glad to write a memorandum on that and submit it to the committee, if you so desire.

Mr. CRAWFORD. I would like very much to have your interpretation of the particular provisions of the bill to which you refer there.

Mr. WIGGINS. My suggestion, sir, was that if it were the intent of the legislation to make this stock redeemable on demand that it should be put in the legislation; and if it was the intent that it should not be redeemable on demand, the legislation should say so and should prohibit any representation being made by any association that it was in any way payable on demand.

Mr. CRAWFORD. In your memorandum will you refer to the language in the bill which causes you to make that observation, because if that is in here I would like to have it brought out very clearly. In other words, if you and your associates feel that this bill has language in it which does that very thing, I should like to know it.

Mr. WIGGINS. As a matter of fact, under the present law, that very thing is being done. If that is what Congress wants done, I think it should state it in the legislation.

Mr. CRAWFORD. And not drift into the situation?

Mr. WIGGIN. And not drift into it.

Mr. CRAWFORD. Going to section 3 of the bill, page 3, will you give us the benefit of your interpretation of that section, and then your interpretation applied to the mechanical operation of this bill? In other words, do you understand this bill to create a direct pipe line, we might say, to the Treasury for the purpose of lifting these institutions out of difficulties should they ever develop?

Mr. WIGGINS. Well, now, I will have to go a little bit further than to answer your question directly, because I believe—

Mr. CRAWFORD. Answer it in your own way.

Mr. WIGGINS. I believe that regardless of what the law says and regardless of the machinery set up that what actually happens is that the building and loans have put \$4,000,000 into an insurance fund and that the United States Government has obligated itself directly or indirectly to put in the other \$1,400,000,000—in fact, whatever is necessary to pay these people up.

Mr. CRAWFORD. How do you understand this bill to provide that the Government shall do that?

Mr. WIGGINS. How it shall do it?

Mr. CRAWFORD. Yes; what is your interpretation of the bill as to how the Government shall do that very thing?

Mr. WIGGINS. Well, the Government has already put up \$110,000,000 of Home Owners' Loan bonds, and the interest accumulated on them, and then discontinued, as I understand, paying any dividend on the stock they were exchanging for the bonds, so they are just holding the income, and, as I understand it, this present legislation legalizes that more or less indefinitely until they have accumulated certain funds. But the very fact that the Government has put this \$110,000,000 of its money into an insurance fund, in my opinion, in this democratic country in which we live, carries a responsibility to the people to see to it that their investment is safe so long as the United States Government can print money to make it safe or is able to meet that obligation with dollars.

Mr. CRAWFORD. In other words, you feel that this bill carries the obligation to the point of an actual printing of currency, if necessary, in order to meet the demand withdrawals?

Mr. WIGGINS. I think so. When you disappoint people in a democracy as to the relief that you promised, then it becomes a very serious matter, and this Government cannot afford to disappoint any great mass of people in any pledge that it makes, direct or implied.

Mr. CRAWFORD. That brings me to another question, the question raised by Mr. Patman with reference to the H. O. L. C. and the Farm Credit Administration. Were those two acts enacted by Congress and have they been administered for the purpose of helping the banks and saving the banks, or were they enacted into law for the purpose of meeting what we will say is somewhat of a social obligation of the Government to the people?

In other words, I gathered from his line of questioning that all of this was done for the benefit of the banks.

Mr. PATMAN. I did not intend to create that impression. I said that the banks were indirectly benefited.

Mr. CRAWFORD. I think that the line of questioning will speak for itself.

I want to ask you if, in your opinion, that legislation was enacted for the purpose of saving the banks, or for the benefit of the banks, or for the benefit of bankers or bank stockholders, or was it enacted for the purpose of saving the equities of the people whose obligations were tied up in the financial institutions?

Mr. WIGGINS. Unquestionably the Farm Credit Administration was set up to supply a need for credit for the farmers at a time when they could not get credit elsewhere and to help them refinance obligations that they could not meet.

Mr. CRAWFORD. And the fact, then, that the paper was called out of the banks into the Farm Credit was a mere incident of the law?

Mr. WIGGINS. Yes. The banks of course received some of the money in the liquidation of existing obligations, both in the case of the Farm Credit and in the case of the Home Owners Loan Corporation, but that of course was incidental to the major objective, which was to relieve the condition of the man who owed the money.

Mr. CRAWFORD. So then, you feel that this legislation moves in the same direction and will bring the Government to where, if the need arises, it will have to issue currency in order to meet these demand withdrawals?

Mr. WIGGINS. If it gets to the point where it cannot continue to borrow the money.

Mr. CRAWFORD. Suppose that we run into a situation where Government bonds are selling at a declining market at \$95 on one hundred, or \$92.50 on one hundred, or moving in the direction of \$82 on the one hundred, as I believe it was at the tail end of Mr. Hoover's administration, do you think that, with all this canopy of credit or foundation of credit that has been issued, the Government will be able to sell its obligations without having to resort to the issuance of currency if we continue on this kind of a proposition and on the kind of a proposition which is now being heard in the Senate under the so-called Mead bill, which is to go out and insure industrial loans of \$2,000,000 or less?

Mr. WIGGINS. May I answer it in this way?

Mr. CRAWFORD. Answer it in your own way.

Mr. WIGGINS. It is my opinion that the Government is risking its life through the continuation of programs of insuring, of guaranteeing, of accepting the responsibility for the entire economic operations of all kinds of business in this country; and I think that Government can so extend itself by direct obligations and implied obligations, which in a democracy are as important as direct obligations in dealing with the public, to the extent that Government itself will destroy its credit in a free economy, so that it may find itself necessarily having to resort to refutation through various forms of printed money or some of the other forms that have been used in other countries.

Mr. FORD. May I ask a question or two right there?

Mr. Wiggins, you speak of this liability that the Treasury will be subject to. How much stock have these building and loan associations that is insured?

Mr. WIGGINS. About \$1,400,000,000, according to the information that I have.

Mr. FORD. Against that, there is \$110,000,000 and \$4,000,000 that have been contributed?

Mr. WIGGINS. \$114,000,000; \$4,000,000 that the building and loans have put in, and \$110,000,000 that the Government has put in in the form of bonds. It is not money; just bonds.

Mr. FORD. We are assuming that it is good.

Then you have, in addition to that, all of the mortgages or other assets of the building and loan associations that they have?

Mr. WIGGINS. That is correct.

Mr. FORD. I think that that ought to be made clear in the record, because so far the discussion has rather made it apparent that the only cushion there was for this \$1,400,000,000 was the \$114,000,000.

Then, another question. Have you read this bill section by section and analyzed each section, and from that analysis have you arrived at the conclusions that you have presented here?

Mr. WIGGINS. Yes, sir.

Mr. CRAWFORD. Mr. Wiggins, let us take the \$1,400,000,000, less \$114,000,000. That leaves \$1,286,000,000. If we run into a situation somewhat similar to that during 1930, 1931, and 1932, as well as in the early part of 1933, what chance would there be to convert that \$1,286,000,000 worth of mortgages into cash with which to meet these demand withdrawals?

Mr. WIGGINS. Well, it is only through the power of government that the money can be created to do it.

Mr. CRAWFORD. Assume that the Government exercises no power—in other words, the thought has just been brought out that here is a reservoir of \$1,286,000,000. What is the \$1,286,000,000 worth insofar as meeting demand withdrawals, where the people want the currency, if there is no market for the \$1,286,000,000? That brings us back to the situation I raised with respect to the Government issuing currency if it cannot sell its own obligations and create bank credit as effective as currency.

Do we not come back to that?

Mr. WIGGINS. It seems to me so. You cannot make cash out of obligations due in ten to twenty years, if there is no market for them.

Mr. FORD. Just a moment. Is not the purpose of this bill this? We are getting into something different.

Mr. CRAWFORD. I am trying to stick to the bill.

Mr. FORD. They are asking for the creation of a cushion mechanism that will enable any building and loan association or any number of building and loan associations to have a definite requirement in cash, to put these securities in the Federal Home Loan Bank and to borrow the necessary money. If the bank does not have the necessary money, then they can appeal to the Treasury to sell obligations, and to give them that money; but in the meantime these mortgages are thoroughly good. They cannot be paid today, but they are good over the period that they are written for, and it is only a temporary situation that the Government will be called upon to meet. Isn't that true?

Mr. WIGGINS. It would seem to me that the rediscount of the borrowing facilities of the Home Loan banks are a necessary and desirable function to save these building and loan associations. That is the point you raised?

Mr. FORD. As I understand this bill, they are attempting to create a mechanism where in time of crisis any building and loan association or any group of them that are in trouble could go to their mother institutoon, put up their security, and get the necessary cash that they need to meet withdrawals, but since this money has been put in there by buying stocks, why couldn't the building and loan associations say, "No; we cannot pay the people?" That would not put them into bankruptcy, would it?

Mr. WIGGINS. No, sir.

Mr. FORD. They could sit tight on their oars and say that this money is an investment and that they will not pay it back.

Mr. WIGGINS. If they would only tell people that when they buy the stock, we would have no complaint, but the stockholder thinks that he can get the money at any time.

Mr. PATMAN. Have you heard of any of them being deceived?

Mr. WIGGINS. No; there has been no necessity for deception now, because there is plenty of money, and you can pay them up as fast they come.

Mr. SPENCE. The Federal Savings and Loan Insurance Corporation does not insure immediate payment in the case of building-and-loan associations.

Mr. WIGGINS. That was the theory under the old act, but, you know, the insurance provisions are being changed under the new act, so that you may insure immediate payment.

Mr. SPENCE. Don't you think that everyone in a building-and-loan association knows that he cannot demand the immediate payment of his deposit?

Mr. WIGGINS. No, sir. I state very positively that the average person who puts money in a building-and-loan association in our part of the country, in a federally insured association, thinks that he can go there any time he wants to get his money, and at most it won't take over 24 hours to get it.

Mr. SPENCE. Does he think the same way when he puts the money in your institution?

Mr. WIGGINS. No, sir. He knows that he has to sell the stock.

Mr. SIMPSON. From the News Service, Federal Home Loan Bank Board, Washington, D. C., for release Friday p. m., June 2, 1939, is the following statement:

More people are placing their savings in insured savings-and-loan associations in Pennsylvania than ever before, Nugent Fallon, general manager of the Federal Savings and Loan Insurance Corporation, said today.

The number of such investors increased from 46,488 in September 1938 to 62,401 on May 1 this year. In the 8 months the amount of such savings rose from \$35,175,710 last year to \$45,841,030 on May 1, or \$10,665,320.

All such savings are protected up to \$5,000 per investor by the Insurance Corporation, a \$118,000,000 Federal Government instrumentality.

During April the 138 insured associations in Pennsylvania made 576 loans on homes totaling \$1,612,000. As of May 1, the aggregate amount of "direct reduction" loans on the books of these institutions was \$41,758,000. A "direct reduction" loan is one which decreases with each monthly payment. The payments are applied both to principal and interest.

My point is that when this goes into the State of Pennsylvania, the average person reading it will have every reason to believe that

the Government is guaranteeing savings and not stockholders, and if they are guaranteeing stockholders I think that we should make that clear to them in these news releases. The people, I believe, are being misled into thinking that their savings are guaranteed in the same way in a building-and-loan association where the stock is bought, as they are in a bank of deposits.

Mr. FORD. A man putting his money in a building and loan association, a Federal, thinks if he puts \$1,000 in there in stock that he cannot get that money unless the association feels like giving it to him, and if the association should feel like not giving him his cash, then they have 3 years to pay that out.

Mr. WIGGINS. That is under the old law, but the new law changes that.

Mr. FORD. To what extent? Where is the change?

Mr. WIGGINS. The change in the new law leaves it entirely in the hands of the Federal Home Loan Board as to when, how, and what they may do in the matter of paying them cash. They can pay it overnight, if they want to.

Mr. FORD. If they had the money, they would. If not, they would pay it in debentures.

Mr. WIGGINS. But the point is that that is not what the public thinks.

Mr. FORD. If some practical suggestion could be made in the form of an amendment that would not be designed to prejudice this method in any way, just making that clear, I am sure that the Board would not object to anything of that kind. I do not think that they have any such thing in mind.

Mr. WIGGINS. To give you an idea of the confusion in the public mind, here is a picture that a man handed me this morning, a picture of a gentleman from—I do not know what State, but he is secretary-treasurer of the First Federal Savings and Loan Association, and under his picture they have the word "Banker."

Mr. FORD. You cannot keep newspapers from calling a man a banker.

Mr. WIGGINS. But that reflects what the public thinks, or the confusion in the public mind.

Mr. FORD. The newspapers will do that. They call a teller in a bank a banker.

Mr. WIGGINS. In our State it is illegal to call any man a banker unless he is engaged in banking activities chartered by the State of South Carolina or the United States Government.

Mr. PATMAN. Do you have a State law like that?

Mr. WIGGINS. Yes, sir.

Mr. SIMPSON. But they can call him anything else? [Laughter.]

Mr. CRAWFORD. It is getting late, and I hate to impose on the committee. Is Mr. Wiggins coming back?

The CHAIRMAN. I had been hoping that we would get to the end of this today. Could you come back Tuesday, Mr. Wiggins?

Mr. WIGGINS. I possibly can arrange it.

The CHAIRMAN. Very well.

Mr. PATMAN. You say that it is a violation of law to call a fellow a banker in South Carolina when he is not a banker?

Mr. WIGGINS. Yes, sir.

Mr. FORD. Would it be a violation of law to call a teller in a bank a banker?

Mr. WIGGINS. No, sir; if he is employed by an institution engaged in the banking business.

Mr. FORD. You could take just a clerk in a bank, and call him a banker?

Mr. WIGGINS. He is a banker, if he is working in a bank, but he is not a banker if he is the secretary of a building and loan association.

Mr. FORD. They will call him that just the same; it would not make a bit of difference.

(Thereupon, at 12:15 p. m., hearings on H. R. 5535 were adjourned until Tuesday morning, June 6, 1939, at 10:30 o'clock.)

AMENDMENTS OF 1939 TO FEDERAL HOME LOAN BANK ACT

TUESDAY, JUNE 6, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

Hearings on H. R. 5535 were resumed at 11 o'clock a. m., Hon. Henry B. Steagall (chairman) presiding.

Other members of the committee present: Mr. Williams, Mr. Spence, Mr. Ford, Mr. Brown, Mr. Patman, Mr. Sacks, Mr. Gore, Mr. Mills, Mr. Martin, Mr. Wolcott, Mr. Luce, Mr. Crawford, Mr. Simpson, Mr. Kean, and Miss Sumner.

The CHAIRMAN. The committee will come to order.

Mr. Wiggins, I believe that Mr. Patman wanted to ask you some further questions.

Mr. PATMAN. I wanted to ask him a question or two, but I would rather that you would go ahead, Mr. Chairman, and I will get my notes together.

The CHAIRMAN. All right. Mr. Crawford has some questions, too.

Mr. Wiggins, if you have any further preliminary statement that you would like to make before you are questioned, you may proceed.

STATEMENT OF A. L. M. WIGGINS, CHAIRMAN, COMMITTEE ON FEDERAL LEGISLATION, AMERICAN BANKERS' ASSOCIATION— Resumed

Mr. WIGGINS. Mr. Chairman, if I may be privileged to bring up to date two or three matters that were asked me on Friday, one of which I would like to correct, an inadvertent statement on a small matter that really is not pertinent to this hearing, when I said that it is unlawful to call a man a banker in our State, I should like to do so. That caused so much curiosity that I brought here a copy of the law, which is slightly different from the way in which I stated it.

Section 1345 of the Code of Laws of South Carolina, under the title "Unlawful to use the word 'bank' or 'banking' in certain cases," states that—

It shall be unlawful for any person or persons in this State to use the word "bank" or "banking" in connection with any business, calling, or pursuit other than a legalized, incorporated banking institution. Any person or persons violating the provisions of this section shall be subject to a fine of not less than \$1,000 or more than \$10,000, and to imprisonment not exceeding 10 years nor less than 1 year, in the discretion of the court.

The CHAIRMAN. When was that act passed?

Mr. WIGGINS. It has been on the books many, many years.

The CHAIRMAN. The purpose of that was to dispense with private banking?

Mr. WIGGINS. No, sir; we have private banking in our State. The purpose of that was to prohibit people from advertising themselves as being bankers, and in the banking business, and conducting a bank, when actually they were not conducting a bank as construed by the laws of our State.

Mr. FORD. A faro bank would not have a chance, would it?

Mr. WIGGINS. The second question that I would like to answer at this time is this: Mr. Patman asked with respect to the salaries of the officers in banks, and the amount of interest paid on deposits, and I have here a report of the Comptroller of the Currency for national banks for the period ending June 30, 1938, which shows that the salaries and wages paid officers for that period was \$48,429,000, while during the same period the interest on time deposits amounted to \$62,504,000.

Mr. PATMAN. Wait just a minute. What are you reading from?

Mr. WIGGINS. That is from the report of the Comptroller of the Currency.

Mr. PATMAN. You are not talking about all banks?

Mr. WIGGINS. National banks.

Mr. PATMAN. Just national banks?

Mr. WIGGINS. Yes; that is all the information that I have.

Mr. PATMAN. I know, but that same report, I think, covered all banks—I mean, somewhere in the report. Would you mind having that information secured and placed in your testimony?

Mr. WIGGINS. I will be glad to do it if I can find it.

Mr. PATMAN. You need not trouble yourself much, because I can find it myself; but I just wanted to invite your attention to the fact that you only referred to the 5,000 national banks and not to the 10,000 State banks.

Mr. WIGGINS. That is correct, sir.

Then, Mr. Crawford asked a question with respect to the provision, if any, for the payment of deposits or stockholdings or shares to the owner on demand. There is nothing in the new amendment, so far as I have found, that applies to that, and, so far as I have been able to discover, there is nothing in the law itself on that subject. The powers are implied from the provisions of the charter under which these associations operate. Section 12 of charter K provides that—

The association shall have the right to repurchase its share accounts at any time upon application therefor and to pay the holders thereof the repurchase value thereof.

Under that authority there is a general repayment to stockholders very promptly after demand. That, Mr. Crawford, seems to be the only authority, and that is an implied authority, but it is an actual practice. That is what is done under the present law, and, so far as I have been able to discover, there is nothing in the amendment that would change that practice.

The principal provision in the amendment that might lend further color to that idea is with respect to the insurance. Under the present plan, of course, the Insurance Corporation has a formula for the

payment of insured funds, in which 10 percent is payable in cash and certain amounts in from 1 to 3 years in non-interest-bearing debentures, and under the proposed amendment the Corporation is empowered to pay insured deposits in any way it sees fit, which I take it would mean that they could pay off all deposits in cash overnight if they so desired and they were able to do it.

I would like to call your attention to one other item illustrating the confusion in the minds of the public and, I think, as well in the minds of some who may have proposed and favored this legislation, and in the minds possibly of some who have prepared these amendments, as to the matter of owning stock or making deposits. I find in the proposed amendment two places in which the word "deposit" is used, indicating that there is clearly in the minds of the authors of this amendment that building and loan associations do in some cases have deposits.

Now, I might say, and wish to say in fairness to the charter provisions of these associations, that section 8 says that—

The association shall not accept deposits from the public nor issue any evidences of indebtedness except for advances, and that it shall not represent itself as a deposit institution.

Yet the provisions of the insured account, under section 10, provide that the insured account means any investment or interest in an insured institution, "whether in the form of a share of capital stock, deposit, or investment certificate."

Then, further along in the same act, covering the termination of the insurance contract, it says, "No shares, certificates of deposit, investment certificates," and so forth and so on, explaining what is to be done in the case of liquidation.

I bring that point out to further reinforce the statement on which I based the original question submitted to this committee. You are unquestionably establishing in the United States of America through the steps of the original legislation and the amendments thereto proposed in this bill, a Federal system of mutual savings banks, and as a banker, and as a representative of what I have termed the old-style building-and-loan association, which some of my friends in the Building and Loan League today consider one of the "horse-and-buggy" relics, I am calling this to your attention, for the deliberate purpose of focusing your attention on what is actually being done and is proposed to be done and through the years inevitably will be done in this legislation, namely, the setting up of a Federal system of mutual savings banks, and we have suggested that if that is the intent of Congress, that it should be examined in the light of the whole banking set-up, and if that is the policy that is in the interest of the general welfare, let us do it as part of a program covering the entire banking field, and not merely edge into it by indirection.

Mr. PATMAN. Isn't it true that the mutual savings banks are working with the commercial banks now in an effort to prevent expansion of the mutual savings banks—in other words, not to embrace any new territory, or get into new areas, and is there not a working agreement between the commercial banks and the mutual savings banks to that effect?

Mr. WIGGINS. I do not quite get the import of your question.

Mr. PATMAN. The question is this—and maybe I did not make myself plain, but I have a report here, signed by Edwin S. Hunt,

Boyd N. Jones, Henry S. Kingman, G. Hayes Markley, George D. Whedon, Henry S. Sherman, Raymond R. Frazier, and Harold J. Staples, chairman of the Committee on Extension of the Mutual Savings Bank System. It has just been published, in June 1939, just a few days ago. Have you seen that report?

WIGGINS. I have not.

Mr. PATMAN. This report indicates to me that the mutual savings banks are opposed to extending their activities into other areas, and that they are not proposing to do anything that will meet with disfavor on the part of the commercial banks. In fact, it is not long and, Mr. Chairman, I think that it is of sufficient interest to the other members of the committee to justify reading it. It shows that they are working pretty closely with the commercial banks, and if they are working with the commercial banks, and not trying to expand, I think Congress should consider that question in connection with this proposal before us.

Mr. LUCE. Who are the people who signed it?

Mr. PATMAN. I just called their names off. I will call them off again, Mr. Luce.

Mr. LUCE. No.

Mr. PATMAN. The chairman of the committee is Harold J. Staples.

The CHAIRMAN. Committee on what?

Mr. PATMAN. The Committee on Extension of the Mutual Savings Bank System, which—

was organized in 1934 with a view to helping interested groups organize new mutual savings banks in States not served by our type of institution; such help to take the form of aid in explaining the functions of mutual savings banks, suggestions for the passing of enabling legislation, and the furnishing of copies of savings-bank laws. In 1936 a model law was developed by your committee, copies have been supplied to different groups, and advice has been rendered. But as yet none of the groups assisted have been able to obtain permissive legislation. However, one new savings bank organized on November 1, 1933, in Sanford, Maine, is now a sturdy child with deposits of \$943,000.

Also a program has been launched to establish a new mutual savings bank in Spokane, Wash., making the fourth mutual in that State.

Complete information and a copy of our model law were furnished to a group of men in Missouri who are desirous of establishing a mutual savings bank there. The attempt by this group to obtain permissive legislation has been unsuccessful as yet, but they still are working on their problem with the hope of succeeding.

Prior to the passage of legislation permitting the organization of Federal savings-and-loan associations, our association was approached by officials of the Home Loan Bank System with the thought that provision might be made for the incorporation of mutual savings banks under Federal charter, but after careful consideration our officials concluded they were not in favor of setting up another type of mutual savings bank without regulation by State officials but competing with State-supervised mutual savings banks.

EDUCATIONAL ASPECTS

The sole function of your committee is the establishment of new mutual savings banks, but there are several aspects of the situation which must be considered. The first and most important is the question of permissive legislation. Then there is the necessity of doing promotional work. Someone must go before a legislature and explain just what mutual savings banks are, how they are established, how operated, and what their record of accomplishment has been. In a State where the desire is expressed for mutuals, a campaign of education would have to be inaugurated, presenting educational addresses before service clubs, women's clubs, and other organizations, and also, perhaps, advertising in general periodicals, trade magazines, and the papers, thus laying the ground work and sowing the seeds, as there is a great lack of knowledge concerning mutuals.

All this would require time and money. Is it the province of the committee to attempt to bring about permissive legislation? Where would the funds come from for expenses? Is it feasible and would anything be gained? Since legislation is necessary, we would have to furnish the necessary money incident to education and so on, or obtain it from the Government. It is not desirable to get funds from the Federal Government as in that event our mutuals literally might become Federal savings and loan associations. The Government would assist in promotional work but two types of mutuals are not desirable. Further, if a law were enacted it could not be confined to non-mutual savings bank States, which would mean further competition for existing mutuals. Also, as long as we continue on present established lines, we shall get no objections from the American Bankers' Association. But should we try to extend in other States we shall get objections from other types of banks.

It is the judgment of our committee that under present economic conditions and in view of the competition from other types of institutions, State and Federal, and the opposition of such institutions to the passage of enabling legislation, it becomes extremely difficult and apparently impracticable to attempt any sort of campaign for extending the mutual savings bank system at this time. It is possible the time may come when we can do work in special areas.

Your committee recognizes the value of the campaign of publicity now being carried on by the executive committee and recommends that it be continued.

I would like to file that for the record.

That indicates, Mr. Wiggins, that the reason that they did not attempt to expand their activities in the other States and areas is because they are working so closely with the American Bankers' Association, and do not want to do anything that will offend the commercial banks.

You are the chairman of the legislative committee of the American Bankers' Association, but you know nothing about that at all?

Mr. WIGGINS. No, sir; that is the first I heard of it.

Mr. PATMAN. In connection with the earnings and expenses of member banks compared with the interest on time deposits, I want to file a statement, Mr. Chairman.

The CHAIRMAN. Very well.

(The statement referred to is as follows:)

EARNINGS AND EXPENSES OF FEDERAL RESERVE MEMBER BANKS—FEDERAL RESERVE BULLETIN, MAY 1939

An analysis of earnings and expenses of member banks of the Federal Reserve System for the years 1937 and 1938 discloses the following points of interest:

1. Member banks paid out almost as much in salaries to their officers as they did in interest on time and savings deposits, both during 1937 and 1938. The 1938 figures for all member banks show \$171,000,000 paid out in interest on time and savings deposits and \$146,000,000 paid out in salaries to officers.

2. Member banks paid out more than twice as much in salaries and wages as they did on total interest to depositors. In addition to the \$146,000,000 in salaries to officers they paid out \$233,000,000 in wages to other employees, or total salaries and wages of \$379,000,000. Total interest to depositors, on the other hand, was only \$171,000,000.

3. From 1937 to 1938 interest paid to time and savings depositors declined from \$176,000,000 to \$171,000,000. During the same period salaries paid officers increased from \$142,000,000 to \$146,000,000.

4. From 1937 to 1938 member banks increased their percentage interest and discount on loans from 4.00 to 4.08 percent and at the same time reduced their interest on time deposits from 1.55 to 1.48 percent. This increased their spread between these two items from 2.45 to 2.60 percent. This spread is considerably larger than the 1.5 to 2.0 spread enjoyed by most savings and loan associations.

5. The ratio of interest to total loans held by member banks during 1938 ranged from an average of 2.99 percent in the New York Federal Reserve District to 5.86 percent in the Dallas district. The interest paid on time and

savings deposits was only 1.23 percent in the New York district; the highest average rate paid was in the Richmond district where the rate was 1.76 percent. The lowest spread between interest paid on savings deposits on the one hand and interest collected on loans on the other was in the New York district where this spread was only 1.76 percent. The highest spread was in the Dallas district where the spread was 4.39 percent. The following table shows, for all member banks of the Federal Reserve System during 1938, the interest and discount on loans per \$100 of loan, the interest on time deposits per \$100 of time deposits, and the spread between these two items, by Federal Reserve districts.

Federal Reserve district	Interest and discount on loans	Interest on time deposits	Spread
Boston.....	\$3.78	\$1.60	\$2.18
New York.....	2.99	1.23	1.76
Philadelphia.....	4.49	1.65	2.84
Cleveland.....	4.60	1.67	2.93
Richmond.....	4.92	1.76	3.16
Atlanta.....	4.73	1.64	3.09
Chicago.....	3.92	1.31	2.61
St. Louis.....	4.24	1.57	2.67
Minneapolis.....	4.76	1.50	3.26
Kansas City.....	5.55	1.38	4.17
Dallas.....	5.86	1.47	4.39
San Francisco.....	5.07	1.54	3.53
United States.....	4.08	1.48	2.60

The CHAIRMAN. Mr. Crawford.

Mr. CRAWFORD. Mr. Wiggins, the other day, as I recall it, I asked for your opinion with reference to section 3, and I believe you said you would prepare a statement—or was it some other witness?

Mr. WIGGINS. It was my understanding that the statement I suggested preparing, when I had no idea of coming back, was on this other point; but you did ask me a question on section 3, which I attempted to answer at that time.

Mr. CRAWFORD. And you do not care to say anything more about that at the moment, I assume.

Do you consider that sections 1 and 2 have a direct relation to section 8 of the bill, and will you give us a little light on the relationship between those sections insofar as they liberalize the loans and the investment power of the Federal savings and loan associations?

Mr. WIGGINS. If you will repeat that question—

Mr. CRAWFORD. Sections 1 and 2, as related to section 8 of the bill insofar as they apply to the liberalization of the collateral eligible for such advances, and as related to the Federal savings and loan associations as against the State-chartered member institutions—have you any objections to register against those liberalizing processes set up?

Mr. WIGGINS. I made two points, sir, on the liberalization of the investment powers of the Federal savings and loan associations. In the first place, it seemed to controvert the main purpose for which an association was set up, that is to say, to make home loans, when that has been enlarged or is proposed to be enlarged by permitting loans on other types of mortgages including the investment in securities that are legal investments for trust funds in the respective States.

Mr. CRAWFORD. Do you construe those three sections as permitting the Federal institutions to invest in types of securities which the

State-chartered institutions will not be permitted to invest in by reason of State laws?

Mr. WIGGINS. I am sure that in many cases State laws do prohibit the investment of building and loan money in such securities as are classified as legal investments for trust funds, such as public-utility securities, railroad bonds, and so on.

Mr. CRAWFORD. Do I understand you correctly, then, to say that your interpretation of these sections would be to the effect that the Federal savings and loan associations can make types of investment which the State-chartered institutions cannot make?

Mr. WIGGINS. Yes, sir.

Mr. CRAWFORD. If that is true, it seems to me that these provisions would operate very disastrously as against the interest of the State-chartered institutions, unless those State-chartered institutions became affiliated or "went Federal," as they say.

Is that your understanding of it?

Mr. WIGGINS. That is my understanding of it; yes, sir. In addition to these securities, of course, provision is made that these associations may invest in loans under title I of the National Housing Act. Just to what extent State associations can invest under title I, I am not in position to say, but I am quite sure that in many States they are not permitted to make that type of investment.

Mr. CRAWFORD. Do you think that would operate to such an extent that it would tend to force the State-chartered institutions to go Federal, in order to enjoy these benefits?

Mr. WIGGINS. I think it certainly will put the pressure on them; yes.

Mr. CRAWFORD. That is all that I have.

Mr. SPENCE. What is the corporate name of your bank?

Mr. WIGGINS. The Bank of Hartsville.

Mr. SPENCE. Is it an approved F. H. A. mortgage?

Mr. WIGGINS. Yes, sir.

Mr. SPENCE. Have you made any loan under that provision?

Mr. WIGGINS. Yes, sir; one.

Mr. SPENCE. What was the maturity of that loan?

Mr. WIGGINS. We made a small loan on a home, because the man particularly wanted an F. H. A. loan. I think it runs for 10 years or such a matter. We loaned him \$1,200 on a home that cost \$10,000 to build. That is all he wanted.

Mr. SPENCE. But you did make a loan longer than the 7 years that you make in your own building and loan association, and that you said you thought was the limit for which loans of that character should be made?

Mr. WIGGINS. Yes, sir.

Mr. SPENCE. Are you in the market to make loans under the F. H. A.?

Mr. WIGGINS. No; our bank is not.

Mr. SPENCE. But you are an approved mortgagee?

Mr. WIGGINS. Yes, sir. We made one to try it out, and we did not like the system, so we discontinued it.

Mr. SPENCE. Is your bank a national bank?

Mr. WIGGINS. No, sir; but we are a member of the Federal Reserve System.

Mr. SPENCE. A State bank?

Mr. WIGGINS. A State bank.

Mr. SPENCE. Did you have your bank approved under the F. H. A. as a mortgagee just for that one loan?

Mr. WIGGINS. We had it approved in order to investigate the machinery and methods of making this type of loan, to see whether we wanted to make them or not, and, after making one decided we did not want to make any more, so we discontinued it.

Mr. SPENCE. There are several types of building and loan associations, are there not direct reduction and the serial type?

Mr. WIGGINS. Yes.

Mr. SPENCE. Describe the difference in those types.

Mr. WIGGINS. Well, I have described the other day the method used by our own association, which was to sell stock only on payments of \$1 per share per month, and whenever the payments, plus the earnings on those shares, amounted to \$100, then that series of stock was liquidated and the investing stockholders were paid their money in cash and the borrowing stockholders had their obligations satisfied.

Now, many associations of the old style, that operate as we do, also sell paid-up stock, in which people can come in and buy a share of stock for \$100, and they receive mortgage on that stock.

Now, the new idea is that you can bring in any amount of money at any time and have it entered up in a passbook, and draw the interest on it, and come and get it when you want it. That is the new style.

Mr. SPENCE. I am asking that question with emphasis on how the interest is computed in these various types of building institutions.

Mr. WIGGINS. We have no problem in our institution, because whenever the earnings and the principal amount to \$100 per share, we hand it back to them.

Mr. SPENCE. Does the borrower pay interest on the entire \$100 until the final retirement of the share?

Mr. WIGGINS. The borrowing investor pays interest in full for the total amount of the loan for the period the loan is outstanding, and then the earnings on his stock accumulate, and, in effect, he is paying himself interest so far as the interest he pays on his loan is concerned.

Mr. SPENCE. How do the earnings on his stock accumulate, when he has not paid up his stock?

Mr. WIGGINS. He starts out on the 1st of April in our association, and he pays in \$1 for each share. We will take a \$1,000 proposition for illustration. He subscribes for 10 shares of stock. On the 1st day of April he pays in \$10. On the 1st day of May he pays in \$10, and each month thereafter he pays \$10 on his subscription to \$1,000 worth of stock.

Now, if at any time he comes in and wants to borrow money, why, we lend him up to \$1,000, provided the security is satisfactory. Then he begins to pay the interest on the \$1,000 he borrowed at 6 percent, which is of course \$5 per month. His stock may have been running for 1 month, or 1 year or 3 years or 5 years. He pays interest on his loan as long as he owes that money.

Mr. SPENCE. He pays interest on the full \$1,000?

Mr. WIGGINS. From the time he borrows it, of course.

Now, on the money that he has paid in by the month, at \$10 per month per share, that money has been loaned to someone else from

the time the series starts, and it has earned interest, and through the period of years that \$10 a month and the interest accrue and accumulate, and whenever the interest and earnings on this \$10 per month that he has paid equals \$1,000, then he gets \$1,000 in cash, or a discharge of his debt.

Mr. SPENCE. Have you ever figured out what the true interest is he pays on that character of loan?

Mr. WIGGINS. Yes, sir. As at the end of the period, when he gets his \$1,000, if it has required 84 payments, or 7 years, at \$10 per month, which theoretically is the time required, but actually sometimes it runs a little less than 84 months, if you have been able to get enough borrowers early enough in the series, so that he has paid in \$840 and receives back \$1,000, a profit of \$160.

Now, that profit or interest on that \$840, or \$160—and we call it a dividend, because it is on the stock—that \$160 represents a dividend on the payment of \$10 a month for a period of 7 years, and from an interest standpoint he has been out an average of \$420 for 7 years, because the first month he had out only \$10 and it increased \$10 each month so that at the end of the period he was out \$840 but his average investment has been \$420 for the 7 years.

Now the profit of \$160 on an average investment of \$420 for 7 full years is 38 percent for the period, or 5.4 percent per annum as of the end of the period.

Mr. SPENCE. Now, his dividends largely depend upon how you invest the money that he has paid in?

Mr. WIGGINS. On how well we invest it.

Mr. SPENCE. He is entirely dependent on that for his dividends?

Mr. WIGGINS. Absolutely.

Mr. SPENCE. Isn't that an obsolete type of building and loan association?

Mr. WIGGINS. Well, as so many things in this country that we have done for so many years, under new theories are now becoming obsolete, I guess you are right.

Mr. SPENCE. Tell us what would happen to a man who borrowed \$1,000 under the direct-reduction plan. Are you familiar with that?

Mr. WIGGINS. We do not use that except insofar as the law in our State provides an offset in the case of building and loan associations; but the direct reduction plan, of course, collects the interest each month and applies the excess of payments to the principal and continues to reduce—

Mr. SPENCE (interposing). He gets a reduction in his interest immediately as he pays his money in?

Mr. WIGGINS. Yes, sir.

Mr. SPENCE. And that is the customary plan now?

Mr. WIGGINS. That is the new plan.

Mr. SPENCE. The Federal association that has been established in your town pays 4-percent interest, does it not?

Mr. WIGGINS. Yes, sir.

Mr. SPENCE. And you pay 5.38?

Mr. WIGGINS. 5.4.

Mr. SPENCE. Why do you not attract the investors away from the Federal to your building and loan?

Mr. WIGGINS. We do not take any investments except the monthly payment investors, and, as I said before, we have so much more than we can use that we have had to send some money back. We get the money, but we do not get the loans.

Mr. SPENCE. So you could compete with them very well if you desired to do so?

Mr. WIGGINS. We get all the money we want, if that is what you mean, but we do not get the loans.

Mr. SPENCE. I have noted that in your report to the Banking Department of South Carolina it is stated that your building association bills payable, including certificates of indebtedness, amount to \$59,000. What is that?

Mr. WIGGINS. That is for State associations.

Mr. SPENCE. No; I refer to your association. Your association is the Hartsville Building & Loan Association of Hartsville, is it not?

Mr. WIGGINS. Yes, sir.

Mr. SPENCE. In the liabilities, there are shown bills payable, including certificates of indebtedness.

Mr. WIGGINS. That is what it says, bills payable for money borrowed.

Mr. SPENCE. Is that the way you carry that, as bills payable on money borrowed?

Mr. WIGGINS. Yes, sir.

Mr. SPENCE. Where do you borrow this money?

Mr. WIGGINS. From banks.

Mr. SPENCE. From your bank?

Mr. WIGGINS. Up to \$10,000, yes.

Mr. SPENCE. Now, the banks accommodate you in Hartsville, do they not?

Mr. WIGGINS. In part they can, and in part they cannot.

Mr. SPENCE. As a rule, a building association is a heavy borrower from a bank, is it not?

Mr. WIGGINS. Just up and down, yes.

Mr. SPENCE. Where do you get the accommodations, if you cannot make these loans in Hartsville, for that \$59,000 that you are carrying as bills payable?

Mr. WIGGINS. A good deal of that item of bills payable is inter-series bills payable. We owe it to ourselves. One series borrows it from another. Toward the end of a maturity of a series, when it has surplus funds, and no borrowers for a short period, we turn around and lend that to another series, and we treat every series as if it were a separate business so far as its assets and its liabilities are concerned.

Now, that \$59,000 by no means represents money that the association owes outside financial sources. As a matter of fact, I do not know of any case in which we have owed over \$25,000, and that only for a brief period.

Mr. SPENCE. Where do you borrow that?

Mr. WIGGINS. Well, we borrow the first \$10,000, and by special resolution of our directors \$15,000, from our own bank, and if we borrow more than that, we go across the street to our neighbor bank and borrow it from them, and if we want more than that, we borrow it from any of the other banks in our section, all of whom are glad to make the loans.

Mr. SPENCE. When did you organize your bank? What year?

Mr. WIGGINS. Our bank was organized about 40 years ago.

Mr. SPENCE. When was the building and loan organized?

Mr. WIGGINS. It was organized 19 years ago.

Mr. SPENCE. You organized the building and loan association, I assume, to get that part of the investments that you felt the bank would not carry?

Mr. WIGGINS. No, sir. We organized the building and loan association because we are much more interested in the service that a building and loan association renders to the salaried people of our community than we are interested in making money for the bank. There was no question of the bank involved.

Mr. SPENCE. How fast has your building and loan association grown since—

Mr. WIGGINS (interposing). It has never grown very big, because we are not particularly ambitious for size. We are ambitious to be able to render service.

Mr. SPENCE. When was the Federal building association organized?

Mr. WIGGINS. That was a State organization, converted. That ran along for many years, and pretty well dried up, and then it was made into a Federal.

Mr. SPENCE. How did they do before they were converted?

Mr. WIGGINS. They operated the same as we did.

Mr. SPENCE. How was their growth? About the same as yours?

Mr. WIGGINS. No. They had pretty well dried up before they became Federal.

Mr. SPENCE. Since they have become Federal, what has been the result?

Mr. WIGGINS. I really do not know.

Mr. SPENCE. You do not know whether they have grown or not?

Mr. WIGGINS. I do not.

Mr. SPENCE. Are they about the same size as your building and loan association?

Mr. WIGGINS. I would not think so. They may be, but I doubt it very seriously.

Mr. SPENCE. There are only two building and loan associations in your community?

Mr. WIGGINS. Oh, no. We have another State association that is a member of the Home Loan Bank System. That is probably the largest association in our town. That is really operated by a bank, that building and loan association.

Mr. SPENCE. Which bank operates that? The other bank?

Mr. WIGGINS. The other bank.

Mr. SPENCE. How big is that association?

Mr. WIGGINS. I really do not know, but I think it probably has more assets than our association has because they take the paid-up stock—

Mr. SPENCE (interposing). How does the other bank operate that, Mr. Wiggins?

Mr. WIGGINS. Well, the cashier of the bank runs it, and it is run along with the other banking operations.

Mr. SPENCE. Isn't the relationship between your bank and your building and loan association very much the same as the relationship in this case that you just referred to?

Mr. WIGGINS. No, sir; our bank has nothing to do with it.

Mr. SPENCE. But the individuals in the bank operate, in a general way, your building association, don't they?

Mr. WIGGINS. I am the only director of our bank who is on the loan committee of our building and loan association. We have five men on the committee, and I am the only bank officer or director on it.

Mr. SPENCE. You are in the building association?

Mr. WIGGINS. Well, I have been a director since it started and on the loan committee since it started.

Mr. SPENCE. I imagine that if you told a fellow that he could get a loan in the building and loan association, he could get it.

Mr. WIGGINS. Well, they usually do. If I think they are good, they get it.

Mr. BROWN. A good many of those building and loan associations do not cost much to operate—isn't that true?

Mr. WIGGINS. It costs us very little, because nobody receives any salary out of it. We have no charge for inspection and no charge for filing an application. The only charge we have—and we in reality do not have that—is that we require them to furnish an attorney's certificate of title, and we limit the attorney to \$15 on the loan.

Mr. BROWN. As I understand it, the stockholders get nearly 6 percent on their stock.

Mr. SPENCE. Five and three-eighths.

Mr. BROWN. Well, $5\frac{3}{8}$ percent.

Mr. SPENCE. Do you advertise that?

Mr. WIGGINS. No, sir. We have never told anybody what they will get.

Mr. BROWN. They get $5\frac{3}{8}$ percent, and you pay no taxes?

Mr. WIGGINS. We pay no taxes as an association, no income taxes, nor—

Mr. BROWN. It strikes me as being a good investment.

Mr. WIGGINS. It is the best investment that I know of for a salaried man. I recommend it and have put hundreds of young people into the building and loan savings plan. It is the finest institution I know of for salaried people to save money.

Mr. SPENCE. You said that five of your directors in the bank are on the directorate of the building and loan association?

Mr. WIGGINS. No, sir. I said that we had five members on our loan committee of the building and loan association, and that I was the only banker in the group.

Mr. LUCE. You surprised me by saying that there are building and loan associations that are making a practice of accepting funds at any time which may be withdrawn at any time. Up my way we have to take out shares at a specified time, and they must be cashed at a specified time. It is nothing like a checking account. It is an awkward thing to use money in that way, only temporarily.

Has the practice of which you speak become widespread?

Mr. WIGGINS. It seems to have grown more under this new idea of building and loans in the last year or two than at any previous time. It has developed very fast.

Mr. LUCE. Is there any one State where it is conspicuous?

Mr. WIGGINS. I think not.

I noticed, for instance, an advertisement in the paper yesterday of a building and loan association asking the public to bring their money

in at any time up to the 10th of the month, and that they would receive dividends from the 1st of the month. How they can receive dividends on money from the earnings from the 1st to the 10th, when the money has not been put in until the 10th, I could not discover, but that is what they advertise.

Mr. LUCE. What I am trying to find out is whether the practice is widespread enough and important enough to legislate about. It is not the practice in my own State. Could we have some more definite information as to how widespread the practice is?

Mr. WIGGINS. I can only speak for my section of the country, and the practice there is to advertise widely that money may be brought in up to a certain period and that they will receive earnings from a prior period.

Mr. LUCE. That is a normal state of affairs and a natural thing for a building and loan. It is quite different from advertising for money to be invested in a general banking business.

Mr. WIGGINS. But if we were to do that on a certificate of deposit, we would be in jail, in a bank.

Mr. LUCE. You see what I am aiming at. I want to find out if this thing is getting important enough to pass a law about it.

Mr. WIGGINS. Yes, sir; I should think the home-loan bank people could probably give you more specific information on that subject than anyone on the outside.

Mr. LUCE. Very well. Thank you.

Mr. WILLIAMS. What is the difference between the practice in the State institutions and the practice in the Federals with reference to withdrawals?

Mr. WIGGINS. I think there is very little difference. I think more and more of the State institutions are having to pattern after the plans and methods of the Federal associations.

Mr. WILLIAMS. They were in the field first. Perhaps it would be fair to turn it around, wouldn't it, and say that the Federals patterned after them?

Mr. WIGGINS. Of course, the whole theory of a building and loan, as I pointed out, is being shifted into the savings-bank field. It was not the theory under which the old State associations were operating.

Mr. WILLIAMS. You do not know how extensive this plan is, of permitting prompt withdrawals or immediate withdrawals in the building and loan associations?

Mr. WIGGINS. I think all of them, if they have the money or can put their hands on the money, like to hand it out when the customer wants it.

Mr. WILLIAMS. Do you think it wise to pass legislation to prohibit that entirely?

Mr. WIGGINS. Yes, sir.

Mr. WILLIAMS. What kind of a notice would you give them before you would permit them to withdraw it?

Mr. WIGGINS. At least 6 months. In a bank, in the case of a certificate of deposit, where the bank pays 2 percent interest, we are required to require 90 days' notice, or to keep the money 90 days on notice at the time it is being put in that it will be withdrawn at the end of 90 days, and if not withdrawn at that time, then a 30-day notice in writing is required before the bank can pay the money out;

and I do not see why, if you are going to require banks, that are supposed to be in a liquid condition, and supposed to have cash to meet its deposit liabilities, when they are called upon to pay them, to require the depositor in the case of certificates of deposit to give 90 days' notice before you will pay them, on 2 percent interest—I say, why isn't it reasonable, on the same theory, that you have to lend the money out in order to produce the income to pay that interest, and where you cannot lend it out on demand, to require a 6 months' notice when you are paying 4 percent, and require them to keep the money there at least 6 months before they are paid any income whatever on it?

Mr. WILLIAMS. Are you talking about the laws applying to time deposits in banks, or the practice?

Mr. WIGGINS. I am talking about regulation Q of the Federal Reserve System applying to member banks of the Federal Reserve System.

Mr. WILLIAMS. That they cannot permit a time deposit to be withdrawn without a certain notice?

Mr. WIGGINS. That is correct, and the notice must be in writing. I am not talking about savings accounts, but about certificates of deposit.

Mr. WILLIAMS. Under no condition can that deposit be withdrawn without the notice?

Mr. WIGGINS. That is correct, sir.

Mr. WILLIAMS. I say again, is that the law, or is that a regulation?

Mr. WIGGINS. That is regulation Q of the Federal Reserve Board.

Mr. WILLIAMS. How is it as applied to State banks?

Mr. WIGGINS. Well, State banks, usually either by law or by the powers vested in State banking departments, regulate those things, and, generally speaking, their regulations are somewhat similar to the Federal. However, we have a still broader coverage of banks, as you well know, through the Federal Deposit Insurance Corporation, which in most matters of that kind have regulations somewhat uniform with those of the Federal Reserve System.

Mr. WILLIAMS. Isn't it the general practice among the State banks to permit the withdrawal of time deposits—of course without perhaps the payment of interest on them—in case of need, and in case they have the money?

Mr. WIGGINS. In the old days, all the banks were permitted to do it, but in the days of superregulation, we are not permitted to do it in our State, either State or Federal.

Mr. WILLIAMS. That difference is one very important difference between the building and loan associations and the time deposits in commercial banks.

Mr. WIGGINS. That is an important difference: yes. If a man walks into our bank and puts \$1,000 on a certificate of deposit, before we can write into that certificate an obligation to pay him 2-percent interest, we must say on the face of it that he will not call for the money within 90 days, and we cannot pay him that money under any condition before the 90 days have expired.

Now, if he does not call for the money within 90 days, if the certificate is drawn that the money must be left 90 days or longer, and at the end of 90 days he comes in and wants the money, he cannot get the money under the law without written giving us 30 days

more in which to pay it, and we are prohibited from paying it in less than 30 days covered by the written notice.

Mr. LUCE. Where does that differ from a time deposit?

Mr. WIGGINS. That is the time deposit as distinguished from the savings account. In the savings account, it is a different matter.

Mr. LUCE. Why does anybody take a certificate of deposit instead of a savings account?

Mr. WIGGINS. They have two assurances under a certificate of deposit—in the first place, that they will receive that rate of interest for the full period that the money is there, and, in the second place, the interest on the certificate starts that day that money is put in the bank. In the case of savings banks, there are many rules and regulations of the individual banks—

Mr. LUCE. I am talking about the savings deposits in national banks.

Mr. WIGGINS. Yes, sir. In the case of savings banks, interest usually is not permitted to start until the beginning of a quarter, so that if a customer brings the money in in the middle of a quarter, they receive no interest in connection with a savings account until the beginning of the next quarter, but if it is on a certificate of deposit, it begins to draw interest from the day they deposit the money in the bank.

Mr. WILLIAMS. But the man can withdraw on a savings account at any time?

Mr. WIGGINS. Of course, under the law, the savings pass-book contract requires that there must be a condition on the savings account, that the bank reserves the right to require 30 days' notice or more. In our own bank, we require 90 days' notice.

Mr. WILLIAMS. What proportion of the funds are deposited on certificates of deposit, compared to the proportion of savings accounts in the commercial banks?

Mr. WIGGINS. In our own banks, about three times as much on savings as on certificates.

Mr. WILLIAMS. Is that the general run throughout the country?

Mr. WIGGINS. I think so. Some banks, however, have much larger amounts of certificates than of savings, but, generally speaking, there is more in the savings than there is on the time certificates.

Mr. WILLIAMS. To get down to your criticism of this bill with respect to withdrawals, you simply think that we ought to write legislation in here which would prohibit the withdrawal of deposits in building and loan associations?

Mr. WIGGINS. Yes, sir; and I would like to say that I thoroughly approve of the provisions of the banking regulations that require notice. I think that when a man receives interest on his deposit in a bank, he ought to be required by law to give notice and the bank ought to be prohibited from paying the deposit without that notice.

Mr. WILLIAMS. What is the purpose of placing those restrictions?

Mr. WIGGINS. The purpose is this, that if a man deposits \$1,000 in our bank, and the interest starts at 2 percent that day, I have to put that money to work, and I may have to lend that money for 6 months, or lend it for a year, or invest it in a Government bond or some municipal bond that is running 5 or 10 years, and, having made an investment for a long time in order to earn the money to be able to pay interest on the deposit made with us, I feel that the man who is

benefited by that interest return certainly should give the bank reasonable notice when he wants his money.

Mr. WILLIAMS. On the other hand, the bank has to have a permanent fund, as I see it, a fund upon which they can count for certain in order to make these longer-term loans or investments. If you have a time deposit over a period of time, whatever it is, 6 months or a year, you have, it seems to me, a permanent fund in your bank, or a fund by which the bank can at least calculate for certain, and with that in view can extend its loans over a longer period of time.

Mr. WIGGINS. And yet the experience of the recent banking trouble was that the savings depositors were the ones who came in and demanded their money immediately, adding to the fuel of the fire of the banking collapse.

Mr. WILLIAMS. If they had not been permitted to withdraw it the banks would not have been in the condition in which they found themselves.

Mr. WIGGINS. That is the point in saying—and I want it understood that I am not here expressing the views of the American Bankers' Association; I do not know their views, but I am talking as an individual country banker when I say that savings accounts in banks should require 90 days' notice of withdrawal.

Mr. WILLIAMS. What is the proportion of investors and of borrowing shareholders in the building and loan associations?

Mr. WIGGINS. In our building and loan association, we try to find enough borrowers to take up half of the money. We have always found that if we could start off a new series with \$100,000 subscribed and lend \$40,000 to \$50,000 of that in the early months of the series we would make good earnings for the stockholders.

Mr. WILLIAMS. In practice, how do they compare—the ones who have purely an investment in it and those who borrow?

Mr. WIGGINS. I would say, roughly, about 40 percent are borrowers.

Mr. WILLIAMS. Forty percent are borrowers and 60 percent are purely investors?

Mr. WIGGINS. Savers; yes, sir.

Mr. WILLIAMS. The investor is the man who simply puts his money into the institution, buys a share?

Mr. WIGGINS. That is right.

Mr. WILLIAMS. Either by installments or fully paid up?

Mr. WIGGINS. In our case, only by installment.

Mr. WILLIAMS. But there are building and loan institutions which require fully paid-up shares?

Mr. WIGGINS. Yes, sir.

Mr. WILLIAMS. They simply invest \$1,000 in it and draw 4- or 5-percent dividends on it?

Mr. WIGGINS. Yes, sir.

Mr. WILLIAMS. In the other case, the borrower pays in the money on his loan?

Mr. WIGGINS. Yes, sir.

Mr. WILLIAMS. And, in either event, the return that they receive depends upon the earnings of the institution?

Mr. WIGGINS. Yes.

Mr. WILLIAMS. And, as we have said over and over again here, in that respect there is a vital difference there from a mere depositor in a bank.

Mr. WIGGINS. Yes, sir. The relationship is entirely different, and yet we have the peculiar situation in which the stockholder in the building and loan can go and get his money and his 4 percent interest practically on demand, while the holder of a certificate of deposit in a bank getting 2 percent must come in and write out a notice 30 days before he gets the money.

Mr. WILLIAMS. I understood you to say that under this amendment which we are considering the Federal savings and loan associations are given a wider field in investing than are the State institutions?

Mr. WIGGINS. Of course, that is a very general statement, and I have made no detailed study of State laws affecting the limitation on the State associations, but I would say that certainly is true in some sections.

Mr. WILLIAMS. Let me ask you this: Do the Federal savings and loan associations have the same right to invest in the same securities that the local institutions do?

Mr. WIGGINS. I do not think they have in many States. I think that in many States the State regulations are more liberal than the present law with respect to Federals.

Mr. WILLIAMS. Then, if this widens their scope, the State laws have already widened the scope of the State institutions?

Mr. WIGGINS. That is true.

Mr. WILLIAMS. We, of course, have no jurisdiction or control over the State institutions, and I was just wondering how and in what respect this law would give the Federals an advantage over the State institutions so far as investments are concerned.

Mr. WIGGINS. I think that it would give them an advantage in some States, and in some States probably it would not give them a great deal of advantage.

Mr. WILLIAMS. Do you think that the legal list of investments should be extended?

Mr. WIGGINS. Should be extended?

Mr. WILLIAMS. Broadened.

Mr. WIGGINS. Well, in some States I think probably the legal list is rather restricted by present conditions, if that is what you mean, and that there should be some broadening of legal investments.

Mr. WILLIAMS. Now, what is the fundamental difference between a mutual savings bank and a building and loan association?

Mr. WIGGINS. Now, Mr. Williams, you are getting into a field I know nothing about. The mutual savings banks are largely in a small area in the northeastern part of this country; and, as I see it, frankly, under the amendment to this act, a Federal savings and loan association becomes about 85 percent a mutual savings bank.

Mr. WILLIAMS. What objection is there to that?

Mr. WIGGINS. It is entirely a matter for Congress to decide. If that is what they want, to set up this Nation-wide system of mutual savings banks, I say let us do it by direction rather than by indirection.

Mr. WILLIAMS. I say, frankly, that I have not been able to see any difference in the principle of the two institutions—the principle under which they operate.

Mr. WIGGINS. I think that if you widen the powers of the Federal savings and loan associations so that they can do the things that the

mutual savings banks do under their State laws, why, that is all the difference there is in powers, as I see it.

Mr. WILLIAMS. What can the mutual savings banks do now that the building and loans cannot do?

Mr. WIGGINS. You will have to excuse me from answering that because the mutual savings banks do not exist in our part of the country, and they are regulated by State laws in the States in which they operate.

Mr. WILLIAMS. And so are the building and loans regulated by the State laws.

Mr. WIGGINS. Yes, sir. The suggestion that I made Friday was that if we are going to create a Federal system of mutual savings banks we should certainly surround that system of savings banks with all of the safeguards we have already attempted to surround our banking system with and, if possible, escape from the dangers that may develop as the result of a wide expansion of this new banking system.

Mr. WILLIAMS. As I understand you, what you suggested is the thing that we have been talking about, and that is to prohibit the withdrawal of accounts?

Mr. WIGGINS. Without notice.

Mr. WILLIAMS. What else? Is there any other suggestion or safeguard?

Mr. WIGGINS. I made five suggestions on Friday.

Mr. WILLIAMS. Yes. You need not repeat those; but that, as I understand it, was your main objection to it.

Mr. BROWN. Under the laws of the State of South Carolina, if I have \$1,000 to deposit in a bank and want a certificate, would you be compelled to take it?

Mr. WIGGINS. No, sir.

Mr. BROWN. I think for that reason that you should first authorize the payment, because you do not take all of these loans.

Mr. WOLCOTT. What interest does your bank pay on savings accounts?

Mr. WIGGINS. Two percent.

Mr. WOLCOTT. And you pay the same on a certificate of deposit?

Mr. WIGGINS. The same.

Mr. SPENCE. When you have to go in the market to borrow money what do you pay? I mean, for the building and loan association.

Mr. WIGGINS. Why, I have not borrowed any except locally, and we pay our local banks 4 percent.

Mr. SPENCE. Do you borrow just on your personal note, or your corporate note?

Mr. WIGGINS. No, sir; we put up collateral at the banks, and I think that we could get it in the market probably at 2 percent, because there is a great deal of money loaned out at 2 percent.

Mr. PATMAN. On this certificate of deposit, if a Mr. Brown goes into your bank and he persists, and you give him a statement to the effect that you will give him 2-percent interest on his deposit, and then he comes back in 10 days and says that he has had a misfortune and would like to have the money, you tell him that under the law you cannot let him have it until 90 days? Is that right?

Mr. WIGGINS. That is right.

Mr. PATMAN. In fact, 120 days?

Mr. WIGGINS. No. If the original certificate, at the time he put it in, provided that it be paid back on a certain date, we will say 90 days in advance, you can pay it back on that day.

Mr. PATMAN. Of course, you may not know Mr. Brown, and he may be just a transient as far as you are concerned, and have no responsibility. Would you be willing to make him a loan at your bank and accept this certificate as collateral security.

Mr. WIGGINS. We refuse to do that. We are very hardboiled when it comes to violating the law. I refuse to go to jail.

Mr. PATMAN. That would not be violating the law.

Mr. WIGGINS. I think it would. It would be indirectly paying a certificate of deposit prior to the maturity date.

Mr. PATMAN. No. You would be extending to him a loan on the commercial side of your bank, and you would take that as collateral security.

Mr. WIGGINS. I think it would be legally all right.

Mr. PATMAN. What rate of interest would you charge in a case like that?

Mr. WIGGINS. I would charge him at least 4 percent.

Mr. PATMAN. Do you make individual loans in your State at 4 percent?

Mr. WIGGINS. Mr. Patman, I have some loans outstanding at 2 percent in our bank.

Mr. PATMAN. Individual loans?

Mr. WIGGINS. Commercial loans, and we have many loans at 4 percent.

Mr. PATMAN. I think that you have been one of the best witnesses that we have had before us. You have been very frank, and you have given us information, and I appreciate it myself, and I think the American Bankers Association has certainly had a good witness here in you.

I want to ask you to give me a frank reply to this question. When you insist that notices of 3 and 6 months should be given, do you really insist upon that because the banks should have that much time, or do you insist upon it because it will make it harder for the Federal savings and loans and the building and loans to compete with commercial banks?

Mr. WIGGINS. Mr. Patman, I have said that I think it is a good thing for the banks. I am not recommending something for the building and loans that I also think is not good for the banks. I tried to get our legislature to pass a law prohibiting the payment of any savings deposits except on a written notice.

Mr. PATMAN. Suppose that you have all kinds of money, and that Mr. Brown has deposited his \$1,000 in good faith, and he has a misfortune in 10 days and finds that he needs that money, and he cannot get a loan from your bank, and he has to have that money; why shouldn't he be allowed to have it?

Mr. WIGGINS. We would lend him money on his building-and-loan stock.

Mr. PATMAN. But he did not invest in building-and-loan stock. You have plenty of money there. Why shouldn't you be allowed to pay him? It is no inconvenience to you. It is perfectly safe for you to do it, and what crime could there be if you paid him under circumstances like that?

Mr. WIGGINS. I do not say it is a crime.

Mr. PATMAN. You say it should be prohibited.

Mr. WIGGINS. I think it should be prohibited, on the theory that if you lend money out for a long period of time, you cannot pay that money to somebody on demand.

Mr. PATMAN. I know, but if you should want to do it, why shouldn't you be allowed to do it? I will put it this way: You contract that you will pay on 90 days' notice, but if it is convenient for you to pay that money, with no inconvenience to you whatsoever, and it is a great convenience to him, why shouldn't you be allowed to do it?

Mr. WIGGINS. My thought on that is this, that as long as you have plenty of money, and everything is lovely, it is all right, but the minute your building and loan says to a man who comes in and wants his money, "We are sorry, but we cannot pay you, at least for the present; you will have to wait from 30 to 60 days," when they have been paying it on demand right straight along, that building and loan is in a lot of trouble. The next morning that news is all over the little town, and everybody in town—

Mr. PATMAN (interposing). That is a matter of policy for the bank. I hope you will adopt that policy; it would be the best one.

Mr. WIGGINS. But, on the other hand, if that were the regulation, and any man who walked in and wanted his money were told that he would have to give a notice and wait for 60 or 90 days, that would not cause everybody else to descend on the bank.

Mr. PATMAN. My personal opinion is that that is a very debatable question, and I personally think that it is wrong. Where there is a run on the bank, and there is a need for it, it is perfectly all right; I think it is then all right to have it, but I do not think it is right to compel the banks to observe it when they can conveniently pay it out.

Now, you said something the other day about Federal savings and loan associations opening branches, and I am opposed to branch banks. Are you not opposed to them?

Mr. WIGGINS. Decidedly so.

Mr. PATMAN. I shall offer an amendment to prohibit Federal savings and loans to have branches, and I invite your attention to the fact that since Federal savings and loans have been established in States where branch banks are permitted, more branch banks have been opened than Federal savings and loan association branches. The correct figures are, Federal savings and loan association branches, 639; and branch banks, 670 in the same area.

Mr. LUCE. When you differentiated between money put up for investment and money on deposit in a bank, did you take into account the fact that the fundamental idea of a building and loan association is to save enough money to build a house?

Mr. WIGGINS. Well, our theory is that you save as you live in the house, pay for it as you live in the house.

Mr. LUCE. I simply wanted to be sure about your figures. When you said 40 percent, did that 40 percent include money which is for home building?

Mr. WIGGINS. That 40 percent is the part of it that is borrowed for home building.

Mr. LUCE. Then the other 60 percent—

Mr. WIGGINS. The other 60 percent are people that are not buying a home but are putting the money there to accumulate it for some other purpose. In some cases we start off a young fellow who has nothing and suggest that he accumulate \$1,000 in order to buy a lot on which to build a house, and after he has accumulated that, then we lend him the money to build the house.

Mr. LUCE. You could hardly classify that as an investment.

Mr. WIGGINS. No; that is purely a savings operation.

Mr. LUCE. And if I got the figure right, 60 percent of your money—

Mr. WIGGINS (interposing). Is not loaned to the stockholders.

Mr. LUCE. And not intended to be loaned to the stockholders?

Mr. WIGGINS. That is right.

Mr. LUCE. Is that true throughout the country?

Mr. WIGGINS. I do not think so. I think we have a larger proportion of what I would call savings stockholders than we have of borrowing stockholders, than has the average building association.

Mr. CRAWFORD. As I understand this bill, one of its primary purposes is to provide means whereby the stress can be taken off of the banks if an emergency should arise. Is that your conception of this bill, especially sections 1 and 2?

Mr. WIGGINS. The borrowing provision of the home-loan bank, yes; that is right.

Mr. CRAWFORD. Do you know of any one single thing that we can do, as a Congress, that would be any more important in meeting that emergency or in relieving that stress that would come about through the emergency arising, than to do the very thing you recommended here a few moments ago with reference to fixing it so that these payments could not be made on demand?

Mr. WIGGINS. That is my judgment about it.

Mr. CRAWFORD. In other words, your portfolio and the portfolios of all of the other institutions involved in this legislation are tied into the general investment structure or fabric of the United States?

Mr. WIGGINS. That is correct.

Mr. CRAWFORD. And any kind of a provision of law which prevents or deters the absolute destruction of that portfolio fabric and the market value of those investments involved will tend to relieve the Treasury of the United States of having to meet emergencies and at the same time preserving the social and economic structure of the United States?

Mr. WIGGINS. That is correct.

Mr. CRAWFORD. And that is what your recommendation is based on?

Mr. WIGGINS. Yes, sir.

Mr. FORD. Following what Mr. Crawford says, if we grant the request of the Home Loan Board, are we not setting up safeguards that, in event of a crisis, will enable the institutions to weather any reasonable call on them for cash?

Mr. WIGGINS. I think, so long as they are no larger than they are now, you are correct, and, as I said Friday, I think the facilities for borrowing money provided by the Home Loan Board are very desirable for these associations. They need some place to go in times of difficulty, when the withdrawal demands are heavy, from which they can borrow money to meet those demands, particularly

when their stock is guaranteed, as far as the public thinks, by the United States Government.

Mr. FORD. What is the objection to that? For instance, a situation may arise where a number of people rush to their banks, and they rush to the building and loan, and they are able to get their money. What happens? The fear that was engendered fades out.

Isn't that a generally comprehensive and a very good plan, psychologically?

Mr. WIGGINS. I think it is splendid. It corresponds somewhat to a central bank of rediscount, in their field.

Mr. FORD. Didn't we, in one of our acts recently, make something similar to that available to the members of the Federal Reserve System, so that they could take any good assets and borrow on them in time of crisis?

Mr. WIGGINS. Yes, sir.

Mr. FORD. Wasn't that a very good plan?

Mr. WIGGINS. I personally do not think so, in the case of the amendment to the Federal Reserve Act.

Mr. FORD. Why?

Mr. WIGGINS. I think that the Federal Reserve System was primarily designed to serve the purposes of commerce, agriculture, and industry, and under the old theory of the eligibility on rediscounted paper, it was limited to money used for this purpose. Under the new amendment, the new extension of power, the Federal Reserve System has diverted it somewhat into fields outside of commerce, agriculture, and industry.

Mr. FORD. Right there, is there a sufficient demand for money in agriculture, commerce, and industry so that the banks can get enough of that paper that they can take over if they need it?

Mr. WIGGINS. No, sir. All the banks need now is the ability to sell to the Federal Reserve System their Government bonds at par.

Mr. PATMAN. They carry them on the books at par.

Mr. FORD. They have an additional protection, however. Here is a bank that has a sudden call on it. We will assume that after the Government bonds are exhausted, they still can take good bankable assets to the Federal Reserve and get money on them.

Mr. WIGGINS. Yes, sir.

Mr. FORD. Isn't that an addition?

Mr. WIGGINS. Yes, sir; it is an addition.

Mr. FORD. You would not want to deny that same facility to the savings and loan associations under the same circumstances?

Mr. WIGGINS. I think that they should be permitted to carry any sound asset that they are permitted to lend on and to borrow a reasonable amount against it. I agree fully.

Mr. FORD. That is one of the primary objectives of this bill. There may be some detail about it that might be straightened out, but I cannot see that there is anything wrong with the fundamental purpose of it.

Mr. WIGGINS. I am not raising any objections as to the type of assets that they can carry to their bank of rediscount. I am raising objection to the type of assets that they can lend their own money on.

Mr. WILLIAMS. Do you think the commercial banks of the country should extend capital credit to industry?

Mr. WIGGINS. I think that certain types of capital credit should be extended by banks. I extend it in our own bank, and I think the banks in America today are extending more of that sort of loan than they have extended in many years. As a matter of fact, that type of loan, in years past, has not been extended, in the origin of the loan, as a term loan, but it has been loaned for a short term, with the knowledge and understanding that the loan would have to be renewed in part over a period of time, and the banks are doing that job today to the largest extent, in my opinion, in the history of commercial banking.

Mr. WILLIAMS. Do you think, then, that there is any demand or any field for capital credit that is not being supplied by the commercial banks?

Mr. WIGGINS. Yes, sir; I think there is a tremendous demand for money that is not being supplied by commercial banks, and should not be supplied by commercial banks.

Mr. WILLIAMS. Who should supply it?

Mr. WIGGINS. It depends entirely on the theory of government in undertaking to supply credit to the public. I personally think that a great deal of that credit should not be supplied by anybody.

Mr. FORD. Oh! Just a moment.

The CHAIRMAN. Your theory is that a lot of people want to borrow money that have no chance to pay it back?

Mr. WIGGINS. Yes.

Mr. FORD. If that is it, all right, but there are a lot of concerns that need to borrow money and that, if given an opportunity, could certainly pay it back. You would not deny that type of person a loan?

Mr. WIGGINS. Mr. Ford, I have been sitting on a board of the R. F. C. ever since it was started in our part of the country, and I am the most radical member on it when it comes to making loans. I want to make every loan that can be justified by any reasonable application of reasonable principles of repayment, and yet a large amount of these types of loans for which we get applications are just impossible. It is impossible to stretch your imagination far enough to justify yourself in approving them.

Mr. FORD. I appreciate that, but that did not seem to be a part of your first answer. I wonder if there is anything in this theory—and maybe I am just haywire—in that I look on money and credit largely as, I suppose you might call it, a lubricant that enables the economic machinery of the country to function. Would you say it was that, or would you say that it was the motive power? Where would you put it?

Mr. WIGGINS. I would say it is a part of the machinery of our economic system. I would not say it is the motive power.

Mr. FORD. It is the lubricant?

Mr. WIGGINS. Yes, sir.

Mr. FORD. It is something on which it revolves?

Mr. WIGGINS. Yes, sir.

Mr. FORD. Is it not then reasonable to expect that where that lubricant is needed, and where there is a reasonable showing that can be made for its being returned, it ought to be available?

Mr. WIGGINS. Where you have the assurance of its return, yes.

Mr. PATMAN. Isn't it more the vehicle itself?

Mr. FORD. Let me finish. I have another question to ask.

In the last 6 or 7 years, the United States Government has spent approximately \$15,000,000,000 in relief of a general character, has it not?

Mr. WIGGINS. Yes, sir.

Mr. FORD. Do you have any idea that if \$5,000,000,000 of that have been employed in lending money, in shaky instances, probably, in some cases, where maybe 50 percent has been lost, and where we might lose two and a half billion dollars in the lending operations but have put enough people to work in the meantime so that they would not have been nearly as big a relief load, that that is not cheaper than continuing to carry those people on relief?

Mr. WIGGINS. In many cases I agree with you fully. As a matter of fact, I used that very argument in the case of loans that were somewhat on the border line, that you were not quite sure whether you should approve them or not, in the case of R. F. C. loans where I was on the advisory committee. I have had several cases of that nature there. For instance, a mill employing 600 people, with obsolete machinery and good honest men trying to run it, but there was not a chance competitively, and they have thought that if they could put in high-speed machinery in certain places they might make the grade. Then it becomes a question of whether or not you should undertake to lend them half a million dollars, as in one case that I have in mind, and I took the position that we should stretch our judgment a little bit and make the loan because there were 600 people working there, and if we did not make that loan that mill could not run much longer, and it would cost the Government more to have those people on relief than if we made the loan and lost; and to that extent, I guess, I am a Socialist.

Mr. FORD. Would you say that that was the philosophy which animated the R. F. C. through its loaning operations?

Mr. WIGGINS. I think the R. F. C. has been trying to make every loan that it can justify itself in making, and it has made some that I think it should not have made.

Mr. FORD. Well, we expected it to do that. It is only human to make mistakes.

Mr. WILLIAMS. Do I understand your position to be that you think that our banking system, as organized at the present time, cannot take care of the capital loans that are necessary and really needed to transact the business?

Mr. WIGGINS. Why, the banks have never undertaken to take care of the capital loans in this country.

Mr. WILLIAMS. Who has?

Mr. WIGGINS. The commercial loans are the ones that the banks take.

Mr. WILLIAMS. Who has taken care of the capital loans?

Mr. WIGGINS. The investment bankers are the ones that have floated the securities for capital funds.

Mr. WILLIAMS. Who bought them?

Mr. WIGGINS. The public did.

Mr. WILLIAMS. What is the matter with continuing that system?

Mr. WIGGINS. Well, of course you have the Securities and Exchange Commission sitting on that proposition now, and there you raise the question of the whole field of their control of capital financing.

Mr. WILLIAMS. Do you mean to say that the action of the Securities and Exchange Commission has destroyed investment banking?

Mr. WIGGINS. That is again going to a field that is rather remote from a country banker in South Carolina, but my private opinion is that the provisions of the Securities and Exchange Act, and their regulations, must be lightened up somewhat before we are going to have a substantial flow of public funds into capital investments.

Mr. WILLIAMS. Well, that would be your answer to the question of capital credit?

Mr. WIGGINS. That would be one; and then, in the second place, I think the limit of \$100,000 is too low. It costs too much money and takes so much time to get registered, so I am informed—

Mr. WILLIAMS. That is part of the same law?

Mr. WIGGINS. Yes; that is a part of the same law, and I am informed by people that have done it, and I have been through it once myself, that, for an issue of \$150,000 to \$200,000, it is just too expensive.

Mr. WILLIAMS. Then we will say that the securities and exchange law should be changed.

Mr. WIGGINS. And the exemption raised, say, to half a million dollars.

Mr. WILLIAMS. Will that do the job?

Mr. WIGGINS. No, sir.

Mr. WILLIAMS. Then what do we need?

Mr. WIGGINS. There is only one thing that, in my opinion, will do it, and we are going rather far afield, and that is to have the incentive on the part of the man who has the money to invest it. You can have all the machinery and all the regulations you want, but until the that man who has \$1,000 sitting in my bank has the incentive and the faith and the courage to take it out and to put it into a capital investment, we are not going to go very far in stimulating the capital markets.

Mr. WILLIAMS. Are there not lots of people that have that very thing, that claim that they cannot get the credit?

Mr. WIGGINS. It is not a question of credit. It is a question of finding investors who have the faith to take the money that is all piled up in the bank and to put it out.

Mr. WILLIAMS. Men who want to do that thing, to expand their industry, to increase their plant capacity and equipment, in the smaller factories, it seems to me have created a great demand for additional credit, and they claim that they cannot get it.

Mr. WIGGINS. Well, I think that there is more smoke than fire in those claims, because the R. F. C. has ample facilities and desire to meet just that sort of situation, but the private investor has little incentive today, with the amount of regulation and other laws confronting him, too little faith in the future, to put his money into an investment that will require 10 or 20 years to bring back the returns. He has too little faith today to do that.

Mr. WILLIAMS. In other words, you would throw down all restrictions and regulations, and turn private enterprise loose, like it was in the twenties?

Mr. WIGGINS. No, sir; I am an ardent reformer. I think, that many of our reforms have been splendid and overdue, and I want to

say that I favor the general purpose of the Securities and Exchange Act. I do not want anybody to get the impression that I do not.

Mr. WILLIAMS. All you want to do is to liberalize it?

Mr. WIGGINS. All I want is to make the wheels of industry turn, and take off the brakes where the brakes of regulation are more severe than the good that they serve.

Mr. FORD. We talk about industry, big and little. What proportion of the gross industry of the country is little, and what proportion is big? Have you any idea? Can you make a rough guess?

Mr. WIGGINS. No, sir. If you will let me be a little facetious, I think there is too much of it that is too big, and too little of it that is little.

Mr. FORD. I think I saw some figures some time ago, where about 87½ percent of the productive capacity of the United States is done by concerns with capital structures not in excess of \$350,000 to \$400,000.

Mr. WIGGINS. Yes, sir; the bulk of it is still done, if you add everything together, by the so-called smaller business.

Mr. FORD. And those are the fellows that seem to be in the greatest need for capital at the present time. After pulling through this depression, they are now in a position where, if they could get a reasonable amount of money, they could go on. But they cannot go on.

Mr. WIGGINS. The difficulty is naming two or three in that position. We hear that, and we read that, but I have assiduously tried to locate some of those people, and have sat down with some that thought that they had a case. There is not as much of that as we are led to believe.

Mr. FORD. I was thinking of a single instance in my own experience, a concern that operates an alcohol plant—not for beverage, but for industrial purposes. They were in the red last year, but they have pulled up to the point where they are just about in the black, and they made an application to the R. F. C. for a loan, and they tried the Federal Reserve, and in both instances they were turned down, and the denial of the loan was based on the fact that their previous earning capacity was insufficient, without taking into consideration, I thought, their additional earning capacity if they were given the facilities to produce, and their customers were such people as Ford, Chrysler, General Motors, and other concerns that were operating in that district, using that type of stuff. First they were refused on the ground that they could not loan to a distillery, but they were a distillery only in the sense that they were distilling commercial alcohol and some of the things that go with it.

I am still of the opinion that that loan was unwisely refused, because it meant the employment of 70 or 80 people, but the banks would not do it, and the R. F. C. would not do it, and I do not know what will happen.

I do not pretend to be a prophet or the son of a prophet, or a big- or a little-business man, or anything else, but I did look at their balance sheet, and it seemed to me that the progressive upturn that they had made, hampered, as they were, by the lack of necessary facilities and the lack of cash to purchase the things that they needed, was such that if they had had some money to operate on and to get new facilities to give them greater capacity, that they could pull out.

As to the men themselves, I had some friends of mine who were good judges of humanity, and they said that they were honest and good, hard-working men, but they could not get the loan.

I do not know whether this is just an isolated case or not, but I have had so many letters that just seem to indicate a similar condition, and it seems to me that there ought to be some intermediary form of credit to accommodate such cases, and even if the Government lost money, I think it would be a good investment.

Mr. WIGGINS. I think that if you would run those cases down and get the facts, you would see another side of the question. That is what was done by the Federal Reserve Bank of New York. They made an exhaustive study of these cases of so-called credit needs, and that report, of course, is public property and is available to this committee, and I think it bears very directly on the subject that you have raised, and I am convinced from that report and many investigations that I have had a part in that there is a demand for money of that type, but it is not as large in proportion as the individual cases we hear about and the newspaper reports we read would lead us to believe, and that the making of that type of loan is really not justified in Government policy on the ground—

Mr. FORD (interposing). What is the Government for? Governments are instituted for what?

Mr. WIGGINS. To protect people.

Mr. FORD. That is a straight case of protecting people.

Mr. WIGGINS. But not to support them.

Mr. FORD. That is not supporting them, but just giving them an opportunity.

Mr. CRAWFORD. To avoid being supported.

Mr. MARTIN. Mr. Chairman, I have another appointment, and I would like to ask just one question if I may.

I have here, Mr. Wiggins, an editorial in the American Banker on the question of Savings and Banks. It says:

The banking world welcomed the Federal savings and loan insurance idea when it was first created.

Mr. WIGGINS. I think that anybody who makes a general statement as to the banking world is covering too much territory, because I think you would have to break that down.

Mr. MARTIN. I think that this has reference to the general banking world.

Mr. WIGGINS. So far as I am concerned, I agree with it, and many other bankers do. On the other hand, there were some bankers that did not agree to it.

Mr. MARTIN. Generally speaking, the banks did agree to it?

Mr. WIGGINS. Certainly in my part of the country, I would say they did.

Mr. MARTIN. Is it not a fact that the opposition of the banking world to the further liberalization of the law is that it will permit the savings and loan institutions to become virtually competitors in the general banking field?

Mr. WIGGINS. Not only competitors, but become, in essence, a banking system.

Mr. MARTIN. In that connection, Mr. Chairman, it seems to me that this is very important legislation, and it is far-reaching in its effect

on the banking situation of the country. I would like to hear from the Federal Reserve Board and also from the Secretary of the Treasury. Would you call those gentlemen here, or get a letter from them, stating their views on the subject?

The CHAIRMAN. We have been very liberal in the amount of time that has been given to hearings on this bill. I had hoped that we had used about all of the time needed. There is a possibility that the session will not last for a great while. Of course, I have no objection in the world, and no member of the committee would have, to hearing the views of these men; but if you are satisfied to let them send statements, I should be glad to get them.

Mr. MARTIN. Just so we get their views in the record. That is all that I care for.

The CHAIRMAN. I think the committee feels that we want to close these hearings and go into executive session. If you would like to have letters from them, I will undertake to get a statement from the Secretary of the Treasury and a statement from the Federal Reserve Board, and try to get them here tomorrow.

Mr. WOLCOTT. I think that we should get a statement from the Board, and another from Mr. Eccles.

The CHAIRMAN. Let us see if we cannot get those letters here tomorrow, and close the hearings, unless there is urgent reason for not so doing.

Mr. PATMAN. Didn't we agree that Mr. Wiggins would be the last witness?

The CHAIRMAN. Yes, I think we did; and one morning we came and did not have a witness, and we had to adjourn.

Mr. PATMAN. If we have finished with Mr. Wiggins, why not consider the testimony closed?

The CHAIRMAN. That is what I am trying to say, that we will not have any witnesses after Mr. Wiggins, if we can finish with him.

Members of the committee, do you want him back tomorrow, or can we say that we are through?

Mr. WIGGINS. I would like to ask your indulgence for one thing, and that is that among the papers that Mr. Patman filed was a letter from Mr. Fred T. Greene, of the Federal Home Loan Bank of Indianapolis, in which he controverts much of the testimony presented to this committee by one of the witnesses for the American Bankers Association.

The CHAIRMAN. It is now a quarter to 1.

Mr. WIGGINS. The only statement that I was going to make is that it seems to me that it is only fair, and I am sure that Mr. Patman would agree to that, that there should be an opportunity to answer some of the statements made in this letter that he filed.

Mr. WILLIAMS. Can't you answer it?

Mr. WIGGINS. No, sir. It has to do with mutual banks.

Mr. PATMAN. And ask Mr. White to send the salaries of officers and directors of the banks, where the salaries have been going up and the dividends going down.

Mr. WIGGINS. Of course, Mr. White is not an American Bankers Association man. He is superintendent of banks of the State of New York.

Mr. PATMAN. I thought he and Mr. Benson were connected in some way.

Mr. WIGGINS. No.

The CHAIRMAN. We should be glad to have Mr. Benson, or Mr. White, examine the statement and send an answer and put it in the record, but I am hoping that we can begin to consider this bill tomorrow in executive session.

I will undertake to get an expression of views from Mr. Eccles and from Mr. Morgenthau.

Mr. MARTIN. I want to put this editorial that I referred to in the record, and also two letters from the chief building and loan examiner for the State of Illinois.

The CHAIRMAN. There is no objection to that.

(The editorial and the letters referred to are as follows:)

[From the American Banker]

SAVINGS AND BANKS—FEDERAL SAVINGS AND LOAN ASSOCIATION PROPOSALS RAISE QUESTION OF UNIFORM OBJECTIVES

It has been one of the anomalies of the New Deal program of banking reform that while every effort has been made to discourage and estop over-competition among banks, the same administration has aided and abetted the creation of a system of institutions enabled to enter into direct competition with banks for the public demand and short-terms savings funds while at the same time subsidized by Federal moneys to compete aggressively in the residential financing field.

Bank chartering under Federal supervision has been strictly limited, and State authorities have cooperated closely to the end that only demonstrably necessary new banks be instituted. Similarly the rate of interest which banks of deposit might offer to the public has been limited by Federal and State regulation. There has been no dispute as to the salutary effect of and necessity for this sort of banking regulation. Sound banking appeared more important than unrestrained competition.

Yet bankers who submitted to these restrictions on their field, at the very same time found the Federal Government's money and prestige being used to create Federal savings and loan associations, in direct contravention to the Federal banking agency program of sound local finance. Interest rates, in excess of anything which a soundly operated bank could pay, were offered by the Federal savings and loans. Margins of operating income, Federal subsidy funds, and expanding operations allowed expensive promotional and advertising campaigns by the Federal savings and loans and their counterparts in the Federally insured State building and loan associations. Federal savings and loan account insurance permitted inference that the share investment in the savings and loan institution was as liquid as a deposit in a Federal Deposit Insurance Corporation insured bank. The more aggressive Federal savings and loans took on all the appearance of a bank; they could and many times occupied the quarters of bank which had closed.

To all intents and purposes, whether the Congress intended it or not, a new system of ostensible banks was created, promoted, and thrust into the none too satisfactorily solved banking situation.

The banking world welcomed the Federal savings-and-loan insurance idea when it was first created. It was not conceivable that the same Federal administration which was doing everything to safeguard banks from the dangers of overcompetition and unsound deposit and lending policies, would turn right around and introduce some of these elements through the fostering of a competing banking system.

Yet that very thing has come about, and the federally insured savings-and-loan system which has been created upon the foundation of the Federal home-loan banks and the Federal Savings and Loan Insurance Corporation, has waxed fat and aggressive upon the special competitive powers granted it.

We reported in this publication some years ago that there were those in Washington who had it in their mind that the Federal savings and loan was to be developed into the "savings-bank system" of the Nation. But this was hardly more than a rumor, and was largely discounted by bankers who felt that they could still rely on the good intentions of the Federal administration.

Now, however, the Congress is asked in the Senate and House bills, on which hearings are currently being held, to enact legislation which would definitely project the savings and loan institutions under Federal insurance a long way farther on the way toward being institutions of demand deposit and general loan powers.

There is tremendous need for safe and sound savings funds and home-financing program in this country—home financing which will be protected from the vagaries of financing with demand funds. But giving the federally insured savings and loans power to drop home financing at their pleasure, and invest in other fields, and making them more pronouncedly demand liability institutions is not a move in a direction healthy for them or for the existing banks of the country. Nor is the prospect of a sound Federal banking and savings policy enhanced with the agencies of supervision divided and competitively minded. Instead of having before it a measure for the special interest of any particular form of savings operation, it would be wiser by far for the Congress to have before it a program for study of coordination and reform of the entire savings, mortgage, and investment field under a single, nationally responsible banking or savings agency. Nothing but harm can come from further progress along the line of uncoordinated competition into which we are already deeply plunged.

STATE OF ILLINOIS,
OFFICE OF THE AUDITOR OF PUBLIC ACCOUNTS,
BUILDING AND LOAN DEPARTMENT,
Springfield, May 5, 1939.

Hon JOHN C. MARTIN,
House Office Building, Washington, D. C.

DEAR MR. MARTIN: I was advised yesterday by long-distance call that some witness, appearing before one of your committees considering legislation affecting the Federal Home Loan Bank Board, stated that no one was interested in the provisions of section 17 of the Bulkley bill introduced at the previous session. As a matter of fact, not a few building-and-loan people are interested in a provision to the effect that so long as an adequate examination is being made by a State department the examination report should be acceptable to the Federal Savings & Loan Insurance Corporation.

State-supervised associations are at some disadvantage in their efforts to compete with Federal savings and loan institutions because of the dual examination which is now being made by the Insurance Corporation and the State department. Unfortunately, as I see it, the Federal Home Loan Bank Board controls too many different agencies, and its very influence, if not activities, tends to discourage our State associations from remaining under State supervision.

The Federal Home Loan Bank Board controls:

1. The Federal Home Loan Bank Board System which extends credit to member associations. Originally, these members were State-supervised associations which ostensibly control the policies of the banks. The Federal Home Loan Bank Board now dictates the policies of the banks and, of course, controls the extension of credit to all members.

2. The Board also supervises the Federal savings and loan associations, and various Board members have lost no opportunity in indicating a preference for those associations which are under Federal supervision. Federally paid employees have been sent around through the various States encouraging State-supervised associations to federalize, with arguments to emphasize the advantages of Federal supervision.

3. The Board also has control of the expenditure of the Home Owners' Loan Corporation funds with which to purchase shares in both Federal and State associations in order to assist such institutions in taking care of their various communities. Without knowing, I am rather positive that the expenditure of

such Home Owners' Loan Corporation funds in purchasing shares in Federal associations as contrasted to the purchase of shares in State-supervised associations would be rather interesting.

4. The Board controls also the Federal Savings & Loan Insurance Corporation, which insures the share accounts in both Federal and State associations.

Contemplating the foregoing, you can readily realize the proselyting which our State associations have been subjected to. The banking situation is not a comparable one, for the reason that the supervising authority of national banks is not connected with the Federal Deposit Insurance Corporation, and accordingly the latter's examiners are not interested in an attempt to persuade the State banks to nationalize. There is plenty of opinion in the building and loan industry which is hopeful that the reorganization bill passed by your Congress will be used to divorce the Federal Savings and Loan Insurance Corporation from the same authority which supervises the Federal associations so that the latter will have no better entree in the insurance set-up than our own institutions. At present the same examiners who examine for the Insurance Corporation do the Federal supervising examination for the Federal associations. Hence one set of examiners answers. The Federal Savings and Loan Insurance Corporation should be controlled by a board entirely distinct and separate from the Federal Home Loan Bank Board, assuming that the latter continues in position to supervise Federal associations and grant extensive favors to both Federal- and State-supervised institutions. Not a few building and loan operators would prefer having the Federal Deposit Insurance Corporation and the Federal Savings and Loan Insurance Corporation under the same control.

Should you be in accord with the foregoing expression of opinion, I hope that it can be of some use to you in future hearings.

With kindest regards, I remain,
Respectfully yours,

POYNTELLE DOWNING,
Chief Building and Loan Examiner.

SEC. —. Section 403 of the National Housing Act is hereby amended by adding the following new subsection (e) :

"(e) In the event any insured institution is regularly and adequately examined at least annually by any public authority, which makes copy of the report of examination available to the Corporation, no additional examination of such insured institution shall be required by the Corporation unless the Corporation pays the expense of the same, except that the Corporation may require that special examinations be made at the expense of an insured institution in cases of defaults, defalcations, and like unusual circumstances."

STATE OF ILLINOIS, OFFICE OF THE AUDITOR OF PUBLIC ACCOUNTS,
BUILDING AND LOAN DEPARTMENT,
Springfield, May 20, 1939.

HON. JOHN C. MARTIN,
Member of Congress, Washington, D. C.

DEAR MR. MARTIN: I am enclosing a copy of the resolution adopted by the executive committee of the National Association of Supervisors of State Banks. I am interested primarily in the building-and-loan industry because of my position here in Illinois. However, I am in accord with the bankers' resolution.

The Federal Home Loan Bank Board has gradually, but persistently, sought to encroach on the bankers' field. Too, it has expended no little effort and considerable Federal funds in placing State-supervised associations at a disadvantage. The United States Supreme Court heretofore in the *Wisconsin case* held that a State association could not federalize without the consent of the State authority which created the institution, yet the F. H. L. B. B. is apparently using all possible resourcefulness in circumventing the decision. The discriminatory tax exemption granted Federal associations and denied State associations of the same character is unwarranted. Either both types of associations should be given the exemption or neither one. The exemption to Federal associations' shares shown on our last income-tax-return blanks should be a red flag to every-one who is opposed to special privileges.

As to governmental reorganization plans, State-supervised associations would fare much better if control of the Federal Savings and Insurance Corporation were taken out of the hands of the Federal Home Loan Bank Board and placed under the Federal Deposit Insurance Corporation. This would preclude a lot of partiality which is now being shown by the Board toward its own fair-haired children, Federal savings-and-loan associations.

With personal regards, I remain,
Very truly yours,

POYNTELLE DOWNING,
Chief Building and Loan Examiner.

RESOLUTION ADOPTED BY EXECUTIVE COMMITTEE NATIONAL ASSOCIATION OF SUPERVISORS OF STATE BANKS, WASHINGTON, D. C., APRIL 24, 1939

Whereas the National Association of Supervisors of State Banks on numerous previous occasions, through its district organizations, its executive committee, and in convention assembled has called attention to the fact that a system of Federal savings and loan associations is being established in this country without due regard to the effect thereof upon the existing banking structure; that such associations have been established in communities already adequately served by existing banking organizations; that such associations constitute an independent system of institutions not subject to the supervision of any Federal bank supervisory agency; and that the competitive practices of such associations have frequently been contrary to principles recognized by all bank supervisory authorities; and

Whereas there has been introduced in the Congress bills (S. 2098; H. R. 5535) which would expand the powers of the Federal Home Loan Bank Board, the Federal Savings and Loan Insurance Corporation, and Federal savings and loan associations generally; and

Whereas the effect of such bills would be to prepare the way for conversion of the present system of Federal savings and loan associations into an independent system of Federal savings banks; and

Whereas such bills, among other things, would (a) divert such associations from their function as home-financing institutions, the primary purpose for which Congress authorized their creation, by relaxing existing restrictions upon the amount of shareholders' funds which may be loaned upon properties other than homes, and modifying present limitations upon the size of individual loans and the location of property upon which such loans may be made; (b) authorize the Federal Home Loan Bank Board to supervise State associations which are insured by Federal Savings and Loan Insurance Corporation or are members of a Federal home loan bank, thereby unnecessarily duplicating the supervision now exercised by the States; (c) permit the conversion of State associations into Federal savings and loan associations even though such conversion is not authorized by State law; (d) contract the corporate name of Federal Savings and Loan Insurance Corporation to "Federal Savings Insurance Corporation"; and authorize such Corporation to insure deposits in mutual savings banks, although the Congress has established the Federal Deposit Insurance Corporation for the express purpose of insuring bank deposits and such Corporation does in fact now insure deposits in mutual savings banks; and

Whereas it is the considered opinion of the executive committee of the National Association of Supervisors of State Banks that the proposed amendments above outlined are unsound in principle and that no amendments enlarging the powers of the Federal Home Loan Bank Board, the Federal Savings and Loan Insurance Corporation, and Federal savings-and-loan associations should be considered for enactment until the power to charter and supervise Federal savings-and-loan associations has been transferred to a recognized bank supervisory authority in order that the activities of such associations may be coordinated with the banking structure of this country; Now, therefore, be it

Resolved, That this committee in behalf of the National Association of Supervisors of State Banks hereby records its opposition to the above-mentioned bills and recommends that the chartering and supervisory functions of the Federal Home Loan Bank Board with respect to Federal savings-and-loan associations be transferred to the Comptroller of the Currency or other bank supervisory agency; that provision be made that no charters for such associations be issued in the future until written consent thereto has been obtained from

the bank supervisory authority of the State in which any such association is to be formed; and that the management of the Federal Savings and Loan Insurance Corporation be vested in the board of directors of the Federal Deposit Insurance Corporation; and be it further

Resolved, That copies of this resolution be sent to the President of the United States, the Secretary of the Treasury, the President of the Senate, the Speaker of the House of Representatives, the chairman of the Banking and Currency Committee of the Senate, the chairman of the Banking and Currency Committee of the House of Representatives, every United States Senator, every Member of the House of Representatives, the Comptroller of the Currency, Federal Deposit Insurance Corporation, Reconstruction Finance Corporation, Board of Governors of the Federal Reserve System, Federal Home Loan Bank Board, Federal Savings and Loan Insurance Corporation, American Bankers' Association, United States Building and Loan League, National Association of Mutual Savings Banks.

The CHAIRMAN. The committee will meet tomorrow morning at 10:30.

(Thereupon, at 1 o'clock p. m., an adjournment was taken until Wednesday morning, June 7, 1939, at 10:30 o'clock.)

NUMBER OF BANKS 1933-38

NET CHANGES IN NUMBER OF BANKS AND BRANCHES

The following points are disclosed by an analysis of table 1 attached:

1. The number of bank branches in existence at the end of 1933 was 2,911. By the end of 1938 this number had increased 670, to 3,581.
2. At the end of 1938 the 555 mutual savings banks had 134 branch offices, or an average of one branch for each four mutual savings banks. The 134 branches for 1938 represented a net increase of 9 over the 125 ranches in existence at the end of 1933.
3. The number of national banks increased from 1,121 in 1933 to 1,499 at the end of 1938, an increase of 378.
4. The number of branches in the head office city of the bank actually declined from 1,784 in 1933 to 1,743 in 1938. The number of branches outside of head office cities increased, however, from 1,127 in 1933 to 1,838 in 1938, an increase of 711.

BANKING OFFICES ESTABLISHED

Table 2 attached shows the number of banks established during the years 1933-38. The figures do not represent net figures, however, as the number of banks suspended and closed is not given. The most significant points in this table are as follows:

1. For the past few years there has been a decline in the number of new branches authorized. A total of 138 new branches were authorized in 1935 but in 1938 only 39 new branches were organized.
2. The conversion of banks into branches, as a result of consolidations, mergers, and absorptions, has continued to be active, the figures for the last 4 years being 87, 73, 90, and 55 respectively.
3. The total number of branches established has shown a steady decline from 225 in 1935 to 94 in 1938.
4. During 1933 there were over 1,100 head offices established, about one-third of which represented new banks, most of the balance being reopenings. During 1934, out of 1,270 head offices established, 511 represented new banks. The year 1935 saw a sharp drop in the formation of head offices to 184. The decline has continued for the past 3 years, there being only 37 head offices established during 1938.
5. Total banking offices, including both head offices and branches, established during 1935 numbered 409. In 1936 this total was 238, in 1937 was 246 and in 1938 dropped to 131.

TABLE 1.—Number of banks and branches in United States, 1933–38 (figures for 1938 are preliminary)

End of year figures	Member banks			Nonmember banks			
	Total	National	State	Other than mutual savings and private banks		Mutual savings	Private ²
				Insured ¹	Not insured ¹		
NUMBER OF BANKING OFFICES							
1933.....	17,940	6,275	1,817	9,041		704	103
1934.....	19,196	6,705	1,961	³ 9,579		705	246
1935.....	19,153	6,715	1,953	8,556	1,088	698	143
1936.....	19,066	6,723	2,032	8,436	1,043	693	139
1937.....	18,927	6,745	2,075	8,340	997	691	79
1938.....	18,781	6,723	2,105	8,226	963	⁴ 689	⁵ 75
NUMBER OF BANKING OFFICES							
1933.....	15,029	5,154	857	8,341		579	98
1934.....	16,063	5,462	980	7,693	1,108	579	241
1935.....	15,869	5,386	1,001	7,728	1,046	570	138
1936.....	15,667	5,325	1,051	7,588	1,004	565	134
1937.....	15,387	5,260	1,081	7,449	⁶ 960	563	74
1938.....	15,200	5,224	1,114	7,316	922	555	69
NUMBER OF BRANCHES ⁷							
1933.....	2,911	1,121	960	⁸ 700		125	5
1934.....	3,133	1,243	981	⁸ 778		126	5
1935.....	3,284	1,329	952	828	42	128	5
1936.....	3,399	1,398	981	848	39	128	5
1937.....	3,540	1,485	994	891	37	128	5
1938.....	3,581	1,499	991	910	41	134	6

¹ Federal deposit insurance did not become operative until Jan. 1, 1934.

² The figures for December 1934 include 140 private banks which reported to the Comptroller of the Currency under the provisions of section 21 (a) of Banking Act of 1933. Under provisions of Banking Act of 1935, private banks no longer report to Comptroller of Currency and, accordingly, only such private banks as report to State banking departments are shown in figures shown for subsequent years.

³ Separate figures not available for branches of insured and not insured banks.

⁴ Comprises 49 insured banks with 18 branches and 506 uninsured banks with 116 branches.

⁵ Comprises 2 insured banks with no branches and 67 uninsured banks with 6 branches.

⁶ Revised.

⁷ The number of branches in head-office cities and outside head-office cities, respectively, were as follows:

	In head-office cities	Outside head-office cities		In head-office cities	Outside head-office cities
1933.....	1,784	1,127	1936.....	1,749	1,650
1934.....	1,776	1,357	1937.....	1,757	1,783
1935.....	1,754	1,530	1938.....	1,743	1,838

Source: Annual Report of Board of Governors, Federal Reserve System, 1938, p. 66.

TABLE 2.—*Banking offices established, 1933–38*

All Commercial Banks

	1933 ¹	1934 ¹	1935 ²	1936 ²	1937 ²	1938 ²
Total banking offices.....			409	238	246	181
New.....			223	159	155	73
Conversions.....			87	73	90	57
Reopenings.....			99	6	1	1
Head offices.....	1, 128	1, 270	184	65	63	37
New.....	323	511	85	59	62	34
Conversions ³	11	7				2
Reopenings.....	697	752	99	6	1	1
Unclassified.....	97					
Branches.....			225	173	183	94
New.....			138	100	93	4 39
Conversions ⁵			87	73	90	55

¹ Source: Federal Reserve Bulletin, November 1937, p. 1087; figures not available on chartering of branches or years 1933–35.

² Source: Annual Reports of the F. D. I. C., table 102.

³ From private banks.

⁴ New branches other than to absorb banks closed or relocated and absorbed; banks converted into branches.

⁵ Banks converted into branches as result of mergers, consolidations, and absorptions.

RELATIVE TO THE CHARTERING OF NEW FEDERAL SAVINGS AND LOAN ASSOCIATIONS
IN THE SECOND FEDERAL HOME LOAN BANK DISTRICT AND RELATED MATTERS—
WITH PARTICULAR REFERENCE TO STATEMENTS BY WILLIAM R. WHITE, NEW
YORK BANKING SUPERINTENDENT, ON H. R. 5535, MAY 19, 1939

The following statement prepared by the Federal Home Loan Bank Board is self-explanatory:

1. In expressing general opposition to the pending bill, it appears that Mr. White laid great stress upon a charge that "a separate system of Federal savings and loan associations has been in process of development in the field generally served by the banks but without being required to meet conditions imposed upon banks in matters of supervision and competitive practice." The extent to which such a charge is based on a reckless disregard for facts is attested by the following:

(a) In the first instance, there is no material distinction between the type of operation provided for Federal savings and loan associations under the provisions of section 5 of the Home Owners' Loan Act, charter K, and the rules and regulations of the Federal Home Loan Bank Board and that provided in article 10 of the New York banking law for the operation of State-chartered savings and loan associations in New York. Section 5 (a) of the Home Owners' Loan Act authorized the Board to issue charters to "local mutual thrift institutions in which people may invest their funds and in order to provide for the financing of homes," and in so doing to give "primary consideration to the best practices of local mutual thrift and home-financing institutions in the United States." In so doing the Board leaned heavily upon the statute and the experience of State-chartered savings and loan associations in New York. The direct reduction loan plan, the classification of shares as between those provided for systematic payments, for optional payments and for lump-sum payments, the reserve provision, the method of electing directors, the provision for appraisers, are cited as instances where the operation of Federal associations is substantially the same as provided for State-chartered associations under New York law. Unless, then, Mr. White is prepared to admit that State-chartered savings and loan associations in New York, and operating under his supervision, are "in process of development in the field generally served by the banks," there is no basis for his making such a charge as to Federal associations.

(b) Nor does it appear that Mr. White can be charging that Federal savings and loan associations are encroaching upon the field of commercial banks. For section 258 (1) of the New York banking law contains the following prohibition as to commercial banks:

"1. No bank, trust company, national bank, individual, partnership, unincorporated association, or corporation other than a savings bank or a savings and loan association shall make use of the word 'saving' or 'savings' or their equivalent in its banking business, or use any advertisement containing the word 'saving' or 'savings' or their equivalent, nor shall any individual or corporation other than a savings bank in any way solicit or receive deposits as a savings bank; but nothing therein shall be construed to prohibit the use of the word 'savings' in the name of the Savings & Loan Bank of the State of New York or in the name of a trust company all of the stock of which is owned by not less than 20 savings banks. Any bank, trust company, national bank, individual, partnership, unincorporated association, or corporation violating this provision shall forfeit to the people of the State for every offense the sum of \$100 for every day such offense shall be continued."

Now, unless the commercial banks under Mr. White's supervision are violating the State law and maintaining savings departments, they can have no concern as to the development of savings institutions, whether operating under Federal or State charters; and if they are violating the law and maintaining savings departments, then, as law violators, they forfeit all standing as complainants.

(c) Can it be that in charging Federal savings and loan associations with being "in process of development in the field generally served by the banks" that Mr. White has reference to the mortgage business? Historical facts refute any such charge. For 108 years, savings and loan associations have been in the mortgage business. During all of that time, they have been the principal source of home mortgage credit. The entry of commercial banks into the mortgage business is a development of the past 15 years. Prior to the enactment of the McFadden Act in the late twenties, mortgage banking on the part of commercial banks was practically unknown. It is true that during the past 15 years a chain of legislation, both Federal and State, has increased the authority of commercial banks to make mortgage loans. Can it be that Mr. White now contends that because commercial banks have been extended this authority to enter a new field, those already in it must get out and leave a monopoly to these intruders?

(d) Mr. White's charge would not hold even if he were to limit it to a comparison between savings and loan associations and savings banks. For over one hundred years, savings and loan associations and savings banks have operated in the State of New York. In many instances, they have operated next door to each other and not infrequently with common directors and officers. That each serves a different field is well recognized. While each, of course, seeks the funds of the public in order to be provided with money to lend or invest, there is a substantial difference in the types of savings plans offered, while the mortgage services vary widely. As a matter of operating policy, savings and loan associations have generally confined their lending policy to home properties, such loans being made on an amortized basis for the most part, and with the law authorizing loans up to 80 percent of appraised value. Savings banks, on the contrary, have loaned on apartment houses and commercial properties, save for a few exceptions, and have shown little interest in the small-home field, have not cared for amortized mortgages, and up until 1938 could not lend more than 60 percent of the appraised value of any parcel of real estate. (In 1938, at the recommendation of Superintendent White, the legislature raised this limit to 66½ percent, if on such real estate there is located a building for "nontransient residential purposes.") Since Federal savings and loan associations so closely follow the pattern of State-chartered savings and loan associations, the foregoing observations have like force and effect in a comparison between Federal savings and loan associations and the New York savings banks.

(e) Mr. White's charge reveals a carefully designed attempt to create an impression that the Federal savings and loan associations constitute "a separate system" that is substantially different in character from the 108-year-old system of State-chartered savings and loan associations. The ridiculousness of any such assertion is apparent on its face. So similar is the operation of Federal savings and loan associations with the State-chartered associations that they are members of the same State trade organizations and national trade organization. They work together side by side in committees of these organizations, and recently developed a standard accounting system that is equally applicable to Federal or State associations, and developed standard forms, terminology, technique, and practices. One sees in Mr. White's statement the Machiavellian attempt of the banking group to divide the savings and loan forces in two

groups, State and Federal, with the hope that such a rift may afford the bankers an opportunity to still further encroach on the fields of savings and mortgage financing in which savings and loan associations have been the pioneers for more than a century.

2. Mr. White next charges that the "original purpose of Federal savings and loan associations was to assist communities not adequately served by savings and home-financing institutions." Newspaper reports cite his charge that such associations "have been established in some communities already adequately served." The test is found in section 5 (e) of the Home Owners' Loan Act which provides that "No charter shall be granted except to persons of good character and responsibility, nor unless in the judgment of the Board a necessity exists for such an institution in the community to be served, nor unless there is a reasonable probability of its usefulness and success, nor unless the same can be established without undue injury to properly conducted existing local thrift and home-financing institutions." Section 5 (i) of the Home Owners' Loan Act, however, provides that any existing member of the Federal Home Loan Bank System may convert itself from State to Federal charter. Reading the two sections together, it is clear that the intent of Congress could not have been that the "original purpose" was only to assist communities not adequately served. Indeed, the record is clear that Congress was providing a Nation-wide pattern for locally owned and managed, mutually operated thrift and home-financing institutions, provided with a uniform method of operation and a standard and uniform supervision. To this end, it provided for the conversion of existing institutions where the owners of such institutions should so elect and for the chartering of new associations subject to the qualifications contained in section 5 (e) of the Home Owners' Loan Act. What are the facts in the territory with which Mr. White is familiar?

(a) It has been the policy of the Federal Home Loan Bank Board to request a recommendation from the officers or directors of the Federal Home Loan Bank in the district in which the proposed association is to be located. In the second district, the directors of the Federal Home Loan Bank have passed upon such recommendations. Every charter that has been issued in the second district has been based upon a favorable recommendation from that directorate, which has included eight men officially connected with savings and loan associations in the district. It has been their policy to call a public hearing on the application, due notice of which is furnished to the New York State banking superintendent, to the New York State League of Savings and Loan Associations, to the Savings Banks Association of the State of New York, and to every savings and loan association and savings bank in the county, in which the proposed association would be located. A stenographic transcript has been kept of every such hearing. Favorable action has been taken only in those cases where it was clearly demonstrated that savings and loan facilities were not being provided in the area in which the association was to be located. As a result of this method, the Federal Home Loan Bank Board has approved the granting of 14 charters in the State of New York to new Federal savings and loan associations upon the recommendation of the directors of the Federal Home Loan Bank of New York. Attached hereto and marked "Exhibit A" is a schedule listing the salient facts found to exist at the time such applications were received.

(b) The very record of growth of these associations since the date they were chartered is the best demonstration of the fact that the directors of the Federal Home Loan Bank of New York and the Federal Home Loan Bank Board were correct when, in passing upon each application they found that "a necessity exists for such an institution in the community to be served" and that "there is a reasonable probability of its usefulness and success."

(c) It is true that in many of the cases the New York banking department filed a letter of objection, although making no personal appearances at the hearings. Accordingly, the directors of this bank sought a conference with the New York State banking superintendent, with the object in view of accomplishing an agreement as to the policy that would be pursued in acting upon applications for charters for new Federal associations. Such a conference was held on January 16, 1936, at which the New York Banking Department was represented by Mr. White, Mr. Schoch, and two members of the banking board; the Federal Home Loan Bank Board by Messrs. Hoagland, Delano, and Fallon and the Federal Home Loan Bank of New York by its full directorate. This discussion lasted for 2 hours, the case of the then pending application for an association in the Plaza section of New York City was used as a specific illustration, and the directors of this bank and the representatives of the Federal

Home Loan Bank Board expressed the view that in light of the fact that there is no proper basis for competition between commercial banks and savings and loan associations, and in light of the fact that the services rendered by savings and loan associations are so separate and distinct from savings banks, that every community with an adequate population is entitled to the facilities of a commercial bank, of a savings bank and of a savings and loan association, whether such institutions be operated under State or Federal charters, and that the prior existence of any one should not be a proper barrier for the chartering of one of the others—assuming, of course, that there is an adequate population to support such institutions. The directors of this bank and the representatives of the Federal Home Loan Bank Board further expressed the view that metropolitan cities such as New York, Buffalo, etc., constitute a group of economic areas, and that each such area should be treated as a unit. At the conclusion of the discussion, the representatives of the New York State banking department assented to the two positions above cited, and agreed that it would be consistent for the directors of this bank and of the Federal Home Loan Bank Board to act in accordance with such policies in passing upon any further applications.

3. In a repetition of his charge that Federal associations “have competed with established banking institutions,” and which charge has been refuted in the foregoing material, Mr. White makes an indirect and unwarranted imputation in a reference to “these (new Federal) associations, and others which have been induced to convert from State to the Federal System.” This charge has been made directly and indirectly by Mr. White in numerous public addresses during recent years. This office has repeatedly invited Mr. White to cite any instance that would warrant such an assertion on his part, an invitation that he has consistently refused to accept. The facts are these:

(a) When Mr. Joseph A. Broderick was New York State banking superintendent, an agreement was had between him and this office that no attempt would be made by this office to persuade any association to convert, and that the New York Banking Department would take no steps intended to prevent an association from converting. Indeed, Mr. Broderick stated that there may well be instances where an association would offer an advantage to its shareholders through such a conversion, and that where the management of an association felt this to be the case, he believed they should so recommend to the shareholders.

(b) Because of Mr. White's repeated charges on the subject, the position of this office was expressed in the fourth annual report of this bank in the following language under date of January 28, 1937:

“With respect to the conversion of State-chartered savings and loan associations to Federal savings and loan associations, it is deemed desirable to state, at this point, that the officers and staff of this bank have meticulously refrained from making recommendations on this subject at all times. It has been the definite policy of this bank that it is prepared and able to serve all member institutions with its full facilities, whether such members operate under State or Federal charters, and that the matter of whether a particular institution desires to operate under State or Federal supervision is a matter to be decided by it alone, and as to which the officers and staff of this bank should, under no circumstances, make any recommendation. The field representatives of the Savings and Loan Division of the Federal Home Loan Bank Board, located in this district for the purpose of acquainting eligible institutions with the advantages of membership in the Federal Home Loan Bank System, of insurance of accounts by the Federal Savings and Loan Insurance Corporation, to aid eligible associations to secure investments from the Home Owners' Loan Corporation, and to investigate applications for charters for Federal savings and loan associations, are understood to have observed an identical rule.”

(c) While this office has strictly adhered to the statement of policy thus quoted, the New York State banking department has recently bent every effort to dissuade associations from converting, and in at least two instances its examiners have called upon association managements for the purpose of inducing them to abandon conversion proceedings after their applications had received favorable action from the Federal Home Loan Bank Board.

4. Next, Mr. White is quoted as making a general charge that Federal savings and loan associations advertise high dividend rates, emphasize withdrawal features, with the result “that much of what we, as bank supervisors, are trying to build up, is threatened, if not actually impaired, by a new and competitive system.” The supervisory policy of this office, insofar as associa-

tions in the second district are concerned, may well be cited in refutation of this charge. This office has consistently sought to develop a supervisory policy that would be consistent with the supervisory policies of the State authorities having jurisdiction over savings and loan associations. To that end, representatives of all Federal savings and loan associations in this district were summoned to a conference on December 11, 1935, at which time they were advised to reduce dividend rates to a level not higher than 3 percent. That policy has been consistently pursued, with the result that only 3 out of 64 associations in this district are now paying dividends at a rate higher than 3 percent per annum. Indeed, again on the advice of this office, there is a general trend toward a 2½-percent level. At December 31, 1938, some 14 of the 64 associations paid 2½ percent or less, and that number is expected to be materially augmented with the dividend declarations of June 30, 1939. The supervisory policies of this office with respect to ethical standards required of officers, directors, attorneys, and employees is substantially higher than that enforced by the New York State Banking Department. Suggestions to the department that it might join in such standards have met with evasive responses. The advertising policies of all Federal savings and loan associations in this district have been closely supervised, complaints have been invited from the New York banking department, and in general, any tendency toward unsound or improper advertising has been checked even before complaints were received.

5. Federal savings and loan associations have provided a constructive service to those seeking a safe and convenient method of saving and of acquiring their own homes. That this is so is demonstrated by the following record:

(a) In 1938 the amount of savings (excluding Government funds) in the 64 associations in the State of New York increased by 23.5 percent. During the same period the amount of savings (excluding Government funds) in State-chartered associations increased by 0.6 percent. Can it be that Mr. White objects to this obvious expression of public preference for the higher standards of operation and to the higher standards of supervision found in Federal savings and loan associations?

(b) The statute authorizing the chartering of Federal savings and loan associations was enacted in 1933. At that time, and for several years following, there was a definite shortage of funds for mortgage lending. Managers of all financial institutions were conserving their cash out of fear of further withdrawals. A "burnt finger complex" existed on the part of many managers of mortgage lending institutions because of their foreclosure experience. Newly chartered Federal savings and loan associations were particularly effective in stimulating a flow of mortgage funds during this period. Estimates compiled by the Division of Research and Statistics of the Federal Home Loan Bank Board on a national basis revealed that whereas mutual savings banks had loaned \$915,000,000 mortgage loans on one- to four-family homes in 1928, the amount so loaned fell off to \$99,000,000 in 1933 and to \$80,000,000 in each of the years 1934 and 1935. Life-insurance companies had loaned \$525,000,000 in mortgage loans on one- to four-family homes in 1928, but the volume fell off to \$10,000,000 in 1923, and amounted to but \$16,000,000 in 1934 and but \$77,000,000 in 1935. Savings and loan associations, which had loaned \$1,938,000,000 in mortgages on one- to four-family homes in 1928, dropped to \$296,000,000 in 1933, recovered to \$364,000,000 in 1934, and to \$504,000,000 in 1935. The activity of Federal savings and loan associations, both new and converted, was a substantial factor in this service rendered by savings and loan associations during the period when there was a crying need for mortgage credit.

(c) The constructive service that the Federal associations rendered in metropolitan New York during that period is further demonstrated by a survey published by the Mortgage Conference of New York, in October 1935, which revealed that savings and loan associations (without distinguishing between Federal and State associations) were financing one-half of the small-home mortgage lending in Queens County. A similar survey, published by the Mortgage Conference of New York, in January 1936, revealed an almost identical situation in Westchester County. The record thus shows both a need for mortgage credits and the fact that the newly chartered Federal savings and loan associations in the metropolitan area were a substantial factor in serving the needs of those citizens requiring home-mortgage credit.

(6) Mr. White's tirade falls of its own weight when an investigation is made of the extent to which his own office has approved the establishment of new savings-bank offices during the very period in which he charges an unnecessary granting of charters to Federal savings and loan associations. It should be

noted, moreover, that while it has been the policy of the Federal Home Loan Bank of New York and of the Federal Home Loan Bank Board to hold hearings on applications for charters for Federal savings and loan associations, for a branch office thereof, or for change of location, the New York banking department has permitted savings banks to open branch offices or to move their locations without notice (with one exception) either to the savings and loan associations in such locality or to this office. The following instances are typical:

(a) In 1936 the East River Savings Bank was authorized to move a branch office to Radio City, in the immediate vicinity of the First Federal Savings and Loan Association of New York, established there in 1934.

(b) In 1937 the Irving Savings Bank was authorized to establish a new branch in the upper east side of Manhattan in the immediate vicinity of the Fourth Federal Savings and Loan Association, established there in 1934.

(c) In 1938 the Citizens Savings Bank was authorized to establish a new branch in the plaza section of Manhattan, in the vicinity of the Knickerbocker Federal Savings and Loan Association, established there in 1936.

(d) In 1938 the College Point Savings Bank (after notice to this office, but as to which no objection was filed) was authorized to establish a new branch at Bayside, in the immediate vicinity of the Bayside Federal Savings and Loan Association, a long-established savings and loan association, which had converted to a Federal charter.

EXHIBIT A

Table showing the location of all new Federal savings and loan associations in the State of New York, dates char'ered, and community conditions at such dates

Name of association	Resources at Dec. 31, 1938	Community	Date of charter	Statistics of existing thrift and home-financing institutions						Remarks
				Federal savings and loan associations		State savings and loan associations		Mutual savings banks		
				Number	Resources	Number	Resources	Number	Resources	
First Federal Savings & Loan Association of New York.	\$6,163,201	Radio City (New York County).	Apr. 5, 1934	0	0	0	0	0	0	This charter was granted to provide thrift and home-financing facilities in the newly created business center at Radio City. At the time the application was filed there were no such facilities in this area. Moreover, the savings banks of Manhattan were out of the mortgage market, because the volume of their mortgage holdings of all kinds was close to (and in some instances beyond) the maximum of 70 percent of the assets fixed by statute. State savings and loan associations were in the market to a limited degree, but were not able to meet the substantial demands for funds then existing. Since this charter was granted, the New York banking department (in 1936) permitted the East River Savings Bank to open a branch in the vicinity of this association.
Fourth Federal Savings & Loan Association of New York.	5,348,677	Upper East Side (New York County).	June 1, 1934	0	0	0	0	0	0	This charter was granted to provide thrift and home-financing facilities in a section of the upper East Side, where no such facilities existed at that time. Moreover the savings banks of Manhattan were out of the mortgage market, because the volume of their mortgage holdings of all kinds was close to (and in some instances beyond) the maximum of 70 percent of the assets fixed by statute. State savings and loan associations were in the market to a limited degree, but were not able to meet the substantial demands for funds then existing. Since this charter was granted, the New York banking department (in 1937) permitted the Irving Saving Bank to open a branch in the vicinity of his association.
Bethpage Federal Savings & Loan Association of Farmingdale.	315,605	Farmingdale (N a s s a u County).	Sept. 28, 1934	0	0	0	0	0	0	This charter was granted to provide thrift and home-financing facilities in this community (population 3,500) where such facilities were entirely non-existent at that time. The association also serves 4 small, adjacent communities (Central Park, East Farmingdale, Pinehaven, and Wyandanch) which have a combined population of 2,900 in addition to the 3,500 in Farmingdale.

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Table showing the location of all new Federal savings and loan associations in the State of New York, dates chartered, and community conditions at such dates—Continued

Name of association	Resources at Dec. 31, 1938	Community	Date of charter	Statistics of existing thrift and home-financing institutions						Remarks
				Federal savings and loan associations		State savings and loan associations		Mutual savings banks		
				Number	Resources	Number	Resources	Number	Resources	
Albion Federal Savings & Loan Association.	197,130	Albion (Orleans County).	Nov. 22, 1934	0	0	0	0	0	0	This charter was granted to furnish thrift and home-financing facilities in this community (population 5,000), the county seat of Orleans County, when such facilities were entirely nonexistent at that time. The New York banking department wrote that it had no objection to granting the charter.
Ninth Federal Savings & Loan Association.	7,024,583	Times Square (New York County).	Feb. 21, 1935	0	0	1	934,000	3	\$259,415,000	This charter was granted to provide savings and loan facilities in the Times Square area, where there were savings banks, but no savings and loan associations (except the New York Times Savings & Loan Association, whose facilities were limited to employees of the New York Times). The savings banks in this area were canvassed and reported that they had no objection to the granting of the charter, and they made no appearance at a public hearing held on Feb. 7, 1935.
Northport Federal Savings & Loan Association.	151,922	Northport (Suffolk).	June 17, 1935	0	0	0	0	0	0	This charter was granted to provide thrift and home-financing facilities in this community (population 3,500), where such facilities were entirely nonexistent at that time.
Sayville Federal Savings & Loan Association.	132,425	Sayville (Suffolk County).	Sept. 21, 1935	0	0	0	0	0	0	This charter was granted to provide thrift and home-financing facilities in this community (population 4,000), where such facilities were entirely nonexistent at that time. A number of those in the organizing group were connected with local commercial banks, the managements of which felt that mortgage lending is not sound banking and preferred that a savings and loan association be organized to provide funds for that purpose.
Home Federal Savings & Loan Association of Ridgewood.	2,751,345	Ridgewood (Queens County).	Dec. 16, 1935	0	0	1	\$124,000	1	20,411,000	In light of the fact that the Ridgewood Savings & Loan Association had grown to but \$124,000 in 49 years and was making no effort to expand its facilities, a group of citizens sought the benefits of the Federal statute to organize another association in this community with a population of 250,000. At the public hearing, no objection was filed by the Ridgewood Savings Bank.

Amsterdam Federal Savings & Loan Association.	111,583	Amsterdam Montgomery County).	Feb. 26, 1936	0	0	0	0	1	12,508,000	This charter was granted to provide savings and loan facilities in this community (population 35,000), a State savings and loan association having previously liquidated. The New York banking department wrote that there existed a need for a savings and loan association here and the savings bank stated that it had no objection.
Knickerbocker Federal Savings & Loan Association.	1,724,344	Plaza section (New York County).	Apr. 20, 1936	0	0	0	0	1	216,517,000	This charter was granted to provide savings and loan facilities in the plaza section, where such facilities were nonexistent at that time.
Long Beach Federal Savings & Loan Association.	263,533	Long Beach (Nassau County).	July 15, 1936	0	0	0	0	0	0	This charter was granted to provide thrift and home-financing facilities in this community (population 7,500), where such facilities were entirely nonexistent at that time. A State savings and loan association had liquidated and a group of citizens sought the benefits of the Federal statute to organize another association in this community. The New York banking department wrote that it had no objection to granting the charter.
Bay Shore Federal Savings & Loan Association.	138,428	Bay Shore (Suffolk County).	Aug. 3, 1936	0	0	0	0	0	0	This charter was granted to provide thrift and home-financing facilities in this community (population 7,000), where such facilities were entirely nonexistent at that time. A State savings and loan association had liquidated and a group of citizens sought the benefits of the Federal statute to organize another association in this community. The New York banking department wrote that it had no objection to granting the charter.
Bronx Federal Savings & Loan Association.	947,521	Tremont Area (Bronx County).	Jan. 6, 1937	0	0	0	0	0	0	With but five small savings and loan associations serving the 1,000,000 or more inhabitants of the Bronx, a group of citizens sought the benefits of the Federal statute to provide further savings and loan facilities. This charter was granted on the basis of a site that was not in the vicinity of any existing savings and loan or savings bank office.
County Federal Savings & Loan Association.	536,205	Rockville Center (Nassau County).	June 16, 1937	0	0	1	148,000	0	0	In light of the fact that the Rockville Center Savings & Loan Association had accumulated resources of but \$148,000 in 48 years, a group of citizens sought the benefits of the Federal statute to organize another association in this community of 30,000.

LETTER AND PROPOSED AMENDMENT SUBMITTED BY MR. JOHN H. FAHEY

FEDERAL HOME LOAN BANK BOARD,
Washington, June 9, 1939.HON. HENRY B. STEAGALL,
*Chairman, House Committee on Banking and Currency,
House of Representatives.*

MY DEAR MR. STEAGALL: Attached is a suggested amendment to section 4 of H. R. 5535.

The amendment provides a detailed procedure for the Federal Home Loan Bank Board to follow in the exercise of quasi judicial powers vested in the Board by statute. In addition, the Board is empowered to issue subpoenas and compel the attendance of witnesses and the production of documents and records.

Under the present act there are no provisions for appropriate quasi judicial procedure for the Board to follow in exercising its existing regulatory and quasi judicial powers, such as, for example, the removal of a member of a Federal home-loan bank from membership, or the removal of officers or directors of such bank or of a federally chartered association who are mismanaging any such institution which is subject to the Board's supervision. The quasi judicial powers requested with respect to the removal of officers and directors are similar to those exercised by the Board of Governors of the Federal Reserve System, except that the amendment here proposed is limited to associations chartered under an act of Congress, whereas the Federal Reserve Board is vested with authority to remove officers and directors of both national and State-chartered member banks.

The Federal Home Loan Bank Board also has a very substantial quasi judicial responsibility of determining when and under what circumstances to appoint a conservator or a receiver for a Federal savings and loan association.

Through the procedure suggested, all parties are assured of a fair hearing. The amendment provides for the service of a complaint which must contain a statement of the matters complained of; the parties served are given at least 30 days in which to answer, after which a hearing may be held before the Board or any member of the Board or a trial examiner in the judicial district in which the respondent resides or has its principal place of business. Provision is made for any of the parties to subpoena witnesses or compel the production of testimony. Parties may appear at the hearing before the trial examiner, either in person or by counsel. A complete record is required to be kept of any such hearing to be used upon any review or appeal. The person who conducts this hearing must make a report on the findings of fact, which will be served on the Board and on the other parties to the hearing, after which they may make exceptions and file briefs with the Board and have an oral argument before the Board, whereupon the Board will enter its determination and serve its order. Any party affected by such order or determination may appeal to the United States circuit court of appeals for the judicial district where such respondent resides or carries on business and have the order or determination reviewed by the circuit court. Under the procedure prescribed the circuit court must reverse the order unless it is based on substantial evidence.

The procedure follows closely the Rules of Civil Procedure for the United States district courts, and is patterned after and is parallel in all material respects to the statutory procedure which now exists for the exercising of quasi-judicial functions of the Federal Trade Commission, the National Labor Relations Board, the Federal Communications Commission, the Interstate Commerce Commission, and the Securities and Exchange Commission. Practically all the newer agencies have been provided with a similar statutory basis for the exercise of quasi-judicial functions.

Congress has created the Federal Home Loan Bank Board, the Federal Home Loan Bank System, and the system of Federal savings and loan associations, and in reliance upon these Federal instrumentalities created by Congress and the protection afforded by the regulatory power conferred upon this Board, the citizens of the country are investing in these institutions. It is therefore clearly in the public interest that the Board be provided with an adequate procedure for the exercise of its regulatory and supervisory powers in order that such investments may be safeguarded.

Sincerely yours,

JOHN H. FAHEY, *Chairman.*

Amend section 4 of H. R. 5535 to read as follows:

SEC. 4. Section 17 of the Federal Home Loan Bank Act, as amended, is amended by inserting at the beginning thereof the letter "a" in parentheses and by adding at the end thereof the following:

"(b) For the enforcement of its rights and powers and of its orders, rules, and regulations, the Board shall have power, by resolution, in its own name or in the name of the United States through the Attorney General, or using its own attorneys subject to the direction of the Attorney General, as the Attorney General may determine, to institute or otherwise voluntarily participate in and to prosecute to final satisfaction any action, suit, or other proceeding in any State, Federal, or other court. Any such action, suit, or other proceeding instituted in a district court of the United States shall be deemed to have been instituted by an officer of the United States authorized by law to sue, within the meaning of section 24 of the Judicial Code, as amended.

"(c) For the purpose of any hearings and investigations, which in the opinion of the Board are necessary or proper for the exercise of the powers now or hereafter vested in it under this or any other act or otherwise (including its powers and duties as the board of directors of the Home Owners' Loan Corporation and as the board of trustees of the Federal Savings Insurance Corporation) or in aid of the exercise of any of the powers or duties of any conservator or receiver appointed by the Board, the Board, any member thereof, or its duly authorized agents, shall at all reasonable times for the purpose of examination have access to and the right to copy any documentary evidence of any person being investigated or proceeded against that relates to any matter under investigation or in question. Any member of the Board or any trial examiner shall have power to issue subpoenas requiring the attendance and testimony of witnesses and the production of any documentary evidence that relates to any matter under investigation or in question, at any hearing before the Board, any member thereof, or its trial examiner conducting the hearing.

The Board shall, at the reasonable request of any party to a hearing upon a complaint, cause a subpoena to issue requiring the attendance and testimony of one or more witnesses and the production of any documentary evidence that relates to any matter under investigation or in question at any such hearing: *Provided, however,* The party or parties requesting such subpoenas shall deposit with the Board a sum which in its opinion is reasonably sufficient to pay the fees and mileage and other costs resulting from the issuance of such subpoenas. Any member of the Board, or any trial examiner designated by the Board, may administer oaths and affirmations, examine witnesses and receive evidence at any hearing. Such attendance of witnesses and the production of such documentary evidence may be required from any place in the United States at any designated place of hearing. Testimony in any such hearing if taken before a trial examiner shall be taken within the area of territorial jurisdiction of the district court of the United States within which the person resides or the principal office of the institution is located against which a complaint has been issued by the Board, unless one or more of such respondents requests that testimony be taken at the offices of the Board at Washington, D. C., or elsewhere, in which event the Board may grant any such request. The Board may order testimony to be taken by deposition at any place in any proceeding or investigation. Such depositions may be taken before any person designated by the Board and such person shall have the power to administer oaths. Such testimony shall be reduced to writing by the person taking the deposition, or under his direction, and shall then be subscribed by the deponent. Any person may be compelled to appear and depose and to produce documentary evidence in the same manner as witnesses may be compelled to appear and testify and produce documentary evidence at any hearing before the Board, any member of the Board, or any trial examiner. Upon the application of the Attorney General of the United States, at the request of the Board, the district courts of the United States shall have jurisdiction to issue orders commanding any person to comply with the provisions of this act or any order of the Board made in pursuance thereof.

"In case of contumacy or refusal to obey a subpoena issued to any person, any district court of the United States or the United States courts of any territory or possession, or the District Court of the United States for the District of

Columbia, within the jurisdiction of which the inquiry is carried on or within the jurisdiction of which said person guilty of contumacy or refusal to obey is found or resides or transacts business, upon the application of the Attorney General of the United States, at the request of the Board, shall have jurisdiction to issue to such person an order requiring such person to appear before the Board, any member thereof, or trial examiner thereof, there to produce documentary evidence of so ordered, or there 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 said court as a contempt thereof. No person shall be excused from attending and testifying or from producing books, records, correspondence, documents, or other evidence in obedience to any such subpoena, on the ground that the testimony or evidence required of him may tend to incriminate him or subject him to a penalty or forfeiture; but no person shall be prosecuted or subjected to any penalty or forfeiture for or on account of any transaction, matter, or thing concerning which he is compelled, after having claimed his privilege against self-incrimination, to testify or produce evidence, except that such person so testifying shall not be exempt from prosecution and punishment for perjury committed in so testifying. Witnesses summoned at any hearing before the Board, any member thereof, or any trial examiner, shall be paid the same fees and mileage that are paid witnesses in the courts of the United States, and witnesses whose depositions are taken and the persons taking the same shall severally be entitled to the same fees as are paid for like services in the courts of the United States. Any person who shall willfully neglect or refuse to attend and testify or to appear and depose, or to answer any lawful inquiry, or to submit to the Board or to any of its authorized agents for the purpose of inspection and taking copies, any documentary evidence in his possession or within his control or to produce documentary evidence, if in his power to do so, in obedience to the subpoena or lawful requirement of the Board, shall be guilty of an offense and upon conviction thereof by a court of competent jurisdiction shall be punishable by a fine of not more than \$5,000 or by imprisonment for not more than 1 year, or both.

“(d) Whenever the Board shall have reason to believe that (1) any member or any nonmember borrower of a Federal home-loan bank is violating or has violated any of the provisions of this act, any rule or regulation of the Board made pursuant thereto, or any agreement or stipulation entered into with the Board; (2) any institution insured under title IV of the National Housing Act is violating or has violated any of the provisions of said title, any rule or regulation made thereunder, or any agreement made pursuant to section 403 of said act or otherwise, or any stipulation entered into with the Federal Savings Insurance Corporation; (3) any Federal savings and loan association is violating or has violated any of the provisions of the Home Owners’ Loan Act of 1933, any rule or regulation of the Board made pursuant thereto, any agreement or stipulation entered into with the Board, or its charter; (4) any institution over which, under this or any other act or otherwise or by reason of any agreement or stipulation made with the Board or with the Federal Savings Insurance Corporation, the Board now or hereafter may have the power of examination, regulation, supervision, or liquidation, is violating or has violated any provision of any statute, rule, or regulation applicable to it, or any such agreement or stipulation; or (5) any director or officer of any member, insured, or other such institution is violating or has violated any law, rule, regulation, agreement, or stipulation relating to such institution, or is engaging or has engaged in any unsafe or unsound practice in conducting the business of such institution, the Board shall issue and serve upon such institution or person a complaint stating its charges in that respect, and a notice of a hearing upon a day and at a place therein fixed at least 30 days after the service of such complaint. Any such complaint may be amended by the Board in its discretion at any time prior to the issuance of any order based thereon.

“The respondent so complained of shall have the right to file an answer to the original or amended complaint and to appear in person or by counsel and give testimony; call, examine, and cross-examine witnesses at the time and place so fixed; and to show cause why an order shall not be entered by the Board upon such complaint, including but without limiting the generality of the foregoing an order requiring respondent to cease and desist from the violation charged in such complaint, or for the removal of such member from membership in a Federal home-loan bank, or depriving any nonmember borrower of the privilege of obtaining further advances from a Federal home-loan bank, or for the termination of the insurance contract of any insured institution, or removing from office a

director or officer of such institution if such institution has been chartered by or under an act of Congress, or for the appointment of a conservator or receiver to take charge of the affairs of any institution as to which the Board now or hereafter may have power to appoint a conservator or receiver, or to require any equitable readjustment of the capital structure or other reorganization of the capital or management of any such institution, as the case may be. So that the Board may immediately safeguard and conserve the savings invested in any such institution, the Board may appoint a conservator or receiver without first issuing and serving a notice of a hearing as provided in this section, whenever in its opinion any such institution as to which the Board now or hereafter may have power to appoint a conservator or receiver (1) is conducting its business in an unlawful, unauthorized, or unsafe manner; (2) is in an unsound or unsafe condition; (3) cannot with safety and expediency continue in business; (4) is impaired in that its assets do not have an aggregate value (in the judgment of the Board) at least equal to the aggregate amount of its liabilities to its creditors, members, and all other persons; (5) is in imminent danger of becoming impaired; (6) is pursuing a course that is jeopardizing or injurious to the interests of its members, creditors, or the public; (7) has suspended payment of its obligations; (8) is unable to operate in a normal manner or to earn reasonable profits; (9) has refused to submit its books, papers, records, or affairs for inspection to any examiner appointed by the Board; (10) has refused by the refusal of any of its officers, directors, or employees to be examined upon oath by the Board or its representative concerning its affairs; or (11) has failed or refused to observe a lawful order of the Board.

"If, within 30 days after the appointment of a conservator or a receiver, the institution or any interested person shall serve a written demand upon the board therefor, the board shall issue and serve a complaint and a notice of hearing upon the institution and shall conduct a hearing as provided in this section, at which time and place the institution or other intervening party may appear and show cause why an order should be entered by the board discharging the conservator or receiver. At any time after the expiration of said period if no such written demand shall have been so served on the board, or at any time after an order by the board refusing to discharge such conservator or receiver becomes final, the board may at its option cause a conservator or receiver to proceed to liquidate. Any conservator or receiver appointed hereunder shall have all the rights, powers, privileges, and duties of a conservator or receiver of a Federal savings and loan association under section 5 of the Home Owners' Loan Act of 1933 as now or hereafter amended, and rules and regulations made pursuant thereto. The failure of the respondent to appear at such hearing at the time and place fixed therefor shall be deemed to be a waiver of the hearing and to authorize the board, without further hearing or notice, to issue its order upon the complaint. Upon the conclusion of the taking of evidence upon a complaint, the trial examiner shall prepare a report on the facts which, together with the complete record (except complaint and answer) and the stenographic transcript of all of the testimony at such hearing, shall be filed with the board and served upon each of the parties to the proceeding. Additional copies of the transcript of the record of a proceeding may be obtained by any party from the board upon the payment of the reasonable cost thereof. Such report shall contain a summary of the facts established by the evidence and the trial examiner's recommendations. Any such party may file with the board, within such time as the board shall fix by regulations, exceptions to such report on the facts, which shall specify the parts of the report or record to which exception is taken with citations to the record in support of the exceptions and, if oral argument before the board is desired, shall request such right, failing which the right to oral argument shall be deemed waived. Counsel for the board may likewise file exceptions to the report on the facts and shall serve a copy thereof upon each party to the proceeding. Any brief or memorandum of law prepared by counsel for the board in connection with any such proceeding shall be served upon each party to such proceeding and each such party may file with the board, subject to regulations of the board, briefs in support of its position. When such argument has been requested in writing by a party to the proceeding in the exceptions filed with the board, oral argument before the board at its offices in Washington, D. C., upon the exceptions taken shall be had upon a date fixed by the board with notice to all parties. Failure to file exceptions shall operate as submission of the case to the board on the record.

“(e) Any person may make application, and upon good cause shown, may be allowed to intervene and appear in said proceeding by counsel or in person. In any such proceeding the rules of evidence prevailing in courts of law or equity shall not be controlling. The testimony in any such proceeding shall be reduced to writing and filed in the office of the board. Upon such hearing the board shall prepare and serve its findings of fact, and if it be of the opinion that the proper exercise of the powers now or hereafter vested in it so require by reason of violations or unsafe or unsound practices, it shall issue and cause to be served on such person an order in the premises, including the requirement to take such affirmative action as may appear necessary. In any action by the board for the enforcement of any order, it shall certify and file in the court a transcript of the entire record in the proceeding, including the pleadings and testimony upon which such order was entered and the findings and order of the board.

“(f) Any respondent or other party to the proceeding may obtain a review of any order issued by the board pursuant to this section in the circuit court of appeals of the United States within any circuit where such respondent resides or carries on business, by filing in the court, within 30 days from the date of service of such order, a written petition praying that the order of the board be set aside. A copy of such petition shall be forthwith served upon the board, and thereupon the board forthwith shall certify and file in the court a transcript of the entire record of the proceeding. Upon the filing of any such transcript the court shall cause notice thereof to be served upon such person, and thereupon shall have jurisdiction of the proceeding and of the question determined therein, and shall have power to make and enter a decree affirming, modifying, or setting aside the order of the board, and enforcing the same to the extent that such order is affirmed, and to issue such injunctions or other proper process, mandatory or otherwise, as are necessary, and such other writs as are ancillary to its jurisdiction. No objection to the order of the board shall be considered by the court unless such objection shall have been urged before the board or unless there were reasonable grounds for failure so to do. The findings of the board as to the facts, if supported by substantial evidence, shall be conclusive, the review proceeding before the court shall be a judicial review and not a trial de novo. The judgment and decree of the court shall be final, except that the same shall be subject to review by the Supreme Court upon certiorari, as provided in section 240 of the Judicial Code.

“(g) Petitions filed under this act shall be heard expeditiously and if possible within 10 days after they have been docketed. An order of the board shall become final (1) upon the expiration of the time allowed for filing a petition for review, if no such petition has been duly filed within such time; or (2) upon the expiration of the time allowed for filing a petition for certiorari, if the order of the board has been affirmed, or the petition for review dismissed by the circuit court of appeals, and no petition for certiorari has been duly filed, or (3) upon the denial of a petition for certiorari, if the order of the board has been affirmed or the petition for review dismissed by the circuit court of appeals; or (4) upon the expiration of 30 days from the date of issuance of the mandate of the Supreme Court, if such Court directs that the order of the board be affirmed or the petition for review be dismissed.

“(h) If the Supreme Court directs that the order of the board be modified or set aside, the order of the board rendered in accordance with the mandate of the Supreme Court shall become final upon the expiration of 30 days from the time it was rendered, unless within such 30 days either party has instituted proceedings to have such order corrected to accord with the mandate, in which event the order of the board shall become final when so corrected.

“(i) If the order of the board is modified or set aside by the circuit court of appeals, and if (1) the time allowed for filing a petition for certiorari has expired and no such petition has been duly filed, or (2) the petition for certiorari has been denied, or (3) the decision of the court has been affirmed by the Supreme Court, then the order of the board rendered in accordance with the mandate of the circuit court of appeals shall become final on the expiration of 30 days from the time such order of the board was rendered, unless within such 30 days either party has instituted proceedings to have such order corrected so that it will accord with the mandate, in which event the order of the board shall become final when so corrected.

“(j) If the Supreme Court orders a rehearing, or if the case is remanded by the circuit court of appeals to the Board for a rehearing, or when additional

evidence should be taken, and if (1) the time allowed for filing a petition for certiorari has expired, and no such petition has been duly filed, or (2) the petition for certiorari has been denied, or (3) the decision of the court has been affirmed by the Supreme Court, then the order of the Board rendered upon such rehearing shall become final in the same manner as though no prior order of the Board had been rendered.

“(k) As used in this section the term “mandate,” in case a mandate has been recalled prior to the expiration of 30 days from the date of issuance thereof, means the final mandate.

“(l) Any person, partnership, or corporation who violates an order of the Board made after an opportunity to be heard has been granted and after the order has become final, and while such order is in effect, shall forfeit and pay to the United States a civil penalty of not more than \$5,000 for each violation, which shall accrue to the United States and may be recovered in a civil action brought by the United States.

“(m) Complaints, orders, and other processes of the Board under this section may be served by anyone duly authorized by the Board, either (a) by delivering a copy thereof to the person to be served or to a member of the partnership to be served, or to the president, secretary, or other executive officer or a director of the association or corporation to be served or to the duly authorized attorney of such person, partnership, association, or corporation; or (b) by leaving a copy thereof at the residence or the principal office or place of business of such person, partnership, association, corporation, or attorney; or (c) by registering and mailing a copy thereof addressed to the last known address of such person, partnership, association, corporation, or attorney at his or its residence or principal office or place of business. Service by registered mail is complete upon mailing. The verified return by the person so serving said complaint, order, or other process setting forth the manner of said service shall be proof of the same, and the return post-office receipt for said complaint, order, or other process registered and mailed as aforesaid shall be proof of the service of the same. Service upon the Board under this section shall be accomplished by registering and mailing a copy of the petition or other process addressed to the Board at Washington, D. C.”

LETTER FROM MR. JOHN W. HANES, ACTING SECRETARY OF THE TREASURY

TREASURY DEPARTMENT,
Washington, June 28, 1939.

HON. HENRY B. STEAGALL,
*Chairman, Committee on Banking and Currency,
House of Representatives, Washington, D. C.*

MY DEAR MR. CHAIRMAN: I have your letter of June 6, 1939, enclosing a copy of H. R. 5535, being 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,” and advising that the committee wishes to have an expression of my views respecting the proposed legislation.

While the Treasury does not wish to make any definite recommendations for or against the proposed amendments, it will set out a few observations for the use of the committee in its consideration of this matter.

The assumption seems to underlie the proposed legislation that shares in building-and-loan associations ought to have a degree of liquidity comparable to that of bank deposits. The bill consequently provides for substantially supplementing the ability of the Federal home-loan banks to make the advances to their members which would be necessary in order to permit them to maintain in times of stress the status of their shares as quasi-demand deposits. The objective of providing liquidity for these shares would also be furthered by revising the insurance settlements of the Federal Savings and Loan Insurance Corporation so that shareholders in defaulted building-and-loan associations may be paid off in cash rather than being asked to wait for a substantial period without interest, as is the case at present.

Shares in building-and-loan associations have been generally understood to be means for the investment of long-term savings and not liquid instruments. The assets of the associations, consisting almost entirely of mortgages and derivative real estate, are of a character suitable to this concept of their shares and provide no means for furnishing any considerable degree of liquidity.

If this concept is to be changed and shares in building-and-loan associations made liquid instruments, such shares will become, for practical purposes, indistinguishable from bank deposits; and banking-and-loan associations and banks may be expected to compete actively for all funds now held in banks where the checking privilege is not essential. If, in making their adjustment to such a situation, building-and-loan associations endeavor to maintain liquid assets comparable in extent and character to those customarily maintained by banks, the effect of the tendency strongly evident in the proposed legislation will be to transform them into a competing form of banks—operating, however, under different supervisory authorities and under different fundamental statutes from the existing banking institutions. In the more likely case that building-and-loan associations fail to build up their proportion of liquid assets, notwithstanding the changed character of their shares, they would still constitute a competing system of banks, except that, in this case, their liquidity would be furnished almost entirely at the expense of the Government; whereas existing banking institutions supply their own liquidity under all ordinary circumstances.

Section 3 of the bill would authorize the Secretary of the Treasury, in his discretion, to purchase and sell obligations issued by the Federal home-loan banks or by the Federal Savings and Loan Insurance Corporation, such transactions to be treated as public-debt transactions. The Government has already contributed substantially to the financing of the Federal home-loan banks through the ownership of approximately 76 percent of the banks' stock, and the provisions of section 6, subsection (g), of the Federal Home Loan Bank Act, as amended (U. S. C., title 12, sec. 1426 (g)), contemplate the ultimate withdrawal of all of the Government capital in the banks. However, if Congress determines that authority should be vested in the Secretary of the Treasury to purchase the debentures of the Federal home-loan banks during times of stress or emergency, I would have no objection.

The Secretary of the Treasury is now empowered, in his discretion, to purchase obligations of the Federal Deposit Insurance Corporation. It would seem logical for the Federal Savings and Loan Insurance Corporation to have this same protection, and I have no objection to the provision relating to the purchase and sale of the obligations of this Corporation.

Section 12 would amend subsection (b) of section 402 of the National Housing Act, as amended, to provide for repeal of the cumulative feature on dividends of the Federal Savings and Loan Insurance Corporation. Dividends now accumulated, but unpaid, would be waived, and dividends would not be paid in the future until a reserve is accumulated equal to 5 percent of insured accounts and creditor obligations of all insured institutions. In addition, the dividend rate would be changed from the rate being received on the bonds of the Home Owners' Loan Corporation issued to the Federal Savings and Loan Insurance Corporation in payment for its stocks to the rate "paid by the Government on its last issued bonds having a maturity of 10 years or more." The waiving of accumulated dividends and the withholding of dividends in the future, until the reserve is set up would, for all practical purposes, constitute a subsidy from the Home Owners' Loan Corporation to the Federal Savings and Loan Insurance Corporation; and I am of the opinion that the Home Owners' Loan Corporation should not be called upon to grant such a subsidy. Moreover, it should be noted that it would be likely to take a considerable period of time—perhaps around a generation—until a 5-percent reserve could be built up through premiums and interest, even should losses and expenses be relatively small.

As to the dividend rate, there does not seem to be any good reason why the proposed change should be made, inasmuch as the rate paid by the Government on its bonds seems to be totally irrelevant in establishing a dividend rate for the Federal Savings and Loan Insurance Corporation. The present arrangement of basing the rate on the interest received on the Home Owners' Loan Corporation bonds held by the Insurance Corporation seems much more logical. If the dividend were paid in full year by year, this arrangement would merely mean that the investment of the Home Owners' Loan Corporation in the Insurance Corporation would practically be without cost to the former.

Section 14 would amend section 404 of the National Housing Act, as amended, to provide for a reduction in the annual insurance premium rate of the Federal Savings and Loan Insurance Corporation from one-eighth of 1 percent to one-twelfth of 1 percent, effective as of January 1, 1939. The Federal Savings and Loan Insurance Corporation was organized in 1934, and an analysis of the reserve it has accumulated since organization does not indicate that the present premium rate is excessive.

It is true that the Federal Deposit Insurance Corporation levies a premium of one-twelfth of 1 percent in connection with its insurance of bank deposits, but in my opinion the risk is substantially less than that encountered by the Federal Savings and Loan Insurance Corporation. In the first place, banks are required by law to carry considerably larger reserves than are customarily carried by building and loan associations. Banks in New York City, for example, must carry reserves of 22¼ percent of demand deposits in the form of a deposit with the Federal Reserve bank, and, as in the case of banks generally, customarily carry, in addition, considerable amounts of nonreserve cash and of liquid securities, and hold large portfolios of Government securities. Building and loan associations, on the other hand, seldom maintain substantial reserves in cash, and customarily carry only a small amount of liquid securities and a small portfolio of Government securities. In the second place, the premium base in the case of insured banks, as a class, is much higher in relation to the aggregate amount of insurance in force than is the case with building and loan associations. Stated in other words, banks have a much larger proportion of uninsured funds on which they pay premiums than do building and loan associations.

Section 15 would amend subsection (b) of section 405 of the National Housing Act, as amended, to provide that settlement on defaulted insured accounts shall be made by the Federal Savings and Loan Insurance Corporation by making available to the insured members "transferred insured accounts" in insured institutions not in default, or in such other manner as the board of trustees of the Corporation may prescribe. At present the law prescribes that such settlement may be made either by making available "new insured accounts" or by payment of not to exceed 10 percent in cash and the remainder in non-interest-bearing debentures. The effect of the present proposal would be to permit payment of settlements in full in cash.

Investors in building and loan associations receive a relatively high rate because of their willingness to invest in institutions making primarily long-term mortgage loans. Consequently the insurance of building and loan accounts takes the form of insuring their "solvency" rather than their "liquidity." Furthermore, since assets acquired by the Insurance Corporation in the case of insolvency of an insured association are likely to require a considerable time for their liquidation, settlements by the Corporation take the form of non-interest-bearing debentures, except, presumably for convenience, some portion, not to exceed 10 percent, may be paid in cash. The proposal to permit the increase of the percentage paid in cash to a full 100 percent would seem to conflict with the character of building and loan association assets.

I am advised by the Director of the Bureau of the Budget that there would be no objection to the submission of this report, with the understanding that no commitment would be made thereby with respect to the relationship of the proposed legislation to the program of the President.

Very truly yours,

JOHN W. HANES,
Acting Secretary of the Treasury.

LETTER FROM MR. MARRINER S. ECCLES

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,
Washington June 7, 1939.

HON. HENRY B. STEAGALL,
*Chairman, Banking and Currency Committee,
House of Representatives, Washington, D. C.*

DEAR MR. CHAIRMAN: This is in reply to your letter of June 6, requesting my views respecting H. R. 5535, a bill "To amend the Federal Home Loan Act, Home Owners' Loan Act of 1933, title IV of the National Housing Act, and for other purposes."

In the outset, I wish to say that I am in sympathy with the original objectives of the home loan banks as reservoirs of funds for the accommodation of their member institutions and with the original objectives of their member institutions as local mutual thrift and home-financing associations. I do not believe, however, that the permissible activities of Federal savings and loan associations and other member institutions of Federal home loan banks should be expanded so far beyond their original character as local mutual thrift and home-financing asso-

ciations as to allow them to transact a large amount of general banking business. Nor do I believe that the liabilities of such associations should be given a degree of liquidity comparable to that of bank deposits by providing preferential insurance facilities for their shares. The proposed bill contains a number of far-reaching provisions leading to these ends, and, in my opinion, its enactment would tend to establish a separate and complete banking system which would compete on favored terms with savings banks and the savings departments of commercial banks. I therefore do not favor its enactment.

Regarding those provisions of the bill which would expand the powers of these institutions beyond their character as local mutual thrift and home-financing associations and would permit them to transact additional business of a general banking nature, the following may be noted:

Section 1 of the bill would support any past or future enlargement of the lending powers of State-chartered member associations, as well as Federal savings and loan associations, by liberalizing the class of collateral securities upon which Federal home-loan banks are authorized to make advances to their member institutions. At present, mortgages eligible for advances are restricted to "home mortgages." This section would completely eliminate any such restriction so as to authorize advances upon the security of any first mortgage. Section 2 would further extend the list of eligible collateral to a materially different class of securities, which would include not only Government-guaranteed obligations and obligations of the Federal Savings and Loan Insurance Corporation and of the Federal home-loan banks, but also whatever obligations a member association might lawfully have available.

Section 8 of the bill would allow Federal savings and loan associations, under proper authorization from the Federal Home Loan Bank Board, to place 15 percent of their assets (in addition to 15 percent now allowed to be invested in first mortgages with no restrictions) in residential mortgages of any sort—not necessarily "home mortgages"—within a 50-mile radius. This would appear to be a justifiable change but the restrictions of that section would apply only to federally chartered institutions. The lending powers of State-chartered institutions are governed by State law and the amendments proposed in section 1 would therefore encourage the latter to expand their activities to other fields instead of continuing as local mutual thrift and home-financing associations. Therefore, it would be desirable to place in section 1 restrictions upon advances by the Federal home loan banks similar in terms to those which would be placed in section 8 upon the types of mortgages in which federally chartered associations are authorized to invest.

Section 8 also allows Federal savings and loan associations to invest their assets in any securities that are legal investments for fiduciary and trust funds and are approved by regulations of the Federal Home Loan Bank Board. This is justified as permitting associations to employ additional funds "when satisfactory home mortgage loans are not available"; but there appears to be no reason for permitting Federal home-loan banks to make advances upon such securities, as is done in section 2, if such securities are to be merely temporary investments and the associations are to continue as home-financing institutions.

Section 11 of the proposed bill would change the name of the "Federal Savings and Loan Insurance Corporation" to "Federal Savings Insurance Corporation" thereby giving additional impetus to the transformation of the character of Federal savings and loan associations from a system of local mutual thrift and home-financing associations into a separate banking system.

Regarding those provisions of the bill which, by providing preferential insurance facilities, would give the liabilities of such associations a degree of liquidity comparable to that of bank deposits and would permit them to compete on unfair terms with other established institutions for deposits, the following may be noted:

Section 14 would foster unfair competition by granting unwarranted insurance benefits. It 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. While it is true that one-twelfth of 1 percent is the current rate of the Federal Deposit Insurance Corporation, the risks of the two types of insurance and the rates which should be charged for such insurance are not comparable, for three reasons:

1. The assets of building and loan associations are normally on a long-term basis and are not as liquid as those of banks. As a corollary, the shares of

Federal associations and building and loan associations are not intended to be, and are not, as liquid as bank deposits.

2. The uninsured portion of deposits in insured banks, upon which banks pay premiums, is much greater than the uninsured liability in building and loan associations. This means that if the premium collected was calculated with respect to the deposits insured, the rate actually would be much higher than one-twelfth of 1 percent.

3. The Federal Deposit Insurance Corporation insures only the deposits of banks. The net worth of banks, represented by the stockholders' interest in capital and surplus funds, constitutes a cushion for the protection of the depositors and the Corporation. The Federal Savings and Loan Association insures withdrawable or repurchasable shares, investment certificates, or deposits, with the result generally that a fewer percentage of losses upon the part of one of its insured institutions will expose it to loss than is so in the case of the Federal Deposit Insurance Corporation. The risk, therefore, is greater and the premium should be higher if it is to be kept on a self-sustaining basis.

Section 16 of the bill would go still further in placing the insurance of building and loan association shares upon the same basis as savings deposits. It provides that in the event of default by a Federal or other insured association, the Insurance Corporation would have the option of making payment "in full in cash". Moreover, the holder of an "insured account" would in any case have the option of receiving "at least" 10 percent thereof in cash, and the balance in interest-bearing debentures rather than in noninterest-bearing obligations as under the existing law.

An analogy between the shares of Federal and other savings and loan associations and savings deposits seem to be the underlying theory of these sections of the bill. Such associations, for the most part, are mutual in character. Their liabilities are evidenced largely by obligations purchased by individuals seeking to make an investment rather than a deposit. They purchase these obligations because they expect a higher rate of return than can be obtained upon a savings deposit and in fact the rates of return permitted to be paid and actually paid by building and loan association upon their shares are much higher than the rates of interest permitted to be paid upon savings deposits. Such investors should not expect to obtain the same degree of liquidity as in the case of a savings deposit because building and loan associations, at the present time, are not expected to be and are not regarded as being as liquid as banks. If such associations are to be given an artificial liquidity, this discrepancy in the rate of return will constitute another serious competitive disadvantage for national and State banks and will result either in the growth of unsound banking practices or in mortality among the institutions competing with the favored Federal and other savings and loan institutions.

For the foregoing reasons, I am, as already stated, opposed to the enactment of the bill.

Sincerely yours,

MARRINER S. ECCLES.

STATEMENT OF HON. LEONARD W. HALL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK, APRIL 18, 1939

Mr. Chairman, I want to express my appreciation for your courtesy in permitting me time to represent to you the feelings of a very great number of people residing in my congressional district on the subject of liberalizing changes in the Home Owners' Loan Corporation Act. There will appear before you today spokesmen for many of these groups who, no doubt, will pattern out for your committee in a detailed way all of those considerations which move them to feel that the present provisions of the Home Owners' Loan Corporation Act in relation to their mortgage contracts present hardships and exactions which are unnecessary and which, in their real effect, are preventing the primary objectives and purposes of the law—the saving of their homes.

My own district, the First Long Island District, which includes Suffolk County, Nassau County, and a part of Queens County, N. Y., probably has within its borders as many, if not more, homes with Home Owners' Loan Corporation mortgages as any district in the country. And the number of Home Owners' Loan Corporation foreclosures in my district, I believe, are as great as in any other district.

The total number of loans in New York State—and all these figures are as of the close of February of this year—total 80,117. The ratio of foreclosures to the number of total loans is 24.4 percent. The ratio of foreclosures to loans for the entire country is 12.6 percent.

Against that background, the figures for my district take on special significance. The ratio of foreclosures to loans in Suffolk County is 29.7 percent; in Nassau County 28.1 percent and in Queens County (this is for the entire county) is 20.8 percent.

I believe that it is a natural reaction to feel great concern under this sort of picture, especially when with it must be considered the reports I have received from distressed home owners who claim that if the Home Owners' Loan Corporation law is not liberalized, many, many will lose their homes. The fact that they have had great difficulties in keeping them, I think, must be inferred from the foreclosure rates I have mentioned.

I should like to put myself definitely on record that I believe a thoroughgoing, understanding, and sympathetic study and investigation should be conducted by your committee to explore and determine what may possibly be done looking to a revision of the Home Owners' Loan Corporation Act which would liberalize its provisions, particularly by way of a reduction of the interest rate, an extension of the amortization period, the complete outlawing of deficiency judgments and other steps which have as their primary objectives the proper lightening of the burdensome quality of the present provisions.

It is not enough, in my estimation, at this time to discount the situation of these home owners who feel they are subject to requirements of excessive sacrifices by pointing to the lapse of time between the original Home Owners' Loan Corporations Act and the present day. It should be recalled that these home owners were not originally subsidized by the Government, or that they were the beneficiaries of Federal-private cooperation in home-purchase financing provisions—such as we have under the National Housing Act—or, again, that they were made the recipients of extra liberal or generous governmental care by way of being given as cheap an interest rate as farmers today are able to secure from the Government on their obligations. These people, rather, each and every one of them, staked their savings and their hopes in the purchase of their homes. They are sufferers, of course, but the cause lay in a reason and a situation beyond anyone's control, the severe depression beginning late in 1929 and which still continues. These people, had they been able, would have been willing to have endured any sacrifice necessary to secured assistance from the then available private mortgage financing concerns. The only reason the Government stepped in was because private agencies were not able to cope with the serious situation that prevailed. And in this connection, also, it must not be forgotten that an auxiliary reason for the Home Owners' Loan Corporation Act was also the fact that its creation and services were expected to help by "bailing" out or aiding private investment concerns which were then in a very precarious position, all looking to general economic rehabilitation.

I feel strongly that the full objective of the Home Owners' Loan Corporation Act will not be accomplished until every effort has been spent looking to the full discharge of its aims insofar as that can practically be done. Today we are pledging the Government credit to home-purchase plans under the National Housing Act, and also to housing developments under the Federal Housing Authority Act. We are in the midst of a campaign to provide means to end the housing shortage. We are in the midst of a campaign to stimulate durable-goods production and consumption. In other words, we are aiming at stimulating home purchase and home ownership as well as the provision of better housing facilities for the less fortunately situated.

Looking at these objectives, it would strike me as a strange policy if we were to leave undone such steps as could be taken to assure and sustain present home ownership by people who now carry Home Owners' Loan Corporation mortgages and whose ownership of their homes are endangered by what they feel are too rigorous and too exacting provisions.

I feel, therefore, that the Congress should give painstaking consideration to measures which may be justified, which would so amend the Home Owners' Loan Corporation Act by relieving its burdensome qualities so as to give greater assurance to Home Owners' Loan Corporation mortgagors against the loss of their homes.

STATEMENT ON AMENDMENTS OF THE HOME OWNERS' LOAN CORPORATION ACT BY E. L. OLIVER, EXECUTIVE VICE PRESIDENT LABOR'S NON-PARTISAN LEAGUE, APRIL 18, 1939

Labor's Non-Partisan League joins with the representatives of the home owners in asking that the United States Congress enact legislation reducing the rate of interest upon loans made by the Home Owners' Loan Corporation, extending the period for amortization of such loans, and liberalizing the policies of the Corporation in dealing with these home owners. Our position is based not only upon the protests received from every section of the United States but also upon a consideration of the purposes underlying the Home Owners' Loan Act and related Federal legislation.

It seems abundantly clear, upon a survey of the situation existing today, first, that the homeowners involved are in serious difficulties, from which every consideration of public policy would urge that they be rescued; second, that the general Federal housing program, greatly expanded since the enactment of the Home Owners' Loan Act, will be jeopardized unless the provisions of that act and its administration are liberalized; third, that general economic conditions, directly affected as they are by the building industry, will be adversely influenced unless this act is speedily brought up to date; and, finally, that the Home Owners' Loan Corporation not only can afford the cost of the amendments proposed but that it cannot, in fact, afford not to have those amendments. These conclusions rest, as I have said, upon a survey of the general situation. Of necessity, the specific information relating to the experience of the Home Owners' Loan Corporation has been derived from its published reports and information secured through specific inquiry. Members of the committee will appreciate the difficulties of preparing a statement in exact detail analyzing the results of the Home Owners' Loan Corporation operations without the intimate acquaintance with the data which only long study of the original records would permit. However, the data available do justify definite conclusions upon the dangers of the policies now being followed.

It is unnecessary to dwell upon the major significance of home ownership in America. No one factor in our economic or political life will do more to stabilize our institutions and insure constructive attitudes among our voters than will their ownership of the homes in which they live. The desire for home ownership is deeply rooted in the average citizen; when the holocaust of 1929 struck the Nation, many millions of American workers had all their savings invested in their homes. The great majority of these home owners had not yet completed payment for their homes, but it was the normal expectation of every man and woman among them that in their old age they would have a roof over their heads, free from debt. Normally, that hope would have been realized; but the devastation of the depression stopped the incomes upon which the workers had depended for future home payments, and wiped out the savings of those who had had cash reserves adequate for ordinary emergencies. Their homes were taken from them, by banks and loan companies almost as hard pressed; no one could put into words the tragedy of this great dispossession. That, more perhaps than any one single effect of the general economic collapse, put a serious strain upon the foundations of our social order.

The Home Owners' Loan Corporation, created to deal with this situation, had at least two major purposes; the foremost, assuredly, was to ease the

strain upon the hundreds of thousands of home owners who were still in possession of their property, but who were in imminent danger of foreclosure. The second was to relieve the financial institutions holding the mortgages upon these homes—because the mortgages could not longer be carried, nor could they be foreclosed, without impairing further the security of the banks and loan companies involved. The two purposes were, for a time, achieved; the banks were definitely rescued, as the Home Owners Loan Corporation refinanced the mortgages of city home owners. But the home owners themselves, it is now clear, were only temporarily relieved; the continuance of depression, and the relapse of 1937–38, forced hundreds of thousands of them back into the distress which had preceded the passage of the act. These home owners have found that the terms of the law are not adequate, and the administration is not suited to the task of preserving the interests of home owners in this new crisis.

The figures are clear. Of a total of just over 1,000,000 mortgages securing loans made by the Corporation, 152,000 have been foreclosed or their foreclosures authorized. Another 500,000 mortgagors are in various degrees of default. Almost 90 percent of the funds paid out by the Corporation has gone to the banks and other financial institutions that had held these home mortgages; the original mortgagees have been rescued. But the home owners are still in the most precarious position; the act and its administration should be so improved as to protect this group from the catastrophe which is impending.

The figures indicate that the distress among these home owners is in large part a product of the intensification of depression in 1937 and 1938. During the fiscal year ending June 30, 1938, the Home Owners' Loan Corporation acquired, principally by foreclosure, 55,453 properties, as compared with only 39,534 in the preceding fiscal year. The value of the homes, acquired in 1938 by the computations of the Corporation, was \$226,000,000—the value of those on hand at the beginning of the year had been \$211,000,000. The last fiscal year was responsible for more than half of the foreclosures, and added more than half of the total value of the property acquired by the Corporation since its establishment.

Home owners thus face substantially the same situation as confronted them when the act was passed—large numbers of them are unable to meet the payments required upon their mortgaged homes. Whatever reasons then impelled the Government to come to their rescue apply today with equal force. But another and equally compelling factor has appeared since the original passage of the act. The United States Government has undertaken to encourage home construction on a wide scale, for a variety of reasons, including not only the need for slum clearance and adequate housing in itself but also because of the anticipated effect of an expanded construction program upon general industrial activity. We are trying through that housing program to rehouse American workers, to clean up our big cities, and to provide a solid foundation for industrial recovery. The policies of the Home Owners' Loan Corporation should be considered now in the light of that broad Federal policy.

From that standpoint it should be evident that wholesale foreclosures of mortgages under the Home Owners' Loan Corporation will act in the direction exactly contrary to the national program. The Federal Government cannot succeed in persuading potential home owners to put their savings into new construction, even though the Federal Housing Administration offers assistance in financing, if the man of small income sees that a new depression will almost certainly take away from him his home and his invested savings. Sales or offers of foreclosed homes will not stimulate American workers to build or to buy new homes. One hundred and fifty thousand foreclosures and a half million home owners in default because of inability to meet their payments will not encourage other citizens to incur similar obligations. If for no other reason, the Federal Government should liberalize the Home Owners' Loan Corporation policy in order to protect and extend its general national building program and its long-time plan for industrial recovery.

The changes in policy being requested by representatives of the home owners are opposed by the Corporation on the ground that those changes will not relieve the home owners, and cannot be made without causing a large deficit in the Corporation income. It is at this point that the income data of the Home Owners' Loan Corporation require the most careful analysis. Exhibits 40 and 41 in

the report of the Federal Home Loan Bank Board for the fiscal year ending June 30, 1938, show Home Owners' Loan Corporation "losses," both for the fiscal year and for the entire period of its operations. Net incomes of \$7,000,000 for the fiscal year, and of \$60,000,000 for the entire period, are converted into deficits by making "provision for losses" of \$27,000,000 in the fiscal year and \$101,000,000 over the whole period of operations.

Analysis of these figures does not bear out the contention of the Home Owners' Loan Corporation that the proposed changes in its policy will create larger deficits; it seems rather that the deficit is purely a "paper" loss, due to the setting aside of an unduly large reserve for future losses. No one can say with any degree of certainty what those future losses will be; but it is certain that the Home Owners' Loan Corporation may, by modifying its practices, greatly decrease those losses. Certainly a continuance of the present policies will result in losses much larger than are either necessary or good business. If high interest rates are continued, and rapid amortization required, there will be many more defaults and foreclosures than if more liberal terms are established. Thus the Home Owners' Loan Corporation, by calculating a high reserve for losses, and adopting an interest rate high enough to cover those losses, is insuring high and increasing deficits. On the other hand, and apart from any calculation of the adequacy of the reserve in itself, a more conservative estimate of future losses will permit lower interest rates to home owners, and will operate to reduce losses. The Home Owners' Loan Corporation calculations must tend to create the very condition against which they are creating their reserve.

But even apart from this judgment of future effects of the high reserve for losses, that reserve cannot be defended on the basis of actual operating results: to date. Since its establishment the Corporation has sold property valued at \$70,000,000; its losses on capital value were \$8,000,000—approximately 11 percent. The bulk of these properties—15,000 of a total of 17,000—were sold during the fiscal year ending June 30, 1938. Conditions during that fiscal year were unquestionably the worst since 1933, both in terms of foreclosures and in terms of markets for real estate. The actual losses on property sold during that year were \$7,800,000, while the losses on property sold during the whole period of operations were only \$7,749,000. Thus the sales prior to the last fiscal year had been made at prices above the so-called capital value of the property. Even during this year of general economic distress, therefore, the Corporation had to take a loss of only a little over 11 percent on the capital value of the properties sold. The total capital value of properties on hand as of June 30, 1938, was \$438,000,000. The reserve for losses against those properties was \$100,000,000—approximately 23 percent. Even if all future sales had to be made under the unquestionably bad conditions of 1937-38, the reserve set aside is twice as great as is necessary.

If there were danger that the Home Owners' Loan Corporation itself might be bankrupted in some sudden emergency, there would be some justification for top-heavy reserves against losses. But such a danger does not exist. If the Corporation were to estimate losses somewhat below their actual future levels, and give the home owners the benefit of a slight doubt, at the very worst the Federal Government would be called upon to finance the margin between actual and anticipated losses. But there is no need for a tight estimate of future losses; if the Corporation were to use actual losses to date as a basis for its reserve, the "deficit" shown in its annual report would be replaced by a slight net profit. Moreover, if interests rates to home owners were scaled down, and amortization periods extended, the actual future losses would diminish, and perhaps dwindle almost to the vanishing point.

The savings to the home owner, per month, have been calculated to be about \$10, if the Home Owners' Loan Corporation policies are liberalized as proposed. This will unquestionably mean the difference between default and continued payment to hundreds of thousands of the mortgagors. Foreclosures must drop sharply, the capital value of such properties as are foreclosed in the future will be proportionately much less, and—with the probable improvement in real-estate markets as industry recovers—the Corporation may well find itself with a profit instead of a loss upon future sales. The alternative is to increase foreclosures, depress the whole building market even further, dispossess hundreds of

thousands of families, and even then fail to keep losses within the income of the Corporation. It is a wise financier who keeps his debtors solvent. The Home Owners' Loan Corporation will be sound and stable if it can recast its policies to permit its mortgagors to retain their homes and pay for them in reasonable time at reasonable rates.

The morning newspapers report a drop in the interest rates charged borrowers from the Reconstruction Finance Corporation. Federal Housing Authority borrowers have already more liberal terms than those given Home Owners' Loan Corporation mortgagors. The Congress should amend the Home Owners' Loan Act to be at least as liberal in safeguarding American home owners.