

**AMENDMENTS TO FEDERAL HOME LOAN BANK ACT,
HOME OWNERS' LOAN ACT OF 1933, AND
NATIONAL HOUSING ACT**

HEARINGS
BEFORE THE
COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES

EIGHTIETH CONGRESS

FIRST SESSION

ON

H. R. 2798, H. R. 2799, H. R. 2800, and H. R. 3448

**BILLS TO AMEND SECTION 5 OF HOME OWNERS' LOAN
ACT OF 1933, THE FEDERAL HOME LOAN BANK ACT,
TITLE IV OF THE NATIONAL HOUSING ACT,
AND FOR OTHER PURPOSES**

—————
MAY 13 AND 16, 1947
—————

Printed for the use of the Committee on Banking and Currency



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AMENDMENTS TO FEDERAL HOME LOAN BANK ACT, HOME OWNERS' LOAN ACT OF 1933, AND NATIONAL HOUSING ACT

TUESDAY, MAY 13, 1947

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

The committee convened at 10 a. m., pursuant to call, the Honorable Jesse Wolcott (chairman) presiding.

Also present: Mr. Gamble, Mr. Smith, Mr. Kunkel, Mr. Talle, Mr. McMillen, Mr. Cole, Mr. Stratton, Mr. Banta, Mr. Fletcher, Mr. Foote, Mr. Spence, Mr. Brown, Mr. Patman, Mr. Monroney, Mr. Folger, Mr. Riley, Mr. Buchanan, and Mr. Boggs.

The CHAIRMAN. The committee will come to order.

We will consider this morning H. R. 2798, 2799, and 2800.

(The bills referred to are as follows:)

[H. R. 2798, 80th Cong., 1st sess.]

A BILL To amend section 5, Home Owners' Loan Act of 1933, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subsection (i) of section 5 of Home Owners' Loan Act of 1933, as amended, is hereby amended by striking out the period at the end thereof and inserting a colon and the addition of the following: "*Provided, however,* That said conversion shall not be in contravention of the State law. Any association chartered as a Federal savings and loan association may convert itself into a savings and loan, building and loan, or homestead association, or a cooperative bank, incorporated under the laws of the State, district, or Territory in which the principal office of such association is located (hereinafter referred to as the State institution), upon the vote, cast at a legal meeting specified by the law of such State, district, or Territory as required for such a conversion, but in no event less than 51 per centum of all the votes cast at such meeting, voting in person or by proxy: *Provided further,* That legal titles are protected by such conversion: *Provided further,* That conveyances of legal titles are made. If none of the outstanding shares of the converting Federal association are held by the Secretary of the Treasury or the Home Owners' Loan Corporation, and if such conversion is to a State institution, which is mutual in character and of a type which has been insured by the Federal Savings and Loan Insurance Corporation, no approval of such conversion by the Federal Home Loan Bank Board or the Federal Home Loan Bank Administration shall be required and such converted institution shall continue to be an insured institution and bound under all of the agreements contained in the original application for insurance of accounts, and by such conversion shall accept and be bound by all agreements required by section 403 of title IV of the National Housing Act and such insured institution shall upon such conversion and thereafter be authorized to issue securities in the form theretofore approved by Federal Savings and Loan Insurance Corporation for issuance by similar insured institutions in such State, district, or Territory. Such conversion shall be effective upon approval by the duly constituted authorities of the State, district, or Territory which have supervision over such institutions where such institution is located, and the filing of a certified copy of the resolution authorizing such conversion and the approval of

such State, district, or Territory authority with the Federal Home Loan Bank Administration or the Federal Home Loan Bank Board.

"In addition to the foregoing provision for conversion upon a vote of the members only any association chartered as a Federal savings and loan association, including any having outstanding shares held by the Secretary of the Treasury or Home Owners' Loan Corporation, may convert itself into a State institution upon an equitable basis, subject to approval, by regulations or otherwise, by the Federal Home Loan Bank Board or the Federal Home Loan Bank Administration and by the Federal Savings and Loan Insurance Corporation: *Provided*, That if the insurance of accounts is terminated in connection with such conversion, the notice and other action shall be taken as provided by law and regulations for the termination of insurance of accounts."

[H. R. 2799, 80th Cong., 1st sess.]

A BILL To amend the Federal Home Loan Bank Act, title IV of the National Housing Act, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 6 of the Federal Home Loan Bank Act, as amended, is amended by the addition of a new subsection as follows:

"(1) At the option of each member but within two years after the enactment of this amendment, each member of each Federal home-loan bank shall acquire and hold and thereafter maintain its stock holding in an amount equal to at least 2 per centum of the aggregate of the unpaid principal of such members' mortgage loans, home-purchase contracts, and similar obligations, but not less than \$500. Such stock in excess of the amount required may be purchased from time to time by members and may be retired from time to time as heretofore. From time to time and at least annually after the enactment of this amendment, each Federal home-loan bank shall retire and pay off at par an amount of its stock held by the Reconstruction Finance Corporation or assigns for the Government equivalent to the amount of its stock held by its members in excess of the amount required to be held by them immediately prior to the enactment of this amendment: *Provided*, That none of such Government capital shall at any time be retired so as to reduce the aggregate capital, reserves, surplus, and undivided profits of the Federal home-loan banks to less than \$150,000,000. Funds arising from the retirement of said stock held by or for the Government shall remain in the Treasury of the United States and be available for subscription to stock in the Federal home-loan banks in the future. Upon a determination by the Board that the proper functioning of the Federal home-loan banks at any time requires additional capital, the Board shall request the Secretary of the Treasury to subscribe to the stock of the Federal home-loan banks as determined by the Board in an amount not in excess of the stock retired under this amendment and the Secretary of the Treasury shall subscribe for such stock and pay therefor from the funds in the Treasury as a result of this amendment."

SEC. 2. Subsection (g) of section 11 of the Federal Home Loan Bank Act, as amended, is amended by inserting the words "one-half" before the words "the sums paid in on outstanding capital."

SEC. 3. Subsection (b) of section 402 of the National Housing Act, is amended by the addition of the following:

"After the effective date of this amendment the Corporation is authorized and directed to pay off and retire its capital stock in units of \$1,000, from time to time, from its assets which are in excess of \$150,000,000. Such retirement and payment shall be to Home Owners' Loan Corporation or its successor and for the full amount paid for such stock less any amount paid as dividends thereon. Such payments shall be continued from time to time as such funds are available from assets in excess of \$150,000,000 until the entire capital stock is retired and the Corporation shall continue to operate with its insurance reserve, undivided profits, and other funds. Whenever, in the judgment of the Board of Trustees of the Corporation, funds are required for insurance purposes, the Secretary of the Treasury is authorized and directed to purchase obligations of the Corporation in an amount equal to the amount of capital stock of the Corporation previously retired, in accordance with the provisions of this paragraph in addition to the amounts of such obligations which he is otherwise authorized to purchase."

SEC. 4. (a) Subsections (a) and (b) of section 404 of the National Housing Act, as amended (U. S. C., 1940 edition, title 12, sec. 1727 (a) and (b)), are

amended by striking out the word "one-eighth" wherever it appears therein and inserting in lieu thereof the word "one-twelfth".

(b) Subsection (c) of section 404 of the National Housing Act, as amended (U. S. C., 1940 edition, title 12, sec. 1727 (c)), is amended to read as follows:

"(c) If an insured institution has paid a premium at a rate in excess of one-twelfth of 1 per centum of the total amount of the accounts of its insured members and its creditor obligations for any period of time after June 30, 1946, it shall receive a credit upon its future premiums in an amount equal to the excess premium so paid for the period beyond such date."

SEC. 5. Notwithstanding any other evidence of the intention of Congress, it is hereby declared to be the controlling intent of Congress that if any provision of this Act, or the application of such provisions to persons or circumstances other than those as to which it is held invalid, shall not be affected thereby.

[H. R. 2800, 80th Cong., 1st sess.]

A BILL To amend section 5 of Home Owners' Loan Act of 1933, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subsection (c) of section 5 of the Home Owners' Loan Act of 1933, as amended, is hereby amended by adding at the end thereof the following:

"Notwithstanding any other provision of this subsection except the area restriction such associations may invest their funds in title I, Federal Housing Administration loans, loans guaranteed or insured as provided in the Servicemen's Readjustment Act of 1944, as amended, or in other loans for property alteration, repair, or improvement: *Provided*, That no such loan shall be made in excess of \$1,500 except in conformity to the other provisions of this subsection, and that the total amount of loans so made without regard to the other provisions of this subsection shall not, at any time, exceed 15 per centum of the association's assets."

The CHAIRMAN. We will consider these three bills during the first hour and if it is agreeable to the committee, we will go into executive session at about a quarter after 11 on the matter of the Lanham permanents.

There is a general debate on the floor of the State-Commerce-Judiciary appropriation bill, and we will try to be through in time to be there.

Mr. Bodfish is our first witness this morning.

Mr. Bodfish is chairman of the executive committee of the United States Savings and Loan League.

Mr. Bodfish, would you care to discuss these bills? I believe it would be helpful to the committee if you would give the committee a little of the history of the Home Loan Bank Act, and so forth.

STATEMENT OF MORTON BODFISH, CHAIRMAN OF THE EXECUTIVE COMMITTEE, UNITED STATES SAVINGS AND LOAN LEAGUE

Mr. BODFISH. Mr. Chairman, should we start with H. R. 2798, the conversion question, or the Home Loan Bank capital question, which is H. R. 2799, or the property improvement amendment, which is H. R. 2800?

The CHAIRMAN. It does not make too much difference. You may proceed as you wish on the discussion of them, so long as you keep the subjects separated.

Mr. BODFISH. Suppose we start, then, Mr. Chairman, in numerical order with H. R. 2798.

First, I might identify myself for the record. I am the executive officer of the United States Savings and Loan League, a 55-year-old organization of some 3,600 savings and loan associations, some 49 cooperating State leagues.

We have been interested in these legislative matters for some time, and we are most appreciative that the chairman and members of this committee, with the tremendous things pressing for your attention, have found it possible to give some attention to them.

I might say that these three bills were all reproduced in somewhat miniature form, a little smaller than the Government prints, by planograph, in our headquarters in Chicago, and some 10,000 copies of each of the three bills have been distributed to the executive officers of all our member institutions so that the executive officer could go over them with his associates and with his lawyer or counsel.

In the course of the testimony I will make one or two suggestions of perfecting amendments which have to do with language rather than policy which have grown out of that distribution.

There has been no dissent in our group with regard to the policies involved in the bills.

H. R. 2798 is a little different from the other two in this respect: The supervisors of savings and loan associations, in their respective States, have an association called the National Association of Building and Loan Supervisors. They have been very interested in this question of the right of federally chartered institutions to return or to take State charters and operate under State supervision if their owners or savings account holders and their managements chose.

H. R. 2798 is, therefore, a measure that is jointly supported by our United States Savings and Loan League and by the organization of State supervisors.

Mr. BROWN. The right of federally chartered institutions to take State charters should be allowed.

Mr. BODFISH. Mr. Chairman, it looks as though we have one member of the jury already.

Again, this is a bill which is jointly sponsored by our organization and all the State supervisors. The history of this is interesting, and will only take a moment or two.

In the Home Owners Loan Act of 1933, in section 5, there was a provision for the Federal Government to charter savings and loan associations. The principal parts of the Home Owners Loan Corporation Act dealt, as you know, with the refunding of existing mortgages held by individuals, banks, insurance companies, building and loans, and the like, putting them on an amortized basis, liquidating closed banks, liquefying the assets in the financial depression, and the like. But section 5 provided that the Federal Home Loan Bank Board might issue charters, following the best practices of local mutual thrift and home financing institutions, and that these institutions, so chartered, following somewhat the national bank pattern, would operate under Federal supervision.

That was considered highly desirable by all of us at that time for the reason that we had had a tremendous financial crisis in the country, we had lost 10,000 banks in the years preceding 1933, and, frankly, we had lost some two or three thousand savings and loan associations, and the balance of them were not in a liquid condition, but many were frozen, so it seemed desirable to get a uniform and standard and mod-

ern charter just as in the 1864 period immediately following the War between the States, the national bank charters were provided supplementing the then existing State banking systems.

In that piece of legislation a section provided that if a State-chartered institution wanted to become a federally chartered institution and an existing State institution wanted to become a federally chartered institution, the Federal authorities were authorized to issue it a charter and accept it. Obviously, by Congressional legislation, you could not give a State-chartered institution the power to take a Federal charter. So the Federal officials, and those of us in the leadership in trying to modernize and improve the savings and loan business—and it included the general counsel of the Federal Home Loan Banks System, Mr. Horace Russell, who is now with me in Chicago and is our general counsel, Commissioner Fahey and others—we went to the State Legislatures and asked the States to enact legislation giving the State-chartered institutions the right, if they cared to, by action of their members at a duly called meeting, to take a Federal charter and relinquish their State charter. About 35 States enacted such legislation. There were 10 or 15 States—I have them listed and I have given the clerk a list of the States—in which the law was silent on the matter, and in that case the general corporate practice or policy prevails, namely, that the owners of a corporation can relinquish its charter and take another if they see fit.

But in the course of obtaining this State legislation, statements were made by Federal officials and by the savings and loan leaders of the country that if this legislation was enacted, that, without any qualification whatsoever, we would stand for the policy that once an institution became a federally chartered institution, the association, the institution alone should have the right to determine if it wanted to resume a State charter and to convert to a State-chartered association if acceptable to the State.

Those representations are made, so there is an element in this matter not just of general reciprocity between the Federal Government and the States, but there is a question of keeping promises that were made by Federal officials then in office and still in office and by some of us who took a part in developing the modern savings and loan system.

In 1938 we asked the Federal Home Loan Bank Board to include in their regulations or administrative law provisions for conversion from Federal to State. This they did. There was some question in the minds of some people. The strict constructionists among the lawyers did not feel that the power for reorganization given in section 5 (D) in the statute was broad enough to authorize a conversion. However, the regulation was placed into the administrative law of the system, and in 1940—we were not satisfied with that because that could be changed by what was then a board of five men—we came to this committee of Congress and asked that the matter be established by amending the statute and in H. R. 6971, which passed the House of Representatives in 1940—

The CHAIRMAN. In modified form?

MR. BODFISH. Yes, in modified form, the chairman modified it considerably, as I recall—but it included a provision for the unrestrained and unqualified right of a federally chartered institution to take a State charter if it saw fit, and I think those of you who were here

then and participated in that legislative work will recall that there was no controversy over this particular provision of H. R. 6971 which passed the House, there was no objection upon the part of the public officials—as a matter of fact, I have the hearings here, both the Senate hearings and the House hearings, in which Commissioner Fahey, who now strongly opposes the idea of institutions returning to State jurisdiction without his permission, testified in unqualified terms in support of a conversion from Federal to State.

Mr. Fahey in his statement said:

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 State statutes authorize Federal savings and loan associations to obtain State charters by reconversion but such associations are now unable to make such change. The provision here presented would represent reciprocity between the respective Federal and State governments in the matter of chartered Federal home loan institutions.

And this testimony in support of that provision, in H. R. 6971, which did not pass the Senate, not for reasons that had to do with the merits of the bill, but, as you may recall, in late 1940, the Senate became deeply engaged in matters having to do with defense and preparation for the international crisis that was then developing, and time just could not be given to this legislation.

The CHAIRMAN. If I may add to what is my understanding of the history of that legislation the objection to the legislation was not to this particular subject that you are discussing. The charge was successfully made that it, in effect, compelled all savings banks to convert to Federal savings and loan associations or go out of business and some thought they saw in it an attempt to socialize credit, and the bill was held up in the Rules Committee for almost a year, that is, the Rules Committee of the House, and came out with reasonable assurance finally that the objectionable features of the bill would be removed, and they were, and the section you are now discussing stayed in the bill. But when it went to the Senate, it was so close to the end of that Congress that the Senate did not get around to acting on it during that Congress.

Mr. BODFISH. That is entirely accurate, and the changes that were made on the floor which made the bill acceptable, as you recall, were worked out by yourself and the late Representative Robert Luce, who always took such a tremendous interest in this type of legislation.

It was not only the lateness of the session, but in that fall, Mr. Chairman, it was the beginning of defense legislation and the pre-war era which completely occupied the time and attention of the Senators serving on the Banking and Currency Committee.

Mr. BROWN. I think that if a savings and loan association, which has a Federal charter, wishes to abandon it and reconvert to a State charter, this should be done.

Mr. BODFISH. Well, we feel very strongly about it. I do not think there will be any great number to convert back to their State charters. There may be 25 or 50 out of the 1,500, but it certainly should be their privilege, and it is a matter of keeping faith with these State legislatures and the State supervisory authorities.

The section was section 7 in H. R. 6971, and it provided—and I want to restate this—for the discretion in the matter to be entirely in the hands of the shareholders and the management of the institution desiring to convert.

This passed the House in 1940, and, as the chairman pointed out, it did not pass the Senate because it was so long delayed, and we got into the defense era, but on July 25, 1944, without any hearing, without any notice to anyone, and on account of knowledge that some several Federal associations were planning to resume their State charters, using the vehicle of the provision in the administrative law that is in the regulations, the regulation was repealed by a stroke of the pen. The five-man Federal Home Owners' Loan Bank Board had then been abolished through Executive Order 9070, February 26, 1942, and Mr. Fahey was in complete and sole charge of the whole operation, acting on behalf of the five men, and he indicated that this was merely a minor and procedural matter and on that basis, without the usual publication and hearings, eliminated from the administrative law the right to convert. I think some argument can be made that possibly the legal foundations of the regulation were not as solid as one would desire. I do not hold that view myself. They had been enacted after a great deal of study and a great deal of thought, and it seemed rather significant that when some institutions started to avail themselves of the regulation, the Federal authorities would wipe it right off the books, and close that vehicle of conversion.

I might say that it is still possible for an institution to liquidate and sell its assets to a State-chartered institution, but that is a somewhat delicate and dangerous procedure for a going financial institution, to liquidate and sell its assets, and we do not think it is the ideal way to change from Federal to State, and we also have the situation that if we use that method, which is possible now, the Federal officials are in charge of the matter and in a position to stop it at any point along the way.

So H. R. 2798 would then merely establish, as a matter of law, that a federally chartered institution can go to a State at its own discretion, on its own motion, as long as it goes to a State mutual association.

We had many conferences with Mr. Fahey and his associates and we improved the language, and we thought they had agreed to it at one time—over the language that was in the old H. R. 6971. We agree that if a federally chartered institution is going to a stock type of company, which is possible in three States in the Nation, and three States only, and a proprietary set-up is to be arranged, that, of course, it is appropriate for the Federal officials to scrutinize and have discretion as to that particular set-up. This provides that if they go to a State mutual institution of the type that has been previously insured by the Savings and Loan Insurance Corporation, and there is provision for the continuation of the insurance, the carrying over of the insurance agreements to the State charter including examination and supervision and conformity to insurance corporation, F. S. L. I. C., rules and regulations, so that everything is in proper order, and the same conditions prevail as if it had been originally insured as a State institution, that that can be done and the decision on the matter is in the hands of the management and the share-account holders.

If they want to go to a stock type of institution, which is possible in Ohio and California and one other State, the permission of the Federal authorities is necessary and it is so provided in the bill.

The bill also provides that if the institution has any remaining investment of Home Owners' Loan Corporation or Treasury funds—you may recall that funds were invested in the shares of these institutions in the post-depression era to get mortgage credit flowing—if there is any remaining Treasury or Home Owners' Loan Corporation investment, then, the Federal officials have the discretion to say yes or no as to the conversion.

I might say, in connection with that, that investment by the Treasury and Home Owners' Loan Corporation of nearly \$300,000,000 was placed in these institutions in the depression period. It has all been returned ahead of our contract arrangements, except for about \$20,000,000. The Treasury or Home Owners' Loan Corporation has not lost a dollar in connection with those particular investments.

That, Mr. Chairman, is the story with regard to H. R. 2798, with one exception: In the course of the correspondence, if you look on page 2, lines 7, 8, and 9, it looks as though, in our drafting, we have said the same thing twice—

Provided further, That legal titles are protected by such conversion: *Provided further*, That conveyances of legal title are made.

We think that says the same thing and we would like to suggest that we just condense that down into one proviso which says:

Provided further, That the legal title to all real estate shall be passed by proper conveyance.

Other than that the bill is in good form, and will do the job, and unless there are questions I will go on to the other measures.

I might say there is a companion bill in the Senate, by Senator Bricker, S. 1177.

Mr. BROWN. There is only one question involved, and that is the conversion to a State charter?

Mr. BODFISH. That is right, whether they can do it without coming down here and getting permission from the Federal authorities to get out from under their jurisdiction, which, in the main, will not be given.

Mr. SPENCE. What has been the tendency in creating new associations or organizations?

Mr. BODFISH. Well, I would say in the last 5 or 10 years there have been as many organized under State law as under Federal charter.

Mr. SPENCE. How do they now compare as between State and Federal?

Mr. BODFISH. I have it here. There are 6,000 associations in the entire country, including Alaska and Hawaii—4,539 are State chartered institutions; 1,471 are Federal institutions. The assets are roughly equivalent. The State assets are \$5,360,000,000, the Federal assets—and this is at the close of 1946—are \$4,672,000,000 or a total of slightly over \$10,000,000,000.

Mr. COLE. There was objection on the part of Mr. Fahey, but you did not say what that objection was.

Mr. BODFISH. He feels that the only reason that anybody would put any money in one of these institutions is because the Federal Government supervises it, and that the only reason anybody would want to leave the Federal charter is because it has an incompetent management that is trying to get out from under his discipline. In our judgment, that is a complete misrepresentation of the facts, and I speak with some frankness and some feeling about it because Mr. Fahey testified before the Senate committee—it is a matter of public record—to the effect that State laws were inadequate, State supervision was inadequate, and the only people interested in this were some managers who were being disciplined and wanted to get out from under.

Mr. COLE. Well, State associations may be federally insured, may they not?

Mr. BODFISH. That is right. In fact, something over a thousand of them are. When we started out with this it had a five-man board. It has tremendous legislative and judicial powers. We find ourselves now with a one-man operation, which has led to some complications, with which we are dealing in the Supreme Court now, on the seizure of an institution which was admittedly solvent, just because an officer irritated Commissioner Lee and Commissioner Fahey, and some of the boys frankly want to get back to their State jurisdiction where they can go down to the State capitol and be a little closer to their public officials.

The CHAIRMAN. Mr. Bodfish, do you want this schedule which you have presented to the committee included in the hearings?

Mr. BODFISH. I think it might be helpful, so that you will know the aggregate of savings and loan assets and their distribution as between Federal and State institutions.

The CHAIRMAN. Without objection, that may be admitted and also this statement with respect to States which do and do not authorize conversions.

(The documents above referred to are as follows:)

Statement of condition items of all savings and loan associations and cooperative banks, as of Dec. 31, 1946

| | Total | State-chartered associations and cooperative banks ¹ | Federal savings and loan associations |
|----------------------------------|------------------|---|---------------------------------------|
| Number of institutions..... | 6,000 | 4,529 | 1,471 |
| Number of savings members..... | 8,750,000 | 4,950,000 | 3,800,000 |
| Number of borrowing members..... | 2,200,000 | 1,200,000 | 1,000,000 |
| Assets..... | \$10,040,000,000 | \$5,368,000,000 | \$4,672,000,000 |
| Mortgage loans..... | 7,229,000,000 | 3,871,000,000 | 3,358,000,000 |
| Cash and Government bonds..... | 2,480,000,000 | 1,324,000,000 | 1,156,000,000 |
| Share capital..... | 8,635,000,000 | 4,652,000,000 | 3,983,000,000 |
| Accumulated reserves..... | 783,000,000 | 507,300,000 | 275,700,000 |

¹ Partially estimated.

OPERATIONS, CALENDAR YEAR 1946

| | | | |
|-------------------------------------|-----------------|---------------|---------------|
| Net additions to share capital..... | \$1,139,000,000 | \$518,000,000 | \$621,000,000 |
| Home mortgage loans made..... | 3,584,000,000 | 1,773,000,000 | 1,811,000,000 |

*Number and assets of savings and loan associations and cooperative banks,
Dec. 31, 1946*

| | Number of associations | | | Assets | | |
|---------------------------|------------------------|---------|-------|---------------|---------------|----------------|
| | State | Federal | Total | State | Federal | Total |
| Alabama..... | 8 | 17 | 25 | \$5,000,000 | \$25,000,000 | \$30,000,000 |
| Arizona..... | 2 | 2 | 4 | 4,000,000 | 21,000,000 | 25,000,000 |
| Arkansas..... | 8 | 33 | 41 | 4,200,000 | 22,800,000 | 27,000,000 |
| California..... | 100 | 73 | 173 | 299,805,000 | 430,000,000 | 729,805,000 |
| Colorado..... | 29 | 23 | 52 | 15,000,000 | 50,000,000 | 66,000,000 |
| Connecticut..... | 32 | 17 | 49 | 41,000,000 | 83,000,000 | 124,000,000 |
| Delaware..... | 37 | 1 | 38 | 17,750,000 | 850,000 | 18,600,000 |
| District of Columbia..... | 26 | 3 | 29 | 249,000,000 | 51,000,000 | 300,000,000 |
| Florida..... | 5 | 47 | 52 | 5,000,000 | 175,000,000 | 180,000,000 |
| Georgia..... | 20 | 45 | 65 | 21,000,000 | 89,000,000 | 110,000,000 |
| Idaho..... | 4 | 8 | 12 | 5,000,000 | 22,000,000 | 27,000,000 |
| Illinois..... | 480 | 99 | 579 | 330,000,000 | 390,000,000 | 720,000,000 |
| Indiana..... | 171 | 69 | 240 | 148,356,000 | 210,000,000 | 358,356,000 |
| Iowa..... | 55 | 32 | 87 | 55,000,000 | 53,000,000 | 108,000,000 |
| Kansas..... | 78 | 28 | 106 | 56,000,000 | 54,000,000 | 110,000,000 |
| Kentucky..... | 71 | 53 | 124 | 53,000,000 | 115,000,000 | 168,000,000 |
| Louisiana..... | 57 | 13 | 70 | 108,000,000 | 18,000,000 | 126,000,000 |
| Maine..... | 32 | 5 | 37 | 27,000,000 | 4,000,000 | 31,000,000 |
| Maryland..... | 340 | 32 | 372 | 135,000,000 | 105,000,000 | 240,000,000 |
| Massachusetts..... | 176 | 25 | 201 | 485,000,000 | 240,000,000 | 725,000,000 |
| Michigan..... | 40 | 32 | 72 | 109,000,000 | 122,000,000 | 231,000,000 |
| Minnesota..... | 41 | 30 | 71 | 65,588,000 | 159,412,000 | 225,000,000 |
| Mississippi..... | 13 | 21 | 34 | 5,500,000 | 13,200,000 | 18,700,000 |
| Missouri..... | 139 | 36 | 175 | 103,000,000 | 90,000,000 | 193,000,000 |
| Montana..... | 16 | 3 | 19 | 16,500,000 | 2,500,000 | 19,000,000 |
| Nebraska..... | 44 | 15 | 59 | 70,000,000 | 19,000,000 | 89,000,000 |
| Nevada..... | 1 | 1 | 2 | 225,000 | 1,549,000 | 1,774,000 |
| New Hampshire..... | 24 | 2 | 26 | 18,000,000 | 16,000,000 | 34,000,000 |
| New Jersey..... | 470 | 16 | 486 | 370,000,000 | 30,000,000 | 400,000,000 |
| New Mexico..... | 12 | 7 | 19 | 6,000,000 | 6,000,000 | 12,000,000 |
| New York..... | 174 | 66 | 240 | 423,865,000 | 435,000,000 | 858,865,000 |
| North Carolina..... | 145 | 25 | 170 | 109,000,000 | 64,000,000 | 173,000,000 |
| North Dakota..... | 12 | 6 | 18 | 18,700,000 | 7,300,000 | 26,000,000 |
| Ohio..... | 507 | 127 | 634 | 998,000,000 | 552,000,000 | 1,550,000,000 |
| Oklahoma..... | 32 | 31 | 63 | 29,000,000 | 92,000,000 | 121,000,000 |
| Oregon..... | 6 | 22 | 28 | 31,000,000 | 49,000,000 | 80,000,000 |
| Pennsylvania..... | 775 | 112 | 877 | 378,000,000 | 290,000,000 | 668,000,000 |
| Rhode Island..... | 8 | 1 | 9 | 77,000,000 | 5,000,000 | 82,000,000 |
| South Carolina..... | 38 | 30 | 68 | 16,000,000 | 40,000,000 | 56,000,000 |
| South Dakota..... | 9 | 4 | 13 | 3,963,000 | 3,637,000 | 7,600,000 |
| Tennessee..... | 4 | 35 | 39 | 600,000 | 71,400,000 | 72,000,000 |
| Texas..... | 51 | 88 | 139 | 96,000,000 | 98,000,000 | 194,000,000 |
| Utah..... | 13 | 6 | 19 | 36,000,000 | 25,000,000 | 61,000,000 |
| Vermont..... | 10 | 2 | 12 | 3,200,000 | 9,300,000 | 12,500,000 |
| Virginia..... | 55 | 20 | 75 | 43,000,000 | 55,000,000 | 98,000,000 |
| Washington..... | 26 | 35 | 61 | 78,000,000 | 160,000,000 | 238,000,000 |
| West Virginia..... | 22 | 22 | 44 | 10,500,000 | 28,000,000 | 38,500,000 |
| Wisconsin..... | 111 | 41 | 152 | 155,659,000 | 53,341,000 | 209,000,000 |
| Wyoming..... | 2 | 9 | 11 | 2,200,000 | 9,800,000 | 12,000,000 |
| Hawaii..... | 1 | 1 | 1 | 21,389,000 | 4,611,000 | 26,000,000 |
| Alaska..... | 8 | 1 | 9 | ----- | 1,300,000 | 1,300,000 |
| Entire United States..... | 4,539 | 1,471 | 6,000 | 5,360,000,000 | 4,672,000,000 | 10,032,000,000 |

NOTE.—Partially estimated.

STATES IN WHICH THE LAW AUTHORIZES CONVERSION OF STATE SAVINGS AND LOAN ASSOCIATIONS TO FEDERAL

Our records indicate no provision for such conversion, therefore, many have converted to Federal charters in the following States:

| | | |
|----------------------|---------------|------------|
| Delaware | Maryland | New Mexico |
| District of Columbia | Mississippi | Tennessee |
| Idaho | Montana | Wyoming |
| Louisiana | Nevada | |
| Maine | New Hampshire | |

States having statutes specifically authorizing such conversion :

| | | |
|-------------|----------------|----------------|
| Alabama | Kentucky | Oregon |
| Arizona | Massachusetts | Pennsylvania |
| Arkansas | Michigan | Rhode Island |
| California | Minnesota | South Carolina |
| Colorado | Missouri | South Dakota |
| Connecticut | Nebraska | Texas |
| Florida | New Jersey | Utah |
| Georgia | New York | Vermont |
| Illinois | North Carolina | Virginia |
| Indiana | North Dakota | Washington |
| Iowa | Ohio | West Virginia |
| Kansas | Oklahoma | Wisconsin |

Mr. BODFISH. I might say, Mr. Chairman, that there are two things there. It really is not a "do not." In some States the statutes are silent. And where the States are silent on the question, the procedure has been that the shareholders could relinquish their charter and take a Federal charter. So in all those States listed there, conversion from State to Federal has occurred and is practical and is possible.

The CHAIRMAN. Do you mean these States in the category "no provision for such conversion," the act is silent on it and they may convert?

Mr. BODFISH. That is right, and there have been a number of conversions in those States. For example, one converted here in the District of Columbia the other day. You may have noticed the announcement in the paper, and the District of Columbia statutes are silent on that point. The same is true in Delaware, Idaho, Maine, Maryland, Tennessee, Mississippi, and so forth.

The principal and larger States have all passed legislation authorizing conversion.

Mr. STRATTON. Mr. Bodfish, aside from the principle involved here, which I agree with, is there any particular advantage in going back to a State charter?

Mr. BODFISH. Well, I do not think there is any tremendous advantage other than that these are institutions which operate under public supervision, and it is sometimes a little easier to understand and cooperate with the folks in your State capital than it is to deal with folks in your Nation's Capital.

There are a few States where the State charter institutions have privileges that have not been granted to federally chartered institutions. For example, one of the things that one of Chairman Wolcott's bills deals with. Practically all the State-chartered institutions can make title I Federal Housing Administration loans, a perfectly natural part of our business. But due to matters that are not the fault of the House of Representatives at all, such as the press of other things and the controversies in which our agency found itself in with other agencies, the federally chartered institutions have never been authorized to make a repair improvement loan on a home without costly title searching, mortgage recording, and so forth.

Mr. BROWN. I think a good answer is that all your State charters are not alike.

Mr. BODFISH. Yes; but there are some privileges like that; also, some of the State statutes are very modern. One of the things we have done is to develop a model State statute. There most probably is no better statute for this type of institution anywhere than exist now in the State of Washington and the State of Missouri, which recently completely reworked their statute. There are some privileges there—none that have any bearing on the solvency or the proper conduct of these institutions—but in Michigan and in Missouri, for instance, the institutions can build homes to a very limited portion of their assets, and that is attractive in these days of advancing prices and the problems of dealing with contractors.

That is all I have on this bill, Mr. Chairman.

Shall I go to the next one?

Mr. FOLGER. Mr. Chairman.

The CHAIRMAN. Mr. Folger.

Mr. FOLGER. What about the insurance on these converted institutions?

Mr. BODFISH. Mr. Folger, we feel that the insurance should continue unless the association decides to drop its insurance, and then there is a regular procedure in which they pay premiums for 3 years and the savings-account holders continue to be protected, and so on. And in here, very specifically, we say that if such a conversion takes place, from Federal to State charter, such converted institutions shall continue to be an insured institution and bound under all the agreements contained in the original application for insurance of accounts, and by such conversion shall accept and be bound by all the agreements required by section 403 of title IV of the National Housing Act—that is the section under which State-chartered institutions get insurance—and such insured institution shall, upon conversion and thereafter, be authorized to issue securities in the form theretofore approved by the Federal Savings and Loan Insurance Corporation for issuance by similar institutions in such State, district, or Territory.

Mr. FOLGER. Is that for 3 years?

Mr. BODFISH. No; but it is under a different statute, that an institution terminates its insurance, and if an institution terminates its insurance, it has to pay premiums for 3 years, it has to give notice to all its members, and the like, or if the insurance is taken away from it, as a disciplinary action, it has to pay premiums for 5 years. I hope some day when the committee is not so pressed we will put that down to 2 years for both types of termination and follow the Federal Deposit Insurance Corporation 2-year pattern in that connection. But it is not a major matter with us now. It is something we would like to have done at some time.

Mr. FOLGER. Mr. Bodfish, I notice on the first page [reading]:

Any association chartered as a Federal Savings and Loan Association may convert into a savings and loan, building and loan, or homestead association, or a cooperative bank.

What are those institutions?

Mr. BODFISH. Mr. Folger, in the State of Massachusetts entirely, and in the State of New Hampshire in part, and in Rhode Island, our old-fashioned savings and loan associations are known legally by the name "cooperative bank." That is what you call a North Carolina building and loan up in Massachusetts, a cooperative bank.

The CHAIRMAN. Pardon me, Mr. Folger. I recall, when I was a youngster in Massachusetts, the cooperative banks. Are the cooperative banks still—

Mr. BODFISH. Originally in Massachusetts we had old-fashioned building and loan associations, and I think it was in 1880 that the Massachusetts General Court, as they call their legislature, passed a statute and authorized them to use the name "cooperative bank," and all of the then savings and loan associations changed their name. All except 4; there are still 4 actually in existence in Massachusetts which have never changed their name, but there are some 200 of them now in existence as cooperative banks. They are very excellent institutions and we didn't have any trouble up there in the depression and most are members of our United States League and the Home Loan Bank System.

They took the name of cooperative banks. The second largest association is in Providence, R. I.—the largest being here in Washington—called the Perpetual Building Association—and it is known as the Old Colony Cooperative Bank. The second part of the title is "A Building and Loan Association."

We have cooperative banks in New Hampshire as well as building and loan associations. They are the same thing.

Mr. SPENCE. Will there be a greater tendency to convert in some States than in others because of favorable local statutes?

Mr. BODFISH. I would think so. There are some States in which the statutes are extremely restrictive, and that is the reason that some of these institutions took Federal charters.

Up in New Hampshire, for example, no man could save more than \$4,000 no matter if he saved all his life, and they couldn't make a loan except under the old share and sinking fund loan plan. And under no conditions could they make a loan of more than \$8,000. It was too rigid. That is why some of the State-chartered institutions there moved over to Federal charter, where they had a little more flexibility.

Yes, I think the State statutes will attract some institutions. There is only one State—we are always very frank with each other here—which does not have a State law. The free State of Maryland still says they are not going to pass a savings and loan supervisory statute. But that presents no embarrassment to the Congress, in my judgment, in acting on this because any institution that continues its insurance over there is and agrees to be inspected and supervised by the Federal authorities.

So insofar as there is a continuation of the insurance of accounts in Maryland, even though there is no State supervision, there will be Federal supervision because they have insurance of accounts.

Mr. BROWN. Under present law you can convert from a National bank to a State bank and vice versa; is that not right?

Mr. BODFISH. Well, that is 75 percent right. I would like to tell you about that for just a minute.

Representative Brown, that was done by a sale of assets, and within the next few weeks or months this committee will have before it the proposal similar to this regarding banks, whereby you will be asked for similar legislation.

The American Bankers' Association have agreed upon it and are working on the draft whereby as a matter of simple corporate action a national bank can surrender its national charter and take a State charter. It is done now by a sale of assets and exchange of securities rather than merely having a corporate meeting, sending out notice, and passing the proper resolutions and obtaining and receiving a State charter. So even there the thing needs improvement, and it is under discussion by the banking people. And I know they plan to bring a legislative suggestion to you.

Mr. FOLGER. One more question, Mr. Chairman.

Mr. Bodfish, under this act could a corporation which is operating in North Carolina incorporate under the laws of the State of Delaware, or some other State, naming the State as its home office?

Mr. BODFISH. No; because, Mr. Folger, practically all of our State laws control the use of names, and, furthermore, we prohibit foreign corporations from engaging in the savings and loan or building and loan business unless they come under the supervision of the State. It would not be possible for them to come under State supervision. I do not see how, under this, a Federal building and loan association could move into just an ordinary privately owned mortgage company with a Delaware charter. I do not think that would be possible at all. I have our able general counsel here, Mr. Russell, who knows more about that particular thing than I do. Let us put the question to him.

You gentlemen all know Horace Russell.

Mr. RUSSELL. The bill provides expressly for conversion to a type of institution insured by the Federal Government. That would eliminate all except a savings and loan corporation or a cooperative bank. They have no power to insure mortgage associations.

Mr. FOLGER. How does that interfere with the insurance? If you get a Delaware corporation and want to operate in North Carolina?

Mr. RUSSELL. This bill would authorize conversion from a Federal to a State savings and loan association, or cooperative bank, of the type which the insurance corporation has insured. Now, an ordinary Delaware corporation is not a corporation of that type. Therefore this bill would not authorize conversion to that type of a corporation.

Mr. FOLGER. I was thinking of Delaware because most of the corporations that I know of which we call foreign corporations are incorporated under the laws of Delaware, even though they operate down in North Carolina or in New York or Michigan, or any other State.

Mr. RUSSELL. Under the express provisions of this bill the conversion would have to be to a type of a savings and loan association which the Insurance Corporation has insured, and therefore it could not convert from a Federal savings and loan association to a corporation operating under an ordinary business corporation charter such as you referred to.

Mr. MONRONEY. Mr. Bodfish, how many States permit the calling of building and loan companies cooperative banks?

Mr. BODFISH. I think it is three: New Hampshire, Rhode Island, and Massachusetts.

Mr. MONRONEY. And only in States which now permit the calling of these cooperative banks could they permit the exchanging of their charters to cooperative banks. The reason I was asking is that in

many towns in most States you have to have the unanimous approval of the Control of Currency, the FDIC and Federal Reserve inspection to prevent the overbanking of some of these small towns, such as in the banking system we had in 1931 and 1932.

I was wondering if it was properly restricted so that you could not open up under the name of a bank and building and loan association in other States which had never used that type of terminology on such an association.

Mr. BODFISH. I think there is only one exception to that. The State of Washington provides that a savings and loan association, a State savings and loan association, may convert to a mutual savings bank. As a matter of fact, the very large mutual savings bank out there was the Washington Mutual Savings and Loan Association years ago.

I might say that quite a few of our people—although we do not present it at this time—would see no objection to these institutions, if they so desired, becoming mutual savings banks in the States where mutual savings banks are authorized and if the State authorities were willing to issue a charter and if the FDIC was willing to insure a mutual savings bank charter.

Under this bill there is nothing compulsive on the part of the State of Oklahoma, or Illinois, to charter one of these institutions. When you come back into the State jurisdiction you come with the permission and with the acceptance or approval of the State authorities, just the same as when a State association became a Federal institution it naturally and properly would request that the charter issued and be processed and approved by the Federal authorities.

But personally I know many of our people feel that way, that there is no reason why they should not go to mutual banks in the States that have State mutual bank systems.

Mr. MONRONEY. The only thing I was worried about is that under the general terminology of a bank, and advertising Federal insurance on the policies, which these Federal loan corporations would be able to do under this act, you would set up a competing system and competing insurance system.

Mr. BODFISH. Well, I do not think that could happen.

Mr. FLETCHER. Of course that can only happen in States where they authorize cooperative banks.

Mr. MONRONEY. That is why I wanted to find out how many States have authorized them.

Mr. FLETCHER. That is a matter of State legislation, anyway. We are not trying to control that by this legislation. We are only saying that a Federal institution has a right to convert to a State institution. If a State wants to get fancy and have a lot more banks, than they can permit it.

Mr. MONRONEY. But the States, under the present banking laws, if they want to get fancy, cannot get Federal insurance for their State banks unless they are approved by the FDIC.

Mr. FLETCHER. What I am trying to say is that the States will regulate that themselves. We have no problem there because the State will make that determination itself.

Mr. MONRONEY. But when a State makes that determination—in other words, my State of Oklahoma might be willing to pass a law

saying we can change these building and loan associations into cooperative banks; we are standing behind their deposits with a system of Federal insurance which would be advertised and compete with your regular banking facilities.

Mr. FLETCHER. You are aware that there are two systems of Federal insurance—FDIC and the Federal Savings and Loan Insurance Corporation.

Mr. MONRONEY. Yes.

Mr. FLETCHER. They are both Federal insurance, and they are both set up under Federal statute.

Mr. MONRONEY. But they are set up to do different types of work.

Mr. FLETCHER. One is for savings banking and the other for commercial banking.

Mr. MONRONEY. That is right. And I wonder if there is a loophole here to open up this competing insurance system to banks, both claiming they have Federal insurance.

Mr. BODFISH. We both claim we have Federal insurance now.

Mr. FLETCHER. If you analyze a few accounts you will find that that is true.

Mr. BODFISH. We have twice as much assets per dollar of insurance liability in our insurance corporation and not as much dangerous liabilities, in our judgment.

But I do not see, Mr. Monroney, how the thing can get awkward in any way because they can only convert to State chartered institutions of the kind that are authorized by the State, and that have been previously insured by our Federal insurance corporation.

Mr. FLETCHER. I do not think you boys in Oklahoma are going to be foolish enough to open the thing wide, are you?

Mr. MONRONEY. We possibly might because the States sometimes resent the fact that they cannot charter a State banking institution that will be eligible for Federal insurance. Under this proviso they could pass a law permitting cooperative banks or anything of that kind, and then be entitled to Federal insurance.

Mr. BODFISH. But your Federal officials still control your insurance of accounts in both types of institutions.

Mr. FLETCHER. It is not automatic insurance.

Mr. MONRONEY. It would be in the case of where they changed the State institution to a cooperative bank.

Mr. BROWN. I think the answer to that is the banks have to be insured.

Mr. BODFISH. That is right. I usually agree entirely with Representative Brown. But I seem to be a dissenter this morning. We were talking about Massachusetts cooperative banks, of which there are 200. There is not one that has Federal insurance. They have State insurance, which is very strong, and they took care of the four or five institutions that got in trouble back in the time of the financial depression in 1933. And they have done a good job of it. We think they have proved that a good job can be done by a State insurance fund if it is adequate.

Mr. SMITH. What does the FDIC actually insure, numbers or value?

Mr. BODFISH. Numbers or values?

Mr. SMITH. Yes.

Mr. BODFISH. Well, they certainly do not insure values.

Mr. SMITH. Well, then, they only have to pay out in numbers.

Mr. BODFISH. Well, dollars.

Mr. SMITH. In numbers.

Mr. BODFISH. Well, all right.

Mr. SMITH. So they do not really insure anything, do they?

Mr. BODFISH. Well, I have considerable confidence in the dollar yet, even though it purchases less and less as the days go by.

Can we move on, Mr. Chairman, to the next bill?

The CHAIRMAN. I wondered if Mr. Kreutz cared to discuss this bill now, before we go on to the next bill? Mr. Kreutz, would you like to discuss this bill before we go to the next bill? How would you want to handle it?

Mr. KREUTZ. Mr. Chairman, that would depend entirely on you. I would be glad to do entirely what you prefer.

The CHAIRMAN. Well, if it is agreeable, we will let Mr. Bodfish proceed with the three bills and you can take them up later.

Mr. KREUTZ. Very well.

The CHAIRMAN. All right, Mr. Bodfish.

Mr. BODFISH. H. R. 2799 deals with the question of—

The CHAIRMAN. Before you leave this, Mr. Ferguson has suggested to me some amendments on pages 2 and 3 of the bill.

After the word "vote," in line 4, he suggests that we include "required for such conversion" and strike out the words "legal" and "specified by" and insert "called and held for such purpose in accordance with section 13" after the word "meeting."

Mr. BODFISH. That language is entirely acceptable and carries out this present intent, although it is a little smoother; and I think it is the polished language in the Bricker companion bill. One of Senator Bricker's associates is here.

The CHAIRMAN. In line 5, it strike out "as required for such a conversion." In line 6, after the word "event"—I presume this is in conformity with the law in respect to conversions by States to Federals—he inserts "upon the vote of" and transposes, in line 7, the words "at such meeting" and puts them back of the word "proxy." And in line 8, after the words "that legal titles," he suggests crossing out the remainder of that sentence and inserting "to all real estate shall be passed by proper conveyance."

Mr. BODFISH. That is right. Mr. Chairman, that would make the bill identical in language with the companion Bricker bill in the House which Senator Bricker and Senator Buck plan to expedite after this committee is through.

The CHAIRMAN. In line 11 of page 3, after the word "only" he inserts a comma.

In line 16, on page 3, he strikes out "by regulation or otherwise," and suggests, after the word "to," that we include "the" so it will read, using the word "by" in line 16, "subject to the approval by the Federal Home Loan Bank."

The principal amendment suggested is that we strike out "by regulation, or etc." That would make it conform to the bill.

Mr. BODFISH. I do not think "by regulation" is in there. I followed it up to that point, Mr. Chairman.

The CHAIRMAN. We will take that up later. I just wanted to get these suggestions before you for your opinion.

Now, would you like to take up H. R. 2799?

Mr. BODFISH. Yes.

On H. R. 2799 this involves the effort on the part of the vast majority of savings and loan associations to carry out a commitment that we made to the Congress when the original Federal Home Loan Bank Act was enacted. That was in 1932.

We were in the midst of financial panic, and this measure was one of the joint measures, along with the RFC, more capital for the land banks, some Federal Reserve legislation. And that was the initial step in mortgage legislation advanced by the Congress to stabilize the financial situation.

The men then in Congress and the President—President Hoover—agreed that in setting up the bank system in the midst of financial storm and hurricane that capital which would be subscribed by the member institutions alone probably would not be adequate to quickly get the bank system into operation. So they agreed to put \$125,000,000 of Government money into this bank system to get it started, just as they, at the same time, almost, put \$125,000,000 into the land-bank system which had been in existence since 1916 in order to make it solvent and get it functioning.

One of the things that was clearly understood between those of us who had a part in the development of the legislation, and the Congress, was that at as early a date as was feasible this business would furnish the necessary capital with which to operate this bank system, just as the bankers furnished the capital for the Federal Reserve system.

Mr. SMITH. Where did you get that \$125,000,000?

Mr. BODFISH. Where did we get it? From the Treasury of the United States by appropriation of Congress.

Mr. SMITH. Did you confiscate private property?

Mr. BODFISH. No. I do not think so, to my knowledge.

Mr. SMITH. Well, from what other source could you derive it?

Mr. BODFISH. Doctor Smith, you do not want me to say that taxation, orderly taxation, is confiscation. It can be if it is carried too far.

Mr. SMITH. Was that obtained by taxation?

Mr. BODFISH. It was taken from the general funds that were obtained from the issuance of securities by the Government, supported by the taxing power of the Government. Undoubtedly the securities could not have been sold without that.

Mr. SMITH. Did you have any monetization of the debt during that period? Was the Government printing money at that time?

The CHAIRMAN. I think we can read from the record that there was monetization at that time.

Mr. BODFISH. Yes, some.

The CHAIRMAN. It is up to us whether it will continue or not.

Mr. BODFISH. And the purchase of its own securities by the Federal Reserve System also accomplishes the same thing.

For the assistance of the committee I have gone back to the hearings that were held by this committee of the House and the committee of the Senate, and excerpted from the President's message to the Congress proposing the bank system. In that message he clearly indicated that the institutions using the facilities should be required to purchase stock from time to time so that the Government holdings would gradually pass over to private ownership, as was the case with the Federal land banks and as is the case with the Federal Reserve banks.

(The matter referred to is as follows:)

TESTIMONY REGARDING CAPITAL STOCK OWNERSHIP OF THE FEDERAL HOME LOAN BANKS IN 1932

I. PRESIDENT HOOVER'S MESSAGE

(From text of President Hoover's conference on home building and home ownership (1932) vol. II, pp. 100-101)

"It is proposed to find the initial capital stock for the discount banks in much the same way, insofar as is applicable, as the capital was found for the Federal Reserve Banks * * * and * * * if the initial capital is not wholly thus provided (by member institutions), it should be subscribed by the Federal Government, and further, somewhat as was provided in the case of the Federal land banks, other institutions using the facilities of the discount banks should be required to purchase from time to time from the Government some proportionate amount of its holdings of stock if there be any. In this manner any Government capital will gradually pass over to private ownership as was the case in the Federal land banks."

II. HEARINGS

Senate hearings

1. Hearings before a subcommittee of the Committee on Banking and Currency, United States Senate, on the creation of a system of Federal home loan banks, January 14-21, 1932.

Mr. Bodfish's statement (pp. 90-91) :

"Mr. BODFISH. We look to the early retirement of the Government, and I think the bill is built on the plan that the members who are participating will put in the capital and take the responsibilities as time goes on.

"Senator COUZENS. Would you be willing to have this organization set up with the interested parties supplying all the capital?

"Mr. BODFISH. Yes; but I do not think it could be done quickly enough to take care of the present situation.

"Senator COUZENS. Would you be willing to have a provision in this bill that the Federal Government will draw all its capital within a 2-year period or a 3-year period?

"Mr. BODFISH. No; because such a short set period would affect the sale of the bonds, but the Government should withdraw within any period in which the banks have an opportunity to get functioning satisfactorily and an ample opportunity to bring in the home financing institutions.

Mr. Friedlander's statement (pp. 182-183) :

"Senator COUZENS. I observe the Federal Government is to furnish a large part if not all of the capital at the beginning.

"Mr. FRIEDLANDER. Yes; due to economic conditions, in order to get the system at work, the bill, as I understand it, provides that the Government will supply the unsubscribed capital up to \$150,000,000 in the same manner that the land-bank organization was set up. * * * It would seem to me that you would want to get the Government's capital retired as quickly as possible * * *. The Federal Government in making its advance would make it with the understanding and the hope that the capital would be retired. I think that any inducement you would offer in order to get private institutions into it from the very start, so that Government capital might be retired, would be very helpful to that end.

"Senator COUZENS. Do you believe a system of this sort could be organized and conducted exclusively by private capital if the Federal Government undertook the organization of it?

"Mr. FRIEDLANDER. Under present conditions, I do not believe it possible."

2. Hearings before a subcommittee of the Committee on Banking and Currency, United States Senate, on the creation of a system of Federal home-loan banks, January 26 to February 16, 1932:

"E. J. ADAMS, Federal Trade Commission. Eventually the private stockholders will own the system (p. 201).

3. Hearings before a subcommittee of the Committee on Banking and Currency, United States Senate, on the creation of a system of Federal home-loan banks, March 9, 1932:

"Secretary ROBERT P. LAMONT, United States Department of Commerce. The bulk of this money (capital stock) is supposed to be put up by the using institutions and not by the Government.

"Senator COUZENS. Yes; but not until after the Government has first put up the initial capital (p. 653).

"Senator WATSON. Would the question as to whether or not the Government was to have interest or dividends affect the value of the bonds (debentures)?"

"Secretary LAMONT. I do not know that it would particularly. As a matter of fact, the bill provides that the Government will be entirely out of these banks in a few years if they operate as expected (p. 656).

"Senator WATSON. Do you think the Government is entitled, as an investor, to receive dividends the same as all other investors?"

"Secretary LAMONT. Yes; but I think it rather unimportant, because if the plan works out as hoped, the Government would not be in it very long (p. 657).

"Senator COUZENS. Would you think it practical, Mr. Secretary, if we should devise a plan whereby the Federal Government withdraw its money within a certain period of time so as to force the private institutions to take over the enterprise?"

"Secretary LAMONT. If the banks are used, and there is reason for thinking that they will be, the Government will be out very soon. In fact, one group of associations thought that their group alone would probably subscribe for practically all of the stock and there might not be any Government money needed. I think that is a little optimistic, but that thought was expressed (p. 687)."

House hearings

4. Hearings before a subcommittee of the Committee on Banking and Currency, House of Representatives, on the creation of a system of Federal home-loan banks, March 16-30, 1932:

"Mr. JOHN O'BRIEN, Assistant Counsel, Office of the Legislative Counsel, House of Representatives. There is a provision made for the retirement of the stock held by the United States. The retirement begins when the members have paid in an amount equal to the amount paid in by the United States as stock subscriptions * * * the process is continued until the entire amount of the stock subscribed by the United States is retired at par (p. 18)."

Mr. Friedlander's statement (pp. 47, 48, 61):

"Congressman FRANK HANCOCK. As soon as the Government has been refunded the amount of money it has advanced to set up these banks, the banks become, for all purposes, private enterprises, do they not?"

Mr. FRIEDLANDER. There is no provision in the law that I recall which makes any change in the organization set-up of the bank, even after the retirement of Government capital. In other words, the board at Washington still functions in the supervision (p. 47):

"Congressman CLYDE WILLIAMS. You are setting up an institution here which provides for stock subscribed by the Government and by member institutions.

"Mr. FRIEDLANDER. Yes, sir."

"Mr. WILLIAMS. Is there anything in the bill which provides the percentage of ownership which each one of them shall have in the institution?"

"Mr. FRIEDLANDER. The bill provides that the Federal board at Washington shall fix the minimum capital stock of any bank, which shall be at least \$5,000,000, and that then they shall open their books for subscription in the same manner in which the Federal land banks and the Federal Reserve Bank System were set up, and that part of the \$150,000,000 that was not subscribed by the institutions that desired membership, that that would be subscribed by the Government, and that as these other institutions came in later on, as they needed the facilities of the bank, or as they found the bank was successful, and came in, that one-half of their stock payments should go in retirement of the Government stock subscriptions, but there is nothing in the bill that sets up any relation or related percentage as between the stock ownership of the Government and the stock ownership of the individual institutions (p. 48).

"Congressman MICHAEL REILLY. What do you think about the proposition of the banks being obligated to pay the interest on the \$150,000,000?"

"Mr. FRIEDLANDER. It is not intended, of course, for the Government to permanently own stock in these banks. The object of limiting the Government, or, rather, exempting the Government stock from earnings is as a means of having these banks earn money from the start so that you can get the institutions in here and get the Government out, which I assume you gentlemen want (p. 61)."

Mr. Bodfish's statement (pp. 152, 193, 195):

"Mr. BODFISH. As to stock subscription by the member institutions, the original bill as introduced carried 1½ percent. It has already been reduced one-half of 1 percent. A committee of our United States Building and Loan League, called the

committee on reserve credits and banking relations, which has been studying this problem in principle for some two years recommended to our group that the participation be 1½ percent or more. I think the essence of the thing there is we want to cooperate in getting the Government out of this picture after it has started the bank system and we are perfectly willing to put in substantial capital into the whole proposition, if it continues to be built on strong, conservative lines so that our best institution, as well as the ones that are in immediate need of borrowing will feel they want to come in immediately and participate (p. 152).

"Chairman REILLY. What do you think about the testimony that has been given on the proposition of charging the banks interest on Government advances in order to let the Government out of this banking system?"

"Mr. BODFISH. I think that the quickest way to get the Government out of this banking system, as far as its advancing of money is concerned, is to keep the capital subscription up to 1 percent and to put the Government funds in as an advance or loan without return, so that this system can pay reasonable dividends to participating members right from the start (p. 193).

"Congressman ROBERT LUCE. As I have been contending, if the Government lends capital to the system, repayment is coming out of the surplus, and therefore the more interest the Government gets the longer it will take to get repayment of capital, will it not?"

"Chairman REILLY. That is true, but as this bill is drafted now they get \$150,000,000 and nobody knows when the Government can get out of it.

"Mr. BODFISH. But everybody who comes in to participate and get any benefit has to contribute to the retirement of that Government capital.

"Chairman REILLY. Providing when the banks are up to the same amount of money the Government has in it.

"Mr. BODFISH. Yes; as we get more money, and if we can make it attractive, that accelerates the retirement of the Government capital.

"Chairman REILLY. I am looking at the fact that the one great objective of this bill is the Government of the United States is putting up \$150,000,000—how long the money will be used nobody can tell at the present time.

"Mr. BODFISH. The emergencies of the situation probably justify the Government in extending the cost of that capital to them for 3 or 4 or 5 years in steadying and righting the whole small mortgage field and home financing business. After all, we do not want to save dollars and lose hundreds in our present business situation (p. 195)."

Senate hearings

5. Hearings before the Committee on Banking and Currency, United States Senate on the creation of a system of Federal home loan banks, June 11-14, 1932.

"Secretary LAMONT. The home loan bank bill as it now stands provides for Government participation to the extent of \$125,000,000 to be advanced through the RFC. It is expected that a large part of this capital will be provided by the borrowing institutions and that within a reasonable time all of the Federal capital investment shall return to the Government (p. 700)."

Senate hearings

6. Hearings before a subcommittee of the Committee on Banking and Currency, United States Senate, on the creation of a system of Federal home loan banks, February 17-23, 1932.

Mr. Lieber's statement (p. 601) :

"Senator COUZENS. How long do you think it would take the Federal Government to get out of this business?"

"PHILIP LIEBER. I do not see any reason in the world why the Federal Government should not get out in 3 years, as contemplated in the bill.

"Senator COUZENS. You think the stock purchase by the Federal Government will all be taken up by the building and loan associations, and others, within a 3-year period?"

"Mr. LIEBER. It is my opinion that so much advantage will accrue from the passage of this act that the building and loan associations themselves could put up the \$150,000,000. That is my honest opinion, sir. (p. 601)."

Statement submitted to the subcommittee for the record by Mr. Lieber. Excerpts from a statement on "The Federal Home Loan Bank Bill—A Summary and Analysis":

"Each of the 12 banks will start with a minimum capital of at least \$5,000,000. Subscriptions are to be opened and at the end of 30 days the subscriptions are to be totaled and the Government subscriptions to stock bring the total initial

capital for all 12 banks to \$150,000,000. The Government subscription is merely an advance and is to be repaid as additional institutions join the system. An early retirement of the Government capital is anticipated by the provisions of the bill (p. 617)."

III. CONVENTION OF THE UNITED STATES SAVINGS AND LOAN LEAGUE, 1932 (UNITED STATES LEAGUE ANNALS, 1932)

"Mr. BODFISH. How are the Government funds retired? The law provides that after the private or member subscriptions¹ of the Government, than one-half of the additional subscriptions or payment on stock that come in must be used to repay or retire the Government's subscription. (See section 6 (g).) However, the Board has the power to retire Government capital at any times it sees fit * * *. The Government's participation is not in the nature of a subsidy but only an advance of its credit on which we are going to pay interest and return the principal. They are merely letting us have this working fund because it is the public interest to start this system sooner than we could if we were attempting to do it independently * * *. The Federal Reserve Bank Act carried practically the identical provision that is in this law regarding the advance of capital to start that system (pp. 17-18).

"FRED G. STRICKEL, JR. The home loan bank legislation is both emergent and permanent in character. It is emergent or temporary in that to meet immediate conditions and pressing needs and demands in the home-financing field, the Government has agreed to loan a maximum of \$125,000,000 to the system. Had this system been set up during a period of prosperity such a loan might not have been so large, and of a certainty the subscription list would have remained open for month (p. 61)."

These excerpts from the hearings clearly indicate that everyone concerned with the matter expected the savings and loan associations, and the insurance companies and country bankers, and the title companies, who used the system, to furnish enough capital to capitalize it.

The formula which was written into the act was a mistake. We had assumed, in making the plans—and when I say "we" I say largely Representative Robert Luce, who carried the main responsibility in the planning of the legislation—that the bank system, this home loan bank system, would be extensively used by small insurance companies, by small banks having real estate paper or mortgages as well as by building and loan associations.

However, as the system got under way, with its 12 regional banks, other financial measures became necessary, and the so-called Glass-Steagall Act, which drastically changed the whole concept of reserve banking and made all types of assets eligible for loans or rediscounts, where prior to 1933 the only paper that could go into the Federal Reserve system was 60-day paper, with the exception of agricultural paper, which could be 6-month paper, but there was no such thing as borrowing against bonds or against mortgages and the like—that change in central banking policy gave the smaller banks which had substantial real estate mortgage holdings a basis for credit with the Federal Reserve System, and the mutual banks also were made eligible for the Federal Reserve System, and their securities, mainly municipals and mortgages, could be the basis of their borrowings, so that after two or three years of operation, due to legislation subsequent to this original act, as a practical matter, only building and loan associations joined the home loan bank system. A few savings banks have, and a few insurance companies, but not very many.

We had worked out in the original statute a way of retiring the stock after the member stock equalled the Government's stock—the Govern-

¹ Equal the subscription.

ment's original \$125,000,000. But that was on the assumption that probably the system would have all the savings banks, many of the country banks, many insurance companies, and the like. When that did not materialize, the formula in the statute for the ultimate retirement of Government stock was inadequate and did not fit the case at all. The statutory formula would have grossly overcapitalized the home loan bank system before it would have retired any substantial amount of the Government stock.

We feel that the institutions that use the facilities should furnish the capital and that the return of this capital to the Treasury is long overdue. As an organization we have developed proposals, some 6 or 7 years ago, to return the capital stock, but got into a very violent controversy with our Federal officials, particularly Mr. Fahey, who were stoutly opposed to our retiring the Government capital.

We are not asking for any substantial changes in the authority of the Federal officials over the regional home loan banks and over the members of the bank system, but we do feel that it will be a more decentralized system, a system operated less from Washington and more from the 12 regional banks; it will be a system a little closer to its members if we carry out our commitments made to the Congress in 1932 and furnish the capital and permit the Government capital on which we have paid about 1½ percent, on the average, during the period we have had it, to go back into the Treasury.

So section I of H. R. 2799 provides for all member institutions to increase their stock holdings to 2 percent of home mortgages, and that those additional funds be used to retire Government capital.

A natural question to ask is what that will accomplish at the present time.

The 12 Federal home loan banks at the present time have 122½ million dollars of Government stock and we own 85 million dollars of stock. We estimate that this measure will increase our holdings approximately 75 million dollars and retire an equivalent amount of Government capital in the near future.

As our business is expanding, and our type institution is growing, we expect that the balance of some \$45,000,000 would be retired under the formula proposed in the Wolcott bill, H. R. 2799, in the next 3 or 4 years.

One other thing that I think I should call your attention to is that we set a minimum capital requirement of \$150,000,000 and we do not propose to reduce the capital of the bank system below that, which we think is an adequate capital base and will permit the expansion of the system up to beyond a billion dollars on the basis of its present operations and sale of debentures at five times capital, reserves, and surplus.

The CHAIRMAN. Mr. Bodfish, at the present time, as I understand it, members shall acquire and hold 1 percent.

Mr. BODFISH. One percent of home mortgages; yes.

The CHAIRMAN. Yes; but not less than \$500.

Mr. BODFISH. Yes.

The CHAIRMAN. And you change that to 2 percent and \$500.

Mr. BODFISH. That is right about changing 1 percent to 2 percent.

When you start a little tiny one, an investment in home loan stock which pays 1½ percent or 2 percent may represent a little more

substantial portion of their funds, and it would seem necessary. The \$1,500 was in the original 1932 statute but was changed to \$500 in 1934 as I recall so we are only changing 1 percent to 2 percent. You will notice, Mr. Chairman, that we include home-purchase contracts and similar obligations in the base for measuring the 2 percent. Quite a few of these institutions will buy a land contract rather than make a new mortgage, and the law, as it is now, reads just "home mortgages." That will increase the base for calculating the minimum requirement somewhat.

In section 2, which begins on page 3, line 4, of the bill—

The CHAIRMAN. I wonder if Mr. Russell can tell me from his compilation where this amendment is, of section 2? Section (g) of section 11 seems to deal with deposits.

Mr. BODFISH. Mr. Russell, can you tell us where section 2 appears in the act?

The CHAIRMAN. Section (g) of section 11 seems to deal with deposits.

Mr. RUSSELL. Section 11 (g) is known as the liquidity section of the Home Loan Bank Act, Mr. Chairman. Here it is. Mr. Chairman, if I may explain that—

The CHAIRMAN. That is 6 (g).

Mr. RUSSELL. There is something wrong with that print, Mr. Chairman. If I may explain that section, section 11 (b) of the Home Loan Bank Act—in the print you have in your hand; I am not able to understand the print the clerk has—is a provision requiring the home loan banks to carry a certain amount of liquidity. It requires that the banks carry, in the form of Government bonds and short-term loans, a sum equivalent to the total member capital and total member deposits. With the \$125,000,000 of Government capital in there, that is all right. But when the members buy all of the capital, it would leave the banks in a squeeze if this section 2 of this present bill were not enacted. When they came to issue debentures or bonds to get long-term money, as the banks do, they would have to have all of their capital and all of the deposit money in the liquidity pool.

This would amend it so that they would only have half of that in the liquidity pool. You will note that the liquidity pool, however, would still be larger than it is now. At present the member capital is only about \$85,000,000. If this bill were enacted, the members would buy the \$125,000,000 of Government capital, and the "one-half" would create a larger liquidity pool than the present liquidity pool.

Mr. BODFISH. We have found it in your book. It was amended in 1934, Mr. Chairman.

I wonder, Mr. Chairman, with that matter under discussion, if it would be helpful to have a condensed statement of conditions for 1944, 1945, and 1946, showing the assets and liabilities of the home-loan banks, the RFC and member capital, their reserves, their deposits, and their debentures. I also have an earnings statement which is condensed and is much easier to follow than it is to get it out of the Government reports. You may want to put it in the record.

The CHAIRMAN. Very well.

(The documents above referred to are as follows:)

Statements of condition items of Federal home-loan banks as of Dec. 31, 1944, 1945 and 1946

| | 1944 | 1945 | 1946 |
|-------------------------------------|---------------|---------------|--------------------------|
| ASSETS | | | |
| Investments..... | \$144,046,000 | \$118,392,000 | \$145,092,000 |
| Advances to members..... | 130,563,000 | 194,872,000 | 293,455,000 |
| All other assets..... | 28,404,000 | 21,645,000 | 34,561,000 |
| Total..... | 303,013,000 | 334,909,000 | 473,108,000 |
| LIABILITIES | | | |
| Capital stock: | | | |
| RFC..... | 124,741,000 | 124,509,000 | ¹ 122,672,000 |
| Members..... | 63,805,000 | 73,658,000 | 85,828,000 |
| Total capital..... | 188,546,000 | 198,167,000 | 208,500,000 |
| Reserves and undivided profits..... | 17,921,000 | 21,049,000 | 22,496,000 |
| Deposits..... | 28,773,000 | 45,725,000 | 70,303,000 |
| Debentures..... | 66,500,000 | 68,500,000 | 169,045,000 |
| All other liabilities..... | 1,273,000 | 1,468,000 | 2,764,000 |
| Total..... | 303,013,000 | 334,909,000 | 473,108,000 |

¹ The adjustment in the capital stock was actually made Jan. 2, 1947.

Data covering all savings and loan members of the FHLB system as of Dec. 31, 1944, 1945, and 1946

| | 1944 | 1945 | 1946 ¹ |
|---------------------------|-----------------|-----------------|-------------------|
| Number..... | 3,656 | 3,658 | 3,665 |
| Assets..... | \$6,423,000,000 | \$7,681,000,000 | \$8,990,000,000 |
| Share capital..... | \$5,537,000,000 | \$6,530,000,000 | \$7,749,000,000 |
| Accumulated reserves..... | \$461,000,000 | \$533,000,000 | \$624,000,000 |

¹ Partially estimated.

Ratios of insured institutions to all savings and loan associations and cooperative banks

| | 1944 | 1945 | 1946 ¹ |
|-------------|------------------------|------------------------|------------------------|
| Number..... | <i>Percent</i> 58.0 | <i>Percent</i> 59.3 | <i>Percent</i> 61.1 |
| Assets..... | 85.9 | 87.3 | 89.9 |

¹ Partially estimated.

Operations of the Federal home-loan banks from beginning through June 30, 1945

| | From begin- ning through June 30, 1944 | Year ending June 30, 1945 | From begin- ning through June 30, 1945 |
|---|--|------------------------------|--|
| Income: | | | |
| Operating..... | \$57,944,182 | \$4,872,445 | \$62,816,627 |
| Nonoperating..... | 4,135,111 | 1,506,696 | 5,641,807 |
| Total..... | 62,079,293 | 6,379,141 | 68,458,434 |
| Expenses: | | | |
| Operating..... | 18,462,483 | 1,567,145 | 20,029,628 |
| Assessments for FHLB Administration..... | 3,136,482 | 450,000 | 3,586,482 |
| Nonoperating..... | 521,279 | 14,611 | 535,890 |
| Total..... | 22,120,244 | 2,031,756 | 24,152,000 |
| Net income..... | 39,959,049 | 4,347,385 | 44,306,434 |
| Disposition of net income: | | | |
| Allocation to legal reserve..... | 8,046,193 | 869,477 | 8,915,670 |
| Allocation to reserves for contingencies..... | 2,392,154 | 341,661 | 2,733,815 |
| Dividends paid: | | | |
| U. S. Government..... | 12,021,339 | | 12,021,339 |
| R.F.C..... | 4,985,028 | 1,380,394 | 6,365,422 |
| Members..... | 5,450,414 | 741,185 | 6,191,599 |
| Total dividends..... | 22,456,781 | 2,121,579 | 24,578,360 |
| Undivided profits..... | 7,063,921 | 989,212 | 8,053,133 |
| Retirement fund (prior service)..... | | 25,456 | 25,456 |
| Total..... | 39,959,049 | 4,347,385 | 44,306,434 |

Source: Annual reports of the FHLB Administration and quarterly reports on the FHL banks.

Federal Savings and Loan Insurance Corporation, statement of condition items as of Dec. 31, 1944, 1945, and 1946

| | 1944 | 1945 | 1946 |
|----------------------------|---------------|---------------|---------------|
| ASSETS | | | |
| Investments..... | \$151,061,000 | \$161,297,000 | \$172,000,000 |
| All other assets..... | 4,746,000 | 3,964,000 | 4,387,000 |
| Total..... | 155,807,000 | 165,261,000 | 176,387,000 |
| LIABILITIES | | | |
| Capital stock..... | 100,000,000 | 100,000,000 | 100,000,000 |
| Reserves..... | 53,270,000 | 62,169,000 | 72,621,000 |
| All other liabilities..... | 2,537,000 | 3,092,000 | 3,766,000 |
| Total..... | 155,807,000 | 165,261,000 | 176,387,000 |

Data covering all insured institutions as of Dec. 31, 1944, 1945, and 1946

| | 1944 | 1945 | 1946 |
|---------------------------|-----------------|-----------------|----------------------------|
| Number..... | 2,466 | 2,475 | 2,496 |
| Assets..... | \$5,013,000,000 | \$6,148,000,000 | \$7,319,000,000 |
| Share capital..... | \$4,371,000,000 | \$5,243,000,000 | \$6,210,000,000 |
| Accumulated reserves..... | \$328,000,000 | \$388,000,000 | ¹ \$462,000,000 |

¹ Partially estimated.

Ratio of members to all savings and loan associations and cooperative banks

| | 1944 | 1945 | 1946 |
|-------------|------------------------|------------------------|------------------------|
| Number..... | <i>Percent</i> 39.1 | <i>Percent</i> 40.2 | <i>Percent</i> 41.6 |
| Assets..... | 67.0 | 69.9 | 73.2 |

*Operations of the Federal Savings and Loan Insurance Corporation from
beginning through Dec. 31, 1946*

| | From begin- through June 30, 1944 | Year ending June 30, 1945 | Year ending June 30, 1946 | 6 months ending Dec. 31, 1946 | From beginning through Dec. 31, 1946 |
|---|--|------------------------------------|------------------------------------|--|--|
| Income: | | | | | |
| Insurance premiums..... | \$23,961,300 | \$5,080,796 | \$6,113,904 | \$3,529,702 | \$38,685,702 |
| Admission fees..... | 336,610 | 6,528 | 5,000 | 1,000 | 349,138 |
| Interest on bonds ¹ | 36,351,766 | 3,549,465 | 3,764,296 | 2,005,250 | 45,670,777 |
| Total..... | 60,649,676 | 8,636,789 | 9,883,200 | 5,535,952 | 84,705,617 |
| Operating expenses: | | | | | |
| Operating expenses..... | \$2,493,764 | \$455,715 | \$486,032 | \$265,007 | \$3,700,518 |
| Losses (net after recoveries)..... | ² \$5,918,692 | ³ \$31,565 | ⁴ \$146,693 | (⁵) | \$5,740,434 |
| Operating expenses and net losses..... | \$8,412,456 | \$424,150 | \$339,339 | \$265,007 | \$9,440,952 |
| Number of settlements..... | 34 | 0 | 0 | 0 | 34 |
| Ratios: | | | | | |
| | <i>Percent</i> | <i>Percent</i> | <i>Percent</i> | <i>Percent</i> | <i>Percent</i> |
| Operating expenses to total income..... | 4.1 | 5.3 | 4.9 | 4.8 | 4.4 |
| Net losses to total income..... | 9.8 | 0 | 0 | 0 | 6.8 |
| Operating expenses and net losses to total income..... | 13.9 | 4.9 | 3.4 | 4.8 | 11.2 |
| Proportion of total income available for reserves..... | 86.1 | 95.1 | 96.6 | 95.2 | 88.8 |
| Operating expenses to premium in- come..... | 10.4 | 9.0 | 7.9 | 7.5 | 9.6 |
| Net losses to premium income..... | 24.7 | 0 | 0 | 0 | 14.8 |
| Operating expenses and net losses to premium income..... | 35.1 | 8.3 | 5.5 | 7.5 | 24.4 |

¹ Includes profits on sale of securities.

² Includes cash contributions, less recoveries plus estimate for final losses. Twelfth Annual Report, FHLB administration, p. 24.

³ Net recoveries exceed contributions. Net losses, as of June 30, 1945, \$5,887,127. Thirteenth Annual Report, FHLB Administration, p. 28.

⁴ Net recoveries exceed contributions. The Budget of the United States Government, 1948, p. 1103.

⁵ Not reported.

Source: Annual reports FHLB administration.

*Annual losses, net additions to reserves, and unpaid dividends of the Federal
Savings and Loan Insurance Corporation from beginning through June 30,
1946*

| Year ending June 30— | Net losses | Net addi- tions to reserves after losses | Annual dividends unpaid | Year ending June 30— | Net losses | Net addi- tions to reserves after losses | Annual dividends unpaid |
|-------------------------|---------------|---|-------------------------------|-------------------------|----------------------|---|-------------------------------|
| 1935..... | | \$105,000 | (¹) | 1942..... | \$1,723,000 | \$3,277,000 | \$3,000,000 |
| 1936..... | | 3,739,000 | \$3,000,000 | 1943..... | 444,000 | 8,741,000 | 3,000,000 |
| 1937..... | \$2,600 | 4,391,000 | 3,000,000 | 1944..... | 294,000 | 7,873,000 | 3,000,000 |
| 1938..... | 103,000 | 4,890,000 | 3,000,000 | 1945..... | ² 3,200 | 8,213,000 | 3,000,000 |
| 1939..... | 281,000 | 5,158,000 | 3,000,000 | 1946..... | ² 147,000 | 9,857,000 | 3,000,000 |
| 1940..... | 1,005,000 | 5,338,000 | 3,000,000 | | | | |
| 1941..... | 2,067,000 | 5,768,000 | 3,000,000 | Cumulative..... | 5,740,000 | 67,350,000 | 33,000,000 |

¹ Dividends amounting to \$3,035,000 were paid by the Corporation covering the year ending June 30, 1935.

² Recoveries exceeded losses.

Source: Annual Reports of the Federal Savings and Loan Insurance Corporation.

Mr. BROWN. Did we not reduce the premium for insurance last year?

Mr. BODFISH. Yes; you reduced the premium and the Senate agreed with you and the President vetoed the bill.

Mr. SPENCE. It went through both bodies by unanimous consent.

Mr. BODFISH. Yes. The President had a veto message and he had a constructive and clear point. In his message he indicated that there was no plan or proposal for the retirement of the Government capital in the insurance corporation. It was that time that the administration was making plans to retire Federal Deposit Insurance Corporation

capital, and he stated as his objection the fact that we did not have a plan or proposal to retire the insurance capital, where we have \$100,000,000. So when we put it in this, we propose to start the retirement of the insurance corporation capital, and Mr. Wolcott's bill here will retire \$26,000,000 immediately, and over the next 7 or 8 years would retire the balance. We think we can get the bill approved by the President. We have consulted with several of his advisers. We do not have commitments, of course.

The CHAIRMAN. The purpose of this is to meet that objection.

Mr. BODFISH. That is right.

The CHAIRMAN. Is this capital now held by the Treasury or is it raised by the Reconstruction Finance Corporation?

Mr. BODFISH. It is held by the Reconstruction Finance Corporation. It is one of the assets that was transferred, I think in 1939, when the assets of several Government corporations were transferred from Treasury to Reconstruction Finance Corporation. It was originally held by the Treasury. But it is technically in the Reconstruction Finance Corporation assets now.

The CHAIRMAN. Has there been any change from the original law in that respect?

Mr. BODFISH. No.

The CHAIRMAN. The original law, section 6 (e), provided that the Reconstruction Finance Corporation Act be amended by striking out the words "War Finance Corporation Act," and inserting in lieu thereof the words "Reconstruction Finance Corporation Act."

For such purposes hereby allocated and made available to the Secretary of the Treasury out of the capital of the corporation and/or of the proceeds—issued by the Corporation.

The capital of the banks, therefore, has been raised by the Reconstruction Finance Corporation and not raised by the Treasury in direct obligations?

Mr. BODFISH. No. It was subscribed originally by the Secretary of the Treasury either from balances or sale of current obligations. It was in 1938 or 1939 that the stock was transferred to RFC. It was in one of the appropriation measures or a measure adjusting RFC capital and liability. It was one of the measures in which you were doing some things to the Reconstruction Finance Corporation. This stock is by law transferred from the Secretary of the Treasury to the Reconstruction Finance Corporation. But originally, in 1932—

The CHAIRMAN. Well, as of now the capital is made available by the Reconstruction Finance Corporation to the Treasury; the Treasury does not raise this capital by the issuance of bonds or otherwise—direct obligations?

Mr. BODFISH. I assume that is correct. That is, the Reconstruction Finance Corporation obligations are handled by the Treasury.

The CHAIRMAN. We have authorized the Treasury to reimburse the Reconstruction Finance Corporation for this capital; have we not?

Mr. BODFISH. Not to my knowledge.

The CHAIRMAN. In reducing the amount which the Reconstruction Finance Corporation made available out of the capital which was held by the Treasury?

Mr. BODFISH. I would want to examine that closely. I just do not recall from memory, Mr. Chairman, whether there was a contra-Treasury or Reconstruction Finance Corporation-Treasury transfer of funds or not. Do you happen to recall, Mr. Russell?

Mr. RUSSELL. No.

The CHAIRMAN. Well, I do not think it makes too much difference in this bill. We will have the Reconstruction Finance Corporation Act before us shortly and we want to know by how much we can reduce their borrowing.

Mr. BODFISH. Mr. Russell, Mr. Ferguson, and I will be glad to run that down carefully and get the exact situation and give you a memorandum on it.

The third section of the bill, on page 3, deals with the question of the capital of the insurance corporation.

The insurance corporation started out with an original capital of \$100,000,000 which was furnished by the Home Owners' Loan Corporation. It now has that original capital, as of the end of 1946, plus \$72,000,000 in reserves. We think that \$150,000,000 minimum capital in our insurance corporation is adequate. We have figures that lead us to that conclusion.

With \$150,000,000, we would have about \$2 for each dollar that the Federal Deposit Insurance Corporation has, as the margin against their exposure, or amounts of risk. We would have approximately a \$30 risk for every dollar of capital that we would have at \$150,000,000, whereas the Federal Deposit Insurance Corporation has approximately \$70 of risk for each dollar of capital and reserves, given it in round figures.

Our thinking, in making the suggestion we have made in this section, grew largely out of the proposals with regard to the Federal Deposit Insurance Corporation which involved pegging that fund at a billion dollars, and we feel that \$150,000,000 will leave our fund statistically, at least, about twice as large in relation to the account insured. I do not know who can evaluate with accuracy what the real losses would be if we had another financial catastrophe. It is my personal view that mortgages secured by real estate will work out better over a careful and prolonged liquidation than commercial paper, businessmen's notes, personal obligations, and the like. I personally feel that, given an orderly process of liquidation, we have more secure assets in the insured savings and loan institutions than you will find in the commercial banks. I hasten to admit that we do not have the proportion of cash or proportion of Government paper; but despite that we have about 25-percent cash and Government paper in our insured institutions.

I think there is another thing that is significant in this capital-base and premium-reduction discussion: These institutions have almost 8 percent in reserves against their share of liability. In other words, in a commercial bank the capital cushion, as we call it, is the paid-in capital and the surplus and their undivided profits. In our institutions it is our general reserves. The capital surplus and undivided profits of the national banks of the country, in relation to deposit liability, are about 6 percent at the present time. Our reserves in our

institutions—and it varies with individual institutions, of course—are now approaching 8 percent. That is quite a different situation than that which prevailed 15 or 20 years ago, of course, and we have made tremendous progress in strengthening these institutions. But that is the first line of defense or safety—the capacity of this local management combined with the provision that they have made for losses in the form of reserves in their own institution.

Now, on this question of retiring Government capital in the insurance corporation, this legislation will retire about \$26,000,000 immediately. I think the only difficult question that the committee has to explore in this connection—and I would rather bring it out because we have discussed it before—is this question of the dividends on this \$100,000,000 of capital.

This Federal Savings and Loan Insurance Corporation is the only Corporation which was set up by the Government to deal with a distress emergency situation or a difficult financial situation, in which a cumulative dividend was written into the bill and in which the Government officials sought to make profits. It was proposed and insisted upon by people that were trying to scuttle the legislation originally, and no such provision was written into the Federal Deposit Insurance Corporation Act; there have been no dividends paid the Government or the Federal Reserve System on the \$300,000,000 of Federal Deposit Insurance Corporation stock; there are no dividends in the Reconstruction Finance Corporation picture. The \$200,000,000 that Commissioner Fahey has in the Home Owners' Loan Corporation has paid not one dime of dividends, and there is no dividend provision in the Home Owners' Loan Corporation Act.

Also, these cumulative dividends were to be at the rate at which the Corporation, the Home Owners' Loan Corporation's, bonds were issued originally, which was 3 percent. So technically there has been a 3-percent cumulative dividend going on here now amounting to about \$39,000,000. It has been the source of considerable profit to the Home Owners' Loan Corporation, if we would have to pay that cumulative dividend. Mr. Fahey, 4 years ago, recommended to this committee that the dividend be eliminated, the cumulative feature taken off the statute books, and to put this insurance corporation in line or on the same basis as the Federal Deposit Insurance Corporation and other Government corporations.

The capital which we have from the Home Owners' Loan Corporation at the present time is costing them 1 percent. They are borrowing the money, about a billion dollars, from the Treasury, so what they have loaned us is from a fund, on \$200,000,000 of which they pay no dividend themselves whatsoever, and on the bonds they issued they did pay 3 percent for a time, but which have now been retired and which bond money is costing them only 1 percent, being loaned direct to them by the Treasury.

There is no proposal in the Bricker-Capehart bills to reimburse the Government for the cost or carrying charges of the capital in the Federal Deposit Insurance Corporation. We would like to be treated just exactly as they have been treated. It is a question on which there was some controversy last year, Mr. Spence, at the time your insurance-premium bill was up, and at that time the provision in the Spence bill,

which passed the House and Senate, was that the dividend terminate as of the year of the passage of the bill.

This proposes to put our insurance corporation on just the same basis as that of the Federal Deposit Insurance Corporation and take all income over the \$150,000,000 minimum and use it to the retirement of Government capital. We are paying over \$8,000,000 a year in premiums to this insurance corporation. You would be interested to know that the operating expenses of the insurance corporation have been 4.4 percent of total income. The losses have been 6.8 percent. Or the operating and expenses and losses to total income since the beginning in 1934 have been 11 percent. In other words, our Government Insurance Corporation is charging us a premium that is more than nine times their loss and expense experience.

If you figure those ratios based only on the premium income we have paid and set aside the earnings from the bonds they have had, the operating expenses to premium income have been 9.6 percent, the losses to premium income have been 14.8 percent, or the total operating expenses and net losses to paid premium income have been 24 percent. In other words, while there have been substantial losses in institutions that were unwisely converted from State to Federal charters, in the eagerness of Federal officials, to get Federal charters out—and that is where about 2,000,000 of our principal losses have been—we still have paid our way and paid a premium that is four times the expense and the loss experience to date.

Mr. SPENCE. The President vetoed the bill on the ground that the Federal Savings and Loan Insurance Corporation had insufficient reserves as compared to liabilities. How have those reserves increased in money in the last few years?

Mr. BODFISH. They have been increasing at the rate in excess of \$10,000,000 a year. The President's principal and only point, Mr. Spence, was that there was no provision for the retirement of Government capital, and he was very interested and anxious on that particular point.

Mr. SPENCE. But he did mention the fact I mentioned.

Mr. BODFISH. No; but statistically the thing is very, very strong, and it is much stronger each year and the only other thing I can compare it to is the Federal Deposit Insurance Corporation.

I have here, Mr. Chairman, the operations for the last 4 or 5 years boiled down to the simplest facts possible, their ratios, the assets of the corporation, the additions to reserves over a period of years. I said \$10,000,000, Mr. Spence, last year it was \$9,857,000, the addition to reserves after expenses and losses.

Mr. BUCHANAN. This is a premium payment to the Government?

Mr. BODFISH. That is our premium payment—well, no, that is not quite that. There is a little bond interest in that. There is probably \$2,000,000 of bond interest in it, and there is subtracted from it all the expenses and losses of the year. So it is approximately \$10,000,000 a year, the rate at which it has been increasing, and substantially all out of our premiums.

The CHAIRMAN. Without objection the schedule you have mentioned will be incorporated in the record.

(The schedule above referred to is as follows:)

Selected points of comparison between the Federal Savings and Loan Insurance Corporation and the Federal Deposit Insurance Corporation

| | Federal Savings and Loan Insurance Corporation, as of Dec. 31, 1946 | Federal Deposit Insurance Corporation as of Dec. 31, 1946 |
|--|--|---|
| Benefits: | | |
| 1. Insured amount. | 1. Maximum individual account insurable \$5,000. | 1. Maximum individual deposit insurable \$5,000. |
| 2. Basis of settlement. | 2. Optional with insured individual, a new account in an open insured association; or 10 percent cash, 45 percent in debentures due within 1 year and 45 percent in debentures due within 3 years. | 2. Optional with Corporation, as soon as possible by equivalent deposit in a new bank or another insured bank, or in such other manner as the Board of Directors of the FDIC may prescribe. |
| Corporation's ability to pay benefits: | | |
| 3. Capital and reserve. | 3. Capital \$100,000,000. Reserve \$72,621,000. | 3. Capital \$289,300,000. Reserve \$769,185,000. |
| 4. Approximate insured liability. | 4. \$5,868,000,000. | 4. \$72,700,000,000. |
| 5. Approximate risk per dollar of capital and reserve. | 5. \$33.99. | 5. \$68.68. |
| 6. Amount of insurance fund per \$100 of insured liability. | 6. \$2.94. | 6. \$1.46. |
| 7. Gross annual income, year 1946. | 7. \$10,654,000. | 7. \$130,899,000. |
| Gross coverage: | | |
| 8. Number insured institutions. | 8. 2,496. | 8. 13,550. |
| 9. Total amount of all accounts. | 9. \$6,210,000,000. | 9. \$145,000,000,000. ² |
| Record: | | |
| 10. Liquidations, receiverships, mergers, or settlements involving Insurance Corporation aid to date. | 10. 35, with share liability of \$661,187,000. | 10. 399 with deposits totaling \$505,000,000. |
| 11. Insurance losses as a percent of premium income since beginning of operations. | 11. 14.1 percent. ¹ | 11. 5.9 percent. ³ |
| 12. Insurance losses as a percent of gross income, since beginning of operations. | 12. 6.4 percent. | 12. 4.7 percent. |
| 13. Reserves on December 31, 1946 as a percentage of gross income to same date from beginning of operations. | 13. 85.5 percent. | 13. 91.1 percent. |
| 14. Percentage of total institutions insured that have received Insurance Corporation assistance since beginning of operations. | 14. 1.4 percent. | 14. 2.9 percent. |
| 15. Percentage of insured deposit or share liability in institutions receiving Insurance Corporation assistance to deposit or share liability in all insured institutions. | 15. 1.1 percent. | 15. 0.3 percent. |
| Requirements and Cost of Insurance: | | |
| 16. Entrance requirements. | 16. Unimpaired capital, safe financing policies, good management, and earning ability sufficient to pay a competitive rate of return. | 16. Solvency, adequacy of capital structure, good future earning prospects and good management. |
| 17. Admission fee. | 17. \$400 per million. | 17. None. |
| 18. Premium rate. | 18. $\frac{1}{2}$ of 1 percent until Corporation's reserve equals 5 percent of insured risk. | 18. $\frac{1}{2}$ of 1 percent forever. |
| 19. Basis for computing premium. | 19. Share, deposit, and creditor liability. | 19. Deposit liability. |
| 20. Additional possible assessment. | 20. $\frac{1}{2}$ of 1 percent. | 20. None. |
| 21. Examinations. | 21. At least once a year. Examination costs are paid for by the institution examined. | 21. Once a year. The cost of examination of insured banks is absorbed by the Corporation. |

¹ Loss estimates are made by the Federal Savings and Loan Insurance Corporation.² Exclusive of U. S. Government deposits arising as a result of subscriptions to U. S. Government securities, which deposits are not subject to assessments.³ Loss estimates are made by the Federal Deposit Insurance Corporation and on the assumption that certain further recoveries will be made.

Selected points of comparison between the Federal Savings and Loan Insurance Corporation and the Federal Deposit Insurance Corporation—Continued

| | Federal Savings and Loan Insurance Corporation, as of Dec. 31, 1946 | Federal Deposit Insurance Corporation as of Dec. 31, 1946 |
|--|--|--|
| Requirements and Cost of Insurance —Continued 22. Supervision. | 22. By the Federal Home Loan Bank Administration for federally chartered institutions and by the Administration and State authorities for State chartered institutions. The presidents of the twelve Federal home loan banks act as agents for the Federal Home Loan Bank Administration in supervision. | 22. By the Insurance Corporation and the Comptroller of the Currency for National Banks, and by the Insurance Corporation and State authorities for State Banks. |

Mr. BODFISH. There is one little improvement in the measure that has grown out of our correspondence. On page 3, line 13, and in line 18 also, we suggest that the word "net" be placed ahead of the word "assets." I think present draftsmanship could be interpreted to mean that if we issued debentures in liquidating institutions or in satisfying share-account claims on defaulted insured institutions, that that would increase our amount of assets and we would have to retire all the Government capital out of those debenture funds before we could use the funds for other money. What we really meant was "net assets"; that is, assets minus note, debenture, or bond liabilities.

The CHAIRMAN. Mr. Ferguson has also suggested to me that after the word "which" in line 13 we exclude "exclusive of the proceeds of the issuance of debentures." Do you want to discuss that?

Mr. BODFISH. Yes; that is an attempt to achieve exactly the same thing, and Mr. Ferguson and I have studied the thing further since yesterday, and we concluded that by the mere use of the word "net" we could accomplish the same purpose, and it seemed simpler and clearer.

Mr. FERGUSON. That is right. Either one is satisfactory. I think this is clearer than the others.

Mr. BODFISH. And the word "net" should also go before the word "assets" in line 18.

On page 4, line 14, Mr. Chairman, you will notice the date is established for the change in the premium rate. That is the same date that was left in last year. It is 1946. We certainly have no objection if you gentlemen would rather make the change current, and make it this year instead of 1946. For the benefit of the newer members of the committee, I would like to say in connection with this insurance-premium question our Insurance Corporation has a mutual or assessment feature that is not found in the Federal Deposit Insurance Corporation. The Federal Deposit Insurance Corporation premium is set and determined, and the insured banks have no further liability after they have paid their premium. We are subject, at the option of the Insurance Corporation, if the losses exceed the income, in any year, to an equivalent assessment of one-eighth now, and we would like to have that made one-twelfth. We do not ask the removal of that further protective feature, which again, I think, will make our Insur-

ance Corporation function adequately and more strongly in a crisis period.

Mr. COLE. Mr. Chairman, I would like to ask a question, if I may. The CHAIRMAN. Mr. Cole.

Mr. COLE. The provision on page 2, beginning with line 16 (now in these types of procedures), namely, the provision which provides for the retirement of the stock of the capital, with the cash being held in a fund in the Treasury. That seems a little unusual.

Mr. BODFISH. The precedent for it is in the Farm Credit Administration legislation when the capital of the land banks and Farm Mortgage Corporation was returned to the Treasury. They returned it on the basis that they were in a position, in a crisis period, to have it moved back, if needed without further legislation. Furthermore—

Mr. COLE. How long do you expect that to be held in cash?

Mr. BODFISH. Well, that is the way the Agricultural Act reads. Last year the Spence-Wagner bills, providing for the retirement of Federal Deposit Insurance Corporation capital, had a similar provision. In fairness, I was examining last evening the Bricker-Capehart bills on FDIC capital retirement which this year do not have such a provision.

Mr. COLE. Well, it makes it easier for the associations to obtain their stock, I assume. That is about all?

Mr. BODFISH. Yes; and its notice to the world—

Mr. COLE. It does not require a new statute to authorize it?

Mr. BODFISH. If we should hit a tailspin situation and you needed more capital in these home loan banks in order for them to be able to float their debentures, it would be simple for the Government to put back the capital in that emergency period that had been repaid.

Mr. COLE. I know, but you do not provide the same thing, however, in section 3.

Mr. BODFISH. No. The capital in section 3 does not have any private ownership. That corporation would be like the Federal Deposit Insurance Corporation. The funds that are in there, the billion dollars in the Federal Deposit Insurance Corporation, and this \$150,000,000, are owned essentially by the Government, and there is no claim of proprietorship or private ownership. I want to agree with you personally that I do not have much enthusiasm for those provisions, but some of our people rather like it, and there was the precedent in the Farm Credit Administration.

Mr. COLE. In other words, you pay off the stock or do not pay it off, really. I mean individually, you pay it off.

Mr. BODFISH. Well, you pay it off, but if it starts raining, you can get your umbrella back again.

Mr. MONRONEY. Does that mean the \$150,000,000 will be sterilized, and we pay 2 percent on the \$100,000,000 that sits idle in the Treasury?

Mr. BODFISH. No; you pay no return on it.

Mr. MONRONEY. I mean if we retired it and it went into the general fund, then, we would be eliminated from the 2 percent interest charge that we are paying for borrowed money. This way we set the \$100,000,000 aside and keep on paying 2 percent interest on it?

Mr. BODFISH. Well, you pay 2 percent interest on part of it.

Mr. FLETCHER. It is 2.06 percent that the Government pays for its money on the over-all average.

Mr. MONRONEY. Yes.

Mr. BODFISH. Of course, some of your balances, you pay nothing on.

You will never get Morton Bodfish to make a life-and-death plea to keep that particular line in the bill. I am not criticizing the chairman's bill. That is our draftsmanship and our people and especially several of the home loan bank officers would prefer it that way, but I do not think it is good public policy, frankly. That is my personal opinion, but my people have approved it this way.

Mr. BANTA. Whether it would be possible to retain your umbrella without this authority?

Mr. BODFISH. I think it would be. If we have a financial emergency, and if more capital were needed, and Government and Treasury officials felt it was needed, they should be in a position to act. That is the only thing. I see no reason why it should be held or impounded.

Mr. FLETCHER. In other words, it is the authority they want rather than the cash?

Mr. BODFISH. We do not care anything about the cash being there. All we want is to have the Government officials in position to act in a major Nation-wide financial emergency.

Mr. FLETCHER. Of course, even to that extent, if there ever came a time of emergency, why, they know very well that they would back the institution anyway.

Mr. BODFISH. That is right. I think Representative Banta's point is excellent, the authority is the thing we are interested in. We are not interested in the money being there and being sterilized.

Might I comment on 2800? I have taken more time than I should.

Mr. MONRONEY. Before you leave that, the interest charge of 2 percent is \$2,000,000 a year.

Mr. RILEY. Mr. Chairman, before we leave H. R. 2799, Mr. Bodfish, aren't there building and savings and loan associations which require the setting up of reserves in their local portfolios in addition to the premium they pay to the insurance corporation?

Mr. BODFISH. Yes.

Mr. RILEY. I would like you to comment briefly on that, if you could.

Mr. BODFISH. Yes. We have a rather difficult situation there. We are required, if our institutions are insured, to make certain allocations to our reserves for losses. I think there is an unfortunate thing in the statute in that we are required to build our insurance reserve—that is, the reserve required by the Insurance Corporation statute—up to 5 percent within 20 years. We have no objection to the 5 percent, and we have no objection to 20 years. In the aggregate, we have these reserves up between 7 and 8 percent at the present time. However, the way that thing was written—and the House rejected the idea completely, incidentally, it was put in by the Senate at the instance of Marriner Eccles, and remained in the bill unfortunately—the statute provides that if you do not make your 5 percent in this particular reserve within 20 years, you have to come down here to Washington and get permission to pay a dividend to your savings account holders.

Well, now, that embarrasses substantially a rapidly growing institution. If you take an institution that is doing a large volume in GI loans or something of the kind, and getting the savings that are adequate to make those loans in volume, their percentage of reserves, even though they have made substantial allocations, is low. We would

much rather see the Congress touch up that reserve requirement so that we had to put 15 percent of our net each year, which over the period would amount to more than is required now, but it would not put us in the hands of the Federal authorities if we happened to grow rapidly at one point and kept on doing business, to the point where we would have to come down here to get permission to either pay a loss out of that reserve or pay a dividend if we charged any losses to that reserve. It is a Government control of this particular reserve requirement that is turning out to be awkward for some of the rapidly growing institutions.

Mr. RILEY. What is the reserve that the commercial banks or national banks are required to have? Do you happen to know?

Mr. BODFISH. I do not happen to know. Mr. Russell tells me it is 10 percent. We have been putting about 30 percent of our net earnings into reserves in recent years, and we prefer to have a requirement of 15 percent, and the national bank requirement is 10 percent. But we do not like having to make the certain percentage within a rigid period of time, because a rapidly growing institution finds its ratio down even though it has done a first-class job and made a generous allocation to reserves. But our reserve position generally is very strong, Mr. Riley, as you know.

Mr. RILEY. Yes.

The CHAIRMAN. All right, Mr. Bodfish.

Mr. BODFISH. H. R. 2800 is just a thing that this committee has acted on before. It was in the bill in 1940. You have also been quite willing to authorize our institutions to make property improvements, alteration, and repair loans. But due to the happenstances on the other side, the legislation has never gone through, and this provision is a little different than the draft that passed the House in 1940 in that it authorizes our federally chartered associations to make them either with the title I Federal Housing Administration insurance or on our own account and at our own risk. Frankly, we rather move in the direction of getting away from the use and dependence on Government guaranties rather than increasing the use of them.

I do not think there will be any criticism or objection to this particular power; and really, gentlemen, it is long overdue; and it is not a fault of this committee or the House of Representatives that it has not passed. It has been due to a situation in the Senate and in our agencies.

Mr. BUCHANAN. Has the President ever vetoed that?

Mr. BODFISH. No; this has always gotten bogged down in the Senate or it has been enmeshed in the wars between the housing agencies that we had around here several years ago when we were feuding and fighting over private housing and public housing, guaranteed loans versus nonguaranteed loans, and the like.

Mr. RILEY. Mr. Chairman.

The CHAIRMAN. Mr. Riley.

Mr. RILEY. Mr. Bodfish, they would enable the home owners to make minor repairs and carry the obligation with the same insurance that holds the mortgage without going to the expense of drawing a new mortgage?

Mr. BODFISH. That is right. The expense and the delay.

Mr. RILEY. And the delay?

Mr. BODFISH. That is right.

Mr. RILEY. Or going out and financing it through other institutions?

Mr. BODFISH. That is right.

Mr. RILEY. It would be a big boon to the home owner, would it not?

Mr. BODFISH. I think the benefits are entirely to the home owner, because it makes the additional loans very simple, when he wants to make them for repairs and improvements, and makes them inexpensive. It means that a GI, for example, who got his loan at 4 percent, with practically no cost, could borrow additional funds at 4 percent if it was for repairs, improvement, or alteration. If he went over to one of the short-term credit operations or borrowed four or five hundred dollars, he would probably pay anywhere from 12 to 36 percent for it.

Mr. BROWN. You limit the loan to \$1,500?

Mr. BODFISH. As far as the property improvement, repair, and modernization. We also limit this, Representative Brown, to 15 percent of the association's assets. We think our assets ought to remain largely in Government bonds and cash and mortgages, predominately home mortgages, of course.

The CHAIRMAN. Mr. Bodfish, there is something in this language which bothers me. It states, "Notwithstanding any other provisions of this subsection," which is subsection (c) of section 5, "except the area eviction, such associations may invest their funds in title I, Federal Housing Administration loans, loans guaranteed or insured, as provided in the Servicemen's Readjustment Act," and so forth.

Subsection (c) has to do with the sale of paper held by the Administrator. He may sell the paper subject to approval of the Treasury.

Mr. BODFISH. Mr. Chairman, this is in subsection (c) in the Home Owners' Loan Act instead of the Federal Loan Bank Act. This section provides for the chartering of the Federal savings and loan associations, which is section 5 of the Home Owners' Loan Corporation Act rather than the Federal Loan Bank Act.

The CHAIRMAN. There are no Federal Housing loans, are there? They do not make the loans; they guarantee them?

Mr. BODFISH. Well, we use their forms and their applications. I do not suppose technically they are loans. I suppose clearly they are loans insured under title I of the act.

The CHAIRMAN. What do you mean by the present Federal Housing Administration loans?

Mr. FLETCHER. Loans which were insured under title I is what he means.

The CHAIRMAN. Yes.

Mr. BODFISH. Yes; I think that would be a substantial improvement in the draftsmanship.

The CHAIRMAN. Would that not be a little ambiguous?

Mr. BODFISH. I think you are entirely correct, and I feel a little embarrassed about it because I have spent a lot of time saying that the Federal Housing Administration did not make loans, but insured mortgages.

The CHAIRMAN. I know you did. That is what confused me.

Mr. FLETCHER. Mr. Chairman, for the record I think it ought to be said that there is a great backlog of work to be done, remodeling houses, and so on, which would find this particular bill very useful, because of the ease and the low cost of financing of improvement and remodeling work which has to be done on houses which have foregone that work because of the war period.

Mr. BODFISH. Mr. Chairman, does the committee understand the odd language in 6 and 7? The reason we have to say, "notwithstanding any other provisions," is that the other provisions of that subsection require a first-lien mortgage, title search, and all that sort of thing. This lifts it out from under it but does not take off the 50-mile limit as far as our operation is concerned.

The CHAIRMAN. Do you want to clarify that in any way, that language?

Mr. BODFISH. Well, I think that is about the clearest way. It reads all right when you attach it to the statute, but just reading it by itself, it does seem awkward because the section previously has a number of limitations that they must be first liens, and that sort of thing.

We can do a large volume of business under this.

The CHAIRMAN. In the existing law, where is it?

Mr. BODFISH. We would like particularly to see this thing expedited, as well as these others, Mr. Chairman, because we have missed a great business opportunity, which was an opportunity to serve our home owner borrower, by not having the authority to do it. Our institutions, which are doing half the home-mortgage business in many communities, should have the authority to make improvement and repair loans, which we have not had except with the cumbersome and costly mortgage and title procedure. And again I say it is not the fault of this committee or the House of Representatives.

I think that is all, unless there are questions, Mr. Chairman.

The CHAIRMAN. What you want to do is get the authority to make repairs which are insured under title I?

Mr. BODFISH. Or to make the same size loans and to take the risk ourselves. We hope ultimately to do that kind of business without using title I insurance. So it really provides for them either under title I or at our own risk. Incidentally, I think the banks would be wise to carry their own risks. It is relatively safe business; they have had a very low experience; and I think all we financial institutions ought to learn how to take our own risks instead of using Government guaranties as much as we have.

Title I has done a great job and is one of the great parts of the Federal Housing Administration machinery, but maybe it is one that can go by the board someday.

That is all I have, Mr. Chairman.

I think there is one of the Government guaranties that is very profitable business for the banks; it is very satisfactory business for our State-chartered institutions. I think their loss experience with the Federal Housing Administration is something like half of 1 per cent of the amount loaned.

The CHAIRMAN. All right, Mr. Bodfish.

Mr. KREUTZ, could you be here this afternoon at 2:30?

Mr. KREUTZ. I would be very glad to; yes, sir.

The CHAIRMAN. I understand you cannot be here tomorrow; is that correct?

Mr. KREUTZ. I should not be here, Mr. Chairman, but if the committee would prefer, I could arrange it. But I should not be here tomorrow.

The CHAIRMAN. Well, I understand that there is a general debate on the floor this afternoon, and I shall try to get permission to sit

this afternoon, and if we have time this afternoon, following Mr. Kreutz' testimony, I should like to take up the committee print of the Lanham permanents legislation, which we have been discussing in executive session.

Mr. BODFISH. Thank you very much, gentlemen, for your time.

(Whereupon, at 12:30 p. m., the committee recessed, to reconvene at 2:30 p. m.)

AFTERNOON SESSION

Present: Mr. Wolcott (chairman), Mr. Gamble, Mr. Kunkel, Mr. Talle, Mr. Sundstrom, Mr. McMillen, Mr. Cole, Mr. Stratton, Mr. Banta, Mr. Fletcher, Mr. Foote, Mr. Spence, Mr. Brown, Mr. Folger, Mr. Riley, Mr. O'Toole, and Mr. Buchanan.

The CHAIRMAN. The committee will come to order.

Mr. Kreutz. Mr. Kreutz is the executive manager of the National Savings and Loan League.

You may further identify yourself if you care to, Mr. Kreutz, and proceed in any way you see fit.

STATEMENT OF OSCAR R. KREUTZ, EXECUTIVE MANAGER, NATIONAL SAVINGS AND LOAN LEAGUE

Mr. KREUTZ. My name is Oscar R. Kreutz. I am executive manager of the National Savings and Loan League, which has some 500 member savings and loan associations in 39 States, with assets of about \$1,700,000,000, and they include many of the soundest, largest, and most progressive associations of the country.

I very much appreciate this opportunity to appear before this committee, and particularly do I appreciate your courtesy in letting me come back this afternoon instead of tomorrow morning, which would have been very difficult indeed.

First, Mr. Chairman, I should like to confirm an understanding I have, that inasmuch as these three bills are introduced to get the subject before the committee the similar bills now pending in the Senate may be considered by this committee.

The CHAIRMAN. The whole subject is wide open, Mr. Kreutz.

Mr. KREUTZ. Very good. And I understand, on that point, that these Senate bills that are to be put in the hopper in the House, probably today, would have been put in earlier but for the fact that the Congressman who will introduce them has been so busy.

I want to say that with the broad objectives of these bills which you have for consideration today we are in complete accord. There are some points—about two of them, in particular—which I would like to discuss with you—some difference which I would like to point out and explain the reasons for those differences.

With respect to H. R. 2800, I may say we are in complete accord both with the principle and with the provisions of the bill.

In regard to H. R. 2798, a bill to permit the conversion of Federal savings and loan associations to State charters, there is now pending in the Senate S. 913, which is to be introduced in the House as well, and to which I would like to draw your attention. However, I should like to say that the principle of a two-way street—to permit the conversion of these associations either from State charter to Federal charter or from Federal charter to State charter—is one which was

enunciated by the Federal Government, and often insisted on by the Government, in dealing with State authorities.

As a matter of fact, for some years I served in the Federal Government, and as deputy general manager of the Federal Savings and Loan Insurance Corporation, and later as its general manager, it was my duty to confer with State authorities and to recommend the adoption of State legislation to permit the conversion of these associations. We believe thoroughly in that principle.

Now we are committed, for certain reasons which I will mention, to support S. 913, a copy of which I believe you have before you, or will have before you, and a copy of which will be introduced in the House.

That bill was drafted after considerable discussion with its authors in the Senate of the principles involved. They felt that there was a certain safeguard, which was necessary and desirable, from the standpoint of the Government and its investment in the capital stock of the Insurance Corporation, and from the standpoint of the insured members of these corporations as well.

The purpose of S. 913 is to place a converted Federal association, when it commences operations as a State association, on the same basis and subject to the same obligations, and with the same rights, as a State association located in the same State and presently insured by the Federal Savings and Loan Insurance Corporation.

I want to point out how it is designed to do that. First I should say that, in our opinion, these two bills, H. R. 2798 and S. 913, are not unlike, except in one fundamental respect, and that is an important difference. The last paragraph of S. 913 provides that the Insurance Corporation shall approve such conversions, except under two conditions: One, when the members of the association, after conversion, will not share in the assets in the event of dissolution in exact proportion to their relative share of credits. That particular clause is included in other language in H. R. 2798, so there is no use in discussing that.

The second clause, however, which reads:

When the association, as the result of conversion, would fail to fulfill the standards of insurability prescribed by title IV of the National Housing Act.

Now, that particular clause was inserted in this bill in order to provide a means whereby the Federal Savings and Loan Insurance Corporation could obtain, from a converting association, special agreements under which it would operate after conversion, and which agreements would subject it to the same kind of provisions contained in agreements which are entered into by State-chartered associations in those States when they get insurance.

I will explain that further. In Maryland there is no statutory supervision of these savings and loan associations. Therefore, in Maryland, the Insurance Corporation, in order to obtain certain protection for itself, asks these associations to enter into special agreements which take the form of bylaw amendments, under the provision of which they adopt certain restrictive standards which are similar to the Federal charter, which we know as charter K.

That particular method gives to the Insurance Corporation, therefore, a substitute for State supervision and regulation which does not exist in that State. Similarly, in some 26 States there are no limitations on the percentage of appraisal which the State-chartered associa-

tions may lend. In those States the Insurance Corporation obtains official arguments from associations applying for insurance which provide that they will limit their lending percentages to, say, 80 percent.

Now it is true that in H. R. 2798 there is a provision, on page 2, beginning with line 18, which would appear to bind the converting association to the agreements contained in the original application and to section 403 of title IV of the National Housing Act. However, neither the application for insurance, which was executed by the Federal association, nor title IV of the National Housing Act contains agreements of the kind which the Insurance Corporation obtains in these various States, as I have described.

As a means of obtaining special agreements, or, rather, as a result of obtaining special agreements of that kind, it has been possible for the Insurance Corporation to obtain insurance of accounts to such associations at the time instead of having to postpone the matter indefinitely.

In discussing the principles involved in this conversion question, as I said, it was the desire of the authors over on the Senate side that a provision of this kind be included. I bring it to your attention now because I feel that it is something you would want to have brought to your attention, and you might want to do something about it. We believe thoroughly in the principle of a two-way street on conversion, and believe that a conversion bill should be passed by Congress and made a part of our statutes.

Now, unless you have some questions, Mr. Chairman and gentlemen, with regard to H. R. 2798 or S. 913 in the light of my comments, I will be glad to pass on to a discussion of 2799.

The CHAIRMAN. Are there any questions of Mr. Kreutz with respect to 2798?

Mr. RILEY. Mr. Kreutz, on page 3, in the second paragraph, the fact that they are now members of the Federal Home Loan Bank and the Insurance Corporation would tend to show that they fill the bill. Would it not be better to have some language in there that would add such agreements as State associations now members of the Insurance Corporation, or something to that effect, rather than to have wording like this?

Mr. KREUTZ. That might do it, Congressman Riley, and we discussed the problem at some length and found it a little difficult to get language that would do just that. In other words, it would give the Insurance Corporation, in those various States, the same agreements.

Mr. RILEY. This would seem to leave considerable discretion to the Federal authorities as to whether they could fulfill those requirements, or they might make them so difficult that they could not fulfill them. I think these associations ought to be left largely to the majority of the shareholders to operate them as they see fit within the frame work of the law.

Mr. KREUTZ. That is a very good point. And we certainly think that the associations should be run by their shareholders, and that the supervision of these associations should be with full consideration of the rights of the shareholders. And, also, that only as required by acts of Congress should the supervisory authorities extend their powers in the supervision of these institutions.

Mr. FLETCHER. Will the gentleman yield for a question?

Mr. RILEY. Yes.

Mr. FLETCHER. If I understand you, Mr. Kreutz, you believe that the language in S. 913 covers it better than the language in H. R. 2798, relative to the standards of insurability?

Mr. KREUTZ. We think that H. R. 2798 would not, as it now reads, give the Insurance Corporation any means of obtaining a special agreement from a converting association in one of these States where there are some deficiencies in the State laws. §. 913 would give the Insurance Corporation that means.

Mr. FLETCHER. Well, the language on page 2 of H. R. 2798, line 21, reads: "By such conversion shall accept and be bound by all agreements required by section 403 of title IV of the National Housing Act."

Mr. KREUTZ. Yes, sir.

Mr. FLETCHER. Does that not say substantially the same thing as on page 3, subsection 2?

Mr. KREUTZ. I believe not, because the agreements required by section 403 of title IV do not include these things that I was referring to, which are obtained by the Insurance Corporation in order to overcome a local deficiency.

Mr. FLETCHER. I see.

Mr. KREUTZ. Now it may be argued, and has been argued, in fact, that the Insurance Corporation has no authority, really, to get these special agreements to cover situations of that kind. I recall that we used to have that pointed out to us occasionally, but the fact is that through the use of such special agreements it was possible for the Insurance Corporation to make certain institutions insurable which otherwise, by the standards laid down by the Act of Congress, would not have been insurable.

Mr. FLETCHER. I see your point. Now, is it true, however, that if at any time the Insurance Corporation should not feel that a building and loan, or savings and loan, association was operating under laws that gave the necessary safety for them to insure, they could withdraw that insurance? Can't they do that?

Mr. KREUTZ. Mr. Fletcher, that is an interesting question because that is exactly the question I put to one of the Senators, whose name is on this Senate bill, because the objection to this particular clause had been filed with us by the State supervisor who wanted no restrictions of any kind. And in discussing it with him I said that if he saw fit to withdraw the provision from the draft I didn't know as our people would object at all. They wanted a conversion bill. But then I asked him that same question, and his reply was: "What about the individual shareholder who, in the event of cancellation of insurance by the Corporation in order to protect itself, would be left high and dry and without the benefit of insurance?"

Mr. FLETCHER. Well, of course, he is protected.

Mr. KREUTZ. For a period of time.

Mr. FLETCHER. In accordance with the clause of insurance.

Mr. KREUTZ. Yes, sir.

Mr. FLETCHER. And the mere threat of withdrawal of insurance should be sufficient to get most any kind of agreement they might want, it would seem to me. If I understand you correctly, this subsection 2 was put in here to satisfy a certain Senator, or a certain Senator's

feeling that that would make it a better bill, but not because you personally think it was necessary; is that right?

Mr. KREUTZ. Not only that. I am representing the views, as well, on this point, of our people who studied the whole question and who felt that there ought to be some provision of this kind as a protection to the Insurance Corporation. And they felt, in the discussion of it, that the soundness of the corporation, and its protection, were of fundamental importance to their institutions since it insured accounts of their members, and they did not want to see it unduly threatened with a risk that could be avoided rather easily. So I want to correct the impression I may have given, unintentionally, that this particular clause was put in there only because the Senators who introduced the bill on the other side wanted it. It was also desired by some of our people who felt it was important to the corporation.

Mr. FLETCHER. Will there be an objection to it that you can see?

Mr. KREUTZ. No; as a matter of fact, I feel that the clause would not interfere in any way with the free conversion of 99 out of a hundred Federal associations in the country that want to convert. Some associations, in converting, who are located in some of these States, in order to be on the same basis, after conversion, as the State associations that are insured in those States would be required to execute these special agreements through the adoption of special by-law provisions.

Mr. BROWN. What States do you have reference to?

Mr. KREUTZ. Well, I mentioned Maryland as one State where there is no statutory provision for regulation, supervision, and so forth. I did not have Massachusetts in mind. There are 26 States, and I would be glad to submit a list of those States to the committee, where there are no limitations on the percentage of appraised value which the associations can lend.

Mr. FLETCHER. Do you think that in the execution by the Federal home-loan bank of that subsection 2, that they might be arbitrary or capricious and say, that, as a result of conversion, certain associations would fail to fulfill the standards?

Mr. KREUTZ. All I can say on that, Mr. Fletcher, is that Commissioner Fahey, testifying on this bill before the Senate committee on May 1, took vigorous exception to the bill because he felt it did not give them any real power to control or restrict conversions, and that it was a wide open bill.

Mr. FLETCHER. Referring to S. 913?

Mr. KREUTZ. Yes.

Mr. BROWN. We now have about three times as many State charters as Federal charters. I feel that the people who control the stock should control the association.

Mr. RILEY. I do not think there is any objection to that, Mr. Brown, but I think that the standards for converting back to the States ought to be set out in this bill and not be discretionary with the Federal officials. That is one of the purposes of the bill, as I understand it: To give the shareholders the right to say whether or not they want a State charter or a Federal charter. I do not know of any association that wants to convert back to a State charter, but I certainly think they ought to have that right if the time comes when they want to do it.

Mr. KREUTZ. I think so, too.

Mr. GAMBLE. Are there some who want to convert back to a State charter?

Mr. KREUTZ. Very few. There are just a few in the country that are toying with the idea. I doubt if there would be very many. On the other hand, I think it is a right which I think these associations ought to have. And if their shareholders want to convert back to State charter they ought to be able to do it.

Mr. BROWN. I think there are a lot of them who want to, myself. I know there are some in my State who want to. A lot of associations under Federal charter want to go back to State charter. Now we have over three times as many State charters as Federal charters in the United States, but in my State there are twice as many Federal charters as State charters, and they are dissatisfied with them.

Mr. GAMBLE. If you got a lot of conversions of Federal associations back to State associations might you not run into the difficulty of somebody who has charge of the Federal situation seeing his empire slide out from under him and put out objections to the reconversion?

Mr. KREUTZ. That is possible.

Mr. GAMBLE. It is very possible.

Mr. KREUTZ. Yes, sir.

Mr. FLETCHER. May I ask a question?

According to the terms of S. 913, it would be impossible for an association to convert back to a State charter unless the Federal Savings and Loan Insurance Corporation allowed them to; is that right?

Mr. KREUTZ. Well, the bill says that the insurance corporation's approval shall be obtained, but it goes on to say that the corporation shall approve, except under these two conditions which are set forth.

Mr. FLETCHER. Suppose they want to convert back without insurance to a mutual State association? If the stockholders want to go that way, I do not think we should compel them to take Federal insurance. Now, I know some of the finest institutions in the country, and I am sure you do, I can think of one offhand that you are familiar with, in Santa Barbara. One of the finest institutions in California, which I know does not have any Federal insurance. Who are we to say that insurance is the final answer? An association may wish to build up its reserves to the point where it is able to carry its own insurance, in a sense. I do not agree that we should compel them to continue insurance if they want to do without.

Mr. KREUTZ. We certainly would agree with that.

Mr. FLETCHER. Does this bill require it?

Mr. KREUTZ. No; they could terminate insurance, under the act. That is set forth specifically under the act.

Mr. FLETCHER. By terminating the insurance, could they then convert back to a State association?

Mr. KREUTZ. They would have to convert first, because a Federal association cannot terminate insurance.

Mr. FLETCHER. I see. First they would have to convert and then terminate their insurance?

Mr. KREUTZ. Yes, sir; or it could be done practically concurrently.

Mr. FLETCHER. And you see no reason why that could not be done?

Mr. KREUTZ. No, sir; I cannot. And certainly they should have that right. There are many fine institutions whose accounts are not insured.

Mr. GAMBLE. May I ask another question? Is there anything in H. R. 2798 that you object to and, secondly, would it not be easy to amalgamate these two bills into one without hurting the bill or its objective?

Mr. KREUTZ. Well, I would certainly think it could be done. The only point I would make is that our group, in studying the question, and then later the Senators who introduced the bill originally in the Senate, felt a provision of that kind was desirable, and in some cases might be very important.

Mr. GAMBLE. Because we do not always agree with the other body?

Mr. KREUTZ. Yes, sir.

Mr. FLETCHER. Do you think we might lift subsection 2 right out and put it in H. R. 2798?

Mr. KREUTZ. You certainly could lift the principles of it.

Mr. GAMBLE. Exception 1 is in there in different language, is it not, down at the bottom of page 2?

Mr. KREUTZ. Yes, sir.

Mr. GAMBLE. But the second exception is not in H. R. 2798?

Mr. KREUTZ. That is correct. That is the one fundamental difference. There are some other differences which I do not regard as basic, such as the provision in H. R. 2798 that conversion shall be effective upon approval by the State authority. S. 913 provides that conversion shall be effective upon cancellation of the charter, by the Federal Home Loan Bank Administration, but it then goes on to say that the charter shall be canceled immediately after approval by the Insurance Corporation, so that that becomes automatic.

Mr. KUNKEL. In other words, your idea is to take H. R. 2798 and work it out in conference?

Mr. GAMBLE. No; I was thinking whether he had any objection to 2798 and what he would add to it from S. 913 here.

Mr. KUNKEL. What I thought you meant was for us to take it to conference and leave the decision on this controversial provision to be decided by conference.

Mr. GAMBLE. I had not gotten that far, Mr. Kunkel, I was thinking about the action here.

The CHAIRMAN. Mr. Kreutz, I think Mr. Fletcher brought out a very important point: That the Insurance Corporation would prevent the conversion if, in their judgment, it was held that, as a result of the conversion, they would fail to fulfill the standards of insurability prescribed, and if the shareholders decided on conversion, and they did not want insurance, then, they could not convert, under those circumstances; is that not correct?

Mr. KREUTZ. Well, let us put it another way: I can hardly conceive of the Insurance Corporation refusing to carry out a mandate of the Congress in a matter of this kind.

Mr. KUNKEL. You have more faith than I have.

The CHAIRMAN. I might say that this committee, up to the present time, principally has not had the time, and I do not know if it will have the time or not—at least, we are all belabored to bring on some legislation to oust Mr. Fahey because he has not followed the intent of Congress with respect to a California matter. I do not know whether we will take up the legislation. The committee will have to decide

whether we will or not. So we are under an obligation to make our intent very clear.

Mr. KREUTZ. Well, I felt it my responsibility to bring this point to the attention of the committee together with the reasons for it. You are very well able to reach your own conclusions about it, and I will not attempt to try to superimpose my judgment on yours in a matter of that kind.

The CHAIRMAN. Is it your judgment that under H. R. 2798 they could convert without meeting these requirements or standards of insurability? And then, if they later met them, could they get insurance again?

Mr. KREUTZ. You are assuming now that there would be cancellation of insurance because of some situation there?

The CHAIRMAN. As I understand H. R. 2798, if they meet the standards when they reconvert, the Insurance Corporation must insure them as they insure any other State-chartered organization, and the eligibility for conversion is not predicated upon the eligibility for insurance?

Mr. KREUTZ. No.

The CHAIRMAN. There might be a period of time, during the time when their Federal charter was canceled and until they took up their State charter, when they would not be insured. Assuming there was such a case, and assuming that they later put themselves in a position to be insured, the Federal Insurance Corporation would have to insure them the same as they would any other State organization?

Mr. KREUTZ. Oh, yes; they would. I say it is conceivable that an association converting under the provisions of 2798 would be threatened with cancellation of insurance by the Corporation for certain reasons, and that, in fact, insurance might be canceled. In which event, of course, there might be considerable hardship to the association and to its members, but, on the other hand, in time, the association conceivably could correct the conditions complained about by the Insurance Corporation and again qualify for insurance, if it were of such a mind.

The CHAIRMAN. We are up against the fact that a federally chartered institution cannot cancel its insurance.

Mr. KREUTZ. That is right; a Federal association cannot.

The CHAIRMAN. I have in mind similar questions which have been before this committee, in the Banking Act of 1935—we never did quite overcome it until about 3 years ago—where an attempt was made to blanket all commercial and savings banks under the Federal Reserve, with the idea that the Federal Reserve Board would be politicalized and that all banks then would be under the political domination of some bureau here in Washington. The means they had of bludgeoning banks into the system was the provision that they would not be eligible for insurance under the Federal Deposit Insurance Corporation unless they came into the Federal Reserve. They gave them 2 years in which to do that, and at the end of that 2 years we postponed it for another 3 years, then we postponed it for another 2 years—I do not know how often we did it—but 3 years ago we got rid of that requirement and broke up that attempt. I certainly want to be very careful that we do not set that thing up again here and have to spend the next 10 years trying to get rid of it.

There is no intention of disbarment on the Federal Reserve, because we prevented the Federal Reserve being placed in a position where it could be dominated. But the attempt was made to politicalize it, and placing control of credit under the political domination of a Federal bureau. We would not do it, but we had not quite got rid of it until we removed the requirement that a bank must be in the Federal Reserve in order to participate in the Federal Deposit Insurance Corporation insurance, which we did 3 years ago, as I recall. It took us a great many years to get rid of that provision. Do you not think that so long as we give the Federal bureau the discretion as to whether an association should convert from a Federal to a State charter, that, in keeping with their hesitancy to go ahead with their side of this agreement, that we can expect that they are going to raise obstacles to prevent those conversions? That is what I am a little fearful about.

Mr. KREUTZ. I think there should be no interference with the conversion of a Federal association which, after conversion, would be in the same situation with respect to its obligations as is a State-chartered association in the same State.

The CHAIRMAN. Are there further questions on this bill?
I think you said H. R. 2800 was satisfactory?

Mr. KREUTZ. Yes, indeed; very satisfactory. I understand there would be a little change in the language there, brought out in the discussion this morning. That is a thing which our people have been very much interested in obtaining.

The CHAIRMAN. You mean with respect to the investment of the funds, and so forth?

Mr. KREUTZ. Yes, sir; authority for Federal associations to make these title I loans, and the majority of our people are in favor of authority to make unsecured loans up to certain limits, and \$1,500 would be very satisfactory. Many States have given to State-chartered associations that kind of authority, and we think it is very proper for the Congress to give Federal associations the same authority.

The CHAIRMAN. I think we are all in agreement as to what your organization and the Federal Savings and Loan League wanted to accomplish. It was a question of finding the language to do it.

Mr. KREUTZ. Yes, sir.

Now, Mr. Chairman, as to H. R. 2799, we find a problem which is a bit more difficult. It would be a little easier if the bill were divided into two parts—that is, if there were two bills instead of one—the first part—that is, sections 1 and 2—dealing with the requirement of the Government-owned stock in the Federal Home Loan Bank System, as you know. On that particular point we have polled our membership as to their views, and a majority of them would favor the continuation of the present provision of the act, which would mean a slower retirement of the Government ownership of stock in the Bank System. They favor it at least for the time being, and they feel that in these times when there is a very heavy call on these institutions for funds with which to finance GI loans and home purchases, the Bank System should not be weakened by a reduction such as has been proposed of its capital stock to \$150,000,000. Our people feel that while the objective is most desirable, and we agree with it wholeheartedly, the timing of it might be a little difficult, might create some difficult problems.

In addition, they do not favor being required to increase their ownership of stock in the Bank System at this time from 1 percent to 2 percent.

It would entail, in the aggregate, a very substantial investment by the institutions of the country, and they would rather not have to do it just now, and feel that the language of the original act is reasonable language in that regard, which, as you may recall, provides that when the stock of the member institutions in any bank equals the stock owned by the Federal Government, then, 50 percent of the sum received in the sale of new stock by the bank from the members be used to retire the Government stock, and our membership has instructed me to advise you that they like that provision for the time being, and would like to see it continued.

They also raise the question of the effect of a substantial reduction of this kind in the stock of the Home Loan Bank System upon the ability of the System to market its debentures—a very important question. And I want to submit, on that point, their views in opposition to sections 1 and 2 of H. R. 2799.

Now, I would like to discuss the last part of H. R. 2799, and I would like to state that the reduction in the premium rate is past due. A year ago we had the privilege of testifying before this committee—many of you were present at that time—in support of Mr. Spence's bill, H. R. 4428, which, as you heard this morning, was actually passed by both Houses and then vetoed by the President. There was some confusion, we think, over the matter of reserves of the Insurance Corporation, which was partially responsible for the veto of your bill.

The act requires that the individual insured association shall accumulate a Federal insurance reserve of account until that account equals 5 percent of its insured liabilities, and the regulations provide that annual allocation shall be made to that account in a minimum amount. Insured associations over the country have reserves considerably in excess of the statutory requirement, based upon the time which they have run. Their aggregate reserves will run 7 to 8 percent, which is considerably more than the ultimate reserve of 5 percent required by the statute.

Now, there is another provision in the act which says that when the Insurance Corporation's own reserve equals 5 percent of its insured liabilities, then, it shall cease collecting insurance premiums from these institutions. Well, it is those two reserves which apparently got confused and it was that confusion which, we think, had something to do with the President's veto of the bill. But there is the other factor which was mentioned this morning, and that is the matter of some plan for retiring the stock of the Insurance Corporation, and, as we testified a year ago, we are very much in favor of retiring the stock of the Insurance Corporation as soon as it can safely be done.

We suggest, and there is incorporated in S. 1149, a provision for the retirement of the stock of the Insurance Corporation, not by applying the amount in excess of net assets of the Corporation above the amount of \$150,000,000, but in applying, instead, 25 percent of the net income of the Corporation, after losses and dividends, if any. We recommend that as being a more feasible plan, and a safer plan, from the standpoint of the Government and from the standpoint of the system of assured associations.

At first blush that might seem to you like a provision that would take an awfully long time to be effective, because the net income of the Corporation this year will be little over \$10,000,000, and obviously 25 percent of that would be only \$2,500,000 a year. It would appear, therefore, that it would take 50 years to retire the stock of the Insurance Corporation under this formula. But I have had some discussions of the matter with people in the Government, and, because of the rate of growth of these institutions, and, therefore, the projected increase in annual income of the Corporation, one estimate made to me was that it would take only 10 years to retire the stock of the Insurance Corporation on the basis of 25 percent of net income. I would estimate that it would be perhaps closer to 15 years.

Mr. GAMBLE. What would be your estimate on H. R. 2799?

Mr. KREUTZ. The Corporation's assets today are \$180,000,000, which would mean that under that provision there would be some \$30,000,000 of its stock retired immediately upon the effective date of the bill, and assuming the growth of the insured institutions, and, therefore, an increase in the net income of the Corporation, I should say that it would take between 10 and 15 years to retire the stock on that basis. But there would be an inflexibility under that provision which might be a little risky.

Under the net-income formula, you have a flexibility which could be adapted easily to changing conditions, and in addition, the Congress would have an annual review of the Corporation's operations in that it has to come up and get budget approval every year, of its income and its expenses, both of the recurring and nonrecurring type. So there would be an opportunity for the Congress to review the program of the Corporation in retiring its capital stock under an income formula. There would be provided a flexibility which would seem to be desirable.

There is another thing in S. 1149 which we strongly urge, and that is a provision which would authorize the Secretary of the Treasury to purchase debentures of the Insurance Corporation, which we think is an important authorization to give to the Secretary of the Treasury.

As I said, we believe that the reduction in the insurance premium of the Corporation, from one-eighth to one-twelfth of 1 percent, is past due. The Corporation has had no losses whatever since, I think, October 1944; its income is increasing substantially; its rate of premium is so much higher than that paid by the banks, and yet we think the risk, if anything, is less for the Federal Savings and Loan Insurance Corporation than for the Federal Deposit Insurance Corporation.

Mr. GAMBLE. If the banks got into some difficulties, and you were confronted with either bill which you had to pay off, might it be embarrassing to you if it were mandatory?

Mr. KREUTZ. I think it would be much less embarrassing to the Corporation, Congressman Gamble, if the income formula were used than if the other formula were used, unless the amount of stock and reserves which would be required to be build up were substantially greater than \$150,000,000.

Mr. GAMBLE. You have no authority at the present time to buy this stock?

Mr. KREUTZ. That is, the Secretary of the Treasury, do you mean?

Mr. GAMBLE. Can you buy that back from the authority?

Mr. KREUTZ. You mean the insured institutions?

Mr. GAMBLE. Yes.

Mr. KREUTZ. No, sir; there is no provision for the ownership of the stock by the insured institutions at any time. But ultimately the stock would be retired through payment to the Home Owners' Loan Corporation or its successor, and then there would be ultimately nothing but reserves in the Corporation and no capital stock, as such. It would still be controlled by the Federal Government.

Mr. KUNKEL. Is there any special reason for 25 percent, if we accepted the net income formula?

Mr. KREUTZ. No special reason. The formula was arrived at simply by studying the experience of the Corporation and by the application of a simple rule that if only 25 percent of the net income were required to be used to retire the stock each year, the experience of the Corporation in some future year would automatically adjust the amount which would be retired. In other words, if the Corporation had a bad year, for some reason, it might not, in that year, be able to retire any of the stock. Neither would it under the other bill, I should say, if there were no increase in its assets with that change, which was suggested this morning. That is, the insertion of the word "net." But the net income formula seems to us to be a safer formula because of the greater flexibility which would be provided under that formula.

Mr. KUNKEL. Do you mean you took the percentage as more or less an arbitrary selection?

Mr. KREUTZ. Twenty-five percent is more or less an arbitrary percentage figure; yes, sir.

Mr. KUNKEL. And in determining how rapidly we might see this retired if we wanted to change that, it could be done?

Mr. KREUTZ. Yes, sir, and I might call your attention also to the fact that S. 1149, on page 2, has a provision, beginning with line 15, which authorizes the Corporation to pay off and retire additional amounts, in its discretion, and I am satisfied that that is exactly what would happen. After the assets of the Corporation have reached, say, \$200,000,000, I think the Board of Trustees—and we hope there will be a Board restored, one of these days, to direct the affairs of the Insurance Corporation as there was before the war—I think the Board of Trustees of the Corporation would, from time to time, retire additional amounts in excess of the 25 percent of net income.

There is one other little point in the bill to which I might call your attention, in that the adjustment in the dividends payable on the stock of the Corporation would be made as of July 1, 1944, under this bill, because the Corporation sold all of its capital stock bonds, 3 percent bonds in May of that year.

Mr. GAMBLE. What is the status of these Senate bills? Have they been reported?

Mr. KREUTZ. No, sir; they are still in committee. The committee held hearings on them on May 1.

Mr. GAMBLE. That is the subcommittee held hearings and they reported the bills to the full committee?

Mr. KREUTZ. No, sir; I understand they expect to act sometime soon and to report the bills out to the full committee.

The CHAIRMAN. Hearings have been held on S. 913, but not on S. 1149, have they?

Mr. KREUTZ. I should say that hearings were held on S. 804, Mr. Chairman. During the hearings on the housing bill, S. 866, because there was a similar provision in that bill, and in that bill, and in that bill, and in the hearings on that bill, we recommended the enactment of S. 804 with certain amendments, certain changes in it, in lieu of the provision in the housing bill, S. 866.

The changes in S. 804, on which hearings were held, are incorporated in S. 1149, and that change, principally—

The CHAIRMAN. What is S. 886?

Mr. KREUTZ. That is the housing bill.

Mr. GAMBLE. Is that the Wagner-Ellender-Taft bill?

Mr. KREUTZ. Yes, sir. It had some such provisions in it.

Mr. RILEY. Mr. Kreutz, what do you think about the provision for setting up of reserves by the individual associations? Do you think that is adequate as it is, or do you think the change would be desirable as was suggested this morning?

Mr. KREUTZ. That is a subject on which our group has not fully studied and I think I should not express an opinion on it at this time, Mr. Riley.

The CHAIRMAN. Are there further questions?

Mr. SUNDSTROM. I would like to ask unanimous consent at this time to insert in the record a memorandum by Lawrence B. Carey, commissioner of banking and insurance of New Jersey, in support of H. R. 2798.

The CHAIRMAN. Without objection, it is so ordered.

(The document referred to is as follows:)

STATE OF NEW JERSEY,
DEPARTMENT OF BANKING AND INSURANCE,
Trenton, May 9, 1947.

MEMORANDUM BY LAWRENCE B. CAREY, COMMISSIONER OF BANKING AND INSURANCE
OF NEW JERSEY, IN SUPPORT OF H. R. 2798

The State of New Jersey is in favor of, and heartily endorses, the provisions of H. R. 2798, which would permit conversion of a Federal savings and loan association to a State-chartered savings and loan association—mutual in character—by a vote of its members and without unnecessary and unduly restrictive veto power either by the Federal Home Loan Bank Administration or the Federal Savings and Loan Insurance Corporation.

Attached hereto and made a part of this memorandum is a self-explanatory copy of a letter written at the request of the Honorable Alfred E. Driscoll, Governor of the State of New Jersey, by the commissioner of banking and insurance of New Jersey, Lawrence B. Carey, to the two Senators and all the Congressmen of our State, endorsing H. R. 2798, and urging its passage.

New Jersey has had a conversion statute on its books since 1934. The statute was considered unduly restrictive by the Federal Home Loan Bank Administration, and in 1939, as the result of a request by the Federal Home Loan Bank Board and the Board of Trustees of the Federal Savings and Loan Insurance Corporation, the New Jersey statute was greatly liberalized, and in its present form sets up an easy and uncomplicated procedure for a two-way street for the conversion of (a) a State-chartered association to a Federal association, or (b) a Federal association to a State-chartered association. Neither method requires the consent of either the Federal or State authorities, but accomplishes the desired conversion by the voluntary action of the members or shareholders—the owners of the association. Fifteen conversions to Federal charters have already been accomplished in New Jersey under this liberal statute.

It is interesting to note that at the time the New Jersey statute was amended in 1939, there did exist a method of conversion from Federal to State control. It was contained in the Rules and Regulations for the Federal Savings and Loan System. It read as follows:

"Any Federal association may convert itself into a State-chartered thrift and home-financing institution, upon the vote, cast at a legal meeting called to consider such action, specified by the law of the State in which the home office of the Federal association is located, as required by such law for a State-chartered institution to convert itself into a Federal association, and upon compliance with other requirements reciprocally equivalent to the requirements of such State law for the conversion of a State-chartered institution into a Federal association, provided legal titles are protected by such conversion or provided proper conveyances of legal titles are made (Sec. 5 (a), (d), of H. O. L. A. of 1933, 48 Stat. 132, 133, 12 U. S. C. 1464 (a), (d))."

This regulation—truly democratic and broad in its terms, and comparable to the liberal provisions of our New Jersey conversion statutes—was repealed about a year ago by the Federal Home Loan Bank Administration without prior notice to anyone for the later stated reason that it had no legal sanction in Federal statutory law.

Hence, that portion of the New Jersey statute which sets up procedure for the conversion of a Federal association to a State-chartered association is rendered null and void by the lack of a reciprocal liberal Federal conversion statute. H. R. 2798 would fill that void.

There are at the present time 112 State-chartered savings and loan associations in the State of New Jersey whose members' accounts are insured up to \$5,000 by the Federal Savings and Loan Insurance Corporation. These associations possess 70 percent of the total assets of our 493 State-chartered savings and loan associations. There are also 16 federally chartered savings and loan associations that have their principal offices in the State of New Jersey. All State-chartered insured associations are examined jointly by the department of banking and insurance and the Federal Savings and Loan Insurance Corporation. In the event of a conversion from Federal to State charter, the Insurance Corporation would then join with the State of New Jersey in the examination of the association because of its retention of the insurance of accounts.

These figures and examination procedure are mentioned because of the contention of the Federal Home Loan Bank Administration and the Federal Savings and Loan Insurance Corporation that a veto power should be provided in the Federal conversion statute. In this connection, it could be forcibly argued that if the Federal association which seeks to convert had not properly operated, remedial action would appear to have been in order by the Insurance Corporation, which presently possesses all necessary powers to act against a delinquent association. However, if the association is functioning properly under its Federal charter, the change wrought by a conversion under T. R. 2798 would simply be the passing of control from the Federal Government to the State government. The Federal Savings and Loan Insurance Corporation and the Federal Home Loan Bank Administration would, as before indicated, after the conversion to State charter, join with the State in its supervisory examination the same as it now does in connection with our 112 State-chartered insured associations.

By reason of the above it is respectfully urged that as a matter of simple justice and in the interest of proper balance between our State and Federal systems that H. R. 2798 be enacted into law.

Respectfully submitted.

LAWRENCE B. CAREY,
Commissioner of Banking and Insurance of New Jersey.

APRIL 28, 1947.

DEAR SENATOR.

DEAR CONGRESSMAN.

This letter is written at the request of Gov. Alfred E. Driscoll in reference to H. R. 2798, introduced by Congressman Jesse P. Wolcott, chairman of the House Banking and Currency Committee.

H. R. 2798 provides a procedure whereby a Federal savings and loan association could convert to a State-chartered association on a voluntary basis by a vote of its members.

New Jersey has a liberal law on this subject—sections 115 to 118 of article XVI of chapter 56, laws of 1946, providing a two-way street for conversion (a) from State to Federal charter, and (b) from Federal to State charter. The provisions of (b) are rendered ineffective by the lack of reciprocal Federal legislation on the subject.

The New Jersey statute and its amendments were requested by the Federal Home Loan Bank Administration and its agents participated in drafting its liberal provisions as to voting by shareholders. It does not require State approval for the conversion; nor does H. R. 2798 require such approval by the Federal Home Loan Bank Administration or by the Federal Savings and Loan Insurance Corporation. Other bills, presently before the House and Senate on this subject do provide for a veto power by the Federal authorities and it is our understanding that notwithstanding the desire on the part of the Federal Home Loan Bank Administration to secure the liberal provisions of State statutes, as it did in New Jersey, permitting conversion to Federal charters, it now advocates more restrictive provisions in a Federal statute permitting conversion from Federal to State charter. This attitude, in our opinion, is inconsistent and unfair.

May we therefore respectfully urge your active support of H. R. 2798 to the end that it may be translated into law?

If you wish any further information on the subject we will be pleased to endeavor to supply it to you.

A letter similar to this is being sent to the other Congressmen and Senators from New Jersey.

Respectfully yours,

LAWRENCE B. CAREY, *Commissioner.*

The CHAIRMAN. Are there further questions?

Mr. KREUTZ, do you have any other witnesses you wish to have heard?

Mr. KREUTZ. No, I have not, sir, thank you. I assume there would be an opportunity later, if there is some additional information that we would like to file, that we might be able to file it.

The CHAIRMAN. We will be glad to have you supplement your statement by filing of additional information.

Mr. FLETCHER. Mr. Chairman, I would like to have the same privilege, of inserting a wire by Neill Davis, executive vice president, California Savings and Loan League, in support of these three bills.

The CHAIRMAN. Without objection, it is so ordered.

(The telegram above referred to is as follows:)

SACRAMENTO, CALIF., May 12, 1947.

HON. CHARLES K. FLETCHER,

Member House Banking and Currency Committee,

House Building, Washington, D. C.:

Anything you can do to hasten early consideration and favorable action by the Banking and Currency Committee and the House on the four Wolcott bills, H. R. 2797, 2798, 2799, 2800, will be greatly appreciated by the savings and loan associations of California. Adoption of the features of these measures is highly important to the future sound and successful growth of these savings institutions. The fact that these proposals embody results of long study and have the unified endorsement of the industry is significant. A forthright reconversion provision and the reestablishment of the Federal Home Loan Bank Board are top legislative requirements, and other features of these measures are equally worthy. We urge your active support.

Best personal regards,

NEILL DAVIS,

Executive Vice President, California Savings and Loan League.

The CHAIRMAN. Thank you, Mr. Kreutz.

The committee will now adjourn to go immediately into executive session on the Lanham permanents.

(Thereupon, at 3:45 p. m., the committee adjourned to go into executive session.)

AMENDMENTS TO FEDERAL HOME LOAN BANK ACT, HOME OWNERS' LOAN ACT OF 1933, AND NATIONAL HOUSING ACT

FRIDAY, MAY 16, 1947

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

The committee convened at 10 a. m., pursuant to call, the Honorable Jesse Wolcott (chairman) presiding.

Also present: Mr. Gamble, Mr. Kunkel, Mr. Talle, Mr. McMillen, Mr. Cole, Mr. Hull, Mr. Stratton, Mr. Banta, Mr. Fletcher, Mr. Foote, Mr. Spence, Mr. Brown, Mr. Folger, Mr. Riley, Mr. Buchanan, Mr. Boggs.

The CHAIRMAN: The committee will come to order.

We have with us, this morning, Mr. Fahey.

Mr. Fahey, we will be glad to hear you on these three bills. You may take them up in whatever order you wish.

STATEMENT OF JOHN H. FAHEY, COMMISSIONER, FEDERAL HOME LOAN BANK ADMINISTRATION

MR. FAHEY. Mr. Chairman and gentlemen of the committee, late Monday afternoon when I received your invitation to appear before this committee in connection with the hearing you were to hold on H. R. 2798, 2799, and 2800 on the following day, I was in New York at a meeting with the presidents of the Federal home-loan banks. These periodical meetings are usually held in Washington. Because hotel accommodations could not be secured here, however, it became necessary to hold this conference in New York. The most important matter we had under discussion was the question of possible readjustment of the capital of the Federal Home Loan Bank System. This problem is also dealt with in part in H. R. 2799.

I regret very much that this meeting with the bank presidents prevented me from being here on Tuesday, and I appreciate the courtesy of this committee at a time when I know so well the demands upon your time and the pressure under which you are working, in affording me the opportunity to appear today.

Questions relative to possible reduction in the capital of some or all of the banks in the system have been under consideration for some time, as well as the possibilities of retiring the Government's investment in the stock of the system. Because of the varying conditions in the several bank districts and the problems with which we are confronted in the mortgage-lending field at present, it was of great importance to have a free exchange of views with the presidents con-

cerning the capital problem. It has a very vital relation, which cannot be ignored, to the successful distribution of the bonds of the bank system which must be issued from time to time and for which we have always had a broad market.

The bills before your committee include some legislation which we have repeatedly supported and advocated before this and other committees of Congress. Some of the provisions in the present drafts, however, we feel should be reexamined and modified in some respects. May I discuss these bills separately?

The first bill under consideration, H. R. 2798, would provide authority by which a Federal savings and loan association may convert into a savings and loan association, building and loan association, homestead association, or cooperative bank incorporated under the laws of the State, district, or territory in which the association's principal office is located.

At the very outset, in order that there may be no mistake as to my position, I should like to make it as definite as I can that I am unequivocally in favor of the enactment of legislation to authorize such conversions.

In my judgment it is clear that there should be a "two-way street" by which State associations may convert into Federal associations and Federal associations may convert into State associations. It is my firm belief that if a majority of the shareholders of a Federal association, reasonably well informed as to the effect of the step which they are about to take, vote to exchange their Federal charter for a State charter, they should have the right to do so, provided adequate protection is afforded to the interests of the other shareholders and to the Government, which insures savings investments in these mutual institutions through the Federal Savings and Loan Insurance Corporation.

I think we should not overlook the fact that the Federal Government has assumed a very great responsibility to the public and to the savers, who own these institutions, when it provided for the insurance of these savings accounts. There are now 1,472 associations under Federal charter. Nearly 3,000,000 people, whose incomes are comparatively small, have placed \$4,000,000,000 of their savings in the custody of these institutions on the pledge of the National Government that their interests would be protected and that their savings would be returned to them, in the event of loss, up to \$5,000 for each insured investor in each association. Additional savings in State-chartered institutions amounting to more than \$2,000,000,000 have the same insurance protection.

The total insurance risk on these savings accounts is three times what it was in 1940. Aside from the shareholders' savings, however, the Federal Savings and Loan Insurance Corporation has a further risk. Borrowing by these associations are a first claim ahead of the share accounts and the Insurance Corporation, therefore, in effect virtually insures these advances as well as the savings accounts.

With these facts clearly in mind, I feel that we should examine H. R. 2798 to determine whether it meets fully the tests of adequate protection to shareholders and to the Government. If, in some details, we find it does not, I assume that the committee expects us to present suggestions for amendment so that the bill shall provide adequate protection.

As to the main objectives of H. R. 2798, I am completely in agreement. Such suggestions as we feel should be brought to your attention are directed toward consideration of such deficiencies as we think are present in the bill as it now stands.

First: While the bill appears to contemplate conditions under which there could be conversion both from State charter to Federal charter and from Federal charter to State charter, it would permit Federal-to-State conversion even where the law of the particular jurisdiction did not permit State-to-Federal conversion. In order to provide assurance of a true "two-way street" plainly the bill should be amended to authorize Federal-to-State conversion only where the law of the jurisdiction authorizes its savings and loan associations or similar institutions to convert to Federal charter.

Second: The bill would permit conversion to be voted upon at any "legal meeting" recognized by the law of the State, district, or Territory for this purpose. Apparently this would permit the proposal to convert to State charter to be brought up for the first time, and voted upon immediately, at a regular annual meeting of which no other notice had been given than the usual statement of the name of the association and the place and time of the meeting. With only such a routine notice the members in general would assume that only the ordinary type of business usually arising at annual meetings would be taken up and would not attend. I would suggest, therefore, that the bill be amended so as to provide that conversion shall be voted upon at a special meeting called to consider such action at a time reasonably convenient for most of the shareholders.

Let us remember that most of these shareholders are workers and a large proportion of them are women. A time could be fixed for holding this meeting that would be just out of the question, so far as general convenience of the shareholders is concerned, and still comply with the law and regulations. Reasonable provision should be made for holding such meetings at a time convenient to most of the shareholders.

Third: On a matter of such importance to their interests I believe you will agree that the members should have every reasonable opportunity to be informed as to the facts. I would suggest that a full and adequate notice of the time, place, and purpose of the meeting, and the effect of such conversion on the association and its members, be posted in the association's offices for 14 days before the meeting and be mailed, not less than 15 nor more than 30 days before the meeting, to each of the association's members of record and to the Federal Home Loan Bank Administration.

Fourth: As the bill now stands, conversion to State charter could be accomplished upon a vote of 51 percent of the votes cast at the meeting in person or by proxy. However, 51 percent of the votes cast at the meeting might actually represent only a small minority of the total members of the association. We have associations with thousands of members. Their status and rights should not be changed by a few hundred votes. I would urge that the bill be amended so as to provide that conversion may be approved by a vote of not less than 51 percent of the members entitled to vote. This would assure that the vote upon conversion would be truly representative of the wishes of the association's members.

Surely the majority rule should prevail in a mutual savings institution.

Fifth. In my judgment the bill does not include necessary protection for the interests of the Federal Savings and Loan Insurance Corporation. Under the bill, it would be possible in a jurisdiction which had no State supervisory law, or a weak supervisory law, for a Federal association which had gotten into a shaky financial condition through excessive lending or other unsound practices, and which had been requested by the Federal Home Loan Bank Administration to correct these practices, to convert to a State charter. It would thus free itself from the necessity of complying with any supervisory recommendations designed to remedy the situation and maintain the association's soundness. At the same time the Federal Savings and Loan Insurance Corporation would have no option but to continue the insurance under these radically different conditions. I would strongly recommend, therefore, that the bill be amended so as to remove the possibility of developments of this character.

May I point out that conditions in mortgage-lending institutions may change radically between examinations; that the Federal Savings and Loan Insurance Corporation should not be required automatically to continue the risk of insurance in the event of conversion. Managements of these institutions change from time to time. One entirely responsible and capable may be replaced the next month by another which the Insurance Corporation should not be obliged to take any chances on. We have had experiences of this sort. We also have some insured institutions that would never have been approved if we had been informed fully when the application was presented.

For these reasons the Federal Savings and Loan Insurance Corporation should have imposed upon it the responsibility of approval or disapproval when a change of jurisdiction is proposed. If it withholds approval unfairly, it should be called to account.

We would like to submit to you amendments which we believe would strengthen provisions of the bill to which I have referred. We are drafting these proposals which we can deliver to you tomorrow and we trust that they may have your consideration.

The CHAIRMAN. Mr. Fahey, why could we not have these before us today? These three bills have been left laying over for three days now awaiting your testimony, and we were hoping to report them out this morning. Why can we not have your amendments today?

Mr. FAHEY. We may be able to get them up here by noon.

The CHAIRMAN. We assumed that you were in New York and could not get to this committee until today.

Mr. FAHEY. Yes.

The CHAIRMAN. But we found that you were before the Appropriations Committee yesterday.

Mr. FAHEY. Mr. Chairman, the time for meeting with the Government Corporation Control Subcommittee of the House Appropriations Committee was fixed before I went to New York or heard anything about the hearing which was to take place before your committee. This meeting was to have taken place 2 weeks ago but the chairman was unable to be present and it was postponed until Wednesday morning, May 14, at 10 o'clock, and I arranged my plans so as to be back for it on Wednesday. This meeting was not held yesterday as you apparently understood. We will see if we can get those amendments up to you

by noon today, if that would be satisfactory. I mean at the conclusion of this hearing.

The CHAIRMAN. I hope we won't have to hold up consideration of the bills any longer than today because we have already held the bills in abeyance for 3 days awaiting your testimony.

Mr. FAHEY. Our general counsel will telephone and see if the typing is completed. In that case, our suggestions can be sent up right away.

H. R. 2799 embodies provisions affecting the capital structure of the Federal home loan banks and the Federal Savings and Loan Insurance Corporation. I think it would save your time if I discussed each section of this bill separately.

The first provides for the retirement of the stock held by the Government in the Federal home loan banks, which, as you know, constitute a reserve credit system for thrift and home-financing institutions.

There is no objection to the reduction of Government capital—indeed it is desirable if it can be worked out without disadvantage. There are, however, certain provisions of this section which should receive further attention. The Federal home loan banks, as you gentleman appreciate, cannot satisfactorily discharge their responsibilities unless they have adequate funds available in times of stress to meet the needs of their member institutions. In its existing form the act permits us to reduce the Government stock in these banks, but it makes no provision for the return of such capital in time of need.

H. R. 2799 provides that funds arising from the retirement of the stock held by or for the Government—

shall remain in the Treasury of the United States and be available for subscription to stock in the Federal home loan banks in the future.

However, the Government stock in the Federal home loan banks is now held by the Reconstruction Finance Corporation, and there is no provision in the bill as to how the proceeds of such retirement are to reach the Treasury. I would suggest that section 1 of H. R. 2799 be amended by striking out that part of said section following the period at page 2, line 16, and substituting therefor the following:

Upon a determination at any time by the Federal Home Loan Bank Administration that the proper functioning of any Federal home loan bank requires additional capital, said Administration may request the Secretary of the Treasury to subscribe at par on behalf of the United States to stock of such bank, and the Secretary of the Treasury shall so subscribe such amounts as may be so requested, and shall make payment therefor at such times as may be requested by said Administration: *Provided*, That the Secretary of the Treasury shall not at any time subscribe for any such stock if the effect of such subscription would be to increase the aggregate amount of the then outstanding holdings of Federal home loan bank stock by the United States and by the Reconstruction Finance Corporation to an amount greater than the amount subscribed for by the Secretary of the Treasury on behalf of the United States under subsection (f) of this section. For the purpose of making such payments the Secretary of the Treasury is hereby authorized to use as a public-debt transaction the proceeds of the sale of any securities hereafter issued under the Second Liberty Bond Act, as now or hereafter in force, and the purposes for which securities may be issued under the Second Liberty Bond Act, as now or hereafter in force, are hereby extended to include such payments. Such stock shall be evidenced in such manner as may be determined by said Administration, shall share in dividend distributions without preference, and shall not be deemed to be Government capital within the meaning of the Government Corporation Control Act. Any such stock may be retired at par at any time with the approval of said Administration, and shall be retired at par at any time upon direction of said Administration if said Administration shall be of the opinion that such retirement is advisable and that the bank has resources available therefor.

If proper provision is made for resubscription by the Treasury to the Government capital which is retired, I see no compelling necessity for mandatorily increasing the required holdings of Federal home loan bank stock by member institutions from 1 percent of the member's home-mortgage loans (but not less than \$500) to 2 percent of the member's mortgage loans, home-purchase contracts, and similar obligations (but not less than \$500), as would be done by the present bill. It seems to me that this increase in stock could be eliminated entirely or made subject to the discretion of the Federal Home Loan Bank Administration. Some member institutions, particularly the smaller ones, may find this increased requirement a real burden, and we should be glad to submit suggestions for amendment to modify it or to eliminate it, as the committee may desire.

As I have explained, our general counsel is trying to get these suggestions up here right away.

Section 2 of this bill would amend subsection (g) of section 11 of the Federal Home Loan Bank Act as amended. This subsection now requires that each Federal home loan bank at all times have—

an amount equal to the sums paid in on outstanding capital subscriptions of its members, plus an amount equal to the current deposits received from its members—

invested in obligations of the United States, deposits in banks and trust companies, and certain types of advances with maturities of 1 year or less. The change which would be made by the bill consists of the addition of the word "one-half" before the words "the sums paid in on outstanding capital." This change does not appear to me to be objectionable.

Section 3 of the bill would require the Federal Savings and Loan Insurance Corporation to retire from time to time its stock held by the Home Owners' Loan Corporation in blocks of \$1,000 at any time from its assets in excess of \$150,000,000. The stock would be paid for at its par value, less any amounts paid in dividends thereon. Apparently this would permit the Corporation, whenever its assets approached \$150,000,000, or at any time, to pay dividends to the Home Owners' Loan Corporation on its stock which in effect would be a credit against the Insurance Corporation's liability on the par value thereof. The result would be an indirect eventual cancellation of all liabilities for dividends on the stock held by the Home Owners' Loan Corporation.

When the capital of the Federal Savings and Loan Insurance Corporation was provided by the Home Owners' Loan Corporation, it was regarded as a temporary expedient. The intention was that under more normal conditions than those which prevailed at that time—that was in the midst of the mortgage panic excitement—a plan would be evolved by which the investment of Home Owners' Loan Corporation would be repaid and the insured associations, which are the beneficiaries of the insured plan, would make the repayments.

The act provided that the Insurance Corporation should pay dividends equal to the interest rate on the Home Owners' Loan Corporation bonds which were used in payment for the capital stock of the Insurance Corporation.

I should explain, in that connection, that at that particular time, the Home Owners' Loan Corporation was regarded as a general relief

organization to combat the mortgage panic conditions of the early 1930's, and this was a temporary expedient. My impression is that it was approved by Congress without a dissenting vote in either House.

The Federal Deposit Insurance Corporation expects that the Government's present investment in that Corporation can be retired presently and it would appear that some reasonable scheme should be developed by which the money which has been invested in the capital stock of the Insurance Corporation should be returned to the Home Owners' Loan Corporation so that it may be paid over to the Treasury and applied to the reduction of the public debt.

The dividends payable to Home Owners' Loan Corporation should, it seems to me, be paid to Home Owners' Loan Corporation as provided by law originally and as contemplated by the legislation passed by both the House and the Senate last year. Otherwise the amount involved must come out of the Treasury when the liquidation of Home Owners' Loan Corporation is completed and the capital stock of that Corporation can be paid back. As is now apparent, it can be. It cannot be repaid fully if the dividends which should be paid to it by the Insurance Corporation are to be canceled, and it is, of course, clear that a plan to dispose of the \$100,000,000 of capital Home Owners' Loan Corporation advanced must finally be developed.

It seems to me that this problem calls for further careful study and that it is unnecessary and unwise to pass legislation such as that proposed in section 3 of H. R. 2799 at the present time. I do not think this is a good time to monkey with this problem of insurance of savings and deposits.

Section 4 of H. R. 2799 would reduce the premium rate of the Insurance Corporation from one-eighth of 1 percent to one-twelfth of 1 percent of the accounts of insured members plus creditor obligations of insured institutions. It would retain the existing power of the Insurance Corporation to assess additional premiums, but would similarly reduce the maximum rate thereof. We are sympathetic with the idea of reducing the rate from one-eighth of 1 percent to one-twelfth of 1 percent. I expressed myself on this point a year ago. We do not believe that the insurance of savings should cost more on a premium basis than the insurance of deposits in commercial banks, under anything like normal conditions.

Because of the significant inflationary developments in the real-estate market in the past year or so, I cannot conscientiously endorse the proposal to reduce the insurance premium at present. I think consideration of such a reduction should go over for another year.

The question may also be raised as to whether it is consistent to provide for the retirement of the Government subscription of the capital stock of the Corporation and at the same time reduce the premium rate. The premium income of the Insurance Corporation amounts to approximately \$7,000,000 a year. The proposed amendment would result in a reduction of more than \$2,300,000 a year. I do not think any such reduction should be made now.

Another reason for present objections to the reduction of the premium rate is the fact that as of June 30, 1945, the ratio of the reserves of the Insurance Corporation to mortgage loans held by insured member savings and loan associations was 1.67 percent, but as of December 31, 1946, this was reduced to 1.39 percent. During the same

period the reserves of the associations themselves also diminished in relation to mortgage-loan holdings.

It is our firm conviction that section 4 of H. R. 2799 should be eliminated and any action providing for a reduction of the premium rate deferred for the present.

H. R. 2800 would liberalize the provisions of subsection (c) of section 5 of the Home Owners' Loan Act of 1933, as amended, with respect to loans by Federal savings and loan associations. It would provide that notwithstanding any other provision of that subsection "except the area restriction" such association may invest their funds in title I Federal Housing Administration loans, loans guaranteed or insured as provided in the Servicemen's Readjustment Act of 1944, as amended, or other loans for property alteration, repair, or improvement. It would further provide, however, that no such loan shall be made in excess of \$1,500 except in conformity to the other provisions of said subsection, and that the total amount of loans so made without regard to the other provisions of said subsection shall not at any time exceed 15 percent of the association's assets.

With respect to Federal Housing Administration loans and loans under the Servicemen's Readjustment Act of 1944 (the GI bill of rights), it is believed that Federal savings and loan associations should have authority to make any home loans of this nature under regulations issued by the Federal Home Loan Bank Administration. We feel that the bill should be amended so as to provide therefor. If such an amendment were adopted, the making of such loans by these associations would be amply safeguarded by the insurance or guaranty and by the fact that proper regulations by the Federal Home Loan Bank Administration would be required.

As to the making of loans for property alteration, repair, or improvement which do not have such insurance or guaranty, we believe that Federal associations should be authorized to make such loans under reasonable safeguards. One of the most promising sources of additional housing accommodations is the modernization and repair of existing structures and the alteration of properties to provide needed additional space for growing families or for a greater number of families. Federal savings and loan associations are ready to assist in the financing of these operations, but the existing requirement as to their taking first liens is often a serious impediment to the making of loans of this type. Where a lien is already held by someone else, or where the amount needed is so small that the expense of taking a lien, including any necessary title examination, is not just justified, this first-lien requirement effectually prevents Federal associations from making such loans, and the delay involved in making a title search is itself a deterring factor. However, it is felt that provisions of H. R. 2800 as to the making of such loans, and the \$1,500 limitation in particular, are too restrictive.

It is suggested, therefore, that the bill be amended so as to authorize Federal savings and loan associations, upon the approval of the Federal Home Loan Bank Administration, to invest in loans for property alteration, repair, improvement, or equipment, with a proviso that no such loans shall be made under this provision in excess of \$2,500 except in conformity to the other provisions of subsection (c) of section 5 of the Home Owners' Loan Act of 1933, as amended.

The \$2,500 limitation and the requirement of approval by the Federal Home Loan Bank Administration would, it is believed, adequately safeguard the making of such loans by these associations.

There is given below a suggested amendment to the bill which, would accomplish these purposes. This suggested amendment to the bill would also authorize Federal associations to participate in future Federal programs of loan guaranty or insurance. The amendment proposed is as follows:

Strike out all after line 5, and in lieu of the matter so stricken, insert the following:

Without regard to any other provisions of this subsection, any such association, upon the approval of the Board or the Federal Home Loan Bank Administration by regulations or otherwise, may lend or invest its funds in or upon—

“(1) Any loan or investment upon or with respect to home or combination home and business property which is insured or guaranteed or as to which any commitment for insurance or guaranty thereof has been made, or as to which the association has any insurance of guaranty, under title I or any other title or provision of the National Housing Act as heretofore, now, or hereafter in force, or under the Servicemen’s Readjustment Act of 1944 as heretofore, now, or hereafter in force, or otherwise by the United States or any agency or instrumentality thereof;

“(2) Any loan for property alteration, repair, improvement, or equipment: *Provided*, That no such loan shall be made hereunder in excess of \$2,500 except in conformity to the other provisions of this subsection.”

I should like to add that in view of the shortness of time I have not been able to obtain the usual clearances on this testimony.

In concluding this statement, gentlemen of the committee—

The CHAIRMAN. What is the usual clearance?

Mr. FAHEY. I mean discussing it with the Budget Bureau, which is usually done because it involves financial matters.

In concluding this statement, I am sure it is unnecessary for me to point out to you that the inflation of the home real-estate market in our country has never been greater than at present.

The type of institutions we are dealing with invest their funds in home mortgages. In the last few years the percentage of sound value of underlying security that has been loaned by all mortgage lending institutions has risen steadily, and loans have been made on higher and higher appraisals.

May I add that the appraisal system in this country still has many weaknesses, despite its improvement in the last decade.

One of the most serious blows that could be struck at the national economy and democratic institutions would be for the millions of small savers, who have placed their funds in savings and loan associations, and other types of savings institutions, to suffer another calamity like that which afflicted our people in the early 1930’s. Their confidence was restored at a critical time by insurance provided by the Federal Government. We must be certain that the safety of insured deposits and savings are not threatened, now or at any time.

Unfortunately, we are not imbued with the ability to foretell the future, but we are familiar with our experiences in the 1930’s and we should not forget them.

Our business in this country, in my opinion, is to prevent depressions, not to prescribe new medicines for curing them.

For one, I am not in the least alarmed or pessimistic over the discomforts which come in the readjustment of prices under present conditions. So far as the future is concerned, I am certain we will advance

to new heights in the standard of living in this country, and sustain it, if we exercise judgment and common sense.

The maintenance of a stable and safe banking and credit system in this country is absolutely necessary to a sound economy. The breakdown of that system as a result of the excesses of the 1920's was largely responsible for the worst depression any country ever suffered. It was largely due to the neglect of both Federal and State authorities to exercise considerate but firm supervision over the operation of financial institutions.

In view of present conditions and past experiences I feel that the supervision of savings institutions, of all classes, should be handled with extreme care. It is a difficult and uncomfortable job to point out the weaknesses of managements and attempt to take remedial steps in a boom period, when so many are convinced that they are operating on a basis of absolute safety. However, if the present tendencies all along the line among lending institutions are not held in check we may have plenty of headaches, and some of them sooner than we think.

I would welcome the opportunity to present to you, at some convenient time, some of the supervisory questions which confront us and other authorities, and some of the problems we face. Such a presentation, I think, would be of real interest to this committee and would lead to a better understanding all along the line as to the kind of supervision which should be exercised.

If we could have a full, mutual understanding of the problems confronting us I am sure that none of us would believe it is a good time to relax or impair the careful supervision which Congress and the public assume is being conducted in connection with the operations of all types of financial institutions.

The CHAIRMAN. Does that complete your statement, Mr. Fahey?

Mr. FAHEY. It does, Mr. Chairman.

The CHAIRMAN. I assume the members would like to ask you some questions.

Mr. BROWN. Mr. Chairman.

The CHAIRMAN. Mr. Brown.

Mr. BROWN. You stated that you thought these notices should be given to stockholders at a time which is convenient for the majority. Now, we cannot write details about a stockholders' meeting in any bill.

Mr. FAHEY. That is right.

The CHAIRMAN. We say that it must be a controlling number in order to revert from a Federal association to a State charter. That it must be done by 51 percent of the stockholders. That means they have got to be there. Of course, in all special meetings they always give notice of the purpose. Now, when you give notice of the purpose and then legislate that it should be regulated by the majority, that is as far as you can go in a bill. We just cannot write that kind of a thing in a bill.

Mr. FAHEY. I understand that the shareholders do not have to be present at the meeting. They can vote by proxy if they have a fair and proper explanation of the question to be voted on. My only point is that it is possible to give a reasonable notice and permit the people who own these institutions to have some understanding of the change proposed. That should be true whether the change is made to State or Federal charter. It can be done readily enough. After all, our great business corporations in this country, with hundreds of thou-

sands of stockholders, go to great lengths in sending out full explanations of any proposed changes in bylaws or of the adoption of retirement plans, or of any changes of major importance which affect the interests of stockholders. We should deal with these shareholders in mutual-cooperative institutions holding billions of the people's savings in such a way that they understand what is being contemplated.

Mr. SPENCE. Mr. Fahey, you say that you think there is no reason why there should be any disparity between the premiums paid by banks to the Federal Deposit Insurance Corporation and those paid by Federal savings and loan corporations to the Federal Savings and Loan Insurance Corporation. I heartily agree with you on that. You were for this principle the last time we discussed it, were you not?

Mr. FAHEY. That is right.

Mr. SPENCE. Now you say that because of economic conditions you think no action should be taken. Do you think it would be desirable now, in order to equalize these premiums, to increase the premium paid by Federal savings and loan banks?

Mr. FAHEY. No; I would leave the premium where it is. I would let this problem ride for another year. We have a year ahead of us so far as mortgage lending is concerned, where, with a readjustment of prices on home developing, we ought to be a little cautious about what we do now.

The Federal Deposit Insurance Corporation has a very great fund accumulated. Ours is much smaller and it is on a somewhat different basis.

Mr. SPENCE. The Federal Savings and Loan Corporation has increased its savings every year, has it not? It is in a stronger financial position than it was last year?

Mr. FAHEY. Oh, yes; that is true of the Federal Savings and Loan Insurance Corporation. The same thing can be said of FDIC. Both have been going through a pretty comfortable period.

These insurance funds, after all, have not been seriously tested yet. The legislation was very sound and wise, in my judgment. It had a great constructive effect during the war. It influenced great numbers of people, enjoying higher wages and fuller employment, to put money into savings institutions of all kinds—I mean savings and loan associations, the savings departments of the commercial banks and mutual savings banks. They also put great sums into life insurance.

Mr. SPENCE. Do you not think that the confidence you express in the economic future weakens the effect of your argument that we should not reduce this premium at this time? The building associations have long thought that they were the victims of an injustice because of the disparity of premiums paid by the banks and those paid by them, and I think that is true.

Mr. FAHEY. I am fully aware of that. Of course, they would like to have the advantage of a reduction, and should have it at an appropriate time. I think, however, too many managers do not appreciate fully that the most important thing is that this fund should be sound beyond any question, and it should be able to meet immediately any emergency that may arise. I do not believe we should have another HOLC in this country. I do not think we should permit a situation to develop where the Congress is meeting nights and days—I almost said Sundays—attempting to repair this, that, or the other break in the economy. That is the kind of thing we ought to prevent.

May I say this also: I think that this problem of protecting the people's savings is one of the most important and one of the most sensitive in our whole economy. The folks who put money into institutions of all kinds in small amounts—and please do not misunderstand me; I am not talking about savings and loan associations alone, but all types of savings institutions—do not know too much about financial matters, and when rumors are passed around to them they are easily disturbed. I have seen runs on banks and savings institutions for which there was not the slightest justification, but they caused great damage and heavy losses.

In this period of readjustment I think we should be ready to sacrifice a little something in order to be a little more sure of full protection. It is constructive planning to avoid difficulties which counts, in my opinion.

Mr. SPENCE. After the passing of the Federal Savings and Loan Insurance Act there was a general reorganization of the building associations, wasn't there? A general reexamination of the building associations? Are they not in a much sounder economic position now than they have been in heretofore?

Mr. FAHEY. Certainly they are. All classes of savings institutions are, in my judgment. It is true of institutions of this kind, however, as it is of others that you cannot depend upon the management of all of them to exercise proper judgment and care. Too many of them suddenly develop into economists, or they think they have, and believe they can prophesy the future. Some are lacking in financial understanding and experience. It is very easy for folks to get into an optimistic frame of mind as to where real-estate values are going. During the war period and since there has been better control over speculation in the stock market than heretofore, but there has been no corresponding control over another great speculative field—and that is real estate.

Mr. SPENCE. Well, the personal equation enters into all other financial institutions, does it not?

Mr. FAHEY. It does. However, some institutions are much better able to take care of themselves than others and have better managements.

Mr. KUNKEL. Will you yield for a question, Mr. Spence?

Mr. SPENCE. I yield.

Mr. KUNKEL. I do not suppose that ever enters into the Federal bureaucracy, does it? They are always sound and have good judgment and never make these errors?

Mr. FAHEY. Well, of course, I think that from the standpoint of the critics there is never anything right about any so-called bureaucrat, either now or at any time in the past.

Mr. BROWN. Will you yield, Mr. Spence?

Mr. SPENCE. I yield.

Mr. BROWN. Do you not think that the market values of real estate and homes will decrease in the next year or two?

Mr. FAHEY. I certainly do.

Mr. BROWN. I agree with you.

Mr. FAHEY. If they do not, you are not going to have the market for homes and mortgages that people talk about.

Mr. BROWN. That is right.

Mr. FAHEY. The trouble about the present situation is that people are being asked to pay prices for homes that are out of all reason in relation to any common-sense values.

Mr. BROWN. That is right.

Mr. FAHEY. I am very anxious not to say things here that may be misconstrued or that may be regarded as alarming. Most everybody knows, and surely every member of this committee knows, what has happened to home prices. They are more out of line than anything else in the entire price structure, in my opinion.

Mr. SPENCE. Well, the Federal Savings and Loan Insurance Corporation has supervisory control over all these institutions. It has a right of examination and it can revoke the insurance, can it not?

Mr. FAHEY. Yes. But in that respect we have had our troubles for the last year in our effort to operate on a reduced appropriation. We have not had enough examiners. We are required to examine all insured institutions at least once every year. We are nearly 500 examinations behind at this moment. This is not a comfortable situation. All kinds of things occur in these institutions in the course of a year.

Mr. BANTA. How many examiners do you have?

Mr. FAHEY. I think about 150, or something like that. We ought to have over 190. The problem is not just in the examination alone. Our examiners and expert supervisors, including those in the States and in the Treasury, in my judgment, are underpaid—at least a large proportion of them are. It is difficult to keep them in the service after they have been trained. Too many examiners return merely bookkeeping information. Examinations have to be carefully reviewed by men who have a real understanding of financial problems and who catch the significance of things reported which are overlooked by people of less experience.

All this is a long story, and I should not take up the time of the members of the committee with it today. However, as I venture to suggest here, it is my hope that some time before you adjourn, despite the demands on you, we can somehow plan to discuss more fully this matter of better machinery for safeguarding the savings of the people of this country, which is so important.

The CHAIRMAN. How would you protect them any further than they are protected under FDIC and the Federal Savings and Loan Insurance Corporation?

Mr. FAHEY. How can they be further protected?

The CHAIRMAN. How would you suggest they be further protected?

Mr. FAHEY. Of course, I am not so familiar with the FDIC set-up, Mr. Chairman. FDIC does not have any responsibility for supervision. Supervision is taken care of by the Comptroller of the Currency. The Federal Reserve System also has some authority as to examination and supervision. Its methods and organization, Mr. Chairman, have been greatly improved since 1930. That is also true of many of the State set-ups.

Ours, in turn, has improved, but it is far short of what it should be. I mean we need more careful examination, more prompt examination than we have today—

The CHAIRMAN. Do you think depositors in banks and shareholders in building and loan associations should be insured against any possible loss?

Mr. FAHEY. As a matter of fact they are today, up to \$5,000. Deposits in excess of the \$5,000 in insured banks are generally the accounts of corporations and businessmen of large resources.

The CHAIRMAN. What I am getting at, Mr. Fahey, is this: Do you think the reserve in the Insurance Corporation should be high enough to cover any possible loss; let us put it that way?

Mr. FAHEY. Yes, Mr. Chairman, I do. I think that the capital and the reserves of these insurance corporations should be such that they are able to take care of any emergency experienced people can reasonably be expected to anticipate. When anything disturbing starts they should be prepared to act promptly and without any doubt on the part of anyone.

The CHAIRMAN. You put the word "reasonable" in there now.

Mr. FAHEY. Yes. Well, that is dependent upon judgment and the condition at the time.

The CHAIRMAN. I asked you whether you thought it advisable to build up these reserves to take care of any possible loss, and not a reasonable loss, as you state, but any possible loss. That would require us to build reserves in Federal Deposit Insurance Corporation above \$50,000,000,000.

Mr. FAHEY. As I see it, if we should have another extraordinary depression—I do not believe we will, mind you, and I am convinced we do not need to—but, if we should, and the same kind of trouble began to develop as in the early thirties, then, there would be no way of combating it, except by help from the Government. Certainly private interests cannot meet it. They cannot organize to do it.

The CHAIRMAN. Would we set up these two insurance corporations for the purpose of preventing just such conditions as we experienced in 1929, on the theory that if individual deposits and shares would be insured, that the individual would not be in too much of a hurry to go down and draw it out, even if conditions were not as sound as they might be?

Mr. FAHEY. That is right.

The CHAIRMAN. And that might stop it?

Mr. FAHEY. Generally speaking, Mr. Chairman, that is true.

The CHAIRMAN. We felt it unfeasible to build up reserves to cover any possible loss, having in mind that the psychological effect of this insurance was perhaps of almost as much value in the field in which we are operating as the actual cash in reserve.

Mr. FAHEY. That is quite true, Mr. Chairman, in my judgment, and yet even that can be disturbed by unhappy incidents, as has been shown already, by experience. In the main, as banks have been closed by the Federal Deposit Insurance Corporation, or as we have closed savings and loan associations, or taken over control of them, despite the fear of other local institutions that action would cause a serious disturbance, nothing of the kind has occurred.

Yet, it is evident from at least one isolated experience that it can happen, and that a run can be started. When a run starts, it is a very difficult thing to handle. It can be handled only by meeting every demand promptly.

Mr. SPENCE. Mr. Fahey, everybody recognizes that the price of real estate now is abnormally high. When do you think it will probably get back to the reasonable, normal levels?

Mr. FAHEY. Well, Mr. Spence, I am not so sure that I have not been indulging in a little too much prophecy here already. I do not think any of us can answer that question definitely. It will depend upon a number of things.

One thing that is influencing it already, is a spreading buyer's strike against extraordinary prices for homes. Already building workers are being laid off in various parts of the country. In New York City alone only 2 weeks ago 16,000 men in the construction industry were dropped because of lack of work caused by resistance to high costs.

Unwillingness to pay excessive costs is not limited to commercial and other buildings. Many business enterprises are reluctant to go ahead, and have canceled important building programs because they feel they cannot afford present prices.

In the matter of homes it is the same thing. There are various sections of the country now where speculative builders, within the last 8 or 9 months, built houses, fully expecting to get rid of them immediately at the prices they were asking. They have been carried for months, and they have not been sold yet—plenty of them. I should explain that we are able to keep pretty well informed as to what is happening in this field. First of all, the Federal Home Loan Bank System regularly compiles mortgage recordings in this country, and those figures are available at all times for study of these conditions. Home Owners' Loan Corporation has sold over 198,000 houses all over this country, and through it we have gained experience on a greater scale than anybody ever had. It is familiar with the real-estate market. Through the medium of its hundreds of thousands of borrowers we keep informed of local real-estate conditions. Through them we learn of the frequent temptation to sell their homes—as many of them have—at high prices. When they come to us to pay off the mortgage, we have a complete record of the property, what its reasonable value is, who is making the new mortgage and the amount involved, and we have been able to follow these trends.

As far back as 1943 they were evident, and we have from time to time made public some of these facts.

We have some figures covering thousands of sales made during the last 6 months of 1945 and for the full year of 1946 in many of the States—specific cases of sales—and the rise in prices in that comparatively short time is extremely disturbing. In some sections, a precipitous drop has been noted even within a few months.

The thought I am endeavoring to convey, Mr. Spence, is that this is a fluctuating, unbalanced situation, so far as housing is concerned, and I feel that under these conditions, it is just as well to sacrifice a little something extra for safety.

I believe we are going to get a lot of building this year—not as much as we should have, but an encouraging volume. A year from now the situation will look much more cheerful, I think, so far as prices are concerned, and we will be on a firmer basis than we are today. I am wholly unable to go along with the predictions of some of the real-estate developers and promoters who claim that we are going to have continuously increased prices for the next 5 years, and that houses at present prices are cheap.

Mr. SPENCE. What do you say the present tendency is toward raising or lowering of prices?

Mr. FAHEY. It is beginning to ease off. There is no doubt about that. It should be a gradual process. If you make it precipitate, you will invite trouble.

The CHAIRMAN. Mr. Fahey, I do not quite reconcile the feeling expressed here with respect to this increase in liability with the suggestion you make that the title I loans be increased to \$2,500. It seems to me that equipment loans are considered to be rather risky; are they not?

Mr. FAHEY. Mr. Chairman, I think that depends upon the kind of equipment and the kind of borrowers. Insofar as \$2,500 loans are concerned, I do not think there is any difficulty if the loans are intelligently made.

The CHAIRMAN. Would you recommend that this \$1,500 be increased to \$2,500 without the approval of the board?

Mr. FAHEY. No, Mr. Chairman. We provided for approval of the administration. We believe that the necessary safeguards would be provided.

The CHAIRMAN. Do you think it is safe to make a \$2,500 loan under title I if it is approved by you, but you don't think it is safe for the institution itself to make a \$1,500 loan?

Mr. FAHEY. We do not mean that every loan must be approved by the Administration.

The CHAIRMAN. Every one of these loans, under your language, would have to be approved by you?

Mr. FAHEY. Oh, no; that is not what is intended at all. Standards by which such loans can and should be made with all reasonable safety, should be approved by the Administration. Let us remember that the bank presidents and their staffs in all of these districts are living close to this problem every day. My point about it, Mr. Chairman, is this: That one of the most important opportunities for improved housing is in making alterations and additions. This is especially important at the present time, because a lot of necessary work of that kind has been neglected in the last 6 years, and these properties have deteriorated. We had the same experience in Home Owners' Loan Corporation.

The CHAIRMAN. Has it not been your experience that the losses under title I have been ever so much less than they have under titles II and V?

Mr. FAHEY. I cannot say, Mr. Chairman.

The CHAIRMAN. We have the statistics here to that effect.

Mr. FAHEY. I am not sufficiently familiar with it. My impression is that in the early part of the experience on title I, the losses were rather uncomfortable. They then tightened up on their regulations, particularly with reference to refrigerators and things of that kind, and overcame that difficulty. I think the apprehensions that have long prevailed concerning loans to so-called small people, that is to say, people of small means and in small amounts, have not been justified.

The experience of the Home Owners' Loan Corporation is very significant in that respect. At the present time about 22 percent of all the loans on the books of the Home Owners' Loan Corporation are paid down to less than \$500, and over 40 percent of them are for less than a thousand dollars. These loans were made in small amounts to so-called small people and these borrowers have made good.

Again, as a further illustration, commercial banks all over this country which would not think of making so-called small loans 10 years ago are now going into this business very aggressively. It is a question of experience and exercising judgment with small borrowers and of servicing the loans intelligently, just the same as any other kind of a loan. However, it can be overdone.

So far as improving these homes is concerned, it is really surprising what can be done with a structure that is 15 or 20 years old. In many cases, however, these houses are far better built than a lot of those that have been thrown together in the last decade.

The CHAIRMAN. Mr. Fahey, may I ask this question: If you were given the authority to regulate these title I loans, would you feel that you would have to harmonize your policy with that of the Federal Reserve?

Mr. FAHEY. That is a legal question.

The CHAIRMAN. It is very closely affiliated with it, is it not?

Mr. FAHEY. I would not be sure that I was replying correctly without first checking with our legal department, but I would assume that we could, if it was in the act. Again, I assume that the Federal Reserve requirement sooner or later will be eliminated, when they think it can be done safely.

The CHAIRMAN. Well, we will have that under consideration in this committee within the next couple of weeks. Are there any further questions?

(No response.)

The CHAIRMAN. All right, Mr. Fahey.

Mr. FAHEY. I want to thank you gentlemen again for going to the trouble of letting me appear, and I hope you will understand the difficulty I was up against in not getting here on Tuesday.

The CHAIRMAN. Thank you. We understood you were not going to be back from New York until today, and we found that you were before the Appropriations Committee yesterday.

Mr. FAHEY. Mr. Chairman, when I received word in New York late Monday afternoon that I was scheduled to appear before your committee on Tuesday morning, I immediately instructed my office to contact the clerk of your committee as quickly as possible, explain my absence from Washington, the reasons for my delay, and to ask for a later opportunity to appear. I might add that in addition to meeting with the bank president in New York, as I have already explained, we now have the Federal Savings and Loan Advisory Council, a statutory body, which is advisory to the Administration. They are meeting here in Washington now. The rest of the time is going to be given to them today.

The CHAIRMAN. Well, we are very glad to have had you.

Mr. FAHEY. I would just like to add one other thought. If any questions arise in connection with any of these things and you think we can supply the information you want, we will try to respond promptly.

The CHAIRMAN. Thank you very much.

Is Mr. Proctor here? Mr. Proctor or anyone else appearing on behalf of the National Association of Mutual Savings Banks?

(No response.)

The CHAIRMAN. Mr. Proctor is not here. Mr. Bodfish.

Mr. BODFISH. Mr. Chairman, I do not want to prolong the proceeding, but I do think that 5 minutes of comment on the property-improvement amendment submitted by Mr. Fahey would be helpful to the committee.

The CHAIRMAN. We will be glad to have it.

Mr. BODFISH. I will only take a moment.

On page 14 of his testimony, Mr. Fahey submits revised language for property-improvement loans. We would not be happy with that language for several reasons.

The first reason is this: You will notice that in the draft he says, without regard to any other provisions of this subsection:

Any such association, on approval of the Board, or the Federal Home Loan Administration, by regulations or otherwise.

We believe that the Congress should pass laws of general applicability. If you want to authorize us to make title I loans or property-improvement loans, you should authorize the 1,472 Federal associations to make them. You should not authorize Mr. Fahey and his associates to say, "This association can make them, but that one cannot," or put in their hands the temptation to favor their friends and punish their enemies. We strongly object to that discretion being lodged down here in Washington, whereby an association which wants to make property-improvement loans has to come down here and negotiate, and ask permission. We think the Congress should either authorize it or not authorize it.

We are opposed—

Mr. COLE. Mr. Bodfish, do you understand that that is the intent of that section, that they would set up a broad general policy?

Mr. BODFISH. We know that is the intention. We have encountered it repeatedly in discussions with them before. It is one of the policies of the department to want to select associations and give some powers and authority that they will not give others.

Mr. COLE. You mean your past experience with them has been to the contrary?

Mr. BODFISH. That is right. I would point out, too, Mr. Cole, that all the insurance laws, State and Federal, and all banking laws, State and National, in this country make specific authorizations as to the lending field of institutions and they say, "You can make such and such loans," and that means all banks and not the ones that the Comptroller of Currency happens to have something to say about.

We also oppose the amendment for another reason, which I think, Mr. Chairman, is important to the committee. Some of us who have never been interested in this legislation have tried our level best to avoid asking Congress to deal with a competitive controversy between the organized banks of the country and the savings and loan associations.

We have had several of those controversies. It is not good for any of us, and it is not good for our friends, if we can avoid them. Therefore, in this property-improvement matter, we had extended conferences with staff representatives of the American Bankers Association, and they have agreed to recommend to their people that there would be no opposition to the property-improvement loans if we limited them to \$1,500 and if we limited them to 15 percent of our assets, and if we omitted home equipment.

Some of our people would like to include home equipment, but we have a gentlemen's understanding that they will not oppose that or raise questions if we confine ourselves to alterations, repairs, and improvements, which is clearly our field. Much as some of us would like to see it extended to equipment, the injection of that into the draft by the committee would involve us in controversy on the Senate side with the banking group, and we are very anxious to avoid that, because we do have assurances from the other side that when you send these bills over they will expedite them.

I would like to comment on the one inquiry of Representative Brown, on the conversion question. We did not want to write all the details into this proposed statute. We have no objection whatsoever to the requirement of a notice to all members. We would prefer that the vote remain 51 percent of those attending the meeting, either in person or by proxy.

Mr. BROWN. That is in the bill?

Mr. BODFISH. That is in the bill. Mr. Fahey suggested that it be 51 percent of all the members. I will illustrate the difficulty.

The CHAIRMAN. Mr. Bodfish, is there any reason why we should not provide for that in the bill?

Mr. BODFISH. No reason at all. I think the notice is the main thing you could deal with at an annual meeting, and not have to call another meeting 2 weeks later at the same time, which is a little ridiculous. But where you give notice to everyone, we have no objection to it.

The CHAIRMAN. Under the 51-percent provision?

Mr. BODFISH. Under 51 percent of all account holders. That is excellent in theory, and generally good in practice, but I would remind you that these are savings-account holders. They are not sophisticated corporate investors. They are not accustomed to signing proxies, which are legal documents and have in them statements to be witnessed or notarized, and we encounter a great deal of difficulty in getting people who are entirely sympathetic with the situation, to get them to sign these formal documents known as proxies.

Again, we have no objection to notice through the mails and by posting to everyone. We would rather have it limited to 51 percent of those present at the meeting either in person or by proxy, because it is difficult to get proxies from holders of savings accounts who are not typical corporate investors.

Mr. BROWN. Do not all these associations give a notice and state the purpose of the meeting?

Mr. BODFISH. That is true of a special meeting. But the thing Mr. Fahey is apprehensive about is that at a regular annual meeting, on account of costs and inconvenience, we do not always send notices each year. We publish a notice. Take the institution of which I happen to be chairman of the board in Chicago. We have 27,000 account holders, and we used to try to get them all at the meeting, and we would work and work and work, and maybe we would get 15 or 20.

Mr. SPENCE. You send the notice with an enclosed proxy in each notice, do you not?

Mr. BODFISH. Yes; and I do not think in response to any mailing we ever receive back more than 15 or 20 of the proxies. The small savings account holder is not accustomed to signing proxies which have to be witnessed, and the like. They just put them aside.

I think those are the only points in the way of definite suggestion on Mr. Fahey's testimony. We object strongly, as this committee knows, to his having the discretion to say whether an institution can convert or cannot convert. We went over that whole thing.

Mr. GAMBLE. Would you not rather leave that up to the shareholders themselves rather than to somebody down here, Mr. Bodfish?

Mr. BODFISH. There is no question, Mr. Gamble, that it should be entirely and exclusively an affair for the shareholders if they are going to a State institution of the type of Federal institution.

Mr. KUNKEL. I am afraid you do not realize, Mr. Bodfish, that the Federal bureaucracy is strong.

Mr. BODFISH. If I could get a letter from every home owner who did not buy a home in 1942, 1943, and 1944, because, as Mr. Fahey says, prices were too high, I think we would get 2,000,000 letters. We are all of us wise and unwise at times.

Mr. BOGGS. What do you think of prices now?

Mr. BODFISH. Here is my sincere opinion: premiums are being paid for occupancy and possession of existing houses. There is no question about it. I do not, myself, expect the prices of new houses to be lower, because everything that goes into the cost of production of houses—and when you go back to mine, forest, and factor, as well as the on-site labor—is being paid more, and in recent years they have been working less. That is the thing that the price of a new house is made of; it is the wages of men all the way along the line, and I do not expect to see wages fall nor do I expect to see labor become more efficient. So therefore I expect and hope for stabilization at about the present prices with regard to new houses.

Mr. BOGGS. I have talked to some of my colleagues here on the committee, and they expressed the personal feeling that they would not even think about building a house today, if they could get out of it.

Frankly, I have talked with many people in addition to Mr. Folger and Mr. Riley, and I find that to be a general expression.

Mr. BODFISH. And, Congressman, that is the wholesome thing. The only thing that will bring prices down is either a tremendous production of houses, or if consumers cease bidding for the short supply.

Mr. BOGGS. You are talking about wages. As soon as this lay-off of workers gets universal—and it is becoming universal—wages are going to come down.

The CHAIRMAN. Will you yield to me, Mr. Boggs?

Mr. BOGGS. Surely.

The CHAIRMAN. There are three outstanding economists in the United States, one of whom is Mr. Bowles, advocating a general increase on wages of 10 percent and a general reduction in prices of 20 percent.

Mr. BOGGS. I do not subscribe to that kind of economy.

Mr. BROWN. Will you yield to me, Mr. Boggs?

Mr. BOGGS. Yes.

Mr. BROWN. I think one thing alone will bring the value of real estate down and that is when everybody believes prices are too high and do not build. That is the one thing that is going to reduce the market value in 12 months to a great extent.

Mr. BODFISH. I hope so.

Mr. BOGGS. It seems to me that this thing has happened before, and prices have come down before. In 1928 and 1929 the prices of houses

right here in Washington were tremendous, and the same houses 3 or 4 years later sold for 50 percent of the price they were bringing in 1929.

Mr. BODFISH. But you have never had, before in the history of this country, protected wage levels, the vehicles for spreading the work, and the rising cost of living facing every worker. I do not want to argue about it. What I would like to do is say let us look at it a year from now, and I am willing to bet something that I am right, but I may be wrong. I am not a boomer. It is not that. I just think I see a whole change in your labor costs and efficiency situation that will prevent any substantial fall in the price of new houses. Of course, the old ones that people have been paying premiums for for occupancy and possession, that is washing out rapidly now.

Mr. Chairman, the other day Representative McMillen asked me for figures on the income of veterans. The only thing that is available is a report by the Bureau of the Census covering some 40 or 50 areas in which they made sample explorations. For example, in Cook County, Ill., they indicate that 84 percent of the World War II servicemen are employed; 8 percent of them are in-migrants, and their median income—that is, not the statistical average, but the mid-income—is \$47 a week. Forty-nine percent of them are married. And then it goes on with 40 percent of them are living in rented rooms or doubled up, and the like. It is a very excellent piece of literature, and he asked me for it, and I am glad I have it here.

Mr. COLE. Mr. Bodfish, I dislike to put you particularly on the spot, but Mr. Fahey was not in the room when you made your statement a while ago. I understand he is now. As I understand, you state the Federal Home Loan Bank Administration has been arbitrary and capricious and offered the possibility of permitting favoritism among the associations.

Mr. BODFISH. I did not use that language.

Mr. COLE. No, that is my language.

Mr. BODFISH. I will be glad to repeat my approximate language.

Mr. COLE. That was the implication I got from your language.

Mr. BODFISH. It has been at times. I would be very glad to make the statement, although I do not usually. I try to avoid making any personal references.

Mr. COLE. I realize that. I do not mean anything personal, but the statement was made and while he is here, I would like to have you clarify it.

Mr. BODFISH. I said we objected strenuously to the language which placed in his hands, or the hands of his associates, the discretion to determine, by regulation or otherwise, that one association can make title I loans and the next association cannot, or that their friends can make them, or it can become a device to favor those who know them well and to punish those who sometimes have not been entirely friendly or even have insisted upon running their institutions according to the law, and properly, and not the way sometimes Mr. Fahey's examiners want them run.

We want the Congress to follow the pattern of the banking laws and insurance laws in all the States to the effect that when you grant investment powers, they should be granted across the board for all institutions, or they should be granted to none. We do not want the discretion on that point lodged down in Washington.

I also, indicated, Mr. Fahey, we were opposed to the \$2,500 ceiling on property-improvement loans, and we were opposed to the inclusion of home equipment.

Mr. FAHEY. I thought you said you wanted the inclusion of home equipment.

Mr. BODFISH. I explained to the committee, and I will be glad to go over it. We would like to have the inclusion of home equipment.

Mr. FAHEY. Well, we—

Mr. BODFISH. Just a minute; let me finish.

We went to the American Bankers Association in order to avoid having a competitive controversy before the committees of Congress, and, as far as we are concerned, we agreed to alterations and repairs and improvements only because they are very opposed to our having the right to make home equipment loans and would enter appearances, both here and in the Senate, if that was included in the bill.

And we also agreed to a \$1,500 top and a 15-percent limitation of assets. So far as we are concerned, we have a gentlemen's agreement with the spokesmen of the A. B. A. which will eliminate controversy on the Senate side which might imperil the bills.

Mr. FAHEY. I think you need to be a little bit careful about that. You are liable to attract the attention of the Department of Justice, for one thing.

But let me explain this—

Mr. BODFISH. I have never been afraid to talk to any business group, Mr. Fahey, and have understandings with them and talk about them, too. Incidentally, you were in on the understanding in 1940, when we had an agreement with the A. B. A., so you would be in the same suit.

Mr. FAHEY. I do not recall anything of that sort, Mr. Bodfish, but even if I were inclined to favor your recommendation at some time, my position might be changed as a result of the developments of recent years.

May I comment briefly with reference to two things, Mr. Chairman? One, I think that this matter of loans on equipment is something that should be examined with some care. It can be worked out all right through understanding and regulations. It depends somewhat on the kind of equipment. Houses have been built all over this country, in the last couple of years, insured by the Veterans' Administration and by FHA, which included various kinds of equipment.

The question is what is reasonable equipment? In recent months I have seen houses that are being sold to veterans and others, where the right kind of an electric or gas stove was included, the right kind of a water heater and an electric refrigerator.

In other cases, I have been through houses where they were installed in the house, but the salesman did not explain to the buyer, except when questioned, that they were extras, beyond the price being charged for the house.

The CHAIRMAN. Are you speaking to the bill now?

Mr. FAHEY. Some have gone so far as to claim that anything fastened to the floor was part of the equipment and could be insured. I think that is out of reason. On the other hand, this question of equipment and the financing of it, in my opinion, is something that is worthy of careful discussion, so far as the lending institutions are concerned.

There is no particular reason why commercial banks should have the business exclusively. On the other hand, the corporations which sell this kind of equipment have been financing it for years. Frequently they have taken it out the very minute an unfortunate home owner happened to be getting somewhat delinquent in his payments because of sickness in the family, or for some other reason beyond his control, and this ought not to occur. There is still something to be thrashed out with reference to where the reasonable line is on this sort of thing.

So far as we are concerned, the thought of the Federal Home Loan Bank Administration would be to get together with the people in the associations and work out reasonable areas within which they should operate. I do not think regulations should be unfairly restrictive, or so elastic as to invite dangerous practices.

There is just one other thing I would like to say while I am on my feet, because the question has been raised, and then I will try not to take up any more of your time.

Mr. Bodfish made some remarks about arbitrary and capricious—

Mr. COLE. Mr. Fahey, those are my words.

Mr. FAHEY. All right, but I assume, Mr. Cole, that you are referring to allegations which have been brought to your attention and that of many others. These words have been circulated all over the country in recent months at pretty large expense.

Mr. COLE. I did not want to put my words in Mr. Bodfish's mouth.

Mr. FAHEY. I understand that. If, however, you have not received numerous letters containing these words, Mr. Cole, then you have been overlooked and discriminated against.

Right now the Supreme Court of the United States is dealing with this question of arbitrary and capricious action on the part of the Federal Home Loan Bank Administration. The issue raised is the result of the appointment, by us, of a conservator for a California association. After the courts get through with this issue and the facts can be brought out fully I hope that this committee will provide an opportunity for a careful examination of these charges—every one of them—and devote the time to it that is necessary. It not only represents some problems that the committee should be familiar with, but I think the public ought to know something about them as well. When all the facts can be disclosed they will tell their own story.

Now, so far as Mr. Bodfish's claims of arbitrary action by us are concerned, I think he ought to list the cases and put them before us. That is a part of his job. We will be pleased to answer those claims when he submits them.

Mr. BODFISH. I will be glad to bring them up here, Mr. Commissioner.

Mr. FAHEY. All right.

Mr. BODFISH. We cannot accomplish anything by giving it to you.

Mr. FAHEY. Why? When have you ever brought them before us?

Mr. BODFISH. Because I do not come up here to open up these questions.

Mr. FAHEY. That is all right, but it's your main business, isn't it, to raise such questions with us aside from running a Federal savings and loan association on the side, for which you are well compensated, by the way.

Mr. BODFISH. It is well run.

Mr. FAHEY. I don't know.

Mr. BODFISH. You have 10 examiners in there once a year.

Mr. FAHEY. Well, I prefer not to get into personal questions, but since the subject has been opened up and you have talked about it before, there are some questions that might be discussed, concerning the activities of an executive vice president of the United States Savings and Loan League who also runs a Federal savings and loan association on the side, if you like. I would be prepared to discuss it, however, at any time you like, Mr. Bodfish.

Now, as to the other thing—

Mr. SPENCE. Mr. Fahey, I do not know whether you answered the question or not. What do equipment loans generally include?

Mr. FAHEY. Well, there is great variation in them. In general, they include heating equipment, an automatic refrigerator, an automatic water heater, a gas or electric stove, and so on. Today, the refrigerator is a reasonable part of the equipment of a home. There are hot water heating systems, which are entirely reliable and they are a safe investment, if given a reasonable time in which to pay for them, but the people ought not to be soaked 9 and 10 percent for the amount of money involved in those things.

Mr. SPENCE. It includes personal property, then, does it?

Mr. FAHEY. Well, one question about which there has been debate is whether equipment is removable or not. A lot of home owners buy this equipment and own it themselves, and if they move out, they expect to take it with them. There is always room for differences of opinion about this sort of thing. Some buyers of a home may prefer that the owner would take it out because they would like some other kind of a refrigerator. Then, there are differences of opinion about electric stoves and gas stoves. As to those types of equipment, both electric and gas, tremendous improvements have been made in recent years. This whole matter of equipment, as a result of the research work that has been done by manufacturers, is changing, and that is something that has to be taken into consideration.

I think it might be highly desirable for the Federal Housing Administration, the Veterans' Administration, the Federal Deposit Insurance Corporation, and the Federal Savings and Loan Insurance Corporation which are insuring an awful lot of home loans, to get together and reach a general understanding as to what should be included in loans of this kind and what ought to be excluded. I do not think it is the business of the American Bankers Association and the United States Savings and Loan League to settle important questions of legislation on the side.

Pardon me for taking up so much of your time, Mr. Chairman.

Mr. BODFISH. Mr. Chairman, I do not dissent from Mr. Fahey's general theory about equipment loans, but we have waited for many years to be able to make improvement and repair loans, and we would like to get that decided, and we will then be ready for any exploration as to whether it is right for us to go into the home-equipment loan business. We do not want our property improvement loan business, which I think everybody agrees is appropriate for us, to be jeopardized over a controversy in a competitive situation in which the organized banking interests feel we are stepping out of our field. I do not agree with them, but it is better, I think, to agree on these things and get

something done than to have a controversy and lose things that are more important.

Mr. BUCHANAN. Do you object to the \$2,500 limit?

Mr. BODFISH. Our understanding is \$1,500, and that is what our people have approved in our organization. I do not think we should move that to \$2,500 and invite controversy on the other side.

Mr. RILEY. Mr. Bodfish, when it goes above \$1,500, it would not be so expensive to draw up a new loan.

Mr. BODFISH. That is right. You are getting into pretty large unit of credit, however.

Mr. FOLGER. Is it not a fact that the equipment situation is still unsettled and if you leave that out, you could well reduce it to \$1,500?

Mr. BODFISH. That is right. There are not many of these improvement jobs that go above \$1,500. I think the average title I loan is something like \$420. So this gives us enough leeway.

Mr. GAMBLE. Mr. Bodfish, since you were here the other day, I introduced H. R. 3448. Would you mind commenting on that, sir? I do not think the committee members have a copy of the bill.

Mr. BODFISH. It is a very simple matter, Mr. Chairman. The Home Loan Bank account only qualifies as mortgage collateral for advantages to member institutions, mortgages that have a maturity of less than 20 years. Some of the Federal Housing Administration title II mortgages are 25 years, many of the GI loans are 25 years, and they are not eligible as collateral for borrowings from Federal home loan banks, and it changes the 20-year limitation to 25 years, which would take care of principally these GI loans and as far as I know there is no one who objects to it at all. The Department has approved it, and I believe it has even had a budget approval, has it not, Mr. Fahey?

Mr. FAHEY. Yes.

Mr. BODFISH. There is no disagreement anywhere, Mr. Gamble. And this little bill would be very appropriate.

The CHAIRMAN. Are you in favor of 3448, Mr. Fahey?

Mr. FAHEY. I do not see any objection to that, but while we are on that subject, I would hate to see any of us going beyond 25 years. This 30- to 34-year business on small houses is full of danger I think.

Mr. BODFISH. I agree with you.

The CHAIRMAN. Would you request the committee to report that bill out?

Mr. FAHEY. Yes. I do not see why not. Let me check on it, if you will. I have not seen it before.

Mr. GAMBLE. In other words, if you have to hold any mortgage above 20 years, Mr. Bodfish, you cannot use it as collateral; you have two groups; anything up to 20 years you can use as collateral and that above 20 years you cannot use.

Mr. BODFISH. That is correct.

Mr. FAHEY. This is all right as far as we are concerned, Mr. Chairman.

The CHAIRMAN. Then you are both agreed that H. R. 3448 should be reported out?

Mr. FAHEY. Yes. Unless, on checking further with the legal department, they send word back to you right away.

The CHAIRMAN. Will you address a letter to Mr. Gamble on it right away, then?

Mr. FAHEY. We do not need to. You can understand that we are in favor of it unless you hear from me right away.

The CHAIRMAN. We will not take any action on reporting that out until Monday, and if we have not heard from you by Monday we will do so.

Mr. FAHEY. That is right.

The CHAIRMAN. Do you think it is necessary to have any further hearings on it?

Mr. FAHEY. They tell me there is no objection to it, and that legally it is all right.

The CHAIRMAN. Are there any questions about H. R. 3448?

Mr. BUCHANAN. Was it ever 25 years before?

Mr. BODFISH. No. The original act was 20 years, and there was not a 25-year mortgage at that time. It is a simple matter.

The CHAIRMAN. Mr. Fahey, would you consider it necessary to have any further hearings on that?

Mr. FAHEY. No, I do not think so, Mr. Chairman.

The CHAIRMAN. Mr. Bodfish, do you know of anybody who might be opposed to it?

Mr. BODFISH. I know of no one in the business or among our competitors or in other departments who would object because it mainly takes care of GI loans. I want to apologize, Mr. Chairman, for leading the committee into personalities and discussion of outside activities. I am sorry Mr. Fahey brought that up. I will be glad to discuss his outside activities some time as he wants to discuss mine.

The law prohibits him from having any; it does not me.

Mr. TALLE. Mr. Bodfish, is it not true that in connection with these high costs that are talked of, there are two very important factors: one is whether a fair day's work can be had for a fair day's pay?

Mr. BODFISH. That is right.

Mr. TALLE. And then, secondly, the question of the fiscal and financial policies of the Government, because they affect the yardstick which we call the dollar. When the housewife finds this dollar buys less and less when she goes to the grocer, there is naturally an unhappy household.

Mr. BODFISH. Yes, sir.

Mr. TALLE. So we should do what we can to stiffen the backbone of the dollar.

Mr. BODFISH. That is right.

Mr. TALLE. And until we take those two things into account, we will just have higher and higher prices.

Mr. BODFISH. That is right. Someone has said that the market basket which the housewife used to fill 10 years ago for \$5 on Saturday night now costs \$16 to fill. You have the thing through the whole price structure, and I personally feel while there has been considerable inflation, there has been less inflation in real estate than in most other commodities.

Mr. TALLE. And amazingly enough, a lot of people who say much about high costs are the same people who ask for bigger and bigger appropriations.

Mr. BODFISH. That is right. We are for smaller and smaller appropriations.

MR. SPENCE. The gentleman said there is less real-estate inflation than in anything else. I agree with you, except for farms. But as to real estate as a whole, I think you are correct.

The CHAIRMAN. Thank you, Mr. Bodfish, and thank you, Mr. Fahey. (The following statements were received for the record:)

NATIONAL ASSOCIATION OF STATE SAVINGS, BUILDING AND LOAN SUPERVISORS,
New York 13, N. Y., May 20, 1947.

HON. JESSE P. WOLCOTT,

*Chairman, Committee on Banking and Currency,
House of Representatives, Washington, D. C.*

DEAR MR. WOLCOTT: This letter will confirm my night letter of May 15 which read as follows:

"Regret notice of hearing on H. R. 2798 reached me on field trip too late for my personal attendance. National Association of State Savings, Building, and Loan Supervisors urges favorable report on only conversion bill fair to members of Federal savings and loan associations, Federal and State supervisors, and Federal Savings and Loan Insurance Corporation. Creates real two-way street. Without giving Federal authorities power to prevent conversions when no shares are held by Treasury or HOLC, nevertheless fully protects their interests and those of Federal Savings and Loan Insurance Corporation. Note especially page 2, lines 20, 21, 22, 23. Bill is free from objectionable features of S. 866, section 502, and S. 913, which permit FHLBA, FSLIC, or both, to prevent conversions."

The contents of your letter were telephoned to me in Buffalo. I trust that your committee will accept the night letter and the following statement in lieu of a personal appearance by representatives of our association.

H. R. 2798 will restore the reciprocal arrangement between State and Federal supervisory authorities whereby State savings and loan associations could convert freely to Federal savings and loan associations without the consent of the State supervisory officials, and Federal savings and loan associations could convert to State charter, without the consent of the Federal supervisory authorities.

This two-way street has not been in effect since July 22, 1944, when Federal Regulation 204.3 was repealed by the Federal Home Loan Bank Administration. This regulation read as follows:

"204.3 CONVERSION INTO A STATE-CHARTERED INSTITUTION. Any Federal association may convert itself into a State-chartered thrift and home-financing institution, upon the vote, cast at a legal meeting called to consider such action, specified by the law of the State in which the home office of the Federal association is located, as required by such law for a State-chartered institution to convert itself into a Federal association, and upon compliance with other requirements reciprocally equivalent to the requirements of such State law for the conversion of a State-chartered institution into a Federal association provided legal titles are protected by such conversion or provided proper conveyance of legal titles are made."

You will observe that when this regulation was in effect no consent on the part of the Federal Home Loan Bank Administration or the Federal Savings and Loan Insurance Corporation was required before a Federal savings and loan association could convert to a State charter. Now Commissioner Fahey is demanding that no conversion be permitted unless consent is first obtained from both of these Federal instrumentalities. In view of the fact that most of the State statutes permitting conversion of State savings and loan associations to Federal savings and loan associations were passed at the direct request of the Federal Home Loan Bank Administration and provided for conversion without the consent of the State authorities, the members of this association consider the Commissioner's demand inequitable.

He claims that his Administration is obligated to watch out for the best interests of the members of Federal savings and loan associations, and must, therefore, be in a position to prevent conversions. In making this statement he overlooks two things: (1) State supervisors are equally zealous in protecting the interests of members of State savings and loan associations and would give the members of a converting Federal just as much protection as the Federal Home Loan Bank Administration could. (2) It is these very members of the Federal savings and loan association for whom the Commissioner is so solicitous who would decide whether their institution should remain under Federal supervision

or convert to State charter where it would be under State supervision. Members of savings and loan associations have an ownership not a creditor relation to their institution. They have the right to participate in the choice of its management and to vote upon such questions as conversion. H. R. 2798 is fair to the members of the converting association and protects their interests.

If shares of a Federal savings and loan association are owned by the Secretary of the Treasury or by the Home Owners' Loan Corporation, the interests of these Federal instrumentalities should be protected. H. R. 2798 protects them. When they, or either of them, are the owners of such shares, conversion may take place only with the approval of the Federal Home Loan Bank Administration and the Federal Savings and Loan Insurance Corporation. H. R. 2798 is fair to these Federal instrumentalities.

As the converting Federal will continue to be an insured association, the interests of the Federal Savings and Loan Insurance Corporation should be protected. H. R. 2798 protects them. Without giving to the insurance corporation the right to prevent conversions, it nevertheless requires that the converting institution "shall continue to be an insured institution and bound under all of the agreements contained in the original application for insurance of accounts, and by such conversion shall accept and be bound by all agreements required by section 403 of title IV of the National Housing Act." H. R. 2798 is fair to the Federal Savings and Loan Insurance Corporation.

H. R. 2798 is supported by this association, which represents supervisors of savings and loan associations in 38 States and Territory of Hawaii, by the National Association of Supervisors of State Banks, which represents such supervisors in 48 States, and by the United States Savings and Loan League, which has 3,500 member associations and represents by far the largest number of savings and loan members in the Nation.

We respectfully urge your committee to report H. R. 2798 favorably and to work for its passage in the House of Representatives.

Faithfully,

E. H. LEETE,
Chairman, Executive Committee.

NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS,
New York, N. Y., May 15, 1947.

Hon. JESSE P. WOLCOTT,
*Chairman, Committee on Banking and Currency,
United States House of Representatives,
Washington 25, D. C.*

MY DEAR REPRESENTATIVE WOLCOTT: This letter is addressed to you as chairman of the House Banking and Currency Committee and through you to the other members of the committee. I am writing on behalf of the National Association of Mutual Savings Banks whose members comprise most of the mutual savings banks of the country. These mutual savings banks are nonstock banks located in 17 States with total deposits of approximately \$17,000,000,000. They are separate and independent institutions playing an important part in the home mortgage field. The National Association of Mutual Savings Banks has a membership of approximately 531 banks which represent close to 100 percent of the mutual savings banks in the country.

It has just come to my attention that the House Banking and Currency Committee opened hearings on three bills—H. R. 2798, H. R. 2799, and H. R. 2800—on Tuesday, May 13, 1947.

With respect to H. R. 2798, we would like to make the suggestion that this bill be modified to include savings banks among the types of institutions into which a Federal savings and loan association may convert. This bill as now written would authorize any Federal savings and loan association to convert itself into a State-supervised local thrift institution, but savings banks are not mentioned. This suggested modification could be accomplished by inserting the words "or a savings bank" after the last comma in line 10 on page 1 of the bill.

In addition, it is suggested that the bill be modified so that in the case of a conversion to a savings bank, the present requirement in H. R. 2798 that the converted institution shall continue to be insured by the Federal Savings and Loan Insurance Corporation be eliminated. Savings banks are not eligible under the law for insurance with the Federal Savings and Loan Insurance Corporation but Congress made savings banks eligible for deposit insurance with the Fed-

eral Deposit Insurance Corporation. Accordingly, the language should be further modified by inserting after the word "and" in line 18 on page 2 the following "except with respect to institutions converted to savings banks".

Mutual savings banks in some States are insured by State-wide and State-controlled organizations. In other States mutual savings banks are insured by the Federal Deposit Insurance Corporation. Savings banks are State institutions regulated primarily by State supervisory banking authorities. It would seem proper that the policy with respect to deposit insurance should be governed by the responsible State supervisory authorities. If, however, the committee requires Federal deposit insurance as a condition to conversion, it could be accomplished by the insertion in line 2 on page 3 of a new sentence to the following effect:

"With respect to institutions converted to savings banks, the converted institution shall have its deposits insured by the Federal Deposit Insurance Corporation".

Considerable interest has developed in certain States with respect to the possibility of converting from Federal savings and loans into savings banks. We respectfully suggest that such an association should have the choice of conversion into a savings bank if it elects to do so.

We have no comments to make upon H. R. 2799 or H. R. 2800.

Your consideration of the suggestions made herein will be greatly appreciated. Respectfully submitted.

FRED N. OLIVER, *General Counsel.*

(Statement of American Bankers Association on H. R. 2800:)

The bill (H. R. 2800) which is before the Committee on Banking and Currency of the House of Representatives, represents a legislative proposal which has been embodied in other bills before Congress in recent years. During these years the American Bankers Association, through its appropriate committees, has given careful consideration to the basic intents and purposes of this legislation, including H. R. 2800.

In 1940, Mr. A. L. M. Wiggins, of Hartsville, S. C., then chairman of the committee on Federal legislation of the American Bankers Association, and later president of the association, in testimony before the Senate Banking and Currency Committee, stated certain principles which have since served as a guide in the consideration of all legislative proposals relating to the Federal savings and loan associations and the Federal Home Loan Bank System. Mr. Wiggins said:

"We wish to emphasize that the American Bankers Association has always favored a sound building and loan system, soundly administered. We believe that such a system, operating in its natural and proper field, utilizing private capital and under private management, with sound governmental regulation, serves a valuable public service and is infinitely to be preferred to the inevitable alternative—a Government-owned, Government-operated, and Government-financed home-mortgage banking system."

As we understand the purpose of H. R. 2800, it is to permit any Federal savings and loan association to make property alteration, repair, or improvement loans, without security of any kind, whether by mortgage or otherwise, either (1) insured under title I of the National Housing Act, or (2) guaranteed or insured under the Servicemen's Readjustment Act, or (3) without such insurance or guaranty.

We believe that the proposal in this bill to permit these associations to make unsecured loans is a departure from their natural and proper field of operations. Traditionally these associations have been mortgage lending institutions. These institutions have had no experience in making loans such as these where their soundness is entirely dependent on the character of the borrower.

Even the insurance under title I of the National Housing Act or the guaranty or insurance under the Servicemen's Readjustment Act is no substitute for the experience of a lender in avoiding losses in making this type of loan. The reason for the favorable loss experience on FHA title I loans has been because these insured loans in large measure have been made by experienced lenders who were competent to evaluate the risks involved. It seems reasonable to expect that a lending institution which has been accustomed to rely on mortgage security in making loans will suffer considerably greater losses than a lender which is accustomed to make unsecured loans. It must be kept in mind that the insurance provided both under title I of the National Housing Act and under the Servicemen's Readjustment Act is not on the individual loan

but rather is on a certain percentage of the loss sustained on the aggregate of such loans. Also the guaranty under the Servicemen's Readjustment Act covers not more than 50 percent of the outstanding balance of the loan. Therefore, if larger losses are taken on a substantial number of individual loans, the insurance or guaranty may be insufficient.

Furthermore this bill would permit these associations to make these unsecured loans without the insurance or guaranty protection. It is interesting to note that although eligible, relatively few of these associations, as compared to other eligible lenders, have participated in the mutual mortgage-insurance program under title II of the National Housing Act by having their home mortgage loans insured. In the light of this attitude towards the mutual mortgage-insurance program, it seems reasonable to suppose that these associations will be more likely to make these unsecured loans without having them insured in order to obtain a larger income by avoiding the payment of the insurance premium required under title I of the National Housing Act.

Another objection to this bill is that its language appears to be broader than its purpose. The bill, as written, would appear to permit a Federal savings and loan association to make loans for any purpose which qualifies for the guaranty or insurance under the Servicemen's Readjustment Act. Loans insured under title I of the National Housing Act are limited by the terms of that title to property alteration, repairs, and improvements and the terms of this bill similarly limit loans other than those insured or guaranteed. However, no such limitation appears to apply to loans made by these associations which are guaranteed or insured under the Servicemen's Readjustment Act, either by the terms of this bill or the terms of that Act. Thus, if this bill became law as now drawn, a Federal savings and loan association could make loans for any of the purposes for which loans may be guaranteed under the Servicemen's Readjustment Act though they be wholly unrelated to home financing. For example, such associations could make working capital loans to businesses or crop loans to farmers. This is surely going far afield from the traditional home financing functions of these institutions.

There appears to be only one area in which these unsecured property alteration, repair, or improvement loans might justifiably be made by these associations. That is where they already hold a mortgage on the property which is to be altered, repaired, or improved with the proceeds of the unsecured loan. In such circumstances an unsecured loan might be warranted to save the borrower or the association the additional expense of rewriting the mortgage, searching the title, recording papers, etc., which one or the other would have to bear. Also since the association will already have a mortgage loan on the property it should have some knowledge of the borrower's character and the prospects of repayment of the unsecured loan according to its terms.

It is submitted that if Federal savings and loans association are to be empowered to make unsecured loans as contemplated under H. R. 2800, they should be permitted to make such loans only for the purpose of alteration, repair, or improvement of properties on which such associations hold mortgages at the time such unsecured loans are made.

THE AMERICAN BANKERS ASSOCIATION,
New York 16, N. Y., May 19, 1947.

HON. JESSE P. WOLCOTT,
*Chairman, House Committee on Banking and Currency,
House of Representatives, Washington, D. C.*

DEAR CONGRESSMAN: In the May 19 issue of the American Banker, on page 8, reference is made in an article to an alleged agreement between the United States Savings and Loan League and the American Bankers Association relative to certain proposed legislation.

For your information, in order that the record may be clear, Mr. Bodfish during the past 4 or 5 months has submitted to representatives of the American Bankers Association proposed legislation. These proposals have been discussed, but at no time during those conferences, nor at the present time, has there ever been any agreement between the United States Saving and Loan League and the American Bankers Association as to legislation which was considered by your committee last week and which was referred to in the above-mentioned American Banker article.

If you will be good enough to place this letter in the record it will be appreciated.

Yours sincerely,

D. J. NEEDHAM, *General Counsel.*

The CHAIRMAN. That concludes the open hearings on these four bills.

We will take them up in Executive Session at 2 o'clock this afternoon.

We would also like to take up the bill which was introduced yesterday, H. R. 3492.

The committee will now adjourn until 2 o'clock when it will go into Executive Session.

(Whereupon the committee adjourned.)

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