

AMENDMENTS TO FEDERAL HOME LOAN BANK ACT

HEARINGS BEFORE THE COMMITTEE ON BANKING AND CURRENCY HOUSE OF REPRESENTATIVES

EIGHTY-FIRST CONGRESS

SECOND SESSION

ON

H. R. 6743

A BILL TO AMEND THE FEDERAL HOME LOAN BANK
ACT, AS AMENDED, AND TITLE IV OF THE
NATIONAL HOUSING ACT, AS AMENDED,
AND FOR OTHER PURPOSES

JANUARY 18, 19, AND 20, 1950

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1950 AMENDMENTS TO FEDERAL HOME LOAN BANK ACT

WEDNESDAY, JANUARY 18, 1950

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

The committee met, pursuant to notice, at 10:30 a. m., Hon. Brent Spence, chairman, presiding.

Present: Messrs. Spence, Brown, Patman, Deane, O'Brien, McKinnon, Addonizio, Dollinger, Mitchell, O'Hara, Wolcott, Talle, McMillen, Cole, Hull, and Nicholson.

The CHAIRMAN. The committee will be in order.

We are meeting this morning to consider H. R. 6743, a bill to amend the Federal Home Loan Bank Act.

(The bill referred to is as follows:)

[H. R. 6743, 81st Cong., 2d sess.]

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

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Federal Home Loan Bank Act, as amended, is amended by adding the following new section after section 5 thereof:

"SEC. 5A. No member of a Federal home loan bank shall make or purchase any loan at any time when its cash and obligations of the United States are not equal to such amount as the Home Loan Bank Board shall by regulations prescribe: *Provided*, That such amount shall not be less than 5 per centum or more than 15 per centum of the obligation of the member on withdrawable accounts or, in the case of any member insurance company, such other base as the Board may determine to be comparable. The Board is authorized in said regulations to prescribe from time to time different amounts, within the limitations hereinbefore specified, for different classes of member institutions, and for such purposes the Board is authorized to classify such members according to type of institution, size, location, rate of withdrawals, or such other basis or bases of differentiation as the Board may deem to be reasonably necessary or appropriate for effectuating the purposes hereof. Failure to comply with the provisions hereof shall constitute ground for removal from membership. This section shall be effective six months after the date of its enactment."

SEC. 2. Section 6 of the Federal Home Loan Bank Act, as amended, is amended by the addition of the following new subsection:

"(1) Within one year 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 member's home mortgage loans, home-purchase contracts, and similar obligations, but not less than \$500. Such stock in excess of the amount hereby required may be purchased from time to time by members and may be retired from time to time as heretofore. One year 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 Secretary of the Treasury equivalent to the amount of its stock held by its members in excess of the amount required to be held by them by the first two sentences of subsection (c) of this section immediately prior to the enactment of this amendment and annually thereafter each Federal home loan bank shall retire an amount of such Government stock equiva-

lent to 50 per centum of the net increase of its stock held by members since the last previous retirement: *Provided*, That none of such Government capital shall at any time be retired so as to reduce the aggregate capital stock, reserves, surplus, and undivided profits of the Federal home loan banks to less than \$200,000,000: *Provided further*, That notwithstanding any provision of this subsection, nothing in this subsection shall limit or affect the operation of subsection (g) of this section."

SEC. 3. Subsection (g) of section 11 of the Federal Home Loan Bank Act, as amended, is amended to read as follows:

"(g) Each Federal home loan bank shall at all times have at least an amount equal to the current deposits received from its members invested in (1) obligations of the United States, (2) deposits in banks or trust companies, (3) advances with a maturity of not to exceed one year which are made to members or nonmember borrowers, upon such terms and conditions as the Board may prescribe, and (4) advances with a maturity of not to exceed one year which are made to members or nonmember borrowers whose creditor liabilities (not including advances from the Federal home loan bank) do not exceed 5 per centum of their net assets, and which may be made without the security of home mortgages or other security, upon such terms and conditions as the Board may prescribe."

SEC. 4. Section 11 of the Federal Home Loan Bank Act, as amended, is amended by adding at the end thereof the following new subsections:

"(i) The Secretary of the Treasury is authorized in his discretion to purchase any obligations issued pursuant to this section, as heretofore, now, or hereafter in force and for such purpose the Secretary of the Treasury is 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 extended to include such purchases. The Secretary of the Treasury may, at any time, sell, upon such terms and conditions and at such price or prices as he shall determine, any of the obligations acquired by him under this subsection. All redemptions, purchases, and sales by the Secretary of the Treasury of such obligations under this subsection shall be treated as public-debt transactions of the United States. The Secretary of the Treasury shall not at any time purchase any obligations under this subsection if such purchase would increase the aggregate principal amount of his then outstanding holdings of such obligations under this subsection to an amount greater than \$1,000,000,000. Each purchase of obligations by the Secretary of the Treasury under this subsection shall be upon such terms and conditions as to yield a return at a rate determined by the Secretary of the Treasury, taking into consideration the current average rate on outstanding marketable obligations of the United States as of the last day of the month preceeding the making of such purchase."

"(j) Notwithstanding the provisions of the first sentence of section 202 of the Government Corporation Control Act, audits by the General Accounting Office of the financial transactions of a Federal home loan bank shall not be limited to periods during which Government capital has been invested therein. The provisions of the first sentence of subsection (d) of section 303 of the Government Corporation Control Act shall not apply to any Federal home loan bank."

SEC. 5. Section 402 of the National Housing Act, as amended, is amended by the addition of the following new subsection:

"(h) After the effective date of this subsection the Corporation is authorized and directed to pay off and retire annually at par an amount of its capital stock equal to 50 per centum of its net income for the fiscal year, unless the Home Loan Bank Board by resolution shall determine that a smaller amount shall be retired. Such payments shall be made promptly after the end of each fiscal year (beginning with the first fiscal year which begins after the date of enactment of this subsection) until the entire capital stock is retired. In lieu of any and all unpaid dividends, whether for any present, past, or future period, on its capital stock, all of which dividends are hereby waived, the Corporation shall pay to the Secretary of the Treasury, promptly after the end of each fiscal year (beginning with the first fiscal year which begins after the date of enactment of this subsection) a return on the average amount, at par, of its capital stock outstanding during such fiscal year at a rate determined by the Secretary of the Treasury, taking into consideration the current average rate on outstanding marketable obligations of the United States as of the last day of the sixth month of such fiscal year. The retirement of such capital stock shall not affect the applicability to said Corporation of the Government Corporation Control Act, as amended."

SEC. 6. Section 402 of the National Housing Act, as amended, is amended by the addition of the following new subsection:

"(i) The Corporation is authorized to borrow from the Treasury, and the Secretary of the Treasury is authorized and directed to loan to the Corporation on such terms as may be fixed by the Corporation and the Secretary, such funds as in the judgment of the Home Loan Bank Board are from time to time required for insurance purposes, not exceeding in the aggregate \$750,000,000 outstanding at any one time, and the Corporation hereafter shall not exercise its borrowing power under the first sentence of subsection (d) of this section for the purpose of borrowing money from any other source: *Provided*, That each such loan shall bear interest at a rate determined by the Secretary of the Treasury, taking into consideration the current average rate on outstanding marketable obligations of the United States as of the last day of the month preceding the making of such loan: *Provided further*, That nothing in this subsection shall prevent the Corporation from issuing debentures in accordance with the provisions of subsection (b) of section 405. For the purposes of this subsection the Treasury is 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 loans. Any such loan shall be used by the Corporation solely in carrying out its functions with respect to such insurance. All loans and repayments under this subsection shall be treated as public-debt transactions of the United States."

SEC. 7. Subsection (a) of section 404 of the National Housing Act, as amended, is amended by striking out "one-eighth" where it appears therein and inserting in lieu thereof "one-twelfth."

SEC. 8 Subsection (b) of section 404 of the National Housing Act, as amended, is repealed and stricken out.

SEC. 9. Subsection (c) of section 404 of the National Housing Act, as amended, is redesignated subsection (b) and amended to read as follows:

"(b) 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, 1949, 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."

The CHAIRMAN. I understand Mr. Raymond M. Foley, the Housing and Home Finance Administrator, would like to make a short statement, and as he has other engagements, we will call on him first.

Mr. FOLEY. Thank you, Mr. Chairman. I do have another important meeting and sometime during the course of Mr. Divers' testimony, if agreeable with you, I will quietly leave and the Deputy Administrator will remain and answer any questions on behalf of the Administrator's office.

The CHAIRMAN. Very well. You may proceed, Mr. Foley.

STATEMENT OF RAYMOND M. FOLEY, HOUSING AND HOME FINANCE ADMINISTRATOR

Mr. FOLEY. Mr. Chairman and members of the committee, I appreciate the opportunity of appearing before you today to testify briefly on H. R. 6743, which relates to the operations of the Home Loan Bank Board.

You may recall that when I was privileged to appear before your committee last July, I commented on legislation similar in many respects to the current bill. I found it necessary at that time to suggest that the committee postpone action on the legislation then before it until we had had some further opportunity to reconcile differences of opinion on the legislation and explained that we were at that time in the process of a joint effort with the Board of Governors of the Federal Reserve System to work out a satisfactory degree of reconciliation.

It is with considerable pleasure that I am now able to advise your committee that I have been authorized by the Director of the Bureau of the Budget to inform you that the enactment of the first six sections of H. R. 6743 would be in accord with the program of the President. I am also glad to be able to inform you that the Bureau of the Budget has advised me that the first six sections of the bill are acceptable to the Board of Governors of the Federal Reserve System and to the Treasury.

Chairman Divers, of the Home Loan Bank Board, is here and will discuss the various provisions of H. R. 6743 with you. I should like merely to emphasize to your committee that the first six sections of the bill have been designed to carry out the President's repeated recommendations for legislation needed in this area.

Briefly, the first six sections of the bill would provide for a desirable emergency support by the Federal Treasury of the Federal Home Loan Bank System and the Federal Savings and Loan Insurance Corporation. These sections likewise provide for an acceleration of the retirement of Government stock in the Federal Savings and Loan Insurance Corporation.

Both the stock-retirement proposals and the Treasury borrowing provisions contained in the bill are desirable and necessary additions to the legislation covering the operations of the Home Loan Bank Board and if adopted will, in my opinion, greatly strengthen and improve the effective work of the Home Loan Bank System. I strongly urge that favorable consideration be given by your committee to these provisions.

Thank you, Mr. Chairman. I understand Mr. Divers has a statement to present.

The CHAIRMAN. Thank you, Mr. Foley. That is all you desire to say at the present time?

Mr. FOLEY. That is all I have at this time, and will leave sometime during the course of Mr. Divers' testimony, if you will permit.

The CHAIRMAN. Very well.

Mr. Divers, you may proceed.

STATEMENT OF WILLIAM K. DIVERS, CHAIRMAN OF THE HOME LOAN BANK BOARD

Mr. DIVERS. Mr. Chairman and members of the committee, I testified on provisions similar to many of the provisions in this bill last July, and I propose this morning to devote most of my time to the new provisions of this legislation, the so-called liquidity requirements, and then to review briefly the remaining provisions of the bill, and the reasons for our position on those provisions.

It is my privilege to appear before you today as Chairman of the Home Loan Bank Board in response to your committee's request for a presentation of the Home Loan Bank Board's views with respect to H. R. 6743, now pending before your committee.

The entire subject matter of this bill relates to operations with which the Home Loan Bank Board is concerned in the supervision of the Federal home loan banks and in the direction and management of the affairs of the Federal Savings and Loan Insurance Corporation.

First, as to section 1. The first section of H. R. 6743 would add a new section 5A to the Federal Home Loan Bank Act to provide that,

effective 6 months after its enactment, no member of a Federal home loan bank could make any loan at any time when it did not hold cash and obligations of the United States in such minimum amount as was prescribed in regulations promulgated by the Home Loan Bank Board.

A limitation is contained in the bill which would require that the amount to be fixed by the Board in its regulations should be not less than 5 percent or more than 15 percent of the obligation of the member institution on withdrawable accounts. The net result of these requirements is that institutions which are members of Federal home loan banks would, as a condition of such membership, be required to maintain a certain minimum liquidity or to discontinue the lending of funds until such time as they were able to meet and maintain such minimum liquidity.

In considering the imposition of liquidity requirements on members of Federal home loan banks, it should be noted that the membership of the 11 Federal home loan banks consists principally of savings and loan and building and loan associations, which type of institution is known in Massachusetts as a cooperative bank and in Louisiana as a homestead association.

However, mutual savings banks and insurance companies are also eligible for membership. As of December 31, 1949, there were a total of 3,860 institutions which were members of a Federal home loan bank, of which 3,822 were institutions of the savings and loan type, 30 were mutual savings banks and 8 were insurance companies.

Consequently, at least at the present time, the desirability of a liquidity requirement, may be considered particularly from the standpoint of its effect on savings and loan associations. The savings and loan associations which are members of Federal home loan banks constitute 65 percent of the number of all such associations in the United States and hold \$13,300,000,000 in assets, which is over 90 percent of the total assets of all savings and loan associations in the United States.

Speaking generally, and as to the majority of savings and loan institutions, the industry itself has been keenly aware of this problem for many years, and individually and through trade organizations much constructive work has been done in achieving a satisfactory relationship between the need to meet home-financing requirements and at the same time to maintain a position where the funds were reasonably available for withdrawal by shareholders.

To illustrate how well the industry has maintained reasonable liquidity in the absence of any statutory or regulatory requirement, savings and loan members of the Bank System as of December 31, 1948, held approximately \$600,000,000 in cash and \$1,300,000,000 in Government obligations. These holdings represented 19 percent of all withdrawable share capital. In considering the effectiveness with which the problem has been met without statutory or regulatory requirement, it should be noted also that home-financing demand has continued at a very high level within the past few years.

One of the principal reasons for the recommendation at this time that all members of Federal home loan banks be required to maintain a certain liquidity is the companion recommendation contained in section 4 of the proposed bill in which the Secretary of the Treasury

is authorized to purchase obligations issued by Federal home loan banks up to a total of \$1,000,000,000 outstanding at any one time.

Since their establishment in 1932, the Federal home loan banks have obtained funds for lending to their member institutions by the issuance of obligations in the open market either in the form of bonds or debentures. Such obligations are not obligations of the United States, nor are they guaranteed in any way by the United States, but are backed solely by the resources of the Federal home loan banks themselves.

It is not now proposed nor has it ever been proposed that such obligations be guaranteed by the United States. Federal home loan banks have been able throughout their existence to secure funds, through the issuance of their obligations, easily and at very favorable interest rates.

Mr. PATMAN. What are the rates?

Mr. DIVERS. About 1¼ percent at the present time, sir, for 5-month obligations.

Mr. PATMAN. Are they tax exempt?

Mr. DIVERS. No, sir; they are subject to all taxes. But that is about a 1-year obligation. I can give you the details on those if you would like to have the actual rates.

We have got one issue outstanding that is due January 20, that is 2 days from now. That was issued at 1% in the amount of \$43,000,000, and we are paying that off. We are not refunding it.

Another issue due on February 15, in the amount of \$88,000,000, which was issued at 1¼ percent; and another issue due on September 15, in the amount of \$75,000,000, at 1.35 percent.

Mr. PATMAN. How long do they run, usually?

Mr. DIVERS. About a year, sir.

Mr. PATMAN. About 1 year?

Mr. DIVERS. Yes.

Mr. PATMAN. In other words, short-term issues?

Mr. DIVERS. That is right.

However, it is considered highly desirable to provide for Treasury support of Federal home loan banks up to \$1,000,000,000 so that in the event of any emergency in which the banks could not obtain sufficient funds in the money markets, the resources of the Treasury up to \$1,000,000,000 would be available to support the Federal Home Loan Bank System.

This recommendation is not being made because of any now foreseeable emergency. It was first conceived many years ago as a desirable support. In fact, it is felt that the very existence of such support would tend to stabilize the Bank System in time of an emergency and might, therefore, render actual need for the support unnecessary.

The need for such assurance of Government support has been recognized in the case of other financial agencies of the Government. The commercial banking system is supported by the Federal Reserve banks which have the power to issue currency, make advances, rediscount eligible paper, and to purchase and sell securities in the open market.

The farm credit system is protected through the Federal Farm Mortgage Corporation, which has authority to issue Government-guaranteed bonds, and the Secretary of the Treasury has authority to purchase bonds of that corporation. The Federal Deposit Insurance Corporation is authorized to borrow money from the Treasury.

In a sense, it may be said that the billion-dollar Treasury support which would be provided by the enactment of section 4 of this bill is Treasury support of the liquidity of the Federal home-loan banks in an emergency and in turn of the institutions which are members of such banks and which may borrow from them. It is felt that such Government support of their liquidity should be accompanied by a Government requirement that the member institutions themselves maintain a certain minimum liquidity. Such requirement would, of course, render less likely the need for Government support.

However, if no requirement is imposed, it is possible that the presence of Government support of liquidity would tend to be relied on too heavily. This in turn would affect the adequacy of the \$1,000,000,000 as a support for the Federal Home Loan Bank System. The Federal home loan banks as a group have been maintaining a liquidity pool. It is the policy to keep this pool of liquid assets consisting of cash and short-term Government obligations at a minimum of \$100,000,000 at all times.

Section 1 of the bill is drawn so that the Board would be authorized to prescribe from time to time different liquidity requirements for different classes of member institutions according to such basis of differentiation as the Board deemed to be reasonably necessary or appropriate for effectuating the purposes of this section.

It is well known that, because of differences in location, size, rate of normal turn-over of capital, and other factors, what would be a sound minimum liquidity requirement for one institution might be too high or too low for other institutions and it is the purpose to authorize the Board to classify the institutions in such manner that the minimum liquidity requirement to be imposed will bear a sounder relationship to the needs of the particular institutions.

There are other advantages of a statutory minimum liquidity requirement. First, it will prevent a small number of institutions which are still operating in the building and loan association pattern of the twenties from carrying inadequate liquidity.

Second, it will be a constant reminder to the management of associations that reasonable provisions should be made to meet withdrawal on request or on short notice.

Third, it will prevent a small number of associations from depending on the Bank System for liquidity instead of carrying a fair share themselves.

Fourth, it will result in the strengthening of the standards for membership in the Bank System and the strengthening of the service to its member institutions and through them to the public.

The question of liquidity of savings and loan associations has been a prominent subject of discussion in many conventions and meetings since the end of the war. From these discussions, I think it has been generally agreed that it is difficult, if not impossible, to find a simple formula which would automatically establish the proper liquidity for an association. There can be no substitute for the judgment of officers and directors of individual associations as to the proper liquidity for individual associations. The time and attention given to the subject by the leaders in the industry have resulted in good average liquidity, and most associations have faced the problem and answered it satisfactorily as they do other problems.

At the same time, a small percentage of associations have carried a liquidity which is substantially below the standards recognized and followed by the associations as a whole, and also substantially below that which seems desirable from the standpoint of the shareholders in these institutions.

The proposed Treasury support is intended as stand-by support. If it is to be available to all members of the Bank System, it seems reasonable that those members should carry a minimum amount of liquidity themselves. The great bulk of member associations recognize this and have indicated a willingness to carry a reasonable liquidity in their own institutions, and not try to dump the entire responsibility on the Federal home loan banks.

A small minority still persist in following the theory that the Federal home loan banks should provide the liquidity they need, even though such institutions will probably be the first ones to ask for assistance in the event of an emergency and the meeting of their needs on a large scale might adversely affect the services of the Federal home loan banks to the member institutions which have tried so hard to meet their needs through their own efforts.

It has been apparent from the discussions which the Board has had with the savings and loan industry that a substantial number of managers of savings and loan associations will be opposed to the fixing of minimum liquidity requirements pursuant to statute and regulations thereunder. In analyzing their reasons, it is the Board's belief that such opposition is as much, or possibly more, grounded in their concern that their institutions will be subjected to additional regulatory requirements as it is based on their aversion to this particular proposition.

However, the shareholders in the institutions will be the beneficiaries and we believe that the managers of associations generally, in looking at the proposal from the standpoint of the interests of the shareholders, will conclude that such benefits outweigh the concern which they may have over complying with new regulations. We are also satisfied that there are a substantial number of institutions which will welcome this piece of legislation notwithstanding the resulting minimum liquidity requirements.

Now, as to section 2. Section 2 of H. R. 6743 would provide for acceleration of the retirement of the Government-owned capital stock in the Federal home loan banks. Capital stock of these banks is owned partly by the Government and partly by member institutions, which are required to hold stock equal to at least 1 percent of the unpaid principal of their home mortgage loans, with a minimum of \$500. On December 31, 1949, members' stock totaled \$136,239,000 and Government stock aggregated \$95,819,000, but it is expected that this will be reduced to \$78,000,000 during this month.

The proposed amendment would increase the members' stockholdings by requiring each member, within 1 year, to hold such stock equal to at least 2 percent of the unpaid principal of such members' home-mortgage loans, home-purchase contracts, and similar obligations, retaining the present \$500 minimum.

When this requirement takes effect, each Federal home-loan bank would be required to retire an amount of its Government-owned stock equal to the amount by which the stock then held by members exceeded the amount required under the old law. Annually thereafter,

each Federal home loan bank would be required to retire Government stock equal to 50 percent of the net increase in members' stock since the last previous retirement.

The existing Government capital could not at any time be retired under the new provision if such retirement would reduce the aggregate capital stock, reserves, surplus, and undivided profits of all the banks below \$200,000,000. That amount was \$259,000,000 at December 31, 1949.

When the Federal Home Loan Bank Act was enacted in 1932, it was intended that the banks would ultimately be sustained by investments of participating members and that the Government's investment would be retired when that could be done with safety. Considerable progress has already been made in retiring the Government's stock, which was originally \$124,741,000.

The Indianapolis Federal Home Loan Bank has retired all of the Government stock and the Cincinnati and Des Moines banks expect to retire the last Government stock during this month. The Board is of the opinion that section 2 of H. R. 6743 provides a safe and orderly method for accelerating the retirement of all Government stock in the banks. It is estimated that the Government stock will be retired in full by the end of 3 years after the enactment of this section.

Next, as to section 3. Section 3 of H. R. 6743 would amend subsection (g) of section 11 of the Federal Home Loan Bank Act. That 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 or trust companies, and certain types of advances with maturities of 1 year or less.

The change which would be made by section 3 of this bill would be to eliminate the sums paid in on outstanding capital subscriptions of members from the base for determining the amount of money which the Federal home loan banks shall at all times have invested in (1) obligations of the United States, (2) deposits in banks or trust companies, and (3) certain types of advances with maturities of 1 year or less.

However, the requirement for such investments in an amount equal to current deposits of members would be continued in force.

When the requirement that such investments be equal to the sums paid in on members' capital was placed in the act in 1932, all the savings and loan associations, building and loan associations, and other institutions eligible for membership were institutions which were and are entitled to withdraw from membership on 6 months' notice. The requirement was intended to provide a source of liquid funds for the repayment of stock of members which might withdraw.

In 1933, however, Congress authorized the establishment of Federal savings and loan associations and required that they be bank members. In view of the fact that the membership now includes Federal associations which have no authority to withdraw from membership, and the fact that the Bank System is firmly established, the Home Loan Bank Board believes that it would be desirable to eliminate this requirement. During more than 17 years of operation there has been no substantial number of withdrawals from membership in the Bank System.

Next, coming to section 4, this section would provide stand-by Treasury support of Federal home-loan banks by authorizing the Secretary of the Treasury in his discretion to purchase up to \$1,000,000,000, as an aggregate amount outstanding at any one time, of obligations issued by the Federal home-loan banks. The reasons for the recommendation that this authority be given to the Secretary of the Treasury to be used in an emergency have been previously stated in connection with discussion of section 1.

Section 4 would also continue the applicability of the Government Corporation Control Act to Federal home loan banks even after Government capital has been withdrawn. Under the present law, the Government Corporation Control Act would not be applicable to Federal home loan banks after Government capital stock is entirely repaid. However, it is believed desirable that the applicability of such act continue if the Treasury support called for in this same section of the bill becomes law.

We come now to section 5. Section 5 of H. R. 6743 would direct the Federal Savings and Loan Insurance Corporation to retire annually at par an amount of its capital stock equal to 50 percent of its net income for the fiscal year unless the Home Loan Bank Board by resolution should determine that a smaller amount be retired. The Corporation's capital stock of \$100,000,000 is now held by the Secretary of the Treasury.

Based on a projection of the Corporation's current income, it is estimated that capital stock in the amount of \$7,000,000 would be retired annually. Since its creation the Insurance Corporation has steadily grown until today its resources, in the opinion of the Home Loan Bank Board, are adequate to permit the initiation of an orderly plan to retire the capital.

If this retirement plan becomes law, it would be the intention of the Board, in determining net income of the Insurance Corporation for the purpose of computing the amount of capital stock to be retired, to deduct from gross income all expenses, payments made as return on capital stock, and all losses.

In lieu of any unpaid accumulated and future dividends, the Insurance Corporation would be required by section 5 to pay to the Secretary of the Treasury, at the end of each fiscal year, a return on the average amount of its outstanding capital stock at a rate to be determined by the Secretary of the Treasury, taking into consideration that current average rate on outstanding marketable obligations of the United States as of the last day of the sixth month of such fiscal year.

The accumulated dividends which would be waived by the enactment of this section totaled \$25,181,750 as of June 30, 1948. No estimate is included as to the rate of accumulation of dividends after June 30, 1948, since there is some ambiguity in the law which transferred the capital stock from the Home Owners' Loan Corporation to the Secretary of the Treasury as to the rate of accumulation of dividends after such transfer.

And finally, I will take up section 6. Section 6 of H. R. 6743 would authorize the Federal Savings and Loan Insurance Corporation to borrow from the United States Treasury such funds as in the judgment of the Home Loan Bank Board are required, for insurance purposes, not exceeding in the aggregate \$750,000,000 outstanding at any one

time. On the enactment of this section, the Insurance Corporation would be prohibited from borrowing money from any other source, which power it now has.

The loans made by the Treasury to the Insurance Corporation would bear interest at a rate determined by the Secretary of the Treasury, taking into consideration the current average rate on outstanding marketable obligations of the United States as of the last day of the month preceding the making of such loan.

This provision for Treasury loans is similar to that provided for the Federal Deposit Insurance Corporation by Public Law 363, Eightieth Congress, approved August 5, 1947. The Home Loan Bank Board considers it to be of fundamental importance that such protection be extended also to the Federal Savings and Loan Insurance Corporation. Any loss of confidence on the part of the investing public in the soundness of the insurance afforded to investors in savings and loan associations would inevitably be carried over in the public mind to the banking field and to other portions of our financial structure. The Home Loan Bank Board recommends that such a provision be enacted in the case of the Federal Savings and Loan Insurance Corporation.

Now, I would like briefly to take up the remaining sections. These sections provide for a reduction of the premium rate of the Federal Savings and Loan Insurance Corporation from one-eighth of 1 percent to one-twelfth of 1 percent of the accounts of insured members and creditor obligations of the insured institution.

I might add here that I realize that your good committee has already reported out a bill which would carry this reduction into effect. I have a great respect for the views of your committee, but I would like to have an opportunity to state the position of our Board on the subject.

A similar provision for reduction of the Insurance Corporation's premium rate was embodied in H. R. 4428, Seventy-ninth Congress, which was the subject of a pocket veto by the President, who signed a memorandum of disapproval with respect to that bill. In the memorandum of disapproval, it was noted that Congress originally contemplated, in the law which established the Federal Savings and Loan Insurance Corporation, that the reserve of the Corporation should someday reach 5 percent of the insured risk, but that this reserve had reached less than 1 percent of the insured risk.

Reference was also made to the fact that the Insurance Corporation still has \$100,000,000 of Government-furnished money and that the premium should be maintained "with the ultimate view of effecting the repayment of the \$100,000,000 to the Treasury."

After a similar proposal for reduction in premium passed the House of Representatives of the Eightieth Congress in H. R. 2799, we were advised by the Bureau of the Budget that that proposal would not be in accord with the program of the President. We are satisfied that there has been no change in the conditions which led to this decision.

The Board is aware of the fact that there are some arguments in favor of reduction of the premium rate, chief among which is the fact that the Insurance Corporation's net losses in over 15 years of operation have amounted to about \$5,000,000, which is slightly less than 5 percent of gross operating income. It is true also that the assets of insured institutions include estimated FHA and VA insured loans equal to 23 percent of assets, and cash and Government bonds of 16 percent of assets.

In view of these facts, it is easy to understand why managers of institutions who must include the insurance premium paid as an operating expense would seek in all sincerity a reduction in the premium rate. However, viewing the matter from the standpoint of managers of the insurance fund, the Board does not feel that the time is yet ripe for reduction in premium rates.

Almost the entire experience of the Insurance Corporation has occurred in a rising real estate market. Our experience in a declining market is very limited and the effects on the Insurance Corporation are not known. We believe that additional experience is desirable before the Board concurs in a premium reduction. There are still many unknown factors which do not permit the calculation of an exact actuarial premium charge in relation to the risk involved. When all of the \$100,000,000 of Government stock is retired, we should be in a position to reduce the premium rate if the Corporation's experience and position remain favorable.

Our views on this proposal for insurance premium reduction are similar to those expressed in testifying before your committee on July 20, 1949, in connection with an identical proposal contained in section 3 of H. R. 1732 and in H. R. 5595.

Section 8 of this bill would repeal subsection (b) of section 404 of the National Housing Act and is apparently intended as a companion proposal to the insurance premium reduction. Section 404 (b) authorizes the Federal Savings and Loan Insurance Corporation to assess additional premiums for insurance until the amount of such premiums equals the amount of all losses and expenses of the Corporation.

However, the total amount of assessments in any 1 year against any insured institution may not exceed one-eighth of 1 percent of the total amount of accounts of its insured members and its creditor obligations. This section is designed to protect the insurance fund in the event of undue losses. Since the inception of the Corporation in 1934, it has never been necessary to assess any additional insurance premium under this provision. In fact, the original basic premium of one-fourth of 1 percent was reduced in 1935 to one-eighth of 1 percent.

However, the Board feels that the provision for additional premium assessments should stand against the contingency that exceptionally heavy losses may be encountered in future years. The Board, therefore, opposes the repeal of subsection (b) of section 404.

In conclusion, let me say that I have been authorized by the Director of the Bureau of the Budget to advise that the enactment of H. R. 6743, with the exception of sections 7, 8, and 9 thereof, would be in accord with the program of the President.

I have also been authorized by the Director of the Bureau of the Budget to advise that there is no objection to the presentation of this statement for consideration by your committee.

I appreciate the opportunity to appear before your committee and will hold myself available in the event that you have any additional questions, or in the event that I can be of any further service.

The CHAIRMAN. Mr. Divers, I believe the House has passed at least three times, legislation for the reduction of premiums paid by savings and loan associations to the Federal Savings and Loan Insurance Corporation.

In 1946 the bill went to the President, but my recollection is the President vetoed it because there was no provision made for the retirement of the Government-owned stock in the Federal home-loan banks and in the Federal Savings and Loan Insurance Corporation.

The last time that bill passed, it was voted out of this committee and unanimously passed the House by unanimous consent, and the House has exercised its independent judgment in that respect, and in the language of the law, I think that is as near *res adjudicata* as it can be possible to get.

That is the reason I incorporated it in this bill. We have that bill in the other body that provided for the premium reduction, but I knew this bill had cleared all the departments of the Government, and I thought it met the objections the President had raised to the reduction before.

I am inclined to believe the President will approve this bill with that reduction of premiums in it.

Mr. DIVERS. Well, I explained when I gave my views, sir, on the premium reduction, that I realized that your committee and the House had taken action on this matter several times, and I would be the last one to say that anybody knows exactly what that premium should be.

It is impossible, I think, to fix an actuarial premium, and I pointed out in my testimony that as managers of the fund, we are anxious to have as sound a fund as possible. I respect your judgment and the judgment of the other members of the committee, and I know that they have good reasons behind their action, of course.

The CHAIRMAN. I am not criticizing you for maintaining what you think you should maintain from your standpoint, but the House has always taken a different view, and taken it so many times, that I think it should prevail.

Mr. DIVERS. I looked over the President's veto message last night, sir, and I think the message indicated that the President believed that the stock in the Insurance Corporation should be retired prior to reduction of the premium, rather than merely making provision for the retirement of that stock.

The CHAIRMAN. Yes. Well, the banks have their premiums reduced. They pay one-twelfth of 1 percent, and I think an effort is being made now to make their premium a token premium. It seems to me the diversity of investments would not be stronger than the best of those investments, and I think a mortgage on a man's home is about as secure as anything can be along that line. Is that not your opinion?

Mr. DIVERS. I know of no better investment, sir.

The CHAIRMAN. What is the average over-all percentage of liquidity of the savings and loan associations now?

Mr. DIVERS. About 19 percent of their share capital—that is, of the withdrawable accounts.

The CHAIRMAN. Of the withdrawable accounts?

Mr. DIVERS. Yes.

The CHAIRMAN. And the proposed liquidity would only apply to the depositing members' withdrawable capital?

Mr. DIVERS. That is right.

The CHAIRMAN. In other words, it is applicable only to the savings accounts?

Mr. DIVERS. Savings accounts; yes.

The CHAIRMAN. Have you come to the conclusion that 5 to 15 percent is a proper percentage of savings? On time deposits in commercial banks, I think the percentage is from 3 to 6 percent. Now, why should the savings and loan associations have a higher percentage of their savings in a liquidity reserve than the commercial banks?

Mr. DIVERS. I would like to answer the two questions that you have raised, first of all as to how we arrived at the figure of 5 to 15 percent.

I would say this: That this is a new field, and that because it is a new field it is certainly open to debate or to question as to what would be the proper range or percentage to require these institutions to carry in cash and Governments. There seems to be no question in the industry itself that a minimum of 5 percent for any institution that is a member of the Federal Home Loan Bank System would be reasonable.

The figure of 15 percent, which we fixed as the maximum that our Board could require under any conditions, is the recommended amount for the average association to carry as recommended in most industry publications, and by most of the leaders in the industry.

So as a minimum, we suggested a range from 5 percent, which everybody seems to recognize as being the smallest amount that any of these member institutions should carry, up to a maximum that our Board could provide of 15 percent, which is the average, or which is recommended for the average institution by the leaders in the industry.

Now, as to the second part of your question, and comparing it with reserves that are required by the Federal Reserve Board against time deposits in commercial banks, or reserves required by State legislation for time deposits in State-chartered banks, the Federal Reserve Board requirement, at the present time, against time deposits, is 6 percent, but that amount of money must be placed on deposit in the Federal Reserve bank and, in effect is frozen or not subject to day-to-day use by the member institutions.

This minimum of 5 percent that we suggest in our regulations would not have to be carried in cash, would not have to be deposited with the Federal home-loan bank, but could be held in the institution itself and would be available for meeting operating expenses of the institution, or withdrawal requests by savings-account holders.

So I think that we cannot say that the Federal Reserve requirements, or the requirements of State banking departments, with reference to time deposits, are exactly comparable to this proposal.

An additional factor is that the amounts within these minimum requirements could be invested in Government bonds, and the savings institution could earn a return on those Government bonds as compared with the money deposited with Federal Reserve banks which does not draw a return for the member institution.

The CHAIRMAN. But the requirement of the Federal Reserve System as to the percentage of liquidity of time deposits applies to all time deposits, wherever located. You have the option of using 5 percent to 15 percent. How would you do that? How would you classify the different institutions for the purpose of applying this percentage basis?

Mr. DIVERS. Yes, sir; we would not propose to do it on an individual basis, but to classify these institutions in groups, probably, at the beginning on the basis of size, and require that institutions of a certain size hold the minimum of 5 percent, and that institutions of a larger size hold 7½ percent or 10 percent, and so on up to 15 percent if we decide to go that far, based upon the conditions when the legislation is enacted.

The CHAIRMAN. Well, the Governors of the Federal Reserve System make no such distinction, do they, with reference to time deposits, and the rule is applicable to all time deposits wherever located, is it not?

Mr. DIVERS. That is right.

The CHAIRMAN. And it is a uniform rate?

Mr. DIVERS. That is very true. I think it is also true, though, that their member institutions make a practice of carrying a substantially higher amount than the minimum amount that is required by the Board of Governors of the Federal Reserve System.

The CHAIRMAN. Are you absolutely convinced that your percentages are absolutely desirable and that no reduction in them should be made?

Mr. DIVERS. Well, I believe, sir, that they are reasonable. I say that it is a new field, and under the circumstances I do not think that anybody—at least I would not try to say positively that these are the proper percentages—but I do believe that they are reasonable from the standpoint of the institutions and the people who have the money in them.

The CHAIRMAN. Has there been a wide variation of liquidity maintained between the different associations heretofore?

Mr. DIVERS. Yes, sir. As I said, the average is good, even in the absence of any statutory or regulatory requirements. The averages are very good. But there is a very wide spread between the member institutions of the Federal Home Loan Bank System.

Mr. CHAIRMAN. On what would you base your variation of requirement? Would you base it on the way the association is operated? There are many associations which meet only once a week. There are other associations that keep open all the time and operate very much as a bank operates.

Would you make a distinction between those different types of associations in regard to the requirements for liquidity?

Mr. DIVERS. The legislation authorizes the Board specifically to take into consideration the size of the institution, the location of the institution, the rate of turn-over of the investment capital in the institution, which we believe is a very significant factor, and any other conditions or factors which the Home Loan Bank Board thinks it is desirable to take into consideration.

There is, as you point out, Mr. Spence, a wide variation in the type of operations carried on in these institutions that are members of the Bank System. They run, in assets, all the way from about \$100,000 to \$100,000,000, and with that variation in size you can see that there would be a considerable difference in the type of operations, and they run all the way from the 1-night-a-week building and loan association, in my home town of Cincinnati, up to an institution with assets of over \$100,000,000 here in Washington, D. C.

The CHAIRMAN. What has been the average period required for withdrawals of depositors' funds from these institutions?

Mr. DIVERS. Well, almost all of them pay withdrawal requests when they are presented.

There are parts of the country, however, where it is the custom to require the 30 days' notice which is permitted, and in some parts of the country they pay requests of less than a hundred dollars on presentation or on request, and larger amounts on 30 days' notice. But my rough guess would be that 85 or 90 percent of all the institutions pay their shareholders the money when they ask for it.

The CHAIRMAN. Do you think the provisions in this bill furnish a system for the savings and loan associations that will increase their strength throughout the Nation?

Mr. DIVERS. Yes, sir; I think it will increase their strength, and it will tend to increase their service to the public.

At the present time, there are 11,000,000 people who are members of these associations, and we believe that the provisions set out in the first six sections of this bill would strengthen the institutions, would strengthen the Bank System and would strengthen and broaden the service to the public through these institutions.

The CHAIRMAN. Well, they are certainly rendering a very fine service throughout the System of home building by private enterprise.

Mr. DIVERS. Well, they have made over \$3,000,000,000 available during the last year for the purchase or construction of homes.

The CHAIRMAN. What are the total assets now of the savings and loan associations throughout the United States?

Mr. DIVERS. The assets of the institutions who are members of the Federal Home Loan Bank System, which represent over 90 percent of the assets of all the savings and loan associations, the assets of those member institutions are over \$13,000,000,000 at the present time. Total assets, naturally, probably run about \$14,000,000,000 at the present time.

Mr. WOLCOTT. Mr. Chairman.

The CHAIRMAN. Mr. Wolcott.

Mr. WOLCOTT. Mr. Divers, in section 8 you discussed the repeal of section 404 (b).

Is there any comparable provision in the Federal Deposit Insurance Corporation Act?

Mr. DIVERS. I do not recall any at the present time, sir. I do not think there is. I do not think there is such a provision.

The CHAIRMAN. Are there further questions of Mr. Divers.

Mr. McKINNON. Mr. Chairman.

The CHAIRMAN. Mr. McKinnon.

Mr. McKINNON. In relation to setting up this maximum 15 percent reserve fund, or whatever you would call it, would that apply to any particular one institution, or would that be applied to this institution in the town, and another formula applied to another institution in the same competitive area?

Mr. DIVERS. No, Mr. McKinnon, it would be placed upon classes of institutions, and it would not be on a selective basis, nor on any individual institution basis; it would be on the basis such that if all institutions with assets of more than \$5,000,000, and with the average turn-over of share capital, for instance, would have a minimum liquidity of 7½ percent, and those would be applicable regardless of whether the institution was in Portland, Maine, or San Diego, Calif.

Mr. McKINNON. Is there anything in this legislation which you think would have a tendency to tighten credit on home construction?

Mr. DIVERS. I do not believe so, sir. As I pointed out, the average amount of cash and Governments held by these institutions at the present time is very substantially higher than the minimum requirements that we would propose to establish, and it would only be, possibly, in a small number of associations, and then only to a limited extent, that it might have some temporary effect on lending for home construction.

It certainly would not be substantial in terms of national averages or in terms of State or even locality availability of credit.

Mr. McKINNON. That is all. Thank you.

Mr. BROWN. Mr. Chairman.

The CHAIRMAN. Mr. Brown.

Mr. BROWN. Is your Board on record against reducing the premium rate, the insurance premium rate, from one-eighth of 1 percent to one-twelfth of 1 percent?

Mr. DIVERS. Our recommendations are on record, yes sir. I testified to that effect before this committee last July.

Mr. DEANE. Mr. Chairman.

The CHAIRMAN. Mr. Deane.

Mr. DEANE. Mr. Divers, I have been interested in the splendid growth of the Home Loan Bank Board, and this question has nothing to do with the bill, but I would be interested in knowing the number of new applications you have approved, say, within the last year or two.

Mr. DIVERS. During 1949, we insured the accounts of about 140 additional associations, and for membership the number was higher, sir. I do not know that I have the figures here, but I should judge that we took into membership about 200 additional associations.

Mr. DEANE. Will the amendments, as presented here, tend to lessen the possibility of these institutions being formed, or your insuring an additional number?

Mr. DIVERS. No sir, I don't think so, because these provisions are designed to correct the condition in a small minority of member institutions, and I should judge that they would not substantially affect more than 10 percent of the associations, and we hope that the new ones that are chartered from time to time will operate on the best pattern, or the average pattern, and not on the basis of a few offenders.

So I should think it would have no substantial effect in that regard.

Mr. WOLCOTT. Mr. Chairman.

The CHAIRMAN. Mr. Wolcott.

Mr. WOLCOTT. Mr. Divers, I do not know whether this is a fair question to ask of you or not, but I would like to ask it.

Infrequently we read this expression in the testimony and reports, and you have used it several times here, that this provision would not be in accord with the President's program.

Now, what is the President's program with respect to this?

Mr. DIVERS. With respect to this legislation?

Mr. WOLCOTT. Yes.

Mr. DIVERS. Well, these provisions, briefly stated, I think, provide for the retirement of Government stock in the Bank System and in the Insurance Corporation, paying the Government the money that

was advanced by the Treasury and putting it back in the Treasury and letting the Insurance Corporation and the Bank System proceed on the basis of private stock, expecting them to take care of themselves at all times, but providing for stand-by support by the Treasury in the event of an economic emergency that is beyond the control of the Bank System itself.

Mr. WOLCOTT. What I am trying to get at is this: Has the President any program in addition to the existing law?

Now, the President has the obligation, under the Constitution, of enforcing the law, to execute the laws that Congress passes. He also is instructed, under the Constitution, to send down to us each year a state of the Union message and to make such recommendations as he might want to make with respect to whatever program he has.

It seems to me that it merely means that the Bureau of the Budget might be either for or against legislation, in accordance with whether or not it is in accord with the President's program. Now, if the President has any program with respect to home loan bank laws or the Federal Savings and Loan Association that he has not incorporated in his message to Congress, or that is not in accordance with existing law, then, of course, there is an obligation on his part, under the Constitution, to tell us about it.

Mr. DIVERS. Mr. Wolcott, these provisions were specifically covered in the President's message to the Congress this month. I mean, they were not covered in detail, but he did mention them as desirable legislation.

Mr. WOLCOTT. Those are the provisions which are in accordance with the President's program?

Mr. DIVERS. That is right, sir.

Mr. WOLCOTT. Are we to assume that the provisions in here that the Bureau of the Budget says are not in accordance with the President's program, are considered contrary to these recommendations that he has made? I cannot see too much affiliation between the two. We provide in the legislation for the retirement of the capital, which has seemingly no relation to the premium rate.

Mr. DIVERS. It does have this relationship, sir, that if the premium rate is reduced, the time within which the Government's capital can be returned to the United States Treasury will be extended. In other words, it will take longer for us to retire this capital, with the income from a reduced premium, than it will if we leave the premium at the present amount.

Mr. WOLCOTT. What connection has this provision, the repeal of section 404 (b), with that? What connection is there between that and the President's program with respect to the retirement of capital? That is something for the future. It has never been used.

Mr. DIVERS. It has never been used, but—

Mr. WOLCOTT. We have to retire capital of necessity.

Mr. DIVERS. It is an emergency provision, and if you have two or three bad years during which the losses exceeded the premium income, you would reduce the amount of money available in the fund for any purpose, including capital-stock retirement, if you had to wait to recoup that amount of loss before proceeding with the retirement of the capital stock, instead of using the assets.

Mr. WOLCOTT. Why should the President have one program with respect to the Federal Savings and Loan Insurance Corporation, and

another program with respect to the Federal Deposit Insurance Corporation? He has never advocated that we set up an assessment provision for the Federal Deposit Insurance Corporation in case of inordinate losses.

Mr. DIVERS. Well, the only answer I can give to that—and I cannot speak for the President on that point—is that we on the Home Loan Bank Board consider that this Federal Savings and Loan Insurance Corporation fund is a fund to cover certain risks. It was not meant there should be a direct relationship, in my opinion, between the premiums for insuring the savings account in the savings and loan associations and insuring deposits in banks.

Our insurance was started on a selective basis in 1934, when we first started to insure associations. They came in on an individual basis, after close examination, and were not blanketed in, almost all the way across the country as the commercial banks were in 1933.

Now, as a result of that, our fund has grown slowly, and a good part of the fund at the present time represents either Government capital or income on capital that was made available by the Government.

The premium, the amount of money in the fund from premiums, and income on premiums, is relatively small when related to the risk.

The CHAIRMAN. Well, I think it is the President's duty, and I think it is very natural that he should send to the affected agencies, bills that have a great effect upon them. I do not think he should be criticized for that. And some of the people that I have talked to hold their hand up and holler at being regulated by Washington, even to the extent of liquidity. Well, that is a corollary to receiving favors from Washington.

We put \$1,000,000,000 behind the Federal home loan banks, if we want to accept the figures as they are stated. And if we do that, we have a right to say something about their liquidity.

It is all the result of what has been done through the years, and I imagine if the people had not come to Washington so regularly to seek favors, there would not be quite as many regulations in Washington affecting their activities.

Are there any further questions? If not, thank you, Mr. Divers. We are very glad to have your views, even though we might differ with some of them.

We will adjourn, to meet tomorrow morning at 10:30.

(The following data were submitted by the Home Loan Bank Board:)

AVERAGE SIZE OF MORTGAGES—INSURED SAVINGS AND LOAN ASSOCIATIONS

The following are the average amounts of mortgages held by insured savings and loan associations on June 30, 1949:

FHA.....	\$5, 170
VA.....	5, 467
Conventional.....	3, 423
Total.....	3, 833

The average amounts of new loans made by insured associations during the first 11 months of 1949 were:

Home construction.....	\$6, 253
Home purchase.....	5, 434

(Whereupon, at 11:45 a. m., the committee adjourned, to reconvene at 10:30 a. m., Thursday, January 19, 1950.)

1950 AMENDMENTS TO FEDERAL HOME LOAN BANK ACT

THURSDAY, JANUARY 19, 1950

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

The committee met, pursuant to adjournment, at 10:30 a. m., the Honorable Brent Spence, chairman, presiding.

Present: Messrs. Spence, Brown, Patman, Multer, McKinnon, Dollinger, Mitchell, Kunkel, Talle, Cole, Hull, Scott, and Nicholson.

The CHAIRMAN. The committee will be in order.

We will continue the hearings on H. R. 6743.

Mr. Kreutz, executive manager of the National Savings and Loan League, will be our witness.

You may proceed, Mr. Kreutz.

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, and I wish to express appreciation on behalf of our organization for this opportunity to submit our views on the savings and loan proposals before this committee.

The member institutions of the National Savings and Loan League number nearly 600, and have assets exceeding two and one-half billion dollars.

The importance of the savings and loan system to our national economy cannot be overstated. Savings and loan associations as a group make more than one-third of all the home loans in the United States annually. They are thus the largest single group of institutions making funds available for the financing of American homes. They not only finance but provide thrift facilities and encourage the good old-fashioned American habit of saving for the future.

The action of the Congress in the early 1930's in expanding the savings and loan system was sound and farsighted. In 1932, Congress established the Federal Home Loan Bank System which now consists of 11 Federal home-loan banks strategically located around the country. These banks have three-quarters of a billion dollars of resources. They have established a fine record as reserve banks in the home-mortgage field. The system now has nearly 4,000 member institutions consisting chiefly of savings and loan associations whose assets total \$14,000,000,000.

Not only have savings and loan associations done a magnificent job for their respective communities; they have also proved to the Congress and to the Federal Government that they are sound and well-managed

enterprises. This proof exists in the record of their stewardship of Federal aid made available to them during the days of the great depression.

The United States Treasury was authorized by the Congress to invest Federal funds in Federal savings and loan associations.

I might say that the original amount of those investments totaled \$49,300,000 and every dollar of those investments has been paid back to the Treasury.

As of June 30, 1949, the Treasury had received cumulative dividends of \$10,563,000, or an estimated net profit of \$3,500,000 from investments in share accounts of Federal savings and loan associations. The Home Owners' Loan Corporation was given more extensive authority to invest in savings and loan associations and the gross return received by it from such investments as of June 30, 1949, totaled \$44,709,000, or an estimated net, after deducting the cost of money, of \$15,000,000.

I might add that the weighted average interest return to the Government on all of these investments was slightly over 3¼ percent.

Savings and loan associations have indeed proved that the assistance given to them by the Federal Government in the early thirties was thoroughly justified.

We were very glad to see the subject bill, H. R. 6743, introduced with the support of the administration, even though we have some doubt as to the desirability of, or need for, the first section of the bill. We commend the broad purpose of this bill, namely to increase the strength of the far-flung Federal Home Loan Bank System and its membership of both Federal-chartered and State-chartered savings and loan associations, building and loan associations, homestead associations, and cooperative banks.

Most of these pending proposals are the result of long discussions within the savings and loan business and by representatives of our industry with the Home Loan Bank Board. In fact, all but one of the provisions of H. R. 6743 have at one time or another been approved by committees representing the entire savings and loan field.

At this point, it may be helpful to review briefly the efforts to coordinate the legislative views of our industry and the position of the executive department of the Government in regard to various legislative proposals. The Federal Savings and Loan Advisory Council, a statutory body authorized by the Congress, proposed in 1947 that a coordinating committee be established representing the two Nation-wide trade associations, the presidents of the Federal home-loan banks and the Advisory Council, to discuss legislation with the Home Loan Bank Board and seek by joint effort to obtain such legislation as might seem to all parties concerned to be desirable and useful.

Accordingly, the Advisory Council invited the different groups to send representatives to meetings of this coordinating committee, and there were a number of meetings starting in November 1947. In discussing each section of H. R. 6743, I shall report the action taken by the coordinating committee since the theory of coordination on legislation was put into practice in 1947. I shall also report the attitude of the members of the National Savings and Loan League on each provision of the bill as determined by polls which we have taken in accordance with the constitution of the league.

Section 1: This provides for the establishment for the first time of authority for the Home Loan Bank Board to fix minimum liquidity requirements for the members of the Federal Home Loan Bank System. These requirements would be established by regulations of the Board and would presumably be based upon a combination of many factors as set forth in the section.

The savings and loan business as a whole believes in the maintenance of a substantial ratio of liquid funds to meet emergency, as well as normal, demands. Cash and Government bonds held by the members of the Federal Home Loan Bank System on December 31, 1948, represented 19 percent of the total private withdrawable capital of these associations on the same date.

Moreover, an association's normal receipts from monthly principal payments on mortgage loans represents an additional substantial percentage of total withdrawable capital each year. For example, in the 12 months ended in September 1949, the average association received mortgage principal payments equal to 18 percent of its average withdrawable capital.

In addition, each association has a very important secondary liquidity in the form of unused credit at its Federal home loan bank. By regulation, these banks restrict advances to their member institutions so that each will have unused credit at least equal to 50 percent of its total borrowing capacity. Actually, unused borrowing capacity of member savings and loan associations now exceeds 90 percent of the total borrowing capacity. This in turn is approximately 43 percent of their withdrawable capital.

To summarize, savings and loan association members of the Federal Home Loan Bank System have primary liquidity in the form of cash and United States bonds equal to 19 percent of private withdrawable capital and they have secondary liquidity represented by normal annual principal payments on mortgage loans, plus present payments on these loans, equal to 18 percent of withdrawable capital, plus unused borrowing capacity equal to another 43 percent, or total primary and secondary liquidity equal to 80 percent of withdrawable capital.

The question of a statutory or regulatory liquidity requirement has, however, been a hotly debated issue within the savings and loan fields for some time and especially in the last couple of years.

Several different kinds of liquidity formulas were considered. The advantages and disadvantages of a straight percentage of total-assets formula as contrasted to the use of rate of capital turn-over as the measure of liquidity needs have been discussed at great length. The influence of many variables on the problem has been recognized. In general, however, the conclusions were that the problem should be left in the hands of the board of directors of each institution.

If there were not also involved in this question a proposal to authorize the purchase by the Treasury of obligations of the Federal Home Loan Bank System, the savings and loan associations of the country would be strongly opposed to any statutory requirement, notwithstanding the fact that, as a system, our institutions believe in and maintain liquidity in higher ratios than are proposed in this bill.

But when a statutory minimum liquidity requirement was tied in to a proposed Treasury support for the Federal Home Loan Bank

System, as it is in this bill, a substantial number of our members favored it because of the importance of establishing discretionary authority for the Secretary of the Treasury to purchase debentures of the Bank System in case of emergency.

Many association managers feel that statutory liquidity requirements are just as much needed as are statutory loss reserve requirements. They argue that the failure of any association to maintain adequate liquid funds to meet emergency demands not only subjects that association to undue risks, but also endangers the entire savings and loan system because of the possible loss of confidence in the system if a few institutions fail to maintain adequate liquidity and consequently get into trouble. In fact, there are many of our people who favor a statutory liquidity requirement regardless of a Treasury backstop for the Federal Home Loan Bank System.

Those who oppose a statutory liquidity requirement argue that it could have serious and far-reaching effects on the savings and loan system. They fear that if the principle of Federal control over liquidity is established with even a small initial requirement, the amount of liquidity required might be increased in the future by further legislation. Thus, a statutory requirement could become burdensome and might even change the basic functions of savings and loan associations, they contend. A statutory liquidity requirement is regarded by many as Government interference with local management and an infringement of the responsibilities of the elected directors of the institution.

The fear is also expressed that if there is a statutory minimum liquidity requirement, it will be accepted by many associations as the maximum necessary and the effect may be to reduce the average liquidity of our institutions below a safe point.

It is also argued that associations generally are maintaining and will continue to maintain liquidity ratios at least equal to the amounts proposed in this bill and that any individual associations which may not be following a safe liquidity policy can be brought into line by supervisory action without any statutory edict.

I might add here that only 384—that is exactly 10 percent—of the members of the Bank System have liquidity in the form of cash and Government bonds of less than 5 percent.

We have taken two polls of our members on the question of a statutory minimum liquidity requirement. The first was taken early last summer. At that time we asked two questions: First, whether they favored a statutory minimum liquidity requirement of 7½ percent of assets. The answers to this question were almost 50–50 for and against.

The other question we asked at that time was whether they would favor a statutory minimum liquidity requirement of 7½ percent if this is necessary to obtain a Treasury backstop for the Federal Home Loan Bank System. The answers to that question were 6 to 1 in favor of the requirement on that basis.

However, after a lengthy discussion of this matter at our management conference last October, we took another poll of our members. Then, 40 percent of the replies expressed opposition to any statutory or regulatory minimum liquidity requirement regardless of the effect on Treasury backstop legislation; 24 percent favored a statutory minimum liquidity requirement if necessary to obtain a Treasury

backstop for the Federal Home Loan Bank System; the other 36 percent favored some kind of supervisory action to persuade associations to maintain reasonable primary liquidity.

If this committee should see fit to approve section 1 of the bill in some form, I suggest the ceiling on the amount of liquidity which may be required by regulations of the Home Loan Bank Board can safely be fixed at a lower point than 15 percent of the withdrawable accounts of a savings and loan association.

Obviously, an association would have to maintain substantially more liquidity than any statutory or regulatory requirement in order to have working capital for carrying on a normal lending business. This would mean that the total nonearning or low-earning assets could reach such proportions as to adversely affect the ability of many associations to pay a reasonable return on the savings entrusted to them.

Section 2: When the Congress created the Federal Home Loan Bank System it set up a formula by which the Government stock which was then subscribed could be returned to the Government. More than \$40,000,000 of this stock have been or will have been retired by the end of this month. In recent years, considerable thought has been given within the industry to additional provisions which would enable the banks to retire all of the Government stock at an earlier date. The provisions of section 2 of H. R. 6743 were approved by the 1948 and 1949 coordinating committees and the Home Loan Bank Board.

Briefly, the provisions of this section would require that each member of a Federal home loan bank increase its stock holdings in such bank from the present 1 percent to 2 percent of the aggregate unpaid principle of its home mortgage loans and similar obligations, and in addition would direct each Federal home loan bank to retire an amount of Government stock annually equivalent to 50 percent of the net increase of its stock held by members since the last previous retirement.

Section 3: This is chiefly a technical change in the Federal Home Loan Bank Act to make it consistent with the proposal in section 2 to double the stock ownership requirement of members of the Federal home loan banks. We favor its adoption.

Section 4: This would authorize the Secretary of the Treasury in his discretion to purchase obligations of the Federal Home Loan Bank System in an amount not greater than \$1,000,000,000. This section was approved by the 1948 and 1949 coordinating committees and the Home Loan Bank Board. Similar authority already exists for the purchase of obligations of the Farm Credit System, the Reconstruction Finance Corporation, the Federal Deposit Insurance Corporation, and the Federal Housing Administration.

The Federal Home Loan Bank System is, in our opinion, as much entitled to a backstop from the Federal Government as other Federal financial systems, inasmuch as all are the creatures of Congress. Moreover, what might affect one system adversely in any period of economic stress would be bound to have unfavorable influence on the others in the public mind.

We hope it will never be necessary for the Bank System to request the use of this discretionary authority by the Secretary of the Treasury; its existence, however, should provide the private bond market with the assurance needed in good times or bad to absorb Federal home loan bank debenture issues.

Section 5: This provides for the orderly retirement of the Federal Government stock in the Federal Savings and Loan Insurance Corporation, and the provision was approved by the 1948 coordinating committee, set up by the advisory council, and also by the Home Loan Bank Board. This particular section authorizes and directs the Corporation to pay off and retire annually at par an amount of its capital stock equal to 50 percent of its net income for the fiscal year.

However, the Home Loan Bank Board is authorized to reduce the amount to be retired in any one year if conditions are such as to warrant such action. This is a businesslike approach to the retirement of the Federal Government's financial stake in the Corporation and it would avoid any disrupting influence which a more accelerated retirement of such stock might have.

A poll of our members disclosed that they favor this provision of section 5 of H. R. 6743 by a vote of approximately 7 to 1.

Section 6: This section of H. R. 6743 authorizes the Insurance Corporation to borrow from the Treasury, if necessary for insurance purposes, up to a total of \$750,000,000. This section was approved by the 1948 and 1949 coordinating committee and by the Home Loan Bank Board. The Federal Deposit Insurance Corporation which insures deposits in commercial banks and savings banks is authorized by law to call upon the Treasury for amounts up to a total of \$3,000,000,000. Thus, this section would merely give to the Federal Savings and Loan Insurance Corporation similar Federal support in times of emergency.

Sections 7, 8, and 9 provide for a reduction in the insurance premium charged by the Federal Savings and Loan Insurance Corporation and for the elimination of the double assessment feature. This is almost identical with H. R. 6316, which was approved by this committee on October 6, 1949, and passed by the House on October 13, 1949.

The loss experience of the FSLIC has been favorable and compares very well with that of the Federal Deposit Insurance Corporation. Using the latest available figures of both the FSLIC and the FDIC, we find that the Federal Savings and Loan Insurance Corporation's loss in receivership cases was \$3.40 for \$100 of assets of closed institutions, while the Federal Deposit Insurance Corporation's loss in receivership cases was \$13.26 per \$100 of deposits.

The Federal Savings and Loan Insurance Corporation's loss in contribution cases was \$8.60 per \$100 of assets, while the Federal Deposit Insurance Corporation's loss in mergers involving contributions or asset purchases was \$2.51 per \$100 of deposits of institutions in trouble.

The net losses of the Federal Savings and Loan Insurance Corporation since its organization in 1934 amount to only 7.6 percent of its premium income and 4 percent of its gross income.

A substantial majority of our members believe that both on the basis of the favorable experience of the FSLIC and on a comparison of its operation with that of the Federal Deposit Insurance Corporation, the premium rate should be reduced from one-eighth to one-twelfth of 1 percent.

There are some noncontroversial matters not included in this bill which represent desirable legislation. In view of the circumstances surrounding the origin of this particular bill, I am not necessarily suggesting that they be added to this bill. However, we would very much appreciate their consideration in the near future.

They include a clarification and simplification of the method of termination of insurance by a State-chartered insured association. Such a proposal is embodied in section 3 of H. R. 5596 and is also identical to section 4 of H. R. 1752, now pending before this committee.

Another such matter would authorize the Insurance Corporation to make payment of insurance in cash directly to the account holders if the Home Loan Bank Board deems it to be in the interest of economy or efficiency to do so. Such a proposal is embodied in section 4 of H. R. 5596.

Still another matter that we respectfully suggest be considered by this committee is the increasing of the amount of an insured account from \$5,000 to \$10,000. In view of the decline of the purchasing power of the dollar since the Insurance Corporation was established in 1934, we think such increase is consistent, reasonable, and desirable.

In closing, I want to express on behalf of the members of the National Savings and Loan League our deep appreciation to the chairman and members of this committee for the time and consideration you have given in the past and are now giving to savings and loan legislation. While we feel that this is well justified by the great contribution which the savings and loan associations of the country have made and are making to our national economy and to the welfare of American families, we realize full well that this committee and the Congress have many other weighty matters demanding their time and attention.

So I wish to thank you again for your past help and courtesies and the time you are now giving to these matters.

The CHAIRMAN. Mr. Kruetz, the over-all liquidity of the associations is what—21 percent?

Mr. KREUTZ. Nineteen percent, sir.

The CHAIRMAN. Is there not a wide diversity as between the various associations with respect to liquidity?

Mr. KREUTZ. Yes, sir; there is. Some maintain liquidity as high as 50 percent; some maintain liquidity of 2 or 3 percent, or less.

The CHAIRMAN. Well, do you think that there ought to be some provisions with reference to uniform liquidity requirements, either by the Government or by management? Do you not think there ought to be some uniform liquidity maintained for the withdrawing members?

Mr. KREUTZ. Well, the majority of our members feel that it is a matter that ought to be left to the individual associations. Many, as I pointed out, do feel that in order to bring the liquidity of all associations up to a safe point, some statutory requirement is necessary.

The CHAIRMAN. It is not only the associations who have an interest in this, but also the depositing members, who ought to be secure in the fact that they know they can withdraw their funds at any time within a reasonable time. I do not know how that can be maintained in general without some provision of law.

What is your opinion with respect to the percentage of 5 to 15 percent as proposed in the bill?

Mr. KREUTZ. Well, as I stated, I think 15 percent is more than is necessary. As you know, the requirement, which is on a different basis, of the Federal Reserve System, is for 6 percent against time

deposits; that is, 3 percent which can be doubled, or a total of 6 percent.

The CHAIRMAN. Do you think there ought to be different requirements as to percentage of liquidity between various associations?

Mr. KREUTZ. I think there is a difference between associations in the need for liquidity; yes, sir. Some small associations that have an intimate personal relationship with their members do not require as high a percentage of cash as do the larger institutions which have an impersonal relationship with the people who have entrusted their savings to them.

The CHAIRMAN. Does any other member have any questions?

Mr. PATMAN. Mr. Chairman.

The CHAIRMAN. Mr. Patman.

Mr. PATMAN. I would like to know what progress is being made by the people in the direction of paying for their homes? What is about the average loan that you have among your associations? Just a rough estimate. Or could you tell us about how many loans are outstanding by your different associations?

Mr. KREUTZ. Yes, sir; I think I can, Mr. Patman.

Mr. PATMAN. Or the over all, for all the associations.

Mr. KREUTZ. The record over all, of payments being made on loans by the borrowers, is good.

As I pointed out in my statement, the annual payments, principal payments, on outstanding mortgage loans of our institutions, aggregate some 18 percent of the average withdrawable capital of the institutions during the same period.

That would indicate, since the amount of outstanding loans is almost equal to the amount of withdrawal capital—actually it is a little less—that the average life of these loans is only about 6 years.

Mr. PATMAN. You mean they pay them off in about 6 years?

Mr. KREUTZ. On the average. Many take much longer than that. Some, of course, pay faster, and some of that represents refinancing of indebtedness.

Mr. PATMAN. Do you have any information as to the number of home owners, people who have their homes paid for, compared, say, with 1939?

Mr. KREUTZ. I cannot give you the comparison, Mr. Patman, but the Federal Reserve figures show, in their latest report, that some 55 percent of the American families have their homes entirely free and clear of debt.

Mr. PATMAN. And paid for?

Mr. KREUTZ. Yes, sir.

Mr. PATMAN. Does that include farm homes, too?

Mr. KREUTZ. I think that is only urban homes.

Mr. PATMAN. Just urban homes?

Mr. KREUTZ. Yes, sir.

Mr. PATMAN. I wish we had the information as to farm homes, too. Do you know where that might be obtained?

The CHAIRMAN. The building associations might have that.

Mr. PATMAN. I know they have; but I thought he might tell us.

Mr. KREUTZ. I will try to get that information and give it to you.

Our associations now are making conventional loans for a period of 10 to 15 years. They are making VA loans, that is, loans to GI's, for up to 20 or 25 years, and FHA loans for 20 years. There is no fixed pattern.

Mr. PATMAN. You state that 55 percent of the homes, according to the Federal Reserve Board survey, are paid for. How does that figure compare to 1940 or 1939; do you know?

Mr. KREUTZ. I would guess, sir, that it is substantially higher.

Mr. PATMAN. Substantially higher?

Mr. KREUTZ. Yes. I can get you exact comparison. I do not have it in mind.

Mr. PATMAN. The point I am trying to make is that you hear a lot of people say that our country is going Socialist or Communist and that we encourage it. When we encourage people to own their own homes, that is going in the opposite direction to socialism and communism; is it not?

Mr. KREUTZ. We certainly think so. I might add in that connection that the percentage of home ownership in this country is now slightly in excess of 50 percent, and I recall very well, in the days when I first became engaged in the savings and loan business, in the early twenties, the ratio was somewhere in the 40's.

Mr. PATMAN. In the 40's?

Mr. KREUTZ. Around 40 percent.

Mr. PATMAN. What was it about 1930 or 1932?

Mr. KREUTZ. I should say it would be close to the mid-40's about that time.

Mr. PATMAN. About 40 percent?

Mr. KREUTZ. Yes, sir; well, over 40 percent, a little over 40 percent at that time. Again, I would be glad to check and give you the exact figures on that if you are interested.

Mr. PATMAN. Yes; if you will give me some information along that line, to show the trends toward home ownership, or what the trend is, it would be very interesting.

Mr. KREUTZ. I will be glad to.

Mr. PATMAN. I would appreciate it very much.

(The information requested above is as follows:)

JANUARY 19, 1950.

Hon. WRIGHT PATMAN,

House of Representatives, Washington 25, D. C.

DEAR Mr. PATMAN: Today during the hearing on H. R. 6743 you asked about the home-ownership trend in this country and I volunteered to send you the figures covering at least the trend in ownership of nonfarm homes. I am very glad to be able to supply this information to you and am including facts regarding the farm ownership trend.

The source of this information is the United States Census Bureau Reports. Here are the figures:

	Percent		Percent
Nonfarm home-ownership trend:		Farm home-ownership trend—Con.	
1890.....	36.9	1930.....	54.1
1900.....	36.5	1940.....	53.4
1910.....	38.4	1947.....	64.9
1920.....	40.9	Nonfarm and farm-home owner-	
1930.....	46.0	ship trend (total):	
1940.....	41.1	1890.....	47.8
1947.....	51.0	1900.....	46.7
Farm home-ownership trend:		1910.....	45.9
1890.....	65.9	1920.....	45.6
1900.....	64.4	1930.....	47.8
1910.....	62.8	1940.....	43.6
1920.....	58.1	1947.....	54.7

Thank you for your courteous reception this morning in the hearing.

Sincerely yours,

OSCAR R. KREUTZ, *Executive Manager.*

Mr. PATMAN. Mr. Chairman, I want that information about farms. I think we can ask one of our experts to obtain the information for us.

The CHAIRMAN. That can be done.

(The following tabulations were submitted by the committee staff:)

Tenure of homes, nonfarm and farm, for the United States, 1890 to 1947

Year	Occupied dwelling units or households	Reporting tenure	Owned		Rented	
			Number	Percent	Number	Percent
Total:						
1890.....	12,690,152	12,690,152	6,066,417	47.8	6,623,735	52.2
1900.....	15,963,965	15,428,987	7,205,212	46.7	8,223,775	53.3
1910.....	20,255,555	19,781,606	9,083,711	45.9	10,697,895	54.1
1920.....	24,351,676	23,810,558	10,866,960	45.6	12,943,598	54.4
1930.....	29,904,663	29,321,891	14,002,074	47.8	15,319,817	52.2
1940.....	34,854,532	34,854,532	15,195,763	43.6	19,658,769	56.4
1947.....	39,016,000	39,016,000	21,347,000	54.7	17,669,000	45.3
Nonfarm:						
1890.....	7,922,973	7,922,973	2,923,671	36.9	4,999,302	63.1
1900.....	10,274,127	9,779,979	3,566,809	36.5	6,213,170	63.5
1910.....	14,131,945	13,672,044	5,245,380	38.4	8,426,664	61.6
1920.....	17,600,472	17,229,394	7,041,283	40.9	10,188,111	59.1
1930.....	23,235,982	22,854,935	10,503,386	46.0	12,351,549	54.0
1940.....	27,665,684	27,665,684	11,358,218	41.1	16,307,466	58.9
1947.....	32,354,000	32,354,000	17,025,000	52.6	15,329,000	47.4
Farm:						
1890.....	4,767,179	4,767,179	3,142,746	65.9	1,624,433	34.1
1900.....	5,689,838	5,649,008	3,638,403	64.4	2,010,605	35.6
1910.....	6,123,610	6,109,562	3,838,331	62.8	2,271,231	37.2
1920.....	6,751,204	6,581,164	3,825,677	58.1	2,755,487	41.9
1930.....	6,668,681	6,466,956	3,498,688	54.1	2,968,268	45.9
1940.....	7,188,848	7,188,848	3,837,545	53.4	3,351,302	46.6
1947.....	6,662,000	6,662,000	4,322,000	64.9	2,340,000	35.1

Source: Bureau of the Census, Washington, D. C.

Mortgage status of all farm properties

Year	Number of farms on which status reported	Free of mortgage		Mortgaged	
		Number	Percent	Number	Percent
1930.....	6,288,648	3,765,425	59.9	2,523,223	40.1
1935.....	6,812,350	4,462,037	65.5	2,350,313	34.5
1940.....	6,096,799	3,733,022	61.2	2,363,777	38.8
1945.....	5,859,169	4,147,504	70.8	1,711,665	29.2

Source: Bureau of the Census.

Farm real-estate mortgage debt

	Total out-standing	Percent-age change from previous year		Total out-standing	Percent-age change from previous year
As of Jan. 1—			As of Jan. 1—		
1940.....	\$6,586,399,000		1945.....	\$4,932,942,000	-8.5
1941.....	6,491,435,000	-1.4	1946.....	4,681,720,000	-5.1
1942.....	6,372,277,000	-1.8	1947.....	4,777,355,000	+2.0
1943.....	5,950,975,000	-6.6	1948.....	4,881,744,000	+2.2
1944.....	5,389,080,000	-9.4	1949.....	5,108,183,000	+4.6

Source: Federal Reserve Bulletin, September 1949.

The CHAIRMAN. What are the total assets of the savings and loan associations?

Mr. KREUTZ. About \$14,000,000,000.

The CHAIRMAN. How much of that is invested in home-ownership loans for the purposes of acquiring homes?

Mr. KREUTZ. I should say about 70 or 75 percent. They have made some loans to finance rental properties, title 608 loans, and so on, but a very high percentage of the total represents financing of homes.

The CHAIRMAN. It is practically all invested in housing for the American people, is it not?

Mr. KREUTZ. Yes, sir.

The CHAIRMAN. I think you have done a wonderful service, and I think it is a very desirable way, for a man who has not the cash to buy a home, to borrow it from one of your associations, and I know this, too, that in the smaller communities they are more than financial institutions, they are social institutions which give their help to their citizens in every way possible, and a great many of the men who participate in the management of these associations derive no benefit at all from it.

Mr. KREUTZ. You may be interested, Mr. Chairman, in a report I gave to Mr. Mitchell just before the hearing started, in connection with a question he put to me at a previous hearing on some other legislation, in the first session of this Congress, as to the average loan made by our institutions, the average sale price of the property, and as to the income groups of the people whom our institutions are financing.

We are conducting a survey of that question now. We have received a great deal of information on it which we will compile and submit to this committee at a later date.

The point I want to make, however, is that the survey so far shows that our institutions are making a very, very large volume of loans to finance people in the low income brackets.

The CHAIRMAN. We will be very glad to have that information. Are there any further questions?

Mr. COLE. Mr. Chairman.

The CHAIRMAN. Mr. Cole.

Mr. COLE. I am interested, Mr. Kreutz, in how important, or how necessary is the Government's support to the statutory liquidity provision. In other words, can the Government provide the backstop, as suggested or provided for in this bill, if it does not require the liquidity provision along with it?

Mr. KREUTZ. Well, I think it can if it wants to.

Mr. COLE. I know it can if it wants to, but is it proper, in your opinion?

Mr. KREUTZ. Well, I think it might be; yes, sir. We have certainly felt so in the past. We have recommended a backstop of this kind, which we have always felt probably would not have to be used without at the same time suggesting any statutory requirement for liquidity.

Mr. COLE. Mr. Divers, in his testimony yesterday, said that "if no requirement is imposed"—that is, no requirement for liquidity—"it is possible that the presence of Government support of liquidity would tend to be relied on too heavily."

That is possible, but I am trying to arrive in my own mind at whether or not it is important in the consideration of the liquidity provision.

Mr. KREUTZ. I think I understand the reason for his statement, and I am sure he was making a statement well justified by the picture as he sees it.

However, the facts are that the average liquidity of our associations today is 19 percent, and that the members of the bank system have used only a very small part of their borrowing capacity in obtaining advances from the banks.

That is a very difficult question to answer, Mr. Cole.

Mr. COLE. I know it is.

Mr. KREUTZ. It is one of those things—

Mr. COLE. It is one I have got to try to answer, though.

Mr. KREUTZ. Yes, sir; it is.

Mr. COLE. I have to make a yes or no answer on it.

Mr. KREUTZ. I do not doubt but what there are some individual institutions which would be inclined to use all of the borrowing capacity which they have, and would rely on the bank system for liquidity demands.

I think, as a whole, our institutions would not do that. I am sure that as a whole they would not do it.

Mr. COLE. Well, quite truthfully, the thing struck me this way: That is, that there is a possibility that the Government is now willing to come forth with a backstop proposition provided that the associations come through with a statutory liquidity provision. I do not know whether that is true or not. I just have that idea.

Mr. KREUTZ. Well, we have run into the fear, in some quarters, in our discussion of the matter, that unless there is some requirement of this kind some associations would be inclined to rely too much on it. There are people who feel that way about it.

Mr. COLE. That is all, Mr. Chairman.

The CHAIRMAN. Are there further questions?

Mr. MCKINNON. Mr. Chairman.

The CHAIRMAN. Mr. McKinnon.

Mr. MCKINNON. Is there any difference in the profit picture between these savings and loan associations who have, say, 50 percent or 40 percent liquidity, as against those who have only 2 or 4 percent? Do the ones who maintain a lower liquidity have a higher profit?

Mr. KREUTZ. Yes, sir, Mr. McKinnon; the association that has a very small ratio of liquidity therefore has a larger percentage of its funds invested in interest-returning assets, with the result that its gross profit is greater, and with the possible result that the association can pay a somewhat higher return to the public.

Mr. MCKINNON. Or to the shareholder in the association?

Mr. KREUTZ. Yes, sir.

Mr. MCKINNON. Now, if the Government was to provide a stronger crutch to these institutions, rather than expecting these institutions to maintain a higher liquidity, and in that way enable the institution to have a higher profit, instead of accumulating that higher profit, would it be possible for the institution to pass it along in lower interest rate to the home builder?

Mr. KREUTZ. That would be possible, depending upon the amount of support given and the encouragement given to it at the same time.

However, I think that most institutions would much prefer to maintain what they regard as a safe liquidity ratio, and would not wish to rely on the Government, on the home-loan bank system or any agency for their primary liquidity.

Mr. McKINNON. You realize, of course, the tremendous pressures of today's society for lower financing cost to build more homes, I am sure?

Mr. KREUTZ. Yes, sir.

Mr. McKINNON. And you realize, of course, that certain States, and there is even legislation being introduced in our own Congress, for using the Government's reputation or credit basis to accumulate lower financing for construction of homes. I am sure you are familiar with that tendency.

Mr. KREUTZ. Yes, sir. And we have strong doubts about the advisability of the use of Federal credit in that way.

May I say, on the interest rate question, that rates are competitive. Interest rates are competitive, as are rates of return on savings. Our institutions fix the interest rate on the basis of the cost of money to them, and that is determined by the willingness of the public to entrust its savings to these or other institutions, at the particular rate which is established.

Obviously, the lower the rate which the public is willing to accept on its savings, the lower the interest rate which our institutions can charge. They have no desire ever to charge any higher interest rates than are economically necessary. Our institutions operate on what you might call a spread, the difference between the interest rate charged and the amount paid on the savings, and that represents the amount which is available for reserve allocations and for necessary expenses, and so on.

Mr. McKINNON. Of course, the way you can reduce that spread is by using more of your money in investments, is it not? The more money you have, the less spread you have to have because of the volume of money working for you?

Mr. KREUTZ. Yes; that is true.

Mr. McKINNON. Could you tell me what the spread, on an average, is in your associations, between what you pay your shareholders and what it costs you to operate, and the percentage that is contributed, say, to profit—in an average institution?

Mr. KREUTZ. Since most of the savings and loan institutions are mutual, there is no so-called profit to any insiders. The margin between the interest rate charged and the earnings paid on savings will run around 2 percent today. That is necessary to take care of operating expenses, which are higher today than they were in the past when the spread was smaller, and also to make the necessary reserve allocations, which are required by the various statutes, both Federal and State.

Mr. McKINNON. When we insist upon a higher reserve, in a sense, we are holding the higher interest rate for the home builder?

Mr. KREUTZ. Yes sir, but experience has proved that those reserve allocations are very necessary, because in any lending operation we do take risks and the only way to safeguard the institutions as such against those risks is by building up reserves.

Mr. McKINNON. Unless you can fall back upon the Federal Government policy of sustaining the weak institution.

Mr. KREUTZ. Yes sir, although I think if that were done, it would lead to a break-down of the whole system. I mean by that, if the individual institutions are not in themselves strong, and if they themselves do not follow a sound policy with respect to the accumulation of reserves for losses, but instead would be inclined to fall back upon an agency of the Federal Government to make up those losses, the system would not last very long.

Mr. MCKINNON. Then you do advocate a reserve system?

Mr. KREUTZ. Well, maybe I misunderstood you, Mr. McKinnon. Were you referring to cash reserves, liquid reserves, or to loss reserves?

Mr. MCKINNON. I am referring back again to this section 1 of the bill.

Mr. KREUTZ. Oh, yes, well then I did misunderstand you. I had been referring to loss reserves, and I thought you were referring to that, too.

Well, yes, if our institutions relied solely for their primary liquidity on some Government or other device, they could keep more of their funds invested than they do now, and the spread could be slightly smaller.

Mr. MCKINNON. What I wonder is the \$64 question: If that were possible, would the savings and loan institutions pass that to the borrower in the form of a lower interest rate?

Mr. KREUTZ. They always have in the past. As they have been able to reduce the cost of the money which is loaned to finance homes, they have reduced the interest rate to the borrowers. That is historical.

I remember when our associations charged 7 percent, generally, and they had to pay, at that time, 5 and 6 percent to attract the money. But as time went on, they were able to get money for lower rates. And as that happened, they steadily lowered the rate of interest charged borrowers, until today they are lending at 4 and 5 percent.

Mr. MCKINNON. That has been customary for the last 15 years, has it not?

Mr. KREUTZ. At least that, yes, sir.

Mr. MCKINNON. So there has been no trend in the last 15 years toward a lower interest rate?

Mr. KREUTZ. Yes, sir. Interest rates charged borrowers, on home mortgages, have declined in the last decade approximately a third. Interest rates charged borrowers today by our institutions and other lending institutions are only two-thirds of what they were before the war.

Mr. MCKINNON. Do you mean the present 4 or 4½ percent interest rates which are charged today represent only two-thirds of what they were in 1939?

Mr. KREUTZ. Yes, sir.

Mr. MCKINNON. That is a surprising statement to me, because in my part of the country, loans have been around 4 or 4½ percent for quite a while.

Mr. KREUTZ. Well, I should say that before the war, rates generally on individual home financing were close to a 6-percent level. In some areas, they were much higher than that.

Mr. McKINNON. Has the Federal Housing Administration and veterans loan legislation had any amount of influence on the reducing of that rate, or has it been voluntary?

Mr. KREUTZ. They have had some influence; yes, sir; but the greatest influence has been the ability of our institutions to attract savings from the public and hold those savings at lower rates.

Mr. McKINNON. There has not been any inclination to being able to operate more efficiently by reason of the greater volume and thus reduce their spread?

Mr. KREUTZ. I do not think the latter has had a very substantial influence. But in further answer to your question, and in all frankness, I want to say, too, that the 4 percent rate on VA-guaranteed loans has had a definite influence on the weighted average rate on outstanding loans of our institutions.

They made a large volume of those loans. They were not too happy about the rates, because it was a little low. It pinched them quite a little. But as a patriotic duty, they did make and now hold a very substantial volume of GI loans at 4 percent.

Mr. McKINNON. That is all.

The CHAIRMAN. If there are no further questions, Mr. Kreutz, thank you very much for your statement. We are always glad to have your views and the views of your associations.

Mr. KREUTZ. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Kreutz was the only witness this morning, so the committee will now adjourn to meet tomorrow morning at 10:30.

(Whereupon, at 11:32 a. m., the committee adjourned, to reconvene at 10:30 a. m., Friday, January 20, 1950.)

1950 AMENDMENTS TO FEDERAL HOME LOAN BANK ACT

FRIDAY, JANUARY 20, 1950

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

The committee met, pursuant to adjournment, at 10:30 a. m., Hon. Brent Spence, chairman, presiding.

Present: Messrs. Spence, Brown, Patman, Buchanan, Multer, Mrs. Woodhouse, Messrs. McKinnon, Wolcott, Talle, Kilburn Cole, Hull, Scott, and Nicholson.

The CHAIRMAN. The committee will be in order.

We will resume hearings on H. R. 6743. Our witness this morning is Mr. George Bliss, chairman of the legislative committee of the United States Savings and Loan League.

We are very glad to hear your testimony, Mr. Bliss.

Mr. BLISS. Thank you, Mr. Chairman.

STATEMENT OF GEORGE L. BLISS, CHAIRMAN, LEGISLATIVE COMMITTEE, UNITED STATES SAVINGS AND LOAN LEAGUE

Mr. BLISS. My name is George L. Bliss. I am president of the Century Federal Savings and Loan Association of New York City and chairman of the legislative committee of the United States Savings and Loan League.

The legislation now before your committee is of vital interest to the savings associations of the country. Their savings facilities are now being used by some 10,000,000 thrifty savers and their low-cost home-financing facilities are assisting nearly 4,000,000 families to debt-free home ownership. The league's more than 3,700 members are located in every State of the Union, the District of Columbia, Alaska, Hawaii, and Puerto Rico. The league membership embraces approximately 85 percent of all savings association resources.

We appreciate the opportunity to present our views to this committee. We have always found that matters affecting savings associations have received the highest degree of careful and understanding consideration by this committee.

Most of the items in this bill have been advanced at one time or another during recent years, so that our members have had an opportunity to consider them at length. The position we present here this morning is based upon such studies and I am authorized to present this statement on behalf of the United States Savings and Loan League.

The services provided by the savings associations to the people of our Nation have developed in a substantial measure since the Federal Home Loan Bank Act became law as a result of the far-sighted

action of your committee in 1932 and since the Federal Savings and Loan Insurance Corporation was established in 1934, again as a result of constructive legislation emanating from your committee.

The costs of operation of these two agencies are paid by the more than 3,700 members of the Federal Home Loan Bank System and by the more than 2,700 members of the Federal Savings and Loan Insurance Corporation. The accomplishments, progress and development of these two agencies have not only lived up to the expectations of their sponsors, but have gone well beyond.

This bill presents certain amendments to the statutes affecting the operations of these two agencies, and with respect to them we offer our views as follows:

Section 1: This section authorizes the Home Loan Bank Board to promulgate liquidity requirements for members of the Federal Home Loan Bank System, which shall be not less than 5 percent nor more than 15 percent of withdrawable accounts, and authorizes the Board to classify such members according to type, size, location, rate of withdrawals, or such other bases as the Board may deem to be necessary or appropriate.

No member institution would be permitted to make or purchase loans whenever its liquidity ratio falls below that established by the Board. Violation would constitute grounds for removal from membership in the System.

The need or desirability of a statutory liquidity requirement for members of the Federal Home Loan Bank System has been the subject of extended discussions at meetings of the league and its committees for the past year or more. The conclusion was reached that, in view of the high liquidity ratio now maintained, compulsory legislation is unnecessary. In light of the high management standards now prevailing, there is every reason to believe that this high liquidity condition will continue.

Savings associations are more liquid in fact than may be generally recognized. In addition to their substantial holdings of cash and Government bonds, they may rely upon the flow of new savings, plus monthly payments on the home loans which constitute their major investment, and further on the credit facilities of the Federal Home Loan Bank System. Such purpose, indeed, was one of the reasons for its establishment.

May we further point out that a minimum liquidity ratio results in sterilizing a portion of the association's assets. Since only a nominal return can be earned on such funds, this increases the cost of doing business. This, in turn, may be reflected in increased interest rates to borrowers, or in lower rates of return to savings customers.

Association managements would also find it necessary to carry an additional margin of liquidity, in order to avoid falling below the line and becoming subject to the penalties thereupon imposed. There might be times when this could be accomplished only by complete withdrawal from the home-financing market.

We recognize, however, that section 1 was placed in this bill in a conscientious belief that certain liquidity standards should be established as a condition for the inclusion in this bill of other provisions that have been long advocated by our savings associations. Even so, we suggest there would appear to be no justification for imposing a liquidity ratio upon the savings institutions which com-

prise the membership of the Federal Home Loan Bank System at a rate higher than that required of Federal Reserve Bank members which accept savings and time deposits. With respect to time deposits in commercial banks, the liquidity requirement is 3 percent to 6 percent, as established by the Federal Reserve Board from time to time.

Accordingly, we respectfully suggest if, in the judgment of your committee, a liquidity ratio for members of the Federal Home Loan Bank System should be enacted into law, that the pending bill be amended by changing the phrase "shall not be less than five percentum or more than fifteen percentum" to read, "shall not be less than three percentum or more than six percentum."

We further recommend the elimination of the second sentence of this section, which would authorize the Board to establish different liquidity ratios for different classes of member institutions. It is our considered judgment that a liquidity provision, if enacted, should apply the same ratio for all members of the Federal Home Loan Bank System.

Section 2: This section would increase the required investment of a member of the Federal Home Loan Bank System in the capital stock of the bank of which it is a member, from 1 percent of the unpaid principal of its home-mortgage loans to 2 percent. This would speed up the retirement of the Government capital.

In urging the enactment of the Federal Home Loan Bank Act in 1932, we pledged the savings association business to an early retirement of the Government-held stock. Enactment of this section would carry out a suggestion which we have repeatedly urged.

Section 3: This is a technical amendment to the investment powers of the Federal home-loan banks and, as a practical matter, it should be enacted into law if section 2 is adopted.

Section 4: This section would provide stand-by Treasury support for the Federal home-loan banks in the maximum amount of \$1,000,000,000. Comparable authority already exists with respect to a number of other Federal corporations. The United States Savings and Loan League approves this section.

Section 5: This section would authorize and direct the Federal Savings and Loan Insurance Corporation to apply 50 percent of its net income each year to the retirement of its Government-held capital unless the Home Loan Bank Board shall determine that a lesser amount shall be retired. For several years the United States Savings and Loan League has been on record for the early retirement of the Government-held capital stock of the Federal Savings and Loan Insurance Corporation and, indeed, has presented legislative proposals for an even faster rate of retirement. The United States Savings and Loan League approves this section.

Section 6: This section would authorize stand-by Treasury support for the Federal Savings and Loan Insurance Corporation in the maximum amount of \$750,000,000. Comparable authority already exists with respect to a number of other Federal corporations. The United States Savings Loan League approves this section.

Sections 7, 8, and 9: These sections would reduce the insurance premium paid by the members of the Federal Savings and Loan Insurance Corporation to the same rate now charged to the members of the Federal Deposit Insurance Corporation. Last fall, similar legislation was adopted by the House, following the unanimous approval of your committee.

We are grateful for the interest that this committee has long shown in the establishment of a parity between the premium rates charged to the members of the Federal Savings and Loan Insurance Corporation, as compared with that borne by the members of the Federal Deposit Insurance Corporation.

At the same time, we ask that your committee take note of a proposal contained in S. 2822, on which hearings have recently been held before the Senate Committee on Banking and Currency. This provision would increase to \$10,000 the amount of insurance protection afforded to depositors in banks insured by the Federal Deposit Insurance Corporation. We respectfully suggest that members of savings and loan associations insured by the Federal Savings and Loan Insurance Corporation should be afforded comparable protection. To that end, we suggest the inclusion in H. R. 6743 of another section which would amend section 405 (a) of the National Housing Act by striking out "\$5,000" and inserting "\$10,000" in its place.

We take particular pride in the increasing number of families of modest means we have helped to home ownership year by year, through our low-cost, home-financing facilities. We are proud to have financed over 600,000 home-purchase loans to veterans of World War II. It has been our philosophy that the savings associations of the Nation are an outstanding illustration of the free-enterprise system, conducted under sound and careful supervision of appropriate Government agencies, with a minimum dependency upon financial support from governmental sources. We believe that this bill, if amended in the particulars that we have suggested, will materially contribute to further accomplishments in the same direction.

Again we thank you for the opportunity to appear before you and express our views.

Mr. Chairman, we append to this statement, on a separate sheet, specific language which would carry out the two amendments that we have suggested.

The CHAIRMAN. It may be inserted in the record at this point. (The amendment referred to is as follows:)

UNITED STATES SAVINGS AND LOAN LEAGUE—PROPOSED AMENDMENTS TO
H. R. 6743

(1) Amend section 1 to read as follows:

"Be it enacted by the Senate and House of Representatives of the United States of America assembled, That the Federal Home Loan Bank Act, as amended, is amended by adding the following new section after section 5 thereof:

"SEC. 5A. No member of a Federal home loan bank shall make or purchase any loan at any time when its cash and obligations of the United States are not equal to such amount as the Home Loan Bank Board shall by regulations prescribe: Provided, That such amount shall not be less than 3 per centum or more than 6 per centum of the obligation of the member on withdrawable accounts or, in the case of any member insurance company, such other base as the Board may determine to be comparable. Failure to comply with the provisions hereof shall constitute ground for removal from membership. This section shall be effective six months after the date of its enactment."

(2) Add a new section 10 to read as follows:

"That section 405 (a) of the National Housing Act, as amended, is amended by striking out '\$5,000' and inserting in lieu thereof '\$10,000'."

The CHAIRMAN. Does that conclude your statement, Mr. Bliss?
Mr. BLISS. Yes, sir.

The CHAIRMAN. Do you not think that the requirement for liquidity would attract investors, and give them an assurance that repayment would be made promptly and thus have some beneficial effect on the activities of the savings and loan associations throughout the country?

Do you not think that the requirement for liquidity in savings accounts in commercial banks has had some effect on depositors in the banks?

Mr. BLISS. Mr. Chairman, we have suggested in this amendment a provision which is comparable to that required by the Federal Reserve Act for time deposits of commercial banks. Therefore, we have withdrawn the earlier opposition that we have expressed to a liquidity statute, in support of a proposal which would place us in substantially the same position as the banks that have time deposits.

The CHAIRMAN. What I wanted to stress was this: Are there not some compensating advantages in the requirement for liquidity which give to the investors an assurance that their money will be promptly repaid, and wouldn't that have the same effect on savings and loan associations as it has on commercial banks? It would assure the investors that they will not have to wait an undue length of time to recover their investment.

Mr. BLISS. I would be false to our business, Mr. Chairman, if I did not express the view that the managements of our associations very definitely believe in the maintenance of adequate liquidity ratio, on a voluntary basis and on the basis of educational programs conducted by our league and by the Federal Home Loan Bank System.

Under those programs, liquidity ratios maintained by savings and loan associations have been substantially increased in the recent years. However, when it comes to facing a statutory requirement in the law, we are faced by this condition. First, the minimum established by the law sterilizes a portion of the association's assets into a low earning position and, because of the formula, prudent management must maintain an additional sum of working cash so that it will not find itself in violation, so that the minimum required in the law is a figure which must be exceeded by some 5 or 10 percent as a practical working ratio.

Mr. KILBURN. Mr. Chairman.

The CHAIRMAN. Mr. Kilburn.

Mr. KILBURN. Let me ask you a question there: You do not have to pay, except on notice, do you?

Mr. BLISS. No, sir; associations in the country pay withdrawals upon request.

Mr. KILBURN. But under your rules, you have 90 days, do you not?

Mr. BLISS. The provision varies according to States. You see, the savings and loan associations operate under the 48 State laws and the Federal associations operate under Federal law, so there are 49 different rules.

In general, the rule provides that the payment may be made on request or may be made at the end of a notice period, the most common notice period being 30 days. However, in practice, the savings accounts in banks are payable upon request and the associations find that it is necessary, at least most associations feel that it is necessary, to pay withdrawals upon request or else they will be placed

in a disadvantageous position in comparison with other savings institutions.

Mr. KILBURN. The reason I ask that is, I know of a bank that paid their interest deposits on request, and the banking authorities of that State told them that they should not pay them upon request.

Mr. BLISS. There are a few portions of the country where it is the practice to pay at the end of a 30-day notice period. But that is not a common practice.

Mr. KILBURN. But you would have that protection; would you not?

Mr. BLISS. Yes, Mr. Kilburn, we would; but I do want to express the opinion that it has been the experience that if the associations start enforcing such a rule, generally the flow of savings stops.

Mr. KILBURN. Well, I think you ought to enforce it anyway. I mean, it is the law. You have got savings here, and people should not put them in there unless they know they have to have notice of withdrawal. Banking authorities make them do so. Why shouldn't you do so?

Mr. BLISS. Well, if the banking authorities——

Mr. KILBURN. I am talking about State banking authorities.

Mr. BLISS. Yes; if the banking authorities were to enforce the notice period upon banks holding savings deposits, the savings associations and such a community would be very glad to go along with such a position, I am sure.

Mr. Spence, I am not sure that I have completed my answer to your question. I was giving a little dissertation here upon the reasons why we do not show great enthusiasm for a statutory liquidity provision. But, we have said here in our statement, as the result of considered deliberation of the bill before you, that we would be agreeable to a provision which would place a liquidity ratio substantially in accord with that imposed by the time deposits of the commercial banks under the Federal Reserve Act.

That is a figure at the present time of 6 percent. The law says it may not be less than 3 and not more than 6 percent. By present regulations of the Federal Reserve Board, that is a 6 percent figure, and to such a figure we would not have any objection, to be applied, of course, with equal effect upon every association.

The CHAIRMAN. Are there any further questions?

Mr. NICHOLSON. Mr. Chairman.

The CHAIRMAN. Mr. Nicholson.

Mr. NICHOLSON. We have several banks in Massachusetts, and we make all the laws for them. The Government does not have anything to do with it.

Would this have some effect on that?

Mr. BLISS. This would be applicable to such savings banks in Massachusetts as are members of the Federal Home Loan Bank System. This law would apply to all members of the Federal Home Loan Bank System, and in Massachusetts there are some savings banks, I believe, that are members of the Federal Home Loan Bank System. There certainly are some in New England.

Mr. NICHOLSON. Well, the cooperative banks are in the system, are they not?

Mr. BLISS. This would apply to the cooperative banks in Massachusetts that belong to the Federal Home Loan Bank System.

Mr. NICHOLSON. Would it not only apply to those who are not members?

Mr. BLISS. It would not apply to those who are not members.

Mr. NICHOLSON. And it would not apply to mutual savings banks who are not members, either, would it?

Mr. BLISS. That is correct.

The CHAIRMAN. Are there further questions? If there are no further questions, Mr. Bliss, you may stand aside. We are very glad to have your views on the subject.

Mr. BLISS. Thank you, Mr. Chairman.

The CHAIRMAN. I do not believe there are any other witnesses who desire to testify on this matter. The hearing of testimony on the bill is concluded and the committee will adjourn to meet at the call of the Chair.

(Whereupon, at 11:00 a. m., the committee adjourned to the call of the Chair.)

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