

FEDERAL HOME LOAN BANK ACT AMENDMENTS

HEARING
BEFORE
SUBCOMMITTEE NO. 1
OF THE
COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES
EIGHTY-SEVENTH CONGRESS
FIRST SESSION
ON
H.R. 7108 and H.R. 7109
(H.R. 7109 is superseded by H.R. 8277)

JULY 13, 1961

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THURSDAY, JULY 13, 1961

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE NO. 1 OF THE
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 1301, New House Office Building, Hon. Brent Spence (chairman of the subcommittee) presiding.

Present: Representatives Spence, Barrett, Vanik, Moorhead of Pennsylvania, Stephens, McDonough, Scranton, and Mrs. Dwyer.

Also present: Representative Multer.

Mr. SPENCE. The committee will be in order.

We have met this morning to hear testimony on H.R. 7108 and H.R. 7109.

(H.R. 7108 and H.R. 7109 follow:)

[H.R. 7108, 87th Cong., 1st sess.]

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

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subsection (c) of section 6 of the Federal Home Loan Bank Act, as amended, is hereby amended to read as follows:

“(c) (1) The original stock subscription of each institution eligible to become a member under section 4 shall be an amount equal to 1 per centum of the subscriber's aggregate unpaid loan principal, but not less than \$500. The bank shall annually, as of the close of the calendar year, adjust, at such time and in such manner and upon such terms and conditions as the Federal Home Loan Bank Board may by regulations or otherwise prescribe, the amount of stock held by each member so that such member shall have invested in the stock of the Federal Home Loan Bank at least an amount calculated in the manner provided in the next preceding sentence (but not less than \$500). If the bank finds that the investment of any member in stock is greater than that required under this subsection it may, unless prohibited by said Board or by the provisions of paragraph (2) of this subsection, in its discretion and upon application of such member retire the stock of such member in excess of the amount so required. Said Board, in its discretion, may, by regulations or otherwise, provide for adjustments in amounts of stock to be issued or retired in order that stock may be issued or retired only in entire shares.

“(2) The provisions of paragraph (1) of this subsection shall be subject to the following limitations:

“(i) No member which is a member on the date of the enactment of this paragraph (2) shall be permitted to reduce its stock to an amount which is less than the amount held by it as of the close of such date, except that a member may at any time reduce its stock to an amount which is not less than 2 per centum of its aggregate unpaid loan principal as of the beginning of the calendar year in which the reduction is made (but not less than \$500): *Provided*, That if the amount to which such stock is so reduced is less than 2 per centum of such member's aggregate unpaid loan principal as of the close of the date of the enactment of this paragraph (2) such reduction may be made only to such extent as said Board in its discretion may by regulations or otherwise provide.

“(ii) Notwithstanding any other provision of this subsection, no action shall be taken by any bank with respect to any member pursuant to any of the foregoing provisions of this subsection if the effect of such action would be to cause the aggregate outstanding advances, within the meaning of the last sentence of subsection (c) of section 10 or within the meaning of regulations of said Board defining said term for the purposes of this sentence, made by such bank to such member to exceed twelve times the amounts paid in by such member for outstanding capital stock held by such member.

“(3) Except as provided in subsection (i), upon retirement of stock of any member the bank shall pay such member for the stock retired an amount equal to the par value of such stock, or, at the election of the bank, the whole or any part of the payment which would otherwise be so made shall be credited upon the indebtedness of the member to the bank. In either such event, stock equal in par value to the amount of the payment or credit, or both, as the case may be, shall be canceled.

“(4) For the purposes of this subsection, the term ‘aggregate unpaid loan principal’ means the aggregate unpaid principal of a subscriber’s or member’s home mortgage loans, home-purchase contracts, and similar obligations.

“(5) The Federal Home Loan Bank Board, by regulations or otherwise, may require each member to submit such reports and information as said Board, in its discretion, may determine to be necessary or appropriate for the purposes of this subsection.”

SEC. 2 Subsection (1) of section 6 of the Federal Home Loan Bank Act, as amended, is hereby repealed.

SEC. 3. Subsection (a) of section 404 of the National Housing Act, as amended, is hereby amended to read as follows:

“(a) The Corporation shall establish a Primary Reserve which shall be the general reserve of the Corporation and a Secondary Reserve which shall consist of the prepayments made by insured institutions pursuant to subsection (d) and the credits made pursuant to the first sentence of subsection (e).

“(b) (1) Each institution whose application for insurance is approved by the Corporation shall pay to the Corporation, in such manner as it shall prescribe, a premium for such insurance equal to one-twelfth of 1 per centum of the total amount of all accounts of the insured members of such institution plus any creditor obligations of such institution. Such premium shall be paid at the time the certificate is issued by the Corporation under section 403, and thereafter annually, except that under regulations prescribed by the Corporation such premium may be paid semiannually.

“(2) If, at the close of any December 31, the Primary Reserve equals or exceeds 2 per centum of the total amount of all accounts of insured members and creditor obligations of all insured institutions as of such close, no premium under paragraph (1) of this subsection shall be payable by an insured institution with respect to its premium year beginning during the year commencing on May 1 next succeeding such December 31, except that the foregoing provisions of this sentence shall not be applicable to any insured institution with respect to any of the twenty premium years beginning with the premium year commencing with the date on which such certificate is issued.

“(3) The Corporation is authorized to prescribe such rules and regulations as it may determine to be necessary or appropriate to accomplish the purposes and provisions of this subsection.”

SEC. 4. Subsection (c) of section 404 of the National Housing Act, as amended, is hereby repealed: *Provided*, That the repeal effected by this section shall not affect any right existing on the effective date of such repeal.

SEC. 5. Subsection (b) of section 404 of the National Housing Act, as amended, is hereby amended by striking “(b)” at the beginning thereof and inserting in lieu thereof “(c)”.

SEC. 6. Section 404 of the National Housing Act, as amended, is hereby amended by adding thereto at the end thereof the following new subsections:

“(d) Each insured institution, except as otherwise provided in this section, shall annually pay to the Corporation, at such time and in such manner as the Corporation shall by regulations or otherwise prescribe, an additional premium in the nature of a prepayment with respect to future premiums of such institution under subsection (b) equal to 2 per centum of the net increase in all accounts of its insured members during the next preceding calendar year, less an amount equal to any requirement, as of the end of such calendar year, for

the purchase of stock of the Federal Home Loan Bank of which such institution is a member, calculated in accordance with the provisions of subsection (c) of section 6 of the Federal Home Loan Bank Act and without regard to any net increase during such calendar year in its holdings of such stock, and such prepayments shall be credited to the Secondary Reserve. The Federal Home Loan Bank Board shall by regulations or otherwise provide for the furnishing to the Corporation of all necessary information with respect to Federal Home Loan Bank stock.

“(e) The Corporation, in accordance with such regulations as it may prescribe, shall credit to the Secondary Reserve, as of the close of each calendar year which begins on or after the effective date of this subsection, a return on the outstanding balances of the Secondary Reserve during such calendar year, as determined by the Corporation, at a rate equal to the average annual rate of return to the Corporation during the year ending at the end of the month next preceding the month of such close, as determined by the Corporation, on the investments held by the Corporation in obligations of, or guaranteed as to principal and interest by, the United States. Except as provided in subsections (f) and (g), the Secondary Reserve shall be available to the Corporation only for losses of the Corporation and shall be so available only to such extent as other accounts of the Corporation which are available therefor are insufficient for such losses. No right, title, or interest of any institution in or with respect to its pro rata share of the Secondary Reserve shall be assignable or transferable, whether by operation of law or otherwise, except to such extent as the Corporation may by regulation or otherwise provide for transfer of such pro rata share in cases of merger or consolidation, transfer of bulk assets as defined by the Corporation by regulation or otherwise for the purposes of this sentence, and similar transactions as so defined.

“(f) If (i) the status of an insured institution as an insured institution is terminated pursuant to any provision of section 407 or the insurance of accounts of an insured institution is otherwise terminated, (ii) a conservator, receiver, or other legal custodian is appointed for an insured institution under the circumstances and for the purpose set forth in subdivision (d) of section 401, or (iii) the Corporation makes a determination that for the purposes of this subsection an insured institution has gone into liquidation, the obligation of such institution to make prepayments under subsection (d) of this section, including any prepayments as to which such institution is obligated at the time of such termination, appointment, or determination, shall cease, and the Corporation shall pay in cash to such institution its pro rata share of the Secondary Reserve, in accordance with such terms and conditions as the Corporation may prescribe by regulations or otherwise, or, at the option of the Corporation, the Corporation may apply the whole or any part of the amount which would otherwise be paid in cash toward the payment of any indebtedness or obligation, whether matured or not, of such institution to the Corporation, then existing or arising before such payment in cash: *Provided*, That such payment or such application need not be made to the extent that the provisions of the exception in the last sentence of subsection (e) are applicable. The Corporation in its discretion may provide by regulations or otherwise for the reinstatement in whole or in part, upon such terms and conditions as to payment or otherwise as it may prescribe, of the pro rata share of an institution in the Secondary Reserve in the event that such status or such insurance is restored by action of the Corporation or of a court in reversing or setting aside such termination, or in the event that, after such appointment or such determination, an institution is restored to operation as an insured institution, and for the payment, waiver, or other treatment in whole or in part of any prepayments which, in the absence of the first sentence of this subsection, would have accrued under subsection (d) or would be payable thereunder.

“(g) If, at the close of any December 31, the aggregate of the Primary Reserve and the Secondary Reserve equals or exceeds 2 per centum of the total amount of all accounts of insured members and creditor obligations of all insured institutions but the Primary Reserve does not equal or exceed such 2 per centum, no insured institution shall be obligated to make any prepayment under subsection (d) during the year beginning with May 1 next succeeding such close, and each insured institution's pro rata share of the Secondary Reserve shall be used, to the extent available, to discharge such institution's obligation for its premium under subsection (b) for the premium year beginning in such year: and the suspension of obligation to make such prepayments and the use of such

pro rata shares as provided in this sentence shall continue unless and until the next to last sentence or the last sentence of this subsection shall become operative. Notwithstanding the foregoing provisions of this subsection, if, at the close of any December 31 except any such close occurring at any time after such a close as is referred to in the last sentence of this subsection, the aggregate of the Primary Reserve and the Secondary Reserve is not at least equal to 1¼ per centum of the total amount of all accounts of insured members and creditor obligations of all insured institutions, (i) the obligation of insured institutions to make prepayments under subsection (d) shall resume on May 1 next following such December 31 and shall continue unless and until the first sentence or the last sentence of this subsection shall become operative, and (ii) the use of any insured institution's pro rata share of the Secondary Reserve under the first sentence of this subsection shall terminate with respect to its premium under subsection (b) for the premium year beginning during the calendar year commencing on May 1 next succeeding such December 31, and such termination shall continue unless and until the first sentence of this subsection shall become operative. If, at the close of any December 31, the Primary Reserve equals or exceeds such 2 per centum, the Corporation shall, at such time (which shall be the same for all insured institutions and shall not be later than May 1 next succeeding such close) and in such manner as the Corporation shall determine, pay in cash to each insured institution its pro rata share of the Secondary Reserve and shall not, after such time, accept or receive further prepayments under subsection (d)."

SEC. 7. This Act shall become effective on January 1 next following the date of its enactment.

[H.R. 7109, 87th Cong., 1st sess.]

A BILL To amend the Federal Home Loan Bank Act to simplify and improve the election and appointment of directors of the Federal home loan banks

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subsections (a) through (h) of section 7 of the Federal Home Loan Bank Act (12 U.S.C. 1427) are amended to read as follows:

"(a) The management of each Federal home loan bank shall be vested in a board of twelve directors, two-thirds of whom shall be elected by the members, and the remaining one-third of whom shall be appointed by the board, and all of whom shall be citizens of the United States and bona fide residents of the district in which such bank is located: *Provided*, That in any district which includes five or more States the board may by regulation increase the elective directors to a number not exceeding thirteen and may increase the appointive directors to a number not exceeding one-half the number of elective directors.

"(b) Each elective directorship shall be identified as representing the members from a particular State, and shall be filled by a person who is an officer or director of a member located within that State, each of which members shall be entitled to nominate a suitably qualified person for each such directorship that will represent them, and each such office shall be filled from such nominees by a majority of the votes which such members may cast in an election held for the purpose of filling the initial term or expiring term of such office, in which election each member from the State which that office will represent may cast for each such office to be filled by the election a number of votes equal to the number of shares of stock in the district bank required to be held by such member as of the end of the calendar year next preceding the election. No added voting strength shall be derived from stock ownership in excess of the average required ownership of the members in the particular State.

"(c) The number of directors which the members from each separate State in a bank district shall be entitled to elect shall be determined by the board in approximate ratio to the percentage of the required stock of the district bank held by the membership from that State at the end of the calendar year next preceding the date of the election, except that the members from each State in the district shall be entitled to elect at least one director, and no State shall be entitled to more than six such elective directorships. Without regard to any other limitation of this section, after determining as prescribed in the preceding sentence, the number of directors which each State is entitled to elect, the board shall add as many more such directors as may be necessary so that each State in a district shall be entitled to at least as many elective directors as the number which represented that State on December 31, 1960.

"(d) Directors shall be elected for two-year terms, and shall be appointed for four-year terms. No director may be elected consecutively for more than three such terms. The board shall prescribe such rules and regulations as it may determine to be proper for the nomination and election of directors.

"(e) The term of each elective or appointive director serving on the date this amendment becomes effective shall not be affected by this amendment but shall continue unchanged until its original date of expiration. The provisions of this section, as amended, shall otherwise be applicable as of the date of enactment. The term 'States' or 'State' as used in this section shall mean the States of the Union and the District of Columbia.

"(f) In the event of a vacancy in any appointive or elective directorship, such vacancy shall be filled through appointment by the board for the unexpired term: *Provided*, That if any director shall cease to have the qualifications set forth in subsection (a), or if any elective director shall cease to have any qualification set forth in this section or in any regulation in effect on the date of his nomination, the office held by such director shall immediately become vacant, but such director may continue to act as such director until his successor so appointed assumes the vacated office or the term of such office shall have expired, which ever shall first occur.

"(g) The board shall designate one of the directors of each bank to be chairman, and one to be vice chairman, of the board of directors of such bank.

"(h) If at any time when nominations are required, members shall hold less than \$1,000,000 of the capital stock of the Federal home loan bank, the board shall appoint a director or directors to fill the place or places for which such nominations are required, and the board may, prior to the filing of the certificate mentioned in section 12, appoint directors who shall be respectively designated by it as appointive directors and as elective directors, in accordance with the provisions of this section."

Mr. SPENCE. Today we will hear, together, H.R. 7108, to strengthen the resources of the Federal Savings and Loan Insurance Corporation, and H.R. 7109, to improve and simplify the procedures for electing directors of the Federal home loan banks.

Mr. Clerk, call the first witness.

Mr. CARDON. The Honorable Joseph P. McMurray, Chairman of the Federal Home Loan Bank Board.

STATEMENT OF HON. JOSEPH P. McMURRAY, CHAIRMAN, FEDERAL HOME LOAN BANK BOARD; ACCOMPANIED BY IRA DIXON, MEMBER, HOME LOAN BANK BOARD; JOSEPH WILLIAMS, MEMBER, HOME LOAN BANK BOARD; CLARENCE SMITH, EXECUTIVE SECRETARY, HOME LOAN BANK BOARD; AND WILLIAM H. HUSBAND, GENERAL MANAGER, FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

Mr. McMURRAY. May I have permission to have Mr. Williams and Mr. Dixon, the other members of the Board, and Dr. Husband sit with me?

Mr. SPENCE. Without objection permission is granted.

We are very glad to have you here. I am sure we all wish you great success and happiness in the discharge of your new important duties.

I know that this committee will work in harmony with you and will attempt to do everything possible to assist the Federal Home Loan Bank Board perform the duties and functions that the law requires. It is in very safe hands with you as Chairman. Thank you for coming.

Mr. McMURRAY. Thank you very much, Mr. Chairman.

First of all, I want to tell you what a pleasure and an honor it is for me to appear before this very distinguished and powerful committee.

As you know I spent many years on the Senate Banking and Currency Committee and we worked together for several long years on many very important bills. Over the years I have gained great respect for the chairman of this committee and many members of the committee.

I appreciate the friendship and the cooperation that every member of the committee always gave to me. I hope that as Chairman of this Home Loan Bank Board, I will live up to your high expectations, and by my hard work and by the cooperation and help of the members and the staff of this Home Loan Bank Board I will do the kind of a job which you will be proud of and which will benefit the country.

Mr. SPENCE. I am sure the committee reciprocates in the sentiments which you express.

Mr. MCMURRAY. Thank you very much.

I have with me Joseph J. Williams and Ira Dixon, the other two members of the Board. Incidentally, I want to say that they have been extremely helpful to me and have been also very patient with me.

I think the three of us together will be able to solve, I hope, most of the problems that are confronting the Board, and we will make every effort to solve all of them, but I hope that you will judge us on our batting average and not on each specific problem that we attempt to solve. I also want to say that the staff have been very helpful to me.

I know from my own experience in working with congressional committees the significance of the deliberations that precede statutory enactment. Especially do I recognize your great responsibility in passing upon measures relating to financial institutions.

The obligations of those institutions are imposing, to say the least. On the one hand, they have a key role in nurturing the growth of our economy; on the other, they must at all times have a deep awareness and heedfulness of their accountability for the proper handling of other people's money.

I would like to address myself first to H.R. 7108.

The first of these two bills, H.R. 7108, is intended to add new strength to the Federal Savings and Loan Insurance Corporation, which as you know insures, up to a statutory limit of \$10,000, the savings of members of the public in savings and loan associations. This bill has our wholehearted endorsement and I trust that it will be found to merit your undivided support.

H.R. 7108 does not seek any appropriation of taxpayers' money. On the contrary, it proposes that insured savings and loan associations use some moderate amounts of their own funds to strengthen even more the bulwark of insurance of their savings accounts; and even those amounts will, in the typical case, represent merely a diversion of funds that would otherwise have been used for the purchase of stock in the Federal home loan bank of which the institution is a member.

If the requested legislation is enacted, the flow of savings into these institutions should be further stimulated. In turn, since savings

and loan associations invest the great bulk of their funds in loans on residential properties, the demands that funds in the U.S. Treasury be invested in the providing of housing should be lessened.

May I add the further observation that legislation relating to financial institutions should simultaneously contribute to both the soundness of their operation and their ability to meet economic needs. I believe that H.R. 7108 will meet these twin objectives for the same two reasons—because it adds to the safety of insured savings and, at the same time, should make more money available to accommodate the housing program.

As you know, savings and loan associations lend primarily to the average-income or middle-income groups and constitute the largest single means of pooling the savings of the public for that purpose. In the discharge of these basic economic functions, they do much to stabilize economic conditions and advance the public welfare.

Today, insured savings and loan associations have assets of about \$70 billion, but more meaningful in terms of public service is the number of people being served. Some 28 million persons have savings accounts in these institutions and the homes of almost 7.5 million families are now being financed by the use of these savings.

The contribution of the savings and loan business to housing and to the general economy may clearly be seen in its record during the fifties. In that dramatic 10-year period insured savings and loan associations made mortgage loans in the aggregate amount of \$95,270 million and received a gross flow of savings in the amount of \$136,418 million. The net gain in mortgage loans and savings from the close of 1950 to the close of 1960 was \$45,630 million and \$47,288 million respectively.

Turning to the specific features of H.R. 7108, we may summarize them as follows:

Under the proposed legislation, an insured savings and loan association would be required to make an annual payment to the Federal Savings and Loan Insurance Corporation, in the nature of a prepayment with respect to its future regular premiums. The annual rate of the regular premium would remain unchanged at one-twelfth of 1 percent of the total amount of all accounts of the institution's insured members plus its creditor obligations.

The annual prepayment should be equal to 2 percent of the net increase in such accounts during the next previous calendar year less an amount equal to any requirement, as of the end of that calendar year, for purchase of stock of the Federal home loan bank of which the institution is a member, as calculated in accordance with the bill.

The Corporation would be directed to establish a primary reserve, which would be its general reserve, and a secondary reserve, to which the prepayments would be credited. If the primary reserve and any other accounts available for losses should be insufficient to meet all losses of the Corporation, the secondary reserve would be available for that purpose. In other words, the prepayments would serve as an additional reserve for losses.

It is proposed that the outstanding balances in the secondary reserve receive a return at a rate equal to the average rate on the Corporation's own investments in Government or Government-guaranteed obligations. This return would not be paid in cash but would be added to the secondary reserve.

When the aggregate of the primary reserve and the secondary reserve reached 2 percent of the total amount of all accounts of insured members and creditor obligations of all insured institutions—assuming that the primary reserve alone did not reach that percentage—the prepayments would stop and each institution's pro rata share of the secondary reserve would be used, so far as available, to discharge its obligations for its regular annual premiums.

If the aggregate of the two reserves later fell below 1.75 percent, the prepayments would be resumed and such use of the secondary reserve would cease. However, if the primary reserve itself reached 2 percent of this base, the Corporation would pay to each insured institution, in cash, the amount of its pro rata share of the secondary reserve, and the premium prepayments would permanently cease.

The existing law makes the regular premium payable until the Corporation's reserve fund equals 5 percent of all insured accounts and creditor obligations of all insured institutions, and provides that if at any time it falls below that figure the regular premium shall be resumed until it is brought back to that point.

H.R. 7108, in effect, reduces this ratio to 2 percent but requires that each insured institution pay the regular premium for at least 20 years, in order to assure that newly insured institutions make a reasonable contribution toward the building up of the Corporation's reserve.

As noted previously, provision is made for the deduction of required Federal home loan bank stock purchases from the 2-percent-premium prepayments. Under the Federal Home Loan Bank Act as originally enacted in 1932, each member institution of a Federal home loan bank was required to hold stock in its bank equal to 1 percent of the aggregate unpaid principal of its home mortgage loans, subject to a required minimum. By legislation enacted in 1950, as a part of the program for accelerating the retirement of the Government stock in these banks, the required amount of stock was approximately doubled, being increased to 2 percent of the aggregate unpaid principal of the member's home mortgage loans, home-purchase contracts, and similar obligations.

The present bill, H.R. 7108, would reduce the 2-percent requirement to 1 percent. However, there would be no appreciable decrease in the amount of stock now outstanding, as the bill provides that no institution which is a bank member on the date of enactment of the bill shall be permitted to reduce its stock to less than the amount held by it at the close of that date, with two exceptions.

The first exception is that, subject to the \$500 minimum to which all members are subject, any such member may reduce its stock to not less than 2 percent of the base as of the beginning of the year in which the reduction is made and not less than 2 percent of the base as of the close of the date of enactment.

This exception is intended to give equitable treatment to members which, on the date of enactment of the bill, hold bank stock in excess of the existing 2-percent requirement. The second exception allows the Federal Home Loan Bank Board in its discretion to permit such a member, subject to said minimum, to reduce its stock to an amount less than 2 percent of the base as of the close of the date of enactment, but not less than 2 percent of the base as of the beginning of the year in which the reduction is made. This exception is designed to

allow the Board to permit a reasonable degree of flexibility in proper cases.

It is estimated that the ratio of stock to home mortgages would not decline to 1 percent until approximately 1968. This would mean that, in general, institutions which were Federal home loan bank members on the date of enactment of the bill would not be required to buy further bank stock until that time. However, new members would immediately have to buy stock under the 1-percent requirement.

As has previously been noted, the annual premium prepayment by an insured institution would be equal to 2 percent of the net increase in all accounts of its insured members during the next previous calendar year, less an amount equal to any requirement, as of the end of that calendar year, for purchase of stock of the Federal home loan bank of which the institution is a member, as calculated in accordance with the bill.

This does not provide a clear and specific method of treatment for cases where the particular institution was not an insured institution at the beginning of that calendar year but became an insured institution during that year. Accordingly, the Board hereby suggests the following amendment to the bill to take care of those cases:

We recommend that on page 7 of your bill, line 2, strike out the period and insert the following:

: *Provided*, That in the case of an insured institution which was not an insured institution at the beginning of such next preceding calendar year the 2 per centum aforesaid shall be 2 per centum of the net increase in all accounts of its insured members during that part of said calendar year which begins with the close of the day on which such institution becomes an insured institution and the amount deducted from such 2 per centum under the foregoing provisions of this sentence shall not exceed one-half of such 2 per centum as calculated in accordance with this proviso.

BASIC OBJECTIVES OF THE BILL

Now that the major technical aspects of H.R. 7108 have been noted, it may be desirable to set forth its basic objectives.

First, it is believed that the amount of stock of the Federal home loan banks now outstanding is more than sufficient to meet the criterion of adequate capitalization. And that is an understatement.

As of the present time the combined stock, reserves, and surplus of the 11 banks amount to \$1,186 million as compared with outstanding consolidated obligations of \$955 million. Now as you know, our regulations provide for the issuance of obligations up to 12 times the paid-in capital stock and statutory reserves of the banks.

A basic stock-purchase requirement of 1 percent was considered adequate when the Federal Home Loan Bank Act was originally enacted, and we are convinced that it is entirely safe today to return to a comparable figure provided such return is accompanied by safeguards such as those contained in the bill.

We believe that this reduction in the stock-purchase requirement may result in the seeking of membership by eligible institutions which have heretofore hesitated to join the system because of the 2 percent requirement, and this may be said to be one of the objectives of the bill.

Second, while the stock of the Federal home loan banks has kept pace with the rapid growth of their member institutions the reserves of the Federal Savings and Loan Insurance Corporation have not. On June 30, 1950, the ratio of the reserves of the Insurance Corporation to its potential liability was 0.843 percent; currently, the ratio is 0.661 percent. The failure of the reserve ratio of the Corporation to increase during the intervening period is caused solely by the rapid growth of the insured institutions.

During the entire life of the Corporation its total expenses have amounted to only 3.7 percent of its gross income while net insurance losses have absorbed a mere 1.1 percent of the gross income. The second objective, and the predominant objective, of H.R. 7108 is to gear the growth of the reserves of the Federal Savings and Loan Insurance Corporation to the expansion of its insured institutions.

I am glad to say that there appears to be virtually unanimous agreement on the broad purposes of H.R. 7108 by all interested parties, although there may be some divergence of views with respect to the technical aspects. As you know, we shall be glad to furnish any additional information in response to your questions and to work with you to any extent that you may desire.

I think, Mr. Chairman and members of the committee, that it might be better if we stop at this point rather than my proceeding on to H.R. 7109, so that the questions relating to this bill might be asked at this time.

I hope that I am able to answer them to your satisfaction. If not, I have with me the two members of the Board and Dr. Husband, who is the General Manager of the Insurance Corporation.

Thank you very much.

Mr. SPENCE. This bill will not impose additional assessments on the members in excess of what they are now paying?

Mr. McMURRAY. Yes, sir.

Mr. SPENCE. The bill merely reduces the amount member institutions will be required to invest in Federal Home Loan Bank stock, and requires insured institutions to make premium prepayments of roughly the same amount to strengthen the resources of the Federal Savings and Loan Insurance Corporation?

Mr. McMURRAY. That is correct, sir.

Mr. SPENCE. That is essentially what it does?

Mr. McMURRAY. Yes, sir.

Mr. SPENCE. It has the approval of both Leagues?

Mr. McMURRAY. That is true, sir.

Mr. SPENCE. It is an administration bill?

Mr. McMURRAY. Yes, sir.

Mr. SPENCE. Mr. McDonough, have you any questions?

Mr. McDONOUGH. I am very happy to see you here this morning and to wish you the best of luck, and I am sure that your administration will be of the same type of efficiency that you have displayed in previous assignments, both in Washington and in New York State.

Mr. McMURRAY. Thank you very much.

Mr. McDONOUGH. I would like to know, Mr. McMurray, have you looked over this recommendation of Mr. Holifield?

(The recommendation referred to above may be found on p. 60.)

Mr. McMURRAY. No, sir, I have not.

The first time I heard about his recommendation was this morning.

Mr. McDONOUGH. He has filed here a letter with some notations and suggestions concerning the administration of the Home Loan Bank Board which goes back to the problem that we had under Mr. Fahey.

You are familiar with that, are you?

Mr. McMURRAY. Congressman Holifield, just in a moment, told me what the purpose of the letter was, and I understand that it relates to the Los Angeles Bank which was dissolved by Mr. Fahey.

Mr. McDONOUGH. Yes, the Los Angeles Bank and the Long Beach Savings & Loan Association.

I have not read the notation thoroughly through, but I just wondered if you had come to any conclusions on the suggestions that are made in it?

Mr. McDONOUGH. No, sir. I have not even had a chance to read the recommendation. And so, with your permission, and the committee's permission, I would prefer to study it, and if the committee desires, we will be glad to give the committee a considered judgment with respect to that.

Mr. McDONOUGH. I think it is worthy of note, because it involved a problem that was rather aggravating for a long time, both on the local level and insofar as the Home Loan Bank Board is concerned, as you know.

Mr. McMURRAY. This Board, as I do, has great respect for Congressman Holifield, and we know that he is a very long time student of the Home Loan Bank Board and its operations.

So I am sure that anything he proposes is worthy of very serious consideration.

Mr. McDONOUGH. I did not hear all of your testimony, but I presume that you are fully in favor of H.R. 7109?

Mr. McMURRAY. I have not yet testified on H.R. 7109.

Mr. McDONOUGH. Oh.

Mr. McMURRAY. But you have correctly judged, that I will support it.

Mr. McDONOUGH. That is all for the moment, Mr. Chairman.

Mr. SPENCE. Mr. Barrett?

Mr. BARRETT. Mr. McMurray, you seem to have no opposition from either side this morning.

Mr. McMURRAY. Thank you very much.

Mr. BARRETT. Mr. McMurray, under the 1950 legislation it took you about 8 years to retire the membership stock.

Under H.R. 7108 you indicate it will take about 20 years.

Is that right?

Mr. McMURRAY. I think Dr. Husband had better answer that question.

Mr. HUSBAND. If you are referring to the stock of the Insurance Corporation, which I think you are, Congressman, yes, sir. It took about 8 years to retire the stock.

Mr. BARRETT. And now to build up a reserve you anticipate will take about 20 years?

Mr. HUSBAND. The 2 percent goal will be reached from between 1990 and 1995, years which I think we are both perfectly safe to predict, because we will not be around to see the results.

Mr. McMURRAY. Speak for yourself.

Mr. BARRETT. One point I would like to know is how you arrived at this figure? What formula do you use?

Mr. HUSBAND. By applying the 2 percent prepaid premium while continuing the one-twelfth of 1 percent regular premium during that length of time, and allowing for the continued growth of the associations, we estimate it will take until approximately the 1990's to reach the 2 percent goal.

Mr. BARRETT. That is all.

Mr. SPENCE. Mrs. Dwyer?

Mrs. DWYER. No questions.

Mr. SPENCE. Mr. Stephens?

Mr. STEPHENS. No questions.

Mr. SPENCE. Mr. Scranton?

Mr. SCRANTON. Mr. McMurray, you say, on page 2 of your testimony, that this legislation, if enacted, will mean a flow of savings into the institutions, and it also, therefore, should mean that we would have more private enterprise funds available for housing.

I certainly hope you are right, but have we any reason to believe that this is true other than a generalization that it will strengthen—

Mr. McMURRAY. Well, to the extent that you strengthen, as this bill would do, the Insurance Corp., it certainly should be an even further inducement to the savers of our country to put their funds in the savings and loan associations, and those that are members of the Insurance Corp.

And I think it will do that and, therefore, stimulate the flow of funds to these institutions, and in that way make more funds available for home mortgages.

Mr. SCRANTON. In other words, your thought is based only on that generalization, that it will strengthen them?

Mr. McMURRAY. Yes, sir. Yes, sir, but it is a generalization, I think, that is a sound generalization.

Mr. SCRANTON. Secondly, what is the reasoning behind changing the present law that demands a 5-percent reserve, down to the 2 percent?

Mr. McMURRAY. The reserves of all our associations now, the average association, is something—I believe it is about 8 percent. They are required to build these reserves up to 12 percent by allocating 10 percent in income each year to them.

And with this 2 percent, that will give you a reserve factor we feel that is adequate to take care of any contingencies that are likely to occur.

Mr. SCRANTON. It never got anywhere near the 5 percent at any time, did it?

Mr. McMURRAY. That is right.

Mr. SCRANTON. On these exceptions that are made in the bill, just to clear me up so that I thoroughly understand them, you state on page 6 that any member may reduce its stock to 2 percent of the base as of the beginning of the year in which the reduction is made, and not less than 2 percent of the base as of the close of the date of enactment, that being the first exception.

Mr. McMURRAY. Yes.

Mr. SCRANTON. And the second exception, as I understand it, and I want to make sure I do, simply puts in the discretion of the Home Loan Bank Board the decision to make that "and" an "or."

Is that correct?

Mr. McMURRAY. To make it to what?

Mr. SCRANTON. "And" in the first exception to "or"——

Mr. McMURRAY. Well, the second exception relates to a later time when conditions might change so that they want to reduce it.

If such an institution asks to reduce its stock to 2 percent, it then can reduce it but not, in any case, less than 2 percent at the beginning of the year in which the reduction was sought, subject to the discretion of the Board, if a requested reduction would reduce the institution stockholdings to less than 2 percent as of the date of enactment.

As Mr. Williams points out, that provision will take care of those institutions getting small rather than large.

Mr. SCRANTON. Yes.

That is all the questions I have, Mr. Chairman.

Mr. SPENCE. Mr. Moorhead?

Mr. MOORHEAD of Pennsylvania. Thank you, Mr. Chairman.

Mr. McMurray, on the stock ownership requirements, as I understand it, a new member would be required to make purchases up to 1 percent, but an old member would have to continue its ownership at 2 percent.

Is that correct?

Mr. McMURRAY. Yes, sir. He would continue the stock that he has and, in many cases—in all cases now, it is 2 percent.

But, from now on, new members coming in will only have to put up 1 percent in stock.

Mr. MOORHEAD of Pennsylvania. And the equalization between the new members and the old members would be brought about by the fact that the old members would not be required to buy new stock and their stock ownership would gradually fall——

Mr. McMURRAY. That is correct, sir.

Mr. MOORHEAD of Pennsylvania. So that equality between old and new members would be reached, as you estimate, by about 1968?

Mr. McMURRAY. Yes, sir.

Mr. MOORHEAD of Pennsylvania. Thank you.

Thank you, Mr. Chairman.

Mr. SPENCE. Mr. Multer?

Mr. MULTER. Thank you, Mr. Chairman, for the opportunity to participate in this subcommittee's work, although I am not a member thereof.

It seems to me, Mr. McMurray, that there should be a complete and thorough review of the entire basic act, and it might be better to postpone action on this bill until your agency has done that, and then come in at one time with the proposed amendments to every part of the act which needs change or correction rather than try to do this piecemeal as we are doing now.

Is your agency presently undertaking a study or review of the entire basic act?

Mr. McMURRAY. Congressman Multer, we have, as you know a task force that has been set up, which is studying the whole Federal Home Loan Bank Board and its operations and many of the problems with

which the Home Loan Bank Board is confronted. Subsequent to some basic general studies of the problems with this group we are going to have a management consultant firm or a team of experts study the organization of the Board.

However, it seemed to us that since this specific bill has already received the unanimous support not only of the task force, with whom we discussed this bill, both the leagues, who have studied the bill over a long period of time, the previous Board members and the Federal Savings and Loan Insurance Corporation, we hope the Congress will enact it now.

Also, it seems to me that this does not preclude any future changes that we might make as a result of our study. I think it would greatly strengthen the heart of the savings and loan industry, and it is something that I believe would be recommended by any group who studied the Insurance Corporation.

Mr. MULTER. Without in any way derogating the good faith of the leagues, the national leagues who represent the associations, this is one instance where I discount their support of the bill, because that is obviously actuated by self-interest on the part of the associations concerned.

I think your concern, and our concern, must be the protection of the public and the institutions. Rather than reducing the contributions of the individual savings and loan associations we must think first of strengthening the home loan banks and the Federal Savings and Loan Insurance Corporation.

I think that must be your first desire and our first desire.

Mr. McMURRAY. That is my purpose, sir. And I think both leagues, in this instance specifically, and I might say from my experience with them in a lot of other ways, should be commended for their support of this bill, because I do think it strengthens the FSLIC.

It makes what the insured institutions are doing for the public that much more valuable and the public can have that much more confidence in placing their funds with these institutions.

I think this is one of the cases where what is good for an association is good for the bank, for the FSLIC, and good for the people.

Mr. MULTER. Now, let's analyze that for a moment.

There has been criticism of the Insurance Corporation's surplus and reserves on the ground that they are not large enough. Obviously, you think they are sufficient or you would not be recommending the passage of this bill.

But you point out in your statement, in support of the bill, that you are going to reduce the reserve funds from 5 percent of the insured accounts and credit obligations to 2 percent.

Now, that is not strengthening. That is weakening.

Mr. McMURRAY. No, sir. No; we do not reduce the reserves, the 5 percent was an objective before it was realized reserves of the institution would be what they are.

Mr. MULTER. You do not reduce the dollar amount, but you do reduce the percentage?

Mr. McMURRAY. The present reserve of the FSLIC, sir, is approximately 0.66 and this is designed to increase the reserves to 2 percent.

So, on the contrary, it will bring up the reserves much more quickly and, therefore, strengthen greatly the reserve of the FSLIC.

Mr. MULTER. Well now, first we build up the capital of the banks and on top of that we build reserves so that in the event of a catastrophe and you must use the money, the first call is on the reserves then the next call is on the capital. That is the reason for the capital.

The reserves are something that you build up on top of the capital.

Mr. McMURRAY. That is right.

Mr. MULTER. Now, you are weakening that by this bill, are you not?

Mr. McMURRAY. No, sir. I think, sir, you are talking about the stock in the home loan banks, which institution is separate from the Insurance Corporation. The stock in the bank would be reduced compared to what it would otherwise be, but as we pointed out in the statement, the capital of the Home Loan Bank System is already extremely high.

In fact, its obligations or the notes that they have issued are less than its capitalization. So that the Bank System is very very strong, and you should have no fear about reducing it to 1 percent.

On the other hand, what we do is allow the associations rather than buy more stock on the present 2 percent basis to prepay a part of their future premiums so that the FSLIC will be that much stronger, and their reserves will be that much greater.

Mr. MULTER. Well now, how much in dollars and cents are we talking about when we reduce it to 1 percent?

Mr. McMURRAY. When we reduce—

Mr. MULTER. Look at page 6 of your statement.

Mr. McMURRAY. Are you speaking now of—

it is estimated that the ratio of stock to home mortgages would not decline to 1 percent until approximately 1968?

Mr. MULTER. Yes. How much will that be in dollars—

Mr. McMURRAY. One percent to 1968?

Will there be any Dr. Husband?

Mr. HUSBAND. There will be no reduction in the amount of the stock, Congressman.

See, this bill provides that you cannot decrease the amount of stock unless, by chance, a present member held 2½ percent. As a matter of equity, you could bring him back to 2 percent.

So the amount of the stock will remain fairly constant except when new members coming in who have to add to it. So the stock amount should be larger in 1968-69 than it is today.

Mr. MULTER. Yes, but I think what you are doing here runs counter to everything we know about good banking practice.

Now, whether we call these savings and loan associations or not, they perform a banking function.

They are performing a banking function, and I think, to a certain extent, they must follow sound banking principles.

Now, throughout the history of banks in this country, as the business grows, as the deposits grow, as their investments grow, all of these supervising agencies on the State level and National level insist that they increase their capital as their deposits grow—that they increase their capital and their reserves and their surplus.

Now, why does not the same thing apply to the home loan banks?

Mr. McMURRAY. I think that 2 percent stock purchase requirement, in terms of our experience, would be greatly excessive. I think you

are talking about a situation where, for example, if we were issuing notes and obligations and pushing the line of 12 times the base capital, your statement might be correct, but the fact of the matter is that capitalization—a billion dollars, roughly, is supporting only \$900 million in notes, and there is no bank that you can point to me that is in a more sound condition than that.

As a matter of fact, if there is any criticism that can be made it is that the home loan banks have not been doing their job in terms of making better use of their capital.

Mr. MULTER. Well, are you willing at the same time to amend the law to restrict you so that you cannot issue obligations to 10 times—

Mr. McMURRAY. Well, you can, but 10 times would be, at the present time, in the neighborhood of \$10 billion—

Mr. MULTER. That is right. You only—

Mr. McMURRAY. And if we get into that condition then the question will come to increase it, but at the present time and in the foreseeable future that is unlikely to come about.

And, in the meantime, what we have to do is strengthen the Federal Savings and Loan Insurance Corporation so as to make it that much stronger, so that people can have that much more assurance, if they need this assurance, because, as a matter of fact, the experience has been excellent, as I pointed out, I think it is a wise decision that the Board has made and which Congressman Spence's bill attempts to carry out, to use this—what is really surplus capitalization, if you will—and to transfer it where it will be much more effective than where it is now.

Mr. MULTER. Yes, we have the utmost confidence in you and your associates.

But we do not know who is going to succeed you, and if we do not write into this bill now that we are going to cut back, as you asked us, and do not cut back on your authority somebody in the next year or the year after may issue this \$10 billion in bonds or obligations.

Then what are we going to do? Are we then to try to stop it?

Then it is going to be too late.

Mr. McMURRAY. No. Even if that would come about it still would not have any dire results, as I see it.

All you would do would be to limit it. You could not issue more than \$10 billion in notes or obligations.

In any event, \$10 billion would be limited; and if the Home Loan Bank Board, in its judgment, felt that we should issue, say, \$20 billion in bonds, then we could recommend such changes to the Congress to have such authority or we could, I believe—I am not sure about this—but it might be that we would have the authority to increase the required stock.

Do you know? Would we still have to come back to Congress to change the 1 percent to 2 percent?

Mr. HUSBAND. Yes.

Mr. McMURRAY. We would have to come back to Congress. So at that time if the national situation was such that we were not getting sufficient funds through deposits or share accounts and we needed to go to the market to get financing for housing, I presume the situation would be such that if we recommended it, that Congress would be likely to approve our request for the increase in the stock to 2 percent.

Mr. MULTER. May I ask one further question, Mr. Chairman?

On page 8 you complain about the fact, while the stock of the Federal home loan banks has kept pace with the rapid growth in the member institutions, and that is proper—that is good banking—you also complain the reserves of the Insurance Corporation have not.

Mr. McMURRAY. That is right.

Mr. MULTER. There is nothing you are doing here to increase the reserves in the Insurance Corporation while you are cutting back on the capital of the mother institution.

Mr. McMURRAY. Now, you have here exactly the point. That is exactly what we want to do.

We point out that the reserve ratios have gone down, and that is the reason that we are recommending that rather than increase the capitalization of the home loan banks, we would rather increase the reserve situation of FSLIC so we would not have the situation of 0.843 in 1950 versus 0.661 in 1960.

We want to make it—instead of 0.661 we want to make it 2 percent.

And you have hit the very nub of the question.

Mr. MULTER. And what bothers me is I do not see how you are going to increase reserves of the Insurance Corporation while you are cutting back the capital of the home loan.

Now it is true that increasing the capital or having that to continue to grow does not change the reserves in the Insurance Corporation, but I do not see anything here that is going to increase the reserves in the Insurance Corporation as you stop increasing the capital of the—

Mr. McMURRAY. Because I wish to point out, Congressman, that the FSLIC is another corporation and—

Mr. MULTER. That is right.

Mr. McMURRAY (continuing). There are 11 banks and you are talking about their capitalization. And all we are doing is telling the associations instead of buying stock in the banks pay that money in to the FSLIC, because the banks have enough capitalization, and the FSLIC does not have enough reserves. Therefore, we want the reserves strengthened, and that is the whole purpose of this bill.

Mr. MULTER. Who owns the Insurance Corporation?

Mr. McMURRAY. It is a Corporation that is owned by the U.S. Government.

Actually, the U.S. Government did have funds in the FSLIC, and they were retired from 1950 to 1958, so that the U.S. Government does not have any funds in it.

There is a statutory authority to borrow up to \$750 million from the Treasury which may be regarded as an ultimate reserve.

Mr. MULTER. Thank you, Mr. Chairman.

Mr. McMURRAY. Shall I proceed with H.R. 7109?

Mr. SPENCE. You may proceed with H.R. 7109.

Mr. McMURRAY. Yes, sir.

The second bill, to which I would direct my testimony, is H.R. 7109, introduced by the chairman, Congressman Spence, and it is designed to simplify and make more workable the procedure for the nomination and election of directors of the Federal home loan banks.

It has, we believe, very substantial support among members of the

savings and loan industry, and we recommend its enactment with certain amendments which will later be mentioned.

As you know, the capital stock of each of the Federal home loan banks is owned by its member institutions, the original amounts of Government stock having been long since retired.

Section 7 of the Federal Home Loan Bank Act provides that each bank shall have a board of 12 directors, 4 to be appointed by the Federal Home Loan Bank Board for terms of 4 years and 8 to be elected by the members of the bank for terms of 2 years. It provides that the Board may by regulation increase to not more than 13 the number of elective directors of any bank having a district which includes 5 or more States, defined for this purpose as the States of the Union and the District of Columbia, and that in such case the Board may also increase the appointive directors to not more than half the number of elective directors.

The only bank which has had such an increase is the Federal home loan bank of San Francisco, and to avoid undue complication my discussion will be confined to districts having the normal number of directors.

Under section 7, the eight elective directors are divided into four categories of two each. Two are to be elected by the members without regard to classification, and are commonly known as directors at large.

As to the remaining six, the Board is directed to divide each bank's members into groups A, B, and C, representing respectively the large, medium-sized, and small members on the basis of the aggregate unpaid principal of their home mortgage loans.

These three groups respectively nominate and elect two directors of classes corresponding to the groups of the member institutions; that is, group A members nominate and elect two directors of class A, group B members two directors of class B, and group C members two directors of class C.

This method of nomination and election is in itself a complex matter, but it is made additionally complex by the equitable and practical necessity of providing for representation of each State, in order to prevent the occurrence of situations such as those in which all of the elective directors of a bank might be representative of only one State, or only a minority of the States, of the particular district, to the exclusion of other States.

As to this matter of State representation, the regulations of the Board provide that, subject to certain other provisions, the Board, in determining the results of balloting, will see that each State (defined as I have mentioned) is represented on the directorate of its district by at least the number of elective directors set forth in the regulation. This minimum number ranges from one, generally applicable to districts having a large number of States, to three in the case of certain districts composed of only two States.

The regulations provide two methods for determining what State a director represents. A director of class A, B, or C, who is required by statute to be an officer or director of a member institution in the correspondingly lettered group, is to be deemed to be from the State in which such member is located. A director at large, who is required by statute to be a bona fide resident of the bank district, is to be deemed to be from the State in which there is located the member of which he

is an officer or director, or, if he is not such an officer or director, from the State in which he has established a bona fide residence.

Other provisions of the regulations further implement the providing of State representation. Candidates who receive, on the first ballot, a majority of all votes cast for the directorships for which they are running will be declared elected on that ballot, unless the required State representation would be impaired. If the required State representation would not be maintained, the Board designates, for each State which apparently would be inadequately represented, a directorship or directorships to be filled only by a candidate from that State, provided at least one properly qualified candidate from that State has been voted for.

In giving this brief summary I have, of course, omitted a number of detailed and specific matters that are covered by the regulations. However, you can easily see that in some circumstances this method may result in situations in which a candidate is declared elected, or is admitted to a runoff confined to candidates from his State, where he has received only one vote or a handful of votes and where some other candidate from another State may have received a plurality or even a majority of the votes cast for the directorship. Situations of this sort have at times aroused a considerable amount of resentment on the part of persons thus passed over. At the same time, it is difficult to see how representation for the various States can be provided within the framework of the existing statute without the production of some such situations.

H.R. 7109 would provide a remedy by removing the basic cause of these situations, namely, the existing division of the eight elective directors into four arbitrary classifications of two each. Under this bill, all elective directors of a bank would be in one group, but would from time to time be allocated by the Federal Home Loan Bank Board among the States of the district in approximate proportion to the required stock of the bank of the district held by the members from the respective States, with a minimum of one such director and a maximum of six such directors for each State.

However, each State would be entitled to at least as many elective directors as the number which represented it on December 31, 1960, and the Board would be directed to add as many directors as might be necessary for this purpose.

Each directorship allocated to a particular State would be filled by an officer or director of a member located within that State, and the members located within that State would have the function of nominating and electing for that directorship. In such election, each member would have the right to cast a number of votes equal to the number of shares of stock of the bank of the district held by such member, except that the bill provides that no added voting strength shall be derived from stock ownership in excess of the average required ownership of the members in the particular State.

The Federal Home Loan Bank Board feels that the bill would provide a simple and equitable method for the nomination and election of directors of the Federal home loan banks. In particular, the bill would recognize the principle that voting should have some relationship to the amount of stock ownership, while at the same time it would prevent any one member institution from exercising voting rights

with respect to stock ownership in excess of the average required ownership of members in its State.

Further, the allocation of the elective directorships to the respective States of the district would have definite advantages. First, the members would more usually know the candidates they were voting for, and this would permit them to exercise better judgment in casting their ballots.

Second, there would be greater interest in the elections, which should result in greater participation by members in the voting process. Third, the bill would completely eliminate the possibility of situations in which a dominant State within a district could control the election of directors from other States, as is possible under the present method of election.

The Board therefore recommends the adoption of the plan set forth in H.R. 7109. However, the Board feels that a number of amendments to the bill are needed, not with a view to altering the method set forth in the bill but for the purpose of assuring that the objectives of the bill may be effectively carried out.

Accordingly, there are presented herewith suggested amendments which have been prepared for this purpose, together with an analysis of these amendments and a comparative draft showing the changes which would be made in the bill if the amendments were adopted. The Board recommends that, with these amendments, H.R. 7109 be enacted into law.

Time has not permitted the obtaining of advice from the Bureau of the Budget with respect to this statement. Consequently, no determination has been made as to the relationship of the pending legislation or this statement to the program of the President, except that the proposal on which H.R. 7108 is based was transmitted in draft form to the Bureau of the Budget before its transmittal to the Congress, and the Bureau advised that it would have no objection, from the standpoint of the administration's program, to the transmission of that proposed legislation.

Copies of this statement are being transmitted to the Bureau, and you will be informed as to any advice that may be received.

Thank you very much.

Mr. SPENCE. Do you think under this system the interest of the smaller associations will be well protected?

Mr. McMURRAY. Yes, sir. A provision in there that no association can exercise a voting right in excess of the average of all the associations would prevent one large association or two or three large associations from ganging up.

The smaller associations would still have the chance of being elected, and we would expect that there still would be members on the Board who would represent small associations.

Mr. SPENCE. Has there been any opposition to the present method of electing directors?

Mr. McMURRAY. Yes, sir, there have been difficulties about the present methods.

It is highly complicated. I can tell you, I had to study long and hard, and I hope I know it well enough; however, I have never been through one of the elections, but the other Board members have, and they tell me it is a very perplexing problem and this would greatly simplify the election.

A lot more members would understand it and a lot more associations would vote, because at the present time a lot of them do not exercise their right to vote.

Mr. SPENCE. Generally, the associations are in favor of this change. Are there any members in the associations opposed to this bill?

Mr. McMURRAY. As far as we know, sir, we have not heard any opposition, but there are some 4,700 associations, and in a democracy like ours I would be surprised if you would not find an association here and there that might have some objection.

But I think, generally, there is very substantial support for this bill, and I know that the two leagues are both in support of the bill.

Mr. SPENCE. I presume there might have been some opposition to it. Mr. McDonough?

Mr. McDONOUGH. Well, Mr. McMurray, I want to go back to this letter that Mr. Holifield filed with the committee this morning, and to ask:

In the adoption of H.R. 7109, how much of a change would that make in the large jurisdiction of the San Francisco banks indirectly?

Mr. McMURRAY. No change at all.

Mr. McDONOUGH. In other words, it would not increase the membership?

Mr. McMURRAY. It already has the maximum membership now, because that is the largest district, and has the largest number of States as members of that bank.

So it would not be increased.

Mr. McDONOUGH. In his letter to the committee he indicates that if the pending resolution before the Board can settle the Long Beach Savings' cases or if they are not settled before this bill is passed, then he will introduce legislation to accomplish that.

Now, is there any reason why that should not be settled before this bill is passed?

This is an administrative responsibility of the Board and it certainly should not require legislation.

Mr. McMURRAY. Again, I say I want to be responsive to your questions, but I have not read the letter, so it is hard for me to answer.

With respect to the *Long Beach* case, however, without discussing what is going on, I do not see any need for legislation.

I think that it is well on the way to settlement.

Mr. McDONOUGH. In other words, you are familiar with the pending resolution before the Board for a proposal to settle the Long Beach—

Mr. McMURRAY. Oh, very familiar, sir.

Mr. McDONOUGH. And you do not think it is necessary that legislation be passed in Congress?

Mr. McMURRAY. I certainly do not. It is hard for me to imagine it, anyway.

Mr. McDONOUGH. That is all.

Mr. SPENCE. Mr. Barrett?

Mr. BARRETT. No questions.

Mr. SPENCE. Mrs. Dwyer?

Mrs. DWYER. Mr. McMurray, has the controversy, as concerns the New Jersey League, over the directorship representation on the Board, been taken care of?

Mr. McMURRAY. I am not acquainted with the controversy in New Jersey.

So, Mr. Williams, do you want to answer the Congresswomen's question?

Mr. WILLIAMS. I understand that you are correct. It has been taken care of.

Mr. DWYER. Thank you, sir.

Mr. McMURRAY. There are many things I still have to learn. I have only been here 2 months, and I know of some of the controversies and some of the problems and with some hard work and extensive studying I hope I will soon be able to answer every question fully.

I hope that is the next time I appear.

Mrs. DWYER. I might say that you are doing a very outstanding job, sir.

Mr. McMURRAY. Thank you very much.

Mr. SPENCE. Mr. Moorhead?

Mr. MOORHEAD. Thank you, Mr. Chairman.

Mr. McMURRAY. I would like to go back to your discussion with Congressman Multer, when you stated that your bank had the power to borrow \$10 billion.

I would like to ask you what method you would go about using that power to borrow from the securities market and, secondly, what would be the circumstances and the use to which you would put this rather large power?

Mr. McMURRAY. The 11 home loan banks, based on their stock, which we indicated was in the neighborhood of \$1 billion, something in excess of \$1 billion, could issue up to 12 times that amount in consolidated obligations under our present regulations.

These are bonds that are sold in the open market just as other corporations and authorities do.

We already have consolidated bonds. Most of our financing, however, is done in short-term notes, and I would expect that in times of need for home financing, assuming we do not have enough funds coming in from the savers, that this power would be used to provide for the needs of the homebuilding industry that would require such funds to finance its programs.

Have I answered your question?

Mr. MOORHEAD. Except for the circumstances under which you would need this authority.

Would this be in the time of great recession or would it be in the time of more expansion, where the capital is hard to come by?

Mr. McMURRAY. I am inclined, sir, to think that it would be happening more in the period of expansion, although, of course, the home loan banks are a reserve system and in the event that there would be a heavy withdrawal of funds, the consolidated bonds might be issued to support the associations in carrying out their responsibilities and meeting their withdrawals.

Mr. MOORHEAD. Thank you, Mr. Chairman.

Mr. SPENCE. Mr. Scranton?

Mr. SCRANTON. Mr. McMurray, I just momentarily would like to go back to the chairman's question to you.

I, quite frankly, was not fully satisfied that these changes would take care of what was, I think, presumably, a good provision in the present system of allowing smaller savings and loans associations to have representation on the Board.

Although most of the changes seem to make very good sense, and you apparently eliminate this State problem which has been, I know, a grave one, still, at the same time, do you not eliminate protection for the smaller associations?

Mr. McMURRAY. Well, the number of smaller associations, in number greatly exceed the larger ones.

Mr. SCRANTON. Yes.

Mr. McMURRAY. And presumably the smaller ones would want to be represented in a kind of a democracy that would exist in this operation also.

It would seem to me that the smaller ones would make certain that they voted for a person who represented a smaller-sized association.

And, indeed, I believe that the larger ones would see the sense themselves of having similar representation of smaller associations on such a bank board. As Mr. Williams points out, the large ones cannot vote any more than their average.

Now, Mr. Smith has some tables worked out which, I think, may more graphically illustrate how or what might happen under certain circumstances.

Could you address yourself to that, Mr. Smith?

Mr. SMITH. Yes.

Mr. McMURRAY. Mr. Smith is assistant to the Board and has been working on this bill and probably knows more about it than anyone else on the Board.

Mr. SCRANTON. Mr. Smith, before you start, would you also tell us a little bit in general about what has been the history of the elections themselves?

Have in the past, the small associations been voting regularly or do they not vote very much?

Mr. SMITH. The smaller associations percentagewise, I am told, do not vote in the proportion that the larger ones do.

Mr. SCRANTON. That was my understanding, too.

Mr. SMITH. We feel that under this bill there will be a higher percentage of voting, however.

Mr. SCRANTON. Despite the fact that they have an opportunity to select one from their own category under the present system?

Mr. SMITH. That is right. Yes, sir.

Now, this table I have here, was prepared something over a year ago, when I first started working on this plan, and we are now in the process of preparing one that would bring us up to date.

We could furnish it to the committee, and it would show by districts and by States what the voting strength of the above and below average associations would be under this bill.

Mr. SCRANTON. Instead of——

Mr. SMITH. And also——

Mr. McMURRAY. I think it would be very helpful if you would have that made a part of the record.

Mr. SCRANTON. Yes.

Mr. Chairman, if that were possible, I think it would be helpful instead of taking the committee's time this morning.

Can we have this made a part of the record?

Mr. SPENCE. Yes. It will be inserted in the record.

Mr. SMITH. Thank you.

(The tables referred to are as follows:)

FEDERAL HOME LOAN BANK SYSTEM

Election of Directors for Federal Home Loan Banks Pursuant to HR 7109

DISTRICT No. 1

State	Number of Institutions	Present Directorships	Total Mortgages	Total Required Stock Ownership	State % of Total Required Stock Ownership	Average Mortgages per Institution	Institutions Over the Average			Over Average Adjusted Voting Strength			Under Average Voting Strength			Proposed Directorships	
							Number	Percent	Mortgages Held	Percentage of Total	Mortgages	Shares	Percentage	Mortgages	Shares		Percentage
Connecticut	43	1	\$606,161,246	1,212,322	21.51	\$14,096,773	16	37.21	\$448,175,363	73.94	\$225,548,368	451,097	58.81	\$157,985,883	315,972	41.19	1
Maine	25	1	82,246,461	164,493	2.92	3,289,858	8	32.00	57,154,017	69.49	26,318,864	52,638	51.19	25,092,444	50,185	48.81	1
Massachusetts	176	3	1,671,659,236	3,343,318	59.31	9,498,063	50	28.11	1,114,660,084	66.68	474,903,150	949,806	46.02	556,999,152	1,113,998	53.98	3
N. Hampshire	34	1	210,717,526	421,435	7.48	6,197,574	9	26.47	143,560,811	68.13	55,778,166	111,556	45.37	67,156,715	134,313	54.63	1
Rhode Island	9	1	211,779,114	423,558	7.51	23,531,013	2	22.22	170,192,451	80.34	47,062,026	94,124	53.06	41,626,663	83,253	46.94	1
Vermont	8	1	35,665,761	71,332	1.27	4,458,220	1	12.50	26,712,479	74.90	4,458,220	8,916	33.24	8,953,282	17,907	66.76	1

Allocation of proposed directorships is based upon the formula of a minimum of one directorship for each state plus one additional directorship for the state having the greatest percentage factor remaining after allocation of each excess directorship, as follows:-

Connecticut	21.51% x 8 directors	--	1.7208	- 1 director	--	.7208		.7208		.7208							
Maine	2.92% x 8	"	.2336	- 1	"	.xxxx											
Massachusetts	59.31% x 8	"	4.7448	- 1	"	3.7448	- 1 director	- 2.7448	- 1 director	- 1.7448							
New Hampshire	7.48% x 8	"	.5984	- 1	"	.xxxx											
Rhode Island	7.51% x 8	"	.6008	- 1	"	.xxxx											
Vermont	1.27% x 8	"	.1016	- 1	"	.xxxx											
			<u>.6</u>			<u>1</u>		<u>1</u>		<u>1</u>							

FEDERAL HOME LOAN BANK SYSTEM

Election of Directors for Federal Home Loan Banks Pursuant to HR 7109

DISTRICT No. 2

State	Number of Institutions	Present Directorships	Total Mortgages	Total Required Stock Ownership	State % of Total Required Stock Ownership	Average Mortgages per Institution	Institutions Over the Average			Over Average Adjusted Voting Strength			Under Average Voting Strength			Proposed Directorships	
							Number	Percent	Mortgages Held	Percentage of Total	Mortgages	Shares	Percentage	Mortgages	Shares		Percentage
New Jersey	236	4	\$2,203,552,259	4,407,105	36.43	\$9,337,086	71	30.08	\$1,640,462,758	74.43	\$662,933,106	1,325,866	54.06	\$563,389,501	1,126,779	45.94	4*
New York	210	4	3,790,999,775	7,582,000	62.68	18,052,380	55	26.19	2,781,761,963	73.38	992,880,990	1,985,762	49.59	1,009,237,812	2,018,476	50.41	5
Puerto Rico	7	0	53,385,873	106,772	.89	7,626,553	1	14.29	41,888,503	78.16	7,626,553	15,253	39.88	11,497,370	22,995	60.12	0

Allocation of proposed directorships is based upon the formula of a minimum of one directorship for each state plus one additional directorship for the state having the greatest percentage factor remaining after allocation of each excess directorship, as follows:-

New Jersey	36.43% x 8 directors	--	2.9144	- 1 director	--	1.9144		1.9144		1.9144	- 1 director	--	.9144					
New York	62.68% x 8	"	5.0144	- 1	"	4.0144	- 1 director	- 3.0144	- 1 director	- 2.0144	- 1 director	--	1.0144	- 1 director	--	.0144	- 1 director	--
			<u>.7</u>			<u>1</u>		<u>1</u>		<u>1</u>			<u>1</u>			<u>1</u>		

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FEDERAL HOME LOAN BANK SYSTEM

Election of Directors for Federal Home Loan Banks Pursuant to HR 7109

DISTRICT No. 3

State	Number of Institutions	Present State Directorships	Total Mortgages	Total Required Stock Ownership	State % of Total Required Stock Ownership	Average Mortgage per Institution	Institutions Over the Average				Over Average Adjusted Voting Strength			Under Average Voting Strength			Proposed Directorships
							Number	Percent	Mortgages Held	Percentage of Total	Mortgages	Votable Shares	Percentage	Mortgages	Votable Shares	Percentage	
Delaware	8	1	\$26,303,138	52,606	.84	\$3,287,892	3	37.50	\$21,053,992	80.04	\$9,863,676	19,727	65.27	\$5,219,116	10,198	34.73	1
Pennsylvania	176	6	2,919,881,696	5,839,763	95.53	6,134,205	116	30.67	2,345,652,190	80.33	895,593,930	1,791,188	60.93	574,229,506	1,118,159	39.07	6
West Virginia	30	1	175,781,371	351,563	5.63	5,860,116	10	33.33	130,503,616	74.21	58,601,160	117,209	56.11	45,277,728	90,555	13.59	1

Allocation of proposed directorships is based upon the formula of a minimum of one directorship for each state plus one additional directorship for the state having the greatest percentage factor remaining after allocation of each excess directorship, as follows:-

Delaware	.84% x 8 directors	--	.0672	- 1 director	--	.xxxx													
Pennsylvania	95.53% x 8	"	7.1824	- 1	"	6.1824	- 1 director	--	5.1824	- 1 director	--	4.1824	- 1 director	--	3.1824	- 1 director	--	2.1824	- 1 director
West Virginia	5.63% x 8	"	.4504	- 1	"	.xxxx													

FEDERAL HOME LOAN BANK SYSTEM

Election of Directors for Federal Home Loan Banks Pursuant to HR 7109

DISTRICT No. 4

State	Number of Institutions	Present State Directorships	Total Mortgages	Total Required Stock Ownership	State % of Total Required Stock Ownership	Average Mortgage per Institution	Institutions Over the Average				Over Average Adjusted Voting Strength			Under Average Voting Strength			Proposed Directorships
							Number	Percent	Mortgages Held	Percentage of Total	Mortgages	Votable Shares	Percentage	Mortgages	Votable Shares	Percentage	
Alabama	11	1	\$315,185,678	690,371	4.61	\$8,119,163	15	36.59	\$271,959,527	78.79	\$126,287,115	292,275	63.27	\$73,226,351	116,153	36.73	1
D. of Columbia	24	1	983,989,260	1,967,979	13.15	10,999,592	6	25.00	635,997,312	64.63	215,997,312	161,995	11.11	318,008,955	696,018	58.59	1
Florida	111	1	2,222,715,369	4,115,163	29.71	20,021,163	32	28.83	1,675,305,798	75.37	640,782,816	1,281,566	53.93	517,109,571	1,094,819	16.07	1
Georgia	93	1	809,022,702	1,618,045	10.82	8,699,169	20	21.51	565,223,188	69.86	173,983,380	317,967	11.61	213,799,511	1,877,599	58.36	1
Maryland	162	1	1,015,157,271	2,030,915	13.57	6,268,295	12	25.93	916,872,118	90.29	263,266,710	526,533	72.76	98,585,126	197,110	27.24	1
N. Carolina	83	1	1,057,013,727	2,114,027	11.13	12,735,105	21	25.30	118,519,159	12.11	267,137,205	531,871	30.53	608,161,268	1,216,929	69.17	1
S. Carolina	70	1	1,901,110,906	980,282	6.55	7,002,013	22	31.13	313,700,115	70.12	151,011,286	308,089	51.27	116,110,161	292,881	18.73	1
Virginia	51	1	558,091,956	1,116,190	7.16	10,335,092	19	35.19	139,530,168	78.61	196,366,718	392,733	62.35	118,561,188	237,129	37.65	1

Allocation of proposed directorships is based upon the formula of a minimum of one directorship for each state plus one additional directorship for the state having the greatest percentage factor remaining after allocation of each excess directorship, as follows:-

Alabama	4.61% x 8 directors	--	.3688	- 1 director	--	.xxxx											
District of Columbia	13.15% x 8	"	1.0520	- 1	"	.0520											
Florida	29.71% x 8	"	2.3768	- 1	"	1.3768											
Georgia	10.82% x 8	"	.8656	- 1	"	.xxxx											
Maryland	13.57% x 8	"	1.0856	- 1	"	.xxxx											
North Carolina	11.13% x 8	"	.8904	- 1	"	.1301											
South Carolina	6.55% x 8	"	.5240	- 1	"	.xxxx											
Virginia	7.16% x 8	"	.5728	- 1	"	.xxxx											

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FEDERAL HOME LOAN BANK SYSTEM

Election of Directors for Federal Home Loan Banks
Pursuant to HR 7109

DISTRICT No. 7

State	Number of Institutions	Present State Directorships	Total Mortgages	Total Required Stock Ownership	State % of Total Required Stock Ownership	Average Mortgages per Institution	Institutions Over the Average			Over Average Adjusted Voting Strength			Under Average Voting Strength			Proposed Directorships	
							Number	Percent	Mortgages Held	Percentage of Total	Mortgages	Shares	Percentage	Mortgages	Shares		Percentage
Illinois	165	5	\$5,098,711,316	10,197,162	79.20	\$10,964,971	119	25.59%	83,814,095,392	74.81	\$1,304,831,549	2,609,663	50.39	\$1,281,615,924	2,569,231	49.61	6
Wisconsin	114	3	1,338,963,605	2,677,927	20.80	9,298,358	17	32.64	964,916,592	72.06	137,022,826	874,046		374,047,053	748,094	16.12	3*

Allocation of proposed directorships is based upon the formula of a minimum of one directorship for each state plus one additional directorship for the state having the greatest percentage factor remaining after allocation of each excess directorship, as follows:-

Illinois	79.20% x 8 directors	-- 6.3360	- 1 director	-- 5.3360	- 1 director	-- 4.3360	- 1 director	-- 3.3360	- 1 director	-- 2.3360	- 1 director	-- 1.3360	- 1 director	-- .3360	- 1 director	-- .xxxx	- 1*
Wisconsin	20.80% x 8	"	-- 1.6640	- 1 director	-- .6640												
			<u>2</u>		<u>1</u>		<u>1</u>		<u>1</u>		<u>1</u>		<u>1</u>		<u>1</u>		<u>1</u>

FEDERAL HOME LOAN BANK SYSTEM

Election of Directors for Federal Home Loan Banks
Pursuant to HR 7109

DISTRICT No. 8

State	Number of Institutions	Present State Directorships	Total Mortgages	Total Required Stock Ownership	State % of Total Required Stock Ownership	Average Mortgages per Institution	Institutions Over the Average			Over Average Adjusted Voting Strength			Under Average Voting Strength			Proposed Directorships	
							Number	Percent	Mortgages Held	Percentage of Total	Mortgages	Shares	Percentage	Mortgages	Shares		Percentage
Iowa	80	2	\$602,176,112	1,204,352	18.28	\$7,527,202	24	30.00	\$447,733,192	74.35	\$180,692,848	361,306	53.91	\$151,442,950	308,886	46.09	2*
Minnesota	60	2	1,080,084,256	2,176,169	33.04	18,134,738	13	21.67	866,243,357	79.61	235,751,594	471,503	51.52	221,840,899	443,682	48.48	2
Missouri	126	2	1,398,994,379	2,797,989	42.48	11,103,130	27	21.43	993,732,199	71.03	299,784,510	599,569	42.52	405,262,180	810,524	57.48	3
N. Dakota	12	1	141,384,101	282,768	4.29	11,820,092	4	33.33	90,167,388	63.77	47,280,368	94,561	48.00	51,216,713	102,433	52.00	1
S. Dakota	13	1	62,912,747	125,825	1.91	4,779,057	4	30.77	44,056,402	70.03	19,116,228	38,232	50.34	18,856,346	37,713	49.66	1

Allocation of proposed directorships is based upon the formula of a minimum of one directorship for each state plus one additional directorship for the state having the greatest percentage factor remaining after allocation of each excess directorship, as follows:-

Iowa	18.28% x 8 directors	-- 1.4624	- 1 director	-- .4624													
Minnesota	33.04% x 8	"	-- 2.6432	- 1	-- .6432												
Missouri	42.48% x 8	"	-- 3.3984	- 1	-- .3984			1 director	-- 1.3984								
North Dakota	4.29% x 8	"	-- .3432	- 1	-- .xxxx												
South Dakota	1.91% x 8	"	-- .1528	- 1	-- .xxxx												
			<u>5</u>		<u>1</u>		<u>1</u>		<u>1</u>		<u>1</u>		<u>1</u>		<u>1</u>		<u>1</u>

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FEDERAL HOME LOAN BANK SYSTEM

Election of Directors for Federal Home Loan Banks Pursuant to HR 7109

DISTRICT No. 9

State	Number of Institutions	Present State Directorships	Total		State % of Total Required Stock Ownership	Average Mortgages per Institution	Institutions Over the Average			Over Average Adjusted Voting Strength			Under Average Voting Strength			Proposed Directorships	
			Mortgages	Ownership			Number	Percent	Mortgages Held	Percentage of Total	Mortgages	Adjustable Shares	Percentage	Mortgages	Votable Shares		Percentage
Arkansas	50	1	\$215,512,370	191,025	7.70	\$4,910,247	14	28.00	\$157,886,973	64.31	\$68,743,158	137,187	13.96	\$87,625,397	175,251	56.04	1
Louisiana	86	2	748,370,119	1,496,740	23.47	8,701,978	32	37.21	544,168,086	72.71	278,163,296	556,927	57.69	204,202,033	408,104	42.31	2*
Mississippi	34	1	223,478,991	446,958	7.01	6,572,910	8	23.53	153,584,586	68.72	52,583,280	105,167	12.93	69,894,345	139,789	57.07	1
N. Mexico	21	1	128,336,655	256,673	4.02	6,111,269	6	28.57	91,952,227	71.65	36,667,614	73,335	50.19	36,384,428	72,769	49.81	1
Texas	233	3	1,843,574,811	3,687,150	57.80	7,912,338	64	27.47	1,348,924,266	73.17	506,389,632	1,012,779	50.59	494,650,545	989,301	49.44	4

Allocation of proposed directorships is based upon the formula of a minimum of one directorship for each state plus one additional directorship for the state having the greatest percentage factor remaining after allocation of each excess directorship, as follows:-

Arkansas	7.70% x 8 directors	--	.6160	- 1 director	--	.xxxx											
Louisiana	23.47% x 8	"	--	1.8776	- 1	"	--	.8776		.8776				.8776	- 1 director *		
Mississippi	7.01% x 8	"	--	.5608	- 1	"	--	.xxxx									
New Mexico	4.02% x 8	"	--	.3216	- 1	"	--	.xxxx									
Texas	57.80% x 8	"	--	4.6240	- 1	"	--	3.6240	- 1 Director	- 2.6240	- 1 director	- 1.6240	- 1 director	- .6240			

* Guaranteed under HR 7109

FEDERAL HOME LOAN BANK SYSTEM

Election of Directors for Federal Home Loan Banks Pursuant to HR 7109

DISTRICT No. 10

State	Number of Institutions	Present State Directorships	Total		State % of Total Required Stock Ownership	Average Mortgages per Institution	Institutions Over the Average			Over Average Adjusted Voting Strength			Under Average Voting Strength			Proposed Directorships	
			Mortgages	Ownership			Number	Percent	Mortgages Held	Percentage of Total	Mortgages	Adjustable Shares	Percentage	Mortgages	Votable Shares		Percentage
Colorado	52	2	\$643,344,561	1,286,689	29.67	\$12,372,011	14	26.92	\$497,724,932	77.37	\$173,208,154	346,416	54.33	\$115,619,629	291,239	45.67	2
Kansas	96	3	624,481,039	1,308,962	30.18	6,817,511	23	23.96	447,751,708	66.14	156,802,753	313,606	43.13	206,729,331	413,459	56.87	3
Nebraska	38	1	293,055,468	586,111	13.51	7,711,986	8	21.05	219,028,529	74.74	61,695,888	123,392	15.16	74,026,999	148,054	54.54	1
Oklahoma	54	2	577,676,833	1,155,354	26.64	10,697,719	10	18.52	403,684,637	69.88	106,977,190	213,954	38.07	173,992,196	347,964	61.93	2

Allocation of proposed directorships is based upon the formula of a minimum of one directorship for each state plus one additional directorship for the state having the greatest percentage factor remaining after allocation of each excess directorship, as follows:-

Colorado	29.67% x 8 directors	--	2.3736	- 1 director	--	1.3736			1.3736	- 1 director	- .3736			.3736			
Kansas	30.18% x 8	"	--	2.4144	- 1	"	--	1.4144	- 1 director	--	.4144			.4144	- 1 director	--	.xxxx
Nebraska	13.51% x 8	"	--	1.0808	- 1	"	--	.0808		.0808				.0808			
Oklahoma	26.64% x 8	"	--	2.1312	- 1	"	--	1.1312		1.1312				1.1312	- 1 director	--	.1312

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FEDERAL HOME LOAN BANK SYSTEM
 Election of Directors for Federal Home Loan Banks
 Pursuant to RR 7109

DISTRICT No. 11

State	Number of Institutions	Percent of Directorships	Total Required		State % of Total Required	Average Mortgage per Institution	Institutions Over the Average			Over Average			Adjusted Voting Strength			Under Average Voting Strength			Proposed Directorships
			Total Mortgages	Stock Ownership			Number	Percent	Mortgages Held	Percentage of Total	Mortgages	Shares	Percentage	Mortgages	Shares	Percentage			
Alaska	3	1	\$10,125,788	20,252	.10	\$3,375,263	2	66.67	\$8,677,008	85.69	\$6,750,926	13,501	82.33	\$1,114,780	2,398	17.67	1		
Arizona	9	1	197,886,220	395,772	2.02	21,987,358	3	33.33	169,114,573	85.63	65,962,074	131,924	69.87	28,113,617	56,887	30.13	1		
California	244	3	7,677,612,508	15,355,225	78.25	31,165,718	65	26.64	5,832,816,076	75.97	2,015,273,620	4,090,517	92.56	1,844,886,132	3,689,653	17.44	3		
Conn	1	0	1,263,780	2,528	.01	1,263,780								1,263,780	2,528	.03	0		
Hawaii	7	1	100,323,127	200,647	1.02	14,331,918	3	42.86	80,635,601	80.38	12,995,751	85,992	68.59	19,687,886	39,376	31.41	1		
Idaho	9	1	130,811,599	261,623	1.33	14,534,622	4	44.44	91,172,116	69.95	58,138,188	116,277	99.61	39,339,188	78,676	10.36	1		
Montana	11	1	101,309,311	202,619	1.04	7,236,380	6	54.55	70,823,855	69.91	13,118,280	86,837	58.75	30,185,179	60,371	11.25	1		
Nevada	4	1	35,139,138	70,278	.36	8,859,781	1	25.00	23,711,653	66.91	8,859,781	17,720	13.01	11,721,185	23,445	56.96	1		
Oregon	26	1	315,319,625	630,639	3.22	12,127,678	7	26.92	213,090,762	77.08	81,893,716	169,787	51.02	72,268,863	144,538	15.98	1		
Utah	15	1	219,150,166	438,301	2.24	16,630,033	5	33.33	181,365,002	73.91	83,150,165	166,300	56.09	65,085,164	130,171	13.91	1		
Washington	63	1	931,618,153	1,863,237	9.50	14,788,071	12	19.05	615,388,221	66.05	177,126,892	351,911	35.91	316,266,229	632,520	61.06	1		
Wyoming	10	1	59,882,777	119,766	.61	5,988,278	3	30.00	39,782,221	66.43	17,961,831	35,990	17.19	20,100,166	40,201	52.81	1		

Allocation of proposed directorships is based upon the formula of a minimum of one directorship for each state plus one additional directorship for the state having the greatest percentage factor remaining after allocation of each excess directorship, as follows:-

Alaska	.10% x 13	directors	--	.0130	- 1	director	--	-----
Arizona	2.02% x 13	"	--	.2626	- 1	"	--	-----
California	78.25% x 13	"	--	10.1726	- 1	"	--	-----
Hawaii	1.02% x 13	"	--	.1326	- 1	"	--	-----
Idaho	1.33% x 13	"	--	.1729	- 1	"	--	-----
Montana	1.04% x 13	"	--	.1352	- 1	"	--	-----
Nevada	.36% x 13	"	--	.0468	- 1	"	--	-----
Oregon	3.22% x 13	"	--	.4186	- 1	"	--	-----
Utah	2.24% x 13	"	--	.2912	- 1	"	--	-----
Washington	9.50% x 13	"	--	1.2350	- 1	"	--	-----
Wyoming	.61% x 13	"	--	.0793	- 1	"	--	-----
				<u>.11</u>				

12/30/60

Mr. SCRANTON. But you are, generally, convinced that this new proposal here is not going to eliminate—the word should not be “eliminate”—but it is not going to deteriorate the position of the smaller savings and loan associations?

Mr. McMURRAY. If I thought so, I would not be supporting the bill.

Mr. SCRANTON. All right.

That is all.

Mr. SPENCE. Mr. Stephens?

Mr. STEPHENS. Thank you, Mr. Chairman.

I would like to ask this question in respect to the voting on the members under this proposal:

Will the voting be done on the basis of each institution having one vote or will it be based on the amount of stock that each institution has?

Mr. McMURRAY. It would be on the latter, sir, on the amount of stock that each institution held, except that where the institution is a larger institution its votes would only be equal to the average of all the associations in that State.

Mr. STEPHENS. But that would give a larger voting power to the larger institutions in the electing of a member?

Mr. McMURRAY. Yes, sir. It would give a larger voting power but not—above average, it would not give the largest institution, for example—assuming that you have one institution that has the votes representing \$200 million in home mortgage loans, that institution would not have, comparing it with one which had, say, \$50 million in home mortgage loans, it would not have four times as many votes.

As a matter of fact, it might only have the same amount of votes or maybe the \$50 million institution. It might be that the average for the State would be \$25 million or \$30 million, and, in that event, any institution that had \$25 million or \$30 million would be equal in voting power to a larger institution say with \$200 million.

Mr. STEPHENS. Thank you, Mr. Chairman.

Mr. SPENCE. Mr. Multer?

Mr. MULTER. Thank you, Mr. Chairman.

I know, Mr. McMurray, it is unfair to ask you to comment on the letter of Congressman Holifield, that you have not even had a chance to read, but I am wondering whether or not you or your associates on the Board could give us an off-the-cuff opinion as to why you should not create a 12th district again and divide the present 11th district into two districts, as it was originally, particularly having in mind the tremendous growth on the west coast.

Mr. McMURRAY. Congressman Multer, I would, speaking for myself, hate to give you an off-the-cuff reaction because, as you know, I want to be the best Chairman the Federal Home Loan Bank ever had, and to do that I have to work hard and I have to study hard.

And this is a very important question, and this is one of the questions that I am going to discuss with the task force, and one that I am going to study very carefully. When we come up with an answer it will be the kind of an answer that I hope that you will say is the best answer that could be devised.

And while I would like to give you an answer, I hope that you will refrain from pressing the question at this point.

Mr. DIXON. I just wanted to say, in connection with the San Francisco district, of course, most of your assets are in California, and it is very involved. The statute provides that we cannot divide the State.

So, in any way that you divide that district, you get one very weak bank district and you get one very strong one, unless the Congress would see fit to give us the authority to divide the State, which I am not recommending at this time—but that is one of our problems in that particular district.

Mr. MULTER. Thank you very much.

I am wondering with reference to the bill itself, 7109, whether or not this accomplishes what seems to be the trend in banking circles the world over.

The home loan bank system is the central bank system for the savings and loan associations of the country.

Mr. McMURRAY. That is correct, sir.

Mr. MULTER. Now, the trend has been in banking circles, throughout the free world that the central banking system should be wholly owned by the Government and wholly operated by the Government.

This is in the opposite direction. This is giving more control to the banks or the associations that are members and own stock in the home loan banks.

If I recall correctly, there are only two countries in the world today where the central banking system is not wholly owned by the Government in which it operates.

In one case it is wholly privately owned and in the other case it is half owned by the Government and half by the private banks. And in every other government the central banking system is a government operation.

Now, are we not getting away from the home loan bank system being a completely Government operation by giving more control to the members?

Mr. McMURRAY. No, sir; this does not make any change in control, does not make it any different than it is now.

It is true that it is not a central bank in the sense the European institutions are, but all this does is change the method of electing the directors that presently do operate the individual banks.

But the fundamental question of whether it should be completely owned by the Government or not has long since been resolved when this legislation was enacted, and I think, in our American scene, it is a good way of doing it.

I think that each country has its own way of solving its own problems, and it seems to me that our method, where we utilize private enterprise together with Government, doing a teamwork job, is the most effective way of solving our own problems in a democratic way.

Mr. MULTER. What I am suggesting is that the central banks in most of the countries, outside of the United States, are now following our Federal Reserve central bank system, and the governments are now owning and operating the Federal bank system just as we do in our Federal Reserve System.

The Federal Reserve banks today are wholly owned by the U.S. Government; and I am wondering whether or not we should not, since the home loan bank system is a central banking system for a segment of our banking industry, is not this the time to review that and say let's make this more like our Federal Reserve System?

Mr. McMURRAY. Well, it is not too much unlike our Federal Reserve System.

The 12 Federal Reserve banks have on the Board three members representing banks, three members representing commerce, agriculture, and industry, and the three members who represent the public.

We have three members—one-third of our members that are public members, and the other two-thirds, who are representing the associations. The president of the bank is appointed on the recommendation of the bank's board of directors, subject to our approval.

So that the Federal Home Loan Bank Board, which is a Government agency, does have an overseeing responsibility and approval of their action. So to some extent, the Government is not involved, and to some extent it is.

In other words, it is not a completely private-enterprise-dominated program.

Mr. MULTER. In your operations, and when I say "your" I mean the way the Board has operated heretofore, and I am sure, it will operate hereafter, there is no discrimination as between the various types of associations that are members of the Home Loan Bank System or of the savings and loan corporation.

The stock companies and the mutuals are treated alike, are they not?

Mr. McMURRAY. Yes, sir.

Mr. MULTER. Is there any provision made so that the stock companies can also have representation on the bank boards?

Mr. McMURRAY. Oh, yes. There is no discrimination at all. If they are members they are entitled to be elected.

I am advised that there are members on a number of boards that are from stock companies.

Mr. MULTER. And I think it is safe to say that to the extent you can exert your influence you try to have the stock companies come in and be members of the System?

Mr. McMURRAY. And if the savings banks, for example, would become members of the System, as I hope they will, I hope that they will also be represented on the boards of the Federal home loan banks.

Mr. MULTER. Thank you, Mr. Chairman.

Mr. SPENCE. Mr. McDonough?

Mr. McDONOUGH. I have just one little brief question.

Mr. McMurray, do you see anything in H.R. 7109 that would postpone or interfere with the settlement of the *Long Beach Savings & Loan Association* case?

Mr. McMURRAY. No, sir; not at all.

Mr. SPENCE. Mr. McMurray, do you consider the home loan banks as central banks, comparable to the Federal Reserve?

Your purposes are limited and your powers are limited to a particular purpose and, it seems to me, that the rules that apply to Federal Reserve banks would not apply to home loan banks.

Mr. McMURRAY. A Federal home loan bank is not a bank in the same sense as a Federal Reserve bank.

Mr. SPENCE. No, it is for a limited purpose?

Mr. McMURRAY. That is correct. That is correct, but insofar as it is a "Reserve System" for its members and insofar as its structural organization is concerned, it is similar to it.

And I think that is what the Congressman was referring to and that is what I answered.

I think we both understood that there is a substantial difference in a central reserve system as such.

Mr. SPENCE. But what has been the losses of the Federal Savings and Loan Insurance Corporation with reference to its income?

Mr. McMURRAY. The losses, I am advised, are $1\frac{1}{10}$ percent since the Corporation was instituted, which is a wonderful record—

Mr. SPENCE. Yes, it is.

Mr. McMURRAY. And shows how well the institutions or the associations have been doing their job.

And I feel that it is a reflection of the good supervision of the Home Loan Bank Board over these many years.

Mr. SPENCE. And while the obligations of the Members of Congress are primarily to look after the interests of the people, I think when they attempt to pass constructive legislation in behalf of these organizations they are representing their people in the best way possible.

I want to congratulate you and the members of the Board on the splendid work you have done and the splendid accomplishments that have resulted from the operation of the Federal Savings and Loan Insurance Corporation. It has given confidence to the people and has encouraged them to deposit their money in institutions which have provided funds for the construction of homes. I thank you for coming.

Mr. McMURRAY. Thank you very much.

Mr. SPENCE. I wish you success in the future.

Mr. McMURRAY. Thank you.

And, Congressman Spence, I want to say that I, over the course of many years as a student of banking myself and then since I went to work for the Senate Banking Committee, now, almost 15 years ago, have observed you and I know that what you have done generally for the country, and specifically for the savings and loan industry and the Federal Home Loan Bank Board, will always be a monument to your great work in the Congress.

And as Chairman of the Home Loan Bank Board, I want to thank you publicly for what you have done for this wonderful enterprise in our country.

Mr. SPENCE. I did not say that for that fine response, but I accept it.

(An analysis attached to the statement of Mr. McMurray follows:)

ANALYSIS OF DRAFT DATED JULY 13, 1961, OF SUGGESTED AMENDMENTS TO H.R. 7109, 87TH CONGRESS, AS INTRODUCED

The above-mentioned draft would make the following changes in that part of H.R. 7109 which would amend subsections (a) through (f) of section 7 of the Federal Home Loan Bank Act, as amended.

Subsection (a).—The suggested amendments to subsection (a) would clarify the references to the Board and would add to a new proviso to the subsection. This new proviso would provide that if at any time the number of elective directors of any district is not at least equal to the number of States in such district the Federal Home Loan Bank Board shall exercise its authority to increase the number of elective directors so as to provide a number of at least equal to the number of States in the district.

Such a provision is suggested because the first sentence of subsection (c), as it would be amended by the bill, provides a minimum of one elective director for each State, but does not make clear how this minimum number is to be provided if there are more than eight States in the district.

Subsection (b).—The amendments to this subsection would (1) clarify the provisions as to nominating and voting rights of bank members in the election of elective directors and (2) substitute “plurality” for “majority” as the determining factor in such elections, thus carrying out what would seem to be the actual intent of the subsection. The bill provides that each elective directorship shall be filled in “an election,” and this provision, coupled with the absence of any provision for runoff elections, would indicate that runoffs are not contemplated. On the other hand, if runoff elections are not to be held, it would appear to be necessary that elections be decided on the basis of pluralities, as distinguished from majorities.

Subsection (c).—Besides minor clarifying changes, the amendments to this subsection would do the following:

(1) They would make clear that where an additional directorship is added to assure that a State will not lose the representation which it had on December 31, 1960, such additional directorship will expire at the end of its first term. There would appear to be no need that such added directorships be permanent; rather, it would seem that such directorships should be established when needed and should expire at the end of one term.

(2) They would add a new provision that the Board shall, with respect to each bank member, designate the State in the member's district in which such member shall, for the purposes of this subsection and subsection (b), be deemed to be located. Such a provision is necessary to take care of such members as may be located in Guam, Puerto Rico, and the Virgin Islands, and to take care of any members that may be admitted in the future under the provision of subsection (b) of section 4 of the Federal Home Loan Bank Act that, if demanded by convenience, an institution may, with the approval of the Board, become a member of the bank of a district adjoining the district in which such institution's principal office is located. The amendment provides that if the principal place of business of an institution is located in a State of the district of the bank of which it is a member it shall be the duty of the Board to designate that State as the State in which such member shall, for said purposes, be deemed to be located.

Subsection (d).—Besides minor clarifying changes, the amendments here suggested are as follows:

(1) The provision of the bill that no director may be elected consecutively “for more than three such terms” would be clarified. The clarification would make clear that the prohibition is to be applicable regardless of whether such elections have taken place before or after, or partly before and partly after, the date of enactment of the bill. It would also make clear that, in order for the prohibition to apply, there must have been service under each of the three terms but that it is not necessary that the entire period of each term have been served (this latter qualification is needed in order to prevent evasion).

(2) The Board would be given express authority to make rules and regulations with respect to the breaking of ties and with respect to the inclusion of more than one directorship on single ballot, and with respect to the methods of voting and of determining the results of voting in such cases. The need for such authority is believed to be obvious.

Subsection (e).—Besides clarifying changes, the amendments to this subsection would supply needed authority in the Board to make transitional adjustments. These transitional adjustments would include (1) temporary extensions of terms of elective directorships, (2) deferments of the effective date of provisions, or parts of provisions, of the amendments enacted by the bill, and (3) temporary continuance of existing provisions or parts of provisions.

Subsection (f).—In the bill, this subsection provides in part that if any director ceases to have the qualifications set forth in subsection (a), or if any elective director ceases to have any qualification set forth in the section “or in any regulation in effect on the date of his nomination,” the office held shall immediately become vacant but such director may continue to act as such until his successor so appointed assumes the vacated office or the term of such office shall have expired, whichever shall first occur. The quoted language would be eliminated by the suggested amendments, since the bill would omit the existing provision of subsection (a) that additional elective directors shall be apportioned as nearly as may be in the same manner and order as is provided for the apportionment of elective directors under subsections (c) and (d). Also, minor technical changes would be made in the language of this subsection.

SUGGESTED AMENDMENTS TO H.R. 7109, 87TH CONGRESS, AS INTRODUCED

Page 1, after line 5, strike out all of paragraphs "(a)" to "(f)," inclusive, and in lieu thereof insert the following:

"(a) The management of each Federal home loan bank shall be vested in a board of twelve directors, eight of whom shall be elected by the members as hereinafter provided in this section and four of whom shall be appointed by the Federal Home Loan Bank Board referred to in subsection (b) of section 17, hereinafter in this section referred to as the Board, all of whom shall be citizens of the United States and bona fide residents of the district in which such bank is located: *Provided*, That in any district which includes five or more States the Board may by regulation increase the elective directors to a number not exceeding thirteen and may increase the appointive directors to a number not exceeding one-half the number of elective directors: *Provided further*, That if at any time the number of elective directors in the case of any district is not at least equal to the number of States in such district the Board shall exercise the authority conferred by the next preceding proviso so as to increase such elective directors to a number at least equal to the number of States in such district.

"(b) Each elective directorship shall be designated by the Board as representing the members located in a particular State, and shall be filled by a person who is an officer or director of a member located in that State, each of which members shall be entitled to nominate an eligible person for such directorship, and such office shall be filled from such nominees by a plurality of the votes which such members may cast in an election held for the purpose of filling such office, in which election each such member may cast for such office a number of votes equal to the number of shares of stock in such bank required by this Act to be held by such member at the end of the calendar year next preceding the election, as determined pursuant to regulation of the Board, but not in excess of the average number of shares of stock in such bank required by this Act to be held at the end of such calendar year by the respective members of such bank located in such State, as so determined. As used in this subsection and in subsection (c) of this section, the term 'member' means a member of a Federal home loan bank which was a member of such bank at the end of such calendar year.

"(c) The number of elective directorships designated as representing the members located in each separate State in a bank district shall be determined by the Board in the approximate ratio of the percentage of the required stock, as determined pursuant to regulation of the Board, of the members located in that State at the end of the calendar year next preceding the date of the election to the total required stock, as so determined, of all members of such bank at the end of such year, except that in the case of each State such number shall not be less than one and shall not be more than six. Notwithstanding any other provision of this section, if at any time the number of elective directorships so designated as representing the members located in any State is not at least equal to the total number of elective directorships which, on December 31, 1960, were filled by officers or directors of members whose principal places of business were located in such State, the Board shall add to the board of directors of the bank of the district in which such State is located, and shall designate as representing the members located in such State, such number of elective directorships as shall be necessary to cause the number of elective directorships designated as representing the members located in such State to equal said total number. Any elective directorship so added shall exist only until the expiration of its first term. The Board shall, with respect to each member of a Federal home loan bank, designate the State in the district of such bank in which such member shall, for the purposes of this subsection and subsection (b) of this section, be deemed to be located, and may from time to time change any such designation, but if the principal place of business of any such member is located in a State of such district it shall be the duty of the Board to designate such State as the State in which such member shall, for said purposes, be deemed to be located. As used in the second sentence of this subsection, the term 'total number of elective directorships' means the total number of elective directorships on the board of directors of the bank of the district in which such State was located on December 31, 1960, and the term 'members' means members of such bank.

"(d) The term of each elective directorship shall be two years and the term of each appointive directorship shall be four years. If any person, before or after, or partly before and partly after, the date of the enactment of this sen-

tence, has been elected to each of three consecutive full terms as an elective director of a Federal home loan bank in any elective directorship or elective directorships and has served for all or part of each of said terms, such person shall not be eligible for election to an elective directorship of such bank for a term which begins earlier than two years after the expiration of the last expiring of said three terms. The Board is hereby authorized to prescribe such rules and regulations as it may deem necessary or appropriate for the nomination and election of directors of Federal home loan banks, including, without limitation on the generality of the foregoing, rules and regulations with respect to the breaking of ties and with respect to the inclusion of more than one directorship on a single ballot and the methods of voting and of determining the results of voting in such cases.

“(e) Each term, outstanding on the date of the enactment of the amendment to this section abolishing the division of elective directors into classes, of an elective or appointive directorship then existing, shall continue until its original date of expiration, and any elective or appointive directorship in existence on said date shall continue to exist to the same extent as if it had been established by or under this section on or after said date. The Board in its discretion may extend any such term of an elective directorship for not to exceed one year from such original date of expiration, but term shall in such event be deemed to become vacant at the close of such original date of expiration, if it shall not sooner be or become vacant. The Board, to such extent as it may deem to be in the public interest, may make deferments of the effective date of any provision, or any part of any provision, of this section as amended by said amendment, and may, with respect to any subject covered by any such deferment, continue in effect any provision, or any part of any provision, of this section as in effect immediately prior to said date, but no such deferment or continuance shall be effective for a period longer than two years from said date. The terms ‘States’ or ‘State’ as used in this section shall mean the States of the Union and the District of Columbia.

“(f) In the event of a vacancy in any appointive or elective directorship, such vacancy shall be filled through appointment by the Board for the unexpired term: *Provided*, That if any director shall cease to have the qualifications set forth in subsection (a), or if any elective director shall cease to have any qualification set forth in this section, the office held by such director shall immediately become vacant, but such director may continue to act as such director until his successor assumes the vacated office or the term of such office expires, whichever shall first occur.”

Page 4, line 20, strike out “\$1,00,000” and in lieu thereof insert “\$1,000,000”.

COMPARATIVE DRAFT OF PROVISIONS OF SECTION 7 OF FEDERAL HOME LOAN BANK ACT AS PROPOSED TO BE AMENDED BY H.R. 7109, 87TH CONGRESS, AND AS PROPOSED TO BE AMENDED BY DRAFT AMENDMENTS DATED JULY 13, 1961

[Bracketed matter is in H.R. 7109 but not in said draft amendments; italicized matter is in said draft amendments but not in H.R. 7109]

“(a) The management of each Federal [home loan bank] *Home Loan Bank* shall be vested in a board of twelve directors, [two-thirds] *eight* of whom shall be elected by the members *as hereinafter provided in this section* [,] and [the remaining one-third] *four* of whom shall be appointed by the [board] *Federal Home Loan Bank Board referred to in subsection (b) of section 17, hereinafter in this section referred to as the Board*, [and] all of whom shall be citizens of the United States and bona fide residents of the district in which such a bank is located: *Provided*, That in any district which includes five or more States the board [Board] may by regulation increase the elective directors to a number not exceeding thirteen and may increase the appointive directors to a number not exceeding one-half the number of elective directors: *Provided further*, *That if at any time the number of elective directors in the case of any district is not at least equal to the number of States in such district the Board shall exercise the authority conferred by the next preceding proviso so as to increase such elective directors to a number at least equal to the number of States in such district.*

“(b) Each elective directorship shall be [identified] *designated by the Board* as representing the members [from] *located in* a particular State, and shall be filled by a person who is an officer or director of a member located [within] *in*

that State, each of which members shall be entitled to nominate [a suitably qualified] *an eligible* person for [each] such directorship [that will represent them], and [each] such office shall be filled from such nominees by a [majority] *plurality* of the votes which such members may cast in an election held for the purpose of filling [the initial term or expiring term of] such office, in which election each *such* member [from the State which that office will represent] may cast for [each] such office [to be filled by the election] a number of votes equal to the number of shares of stock in [the district] *such* bank required by *this Act* to be held by such member [as of] *at* the end of the calendar year next preceding the election [. No added voting strength shall be derived from stock ownership], *as determined pursuant to regulation of the Board, but not in excess of the average [required ownership of the members in the particular State] number of shares of stock in such bank required by this Act to be held at the end of such calendar year by the respective members of such bank located in such bank located in such State, as so determined. As used in this subsection and in subsection (c) of this section, the term 'member' means a member of a Federal Home Loan Bank which was a member of such bank at the end of such calendar year.*

“(c) The number of [directors which] *elective directorships designated as representing the members [from] located in each separate State in a bank district [shall be entitled to elect]* shall be determined by the [board] *Board* in the approximate ratio [to] of the percentage of the required stock [of the district bank held by the membership from], *as determined pursuant to regulation of the Board, of the members located in that State at the end of the calendar year next preceding the date of the election to the total required stock, as so determined, of all members of such bank at the end of such year, except that [the members from each State in the district shall be entitled to elect at least one director, and no State shall be entitled to more than six such elective directorships] in the case of each State such number shall not be less than one and shall not be more than six.* [Without regard to any other limitation of this section, after determining as prescribed in the preceding sentence, the number of directors which each State is entitled to elect, the board shall add as many more such directors as may be necessary so that each State in a district shall be entitled to at least as many elective directors as the number which represented that State on December 31, 1960] *Notwithstanding any other provision of this section, if at any time the number of elective directorships so designated as representing the members located in any State is not at least equal to the total number of elective directorships which, on December 31, 1960, were filled by officers or directors of members whose principal places of business were located in such State, the Board shall add to the board of directors of the bank of the district in which such State is located, and shall designate as representing the members located in such State, such number of elective directorships as shall be necessary to cause the number of elective directorships designated as representing the members located in such State to equal said total number. Any elective directorship so added shall exist only until the expiration of its first term. The Board shall, with respect to each member of a Federal Home Loan Bank, designate the State in the district of such bank in which such member shall, for the purposes of this subsection and subsection (b) of this section, be deemed to be located, and may from time to time change any such designation, but if the principal place of business of any such member is located in a State of such district it shall be the duty of the Board to designate such State as the State in which such member shall, for said purposes, be deemed to be located. As used in the second sentence of this subsection, the term 'total number of elective directorships' means the total number of elective directorships on the board of directors of the bank of the district in which such State was located on December 31, 1960, and the term 'members' means members of such bank.*

“(d) [Directors shall be elected for two-year terms, and shall be appointed for four-year terms. No director may be elected consecutively for more than three such terms] *The term of each elective directorship shall be two years and the term of each appointive directorship shall be four years. If any person, before or after, or partly before and partly after, the date of the enactment of this sentence, has been elected to each of three consecutive full terms as an elective director of a Federal Home Loan Bank in any elective directorship or elective directorships and has served for all or part of each of said terms, such person shall not be eligible for election to an elective directorship of such bank for a term which begins earlier than two years after the expiration of the last expiring of said three terms. The [board shall] Board is hereby authorized to*

prescribe such rules and regulations as it may [determine to be proper] *deem necessary or appropriate* for the nomination and election of directors of *Federal Home Loan Banks, including, without limitation on the generality of the foregoing, rules and regulations with respect to the breaking of ties and with respect to the inclusion of more than one directorship on a single ballot and the methods of voting and of determining the results of voting in such cases.*

“(e) [The term of each elective or appointive director serving] *Each term, outstanding on the date [this amendment becomes effective] of the enactment of the amendment to this section abolishing the division of elective directors into classes, of an elective or appointive directorship then existing shall [not be affected by this amendment but shall] continue [unchanged] until its original date of expiration, and any elective or appointive directorship in existence on said date shall continue to exist to the same extent as if it had been established by or under this section on or after said date. The Board in its discretion may extend any such term of an elective directorship for not to exceed one year from such original date of expiration, but such term shall in such event be deemed to become vacant at the close of such original date of expiration, if it shall not sooner be or become vacant. The Board, to such extent as it may deem to be in the public interest, may make deferments of the effective date of any provision, or any part of any provision, of this section as amended by said amendment, and may, with respect to any subject covered by any such deferment, continue in effect any provision, or any part of any provision, of this section as in effect immediately prior to said date, but no such deferment or continuance shall be effective for a period longer than two years from said date. [The provisions of this section, as amended, shall otherwise be applicable as of the date of enactment.]* The term ‘States’ or ‘State’ as used in this section shall mean the States of the Union and the District of Columbia.

“(f) In the event of a vacancy in any appointive or elective directorship, such vacancy shall be filled through appointment by the [board] *Board* for the unexpired term: *Provided*, That if any director shall cease to have the qualifications set forth in subsection (a), or if any elective director shall cease to have any qualification set forth in this section [or in any regulation in effect on the date of his nomination], the office held by such director shall immediately become vacant, but such director may continue to act as such director until his successor [so appointed] assumes the vacated office or the term of such office [shall have expired] *expires*, whichever shall first occur.”

Mr. SPENCE. Mr. Clerk, call the next witness.

Mr. CARDON. Mr. Henry A. Bubb, chairman of the legislative committee of the United States Savings & Loan League.

STATEMENT OF HENRY A. BUBB, CHAIRMAN OF THE LEGISLATIVE COMMITTEE OF THE UNITED STATES SAVINGS & LOAN LEAGUE; ACCOMPANIED BY STEPHEN SLIPHER, LEGISLATIVE DIRECTOR; AND T. BERT KING, WASHINGTON COUNSEL

Mr. SPENCE. We are glad to hear you, Mr. Bubb.

Mr. BUBB. Mr. Chairman, my name is Henry A. Bubb, and I appear here today as chairman of the legislative committee of the United States Savings & Loan League.

I have with me, Mr. Stephen Slipher, our legislative director in Washington, and T. Bert King, our Washington counsel.

I am also president of the Capitol Federal Savings & Loan Association of Topeka, Kans.

The United States Savings & Loan League supports H.R. 7108 and H.R. 7109 and urges their enactment. While these two bills will be helpful to the savings and loan industry as a whole, their effect on individual associations would be very minor. For instance, these measures do not in any way affect the lending, investment, or operating powers of associations.

H.R. 7108 proposes a strengthening of the Federal Savings and Loan Insurance Corporation. H.R. 5721, an earlier introduction dealing with the same general subject matter, was developed by the United States Savings & Loan League in consultation with other industry groups. H.R. 7108 is an official administration measure and differs in detail rather than in substance from the league proposal. In the interest of avoiding unnecessary complications, the U.S. league has agreed to accept in toto the administration bill.

H.R. 7108 is designed to provide additional strength and resources for the Federal Savings and Loan Insurance Corporation which insures savings accounts in 4,200 savings and loan institutions. All of us realize that much of the success and growth of our industry is due to the public confidence resulting from insurance of accounts and we are proud of the great record of the Insurance Corporation. Chairman Spence's bill is designed to make certain that the Corporation can continue its great contribution in the years ahead.

The principle of the Spence bill has been recognized and endorsed by the U.S. league and numerous State and regional leagues. It has the nearest approach to universal support in the savings and loan industry as it is possible for any significant legislation to have.

Because of the very rapid growth of insured savings accounts and because of the repayment of original U.S. Treasury capital out of the FSLIC income, 1950-58, the ratio of the Corporation's reserves to liabilities has fallen from 1.2 percent in 1949 to less than 0.7 of 1 percent at the present time. H.R. 7108 would rapidly boost this ratio by requiring insured associations to make prepayments of premiums into a secondary reserve of the Corporation.

These prepayments would amount to 2 percent of the net annual increase in savings. Prepayments of about \$150 million a year are the expected result, so that the combined reserves of the Corporation would reach 1 percent by 1963 and 1½ percent about 1966. This increase in reserves would place the Insurance Corporation in an extremely strong position.

From the individual association's point of view, the prepayments to the Insurance Corporation will not constitute any added expense of commitment of additional funds because this bill proposes to suspend the present requirement that associations purchase additional stock in the Federal home loan bank each year. In effect, this measure channels the funds that would normally go into the bank system into the Insurance Corporation.

We note that the earnings on prepayments would not be paid in cash, but would be credited to the secondary reserve. If this credit were made to the individual prepayments, thus reducing each association's required prepayment the following year, it would, of course, realize an immediate return on the association's investment.

If this is not so, the associations will be denied any return for their prepayment premiums such as they now receive from their Federal home loan bank stock.

I must say that the industry in originating this legislation was always under the impression that inasmuch as the Corporation would be earning on the prepaid premiums that these earnings would be paid to the associations.

We thought that the earnings would, at least, be as high as the dividends we now receive on our Federal home loan bank stock.

We would be glad to supply an appropriate amendment to implement this change if after further study it appears necessary.

(See letter of July 17, 1961, on p. 64.)

For many years it has been recognized that the Federal Home Loan Bank System is overcapitalized. As far back as 1955 the industry and the administration recommended a reduction of required stock building from 2 percent to 1 percent as is provided in the proposed legislation before the committee. Even with the lower capital requirement the Federal home loan banks would have capital ratios far in excess of comparable Government agencies.

In conclusion, we recommend the enactment of H.R. 7108 because it gives important additional resources and flexibility to the Federal Savings and Loan Insurance Corporation and will enable that insuring agency to continue its outstanding service to the savings public during the decade ahead.

H.R. 7109 revises and simplifies the procedures for electing directors to the 11 Federal home loan banks. It makes the following changes in election procedures:

1. It allocates to each State a specific number of seats on the board of directors of its regional bank in proportion to the ratio of that State's assets. In other words, if a State has one-fourth of the bank district assets it would be entitled to one-fourth of the directorships.

Under the present law, aside from the requirement that each State have at least one director, the division of directorships among the States is left to chance—or more accurately, left to friendly and sometimes not so friendly politicking between the States.

For instance, in my own district the four States, Colorado, Nebraska, Oklahoma, and Kansas, are collectively entitled to eight directors. Each State must receive one director but the remaining four seats could conceivably all go to one State. Under the proposed law the distribution would be determined by relative size of the savings and loan business, giving Colorado 2, Nebraska 1, Oklahoma 2, and Kansas 3.

The law also provides that no State would have a number of directors less than it had on December 31, 1960. A further provision prohibits consecutive election to the board for more than three 2-year terms.

Now we are recommending that limitation for the Federal home loan banks directors but not for the Congress. I just wanted to make that clear.

There are a great many able men in the industry and we do not feel that one man should serve on the Board for an indefinite period.

Mr. McDONOUGH. Does that apply to Congressmen?

Mr. BUBB. No, sir. No, sir; not at all.

Under the present law member associations are divided into classes according to size and all the associations in the district vote for the director in their particular size group. Under the proposed bill these classifications would be abandoned and each State would elect its own director or directors.

This makes good sense, because the associations in each State have much more opportunity to know the qualifications of the candidate from their own State. We could never understand why it made good sense under the present law for the member associations in Ohio and

Tennessee to have the controlling voice in the selection of the director from Kentucky—to use Chairman Spence's district as an example.

We think that confining the elections to the given State will bring more interest to the elections and improve on the voting record, which indicates that only about 54 percent of the associations cast ballots in the director elections.

The final major portion of the bill would give to each association voting strength proportionate to its stockholdings in the bank, but with the limitation that no institution shall have voting strength in excess of the average voting strength of its State. For example, if the average association holds 100 shares of bank stock, even an association owning 1,000 shares of stock could vote a maximum of 100 shares. This limitation effectively prevents the larger associations from dominating elections.

This legislation has been approved by the governing bodies of the league and we recommend its enactment.

In closing, let me again express the appreciation of the industry for the constructive interest that the chairman and members of this committee have always shown in the development of sound savings and loan legislation.

Mr. SPENCE. How do the members of the league stand?

Mr. BUBB. How do the members of the league stand?

Mr. SPENCE. Yes, sir. Have they ever taken any vote on the matter?

Mr. BUBB. Yes, sir. We have had it before our various conventions and committees and I think Chairman McMurray answered that as well as it could be.

There are so many members that you might find a few here or there that might have some disagreement but, as a whole, they are all in favor of it.

Mr. SPENCE. An overwhelming percent?

Mr. BUBB. Oh, yes, sir; an overwhelming percent.

Mr. SPENCE. How many members own more than 2 percent of the stock?

Mr. BUBB. That, I could not answer exactly, but I doubt if very many do.

Mr. SPENCE. This merely means a transfer on—

Mr. BUBB. The return on the investment is not good enough to invest any more than you have to.

Mr. SPENCE. Mr. McDonough?

Mr. McDONOUGH. Well, I know Mr. Bubb here. He has always been a very constructive and informative witness on every occasion this committee has met concerning savings and loan legislation and homebuilding legislation.

I have no questions, but I am very happy to have him here.

Mr. BUBB. Thank you, Congressman.

Mr. SPENCE. Mr. Barrett?

Mr. BARRETT. Mr. Bubb, I just want to ask you one particular question:

Do you know any way that one could attain perpetual membership under this new bill?

Mr. BUBB. On the board of directors of the regional bank?

Mr. BARRETT. Yes.

Mr. BUBB. No; I do not.

Mr. BARRETT. That is all.

Mr. SPENCE. Mrs. Dwyer?

Mrs. DWYER. No questions, Mr. Chairman.

Mr. SPENCE. Mr. Moorhead?

Mr. MOORHEAD. Mr. Bubb, on page 3 of your testimony you take your own district as an example and state that it would be possible for each of the four States to have one director but the remaining four seats could conceivably all go to one State. I gather that you are critical of that possibility and propose that that is one of the reasons for this legislation.

Is that correct?

Mr. BUBB. That is correct; yes, sir.

Mr. MOORHEAD. Yet, Mr. Bubb, if any district has that situation this bill would continue it because it provides that no State shall be reduced in representation on the Board.

Mr. BUBB. That is correct. Fortunately, none have it right now.

It has happened in the past, however, but where they are frozen at the present number now there are also additional directors added to take care of that, under this new bill, for the States that do not have their proportionate share.

Mr. MOORHEAD. Do you think it is advisable to freeze this disproportionate share that may have occurred for some reason and be in existence on December 31, 1960?

Mr. BUBB. Well, I think it is advisable if we want to get the bill passed; yes, sir.

Mr. MOORHEAD. I thought that might be the reason for it.

Thank you very much.

Mr. BUBB. Yes, sir.

Mr. SPENCE. Mr. Scranton?

Mr. SCRANTON. You seem to pass over lightly your proposed amendment. Do you not take it seriously?

Mr. BUBB. The amendment to H.R. 7108 or H.R. 7109?

Mr. SCRANTON. H.R. 7108

Mr. BUBB. No, I take it very seriously. Yes.

Mr. SCRANTON. Precisely what would it be?

Mr. BUBB. Well, there seems to be a misunderstanding on our part with H.R. 7108 as to how the dividends will be paid on this secondary reserve in the Insurance Corporation.

As it stands now, as you know, the associations purchase 2 percent of their home mortgages in the Federal Home Loan Bank System for which each bank pays dividends on that 2 percent.

Now, of course, we are willing to take 1 percent of that. As a matter of fact, it will be a little more than the 1 percent of home paid mortgages, because the savings is a higher percentage of assets than the mortgages are.

We are willing to take a little more and invest that in the Insurance Corporation to make it stronger, but the associations feel that this bill should be clarified so that they will have or they will receive earnings on that from the Insurance Corporation just as they receive them now from the Federal home loan banks. In selling this bill, we have told the members that it will cost them very little more in order to make this change from the Bank System to the Insurance Corporation.

And that is the reason that we suggested the amendment.

Mr. SCRANTON. Have you presented it to anybody else?

Mr. BUBB. The amendment?

Mr. SCRANTON. Yes.

Mr. BUBB. No, sir; we have not.

I think the national league will testify on it when they testify, but we do not know whether the original bill has that intent or not.

We, frankly, just discovered it in reading it last night.

Mr. SCRANTON. You do plan, though, to present a proposed amendment?

Mr. BUBB. Yes, sir.

Mr. SCRANTON. Very well.

Mr. BUBB. Yes, sir.

(NOTE.—As indicated in the letter from Mr. Slipper appearing on page 64, it was later determined that such an amendment is not needed.)

Mr. SPENCE. Mr. Stephens?

Mr. STEPHENS. I have no questions, Mr. Chairman.

Mr. SPENCE. Mr. Vanik, have you any questions?

Mr. VANIK. Mr. Chairman, I have one question. Is it not time we approach this problem by increasing the insurance on deposits to, perhaps, \$20,000?

At the time the law was enacted with a \$10,000 ceiling, the purchasing price of the dollar had one value and it is about half of that value now. In effect, we are insuring \$5,000 at the old values.

Wouldn't higher insurance contribute more to the increase of deposits in your institutions many of which are now advertising insurance above \$10,000 with various private companies.

Why shouldn't Federal coverage be extended to cover at least \$20,000 in deposits?

Mr. BUBB. You are absolutely right, Congressman.

Of course, we are all for having it raised to \$20,000. And I think if it were raised to \$20,000 it would be considerably more money put into the System which would mean there would be more money for the homebuilding industry in the United States.

But, unfortunately, we have been told that we cannot raise the limit on FSLIC unless we raise it on FDIC at the same time, and the commercial banks and the FDIC have opposed the bill.

That is the reason we have not been able to get our limit raised to \$20,000.

Mr. VANIK. I thank you.

Mr. BUBB. Thank you.

Mr. SPENCE. We thank you very much.

Mr. BUBB. Thank you very much, Mr. Chairman, as it is always a pleasure to appear before you and this committee.

Mrs. DWYER. Mr. Chairman, and members of the committee, I am very happy to welcome to the committee this morning Mr. Everett Sherbourne, a distinguished citizen of the district that I am privileged to represent, and also an outstanding member of the savings and loan industry in New Jersey; Mr. Sherbourne.

Mr. SPENCE. Mr. Sherbourne, you may proceed.

STATEMENT OF EVERETT C. SHERBOURNE, VICE CHAIRMAN, FEDERAL LEGISLATION COMMITTEE, NATIONAL LEAGUE OF INSURED SAVINGS ASSOCIATIONS; ACCOMPANIED BY BRYCE CURRY, GENERAL COUNSEL

Mr. SHERBOURNE. Mr. Chairman, and members of the subcommittee, I want to acknowledge that very gracious statement from my Congresswoman, who has an outstanding reputation in the State of New Jersey, not only in the county from which she comes.

I supported her and I have followed her with a very great interest.

I suppose there could have been no greater compliment paid to me than that one which just came from you.

Thank you very much, Congresswoman Dwyer.

My name is Everett C. Sherbourne. I am president of the City Federal Savings & Loan Association of Elizabeth, N.J., and vice chairman of the Federal legislation committee of the National League of Insured Savings Associations, and I appear today as spokesman for the league. I am accompanied by Mr. Bryce Curry, general counsel of the national league.

I want first, Mr. Chairman, personally and on behalf of the membership of the national league, to express appreciation to you and the members of your committee for the interest and fair consideration always given to proposals affecting our business.

I might also say in the beginning that we heartily endorse and support the bills now under consideration.

Of the 2 savings and loan proposals currently before your committee, H.R. 7108 is by far the most important. In essence it would shift the flow of funds from an overcapitalized Federal Home Loan Bank System to the Federal Savings and Loan Insurance Corporation which has an inadequacy of working capital. H.R. 5721 would accomplish the same objective, and it makes little difference to us whether this or the latter administration-approved version is adopted, although, there are technical improvements in the administration's approved version which are desirable.

During the period 1932-50, members of the Federal Home Loan Bank system were required to hold stock in the regional banks equal to 1 percent of the aggregate of the unpaid principal of the subscribers' home mortgage loans. In 1950 this figure was increased to 2 percent in order to accelerate the retirement of the Government-owned stock in the bank system. No other reason was advanced for the increase. No one suggested that the 1950 legislation was based upon inadequacy of capitalization of the system.

By 1955 all of the Government-owned stock in the system had been retired and bills to reduce the stock purchase requirements had the support of the Federal Home Loan Bank Board and the savings and loan business.

There can be little doubt, in our judgment, that the regional Federal home loan banks are overcapitalized. The ratio of capital to liabilities is much higher than that of typical Government corporations. The ratio of capital to outstanding debentures has never been less than 1 to 3 and today outstanding debentures of the Bank System are less

than its surplus and reserves. In the Federal intermediate credit banks, the ratio is about 1 to 9 and in the Federal National Mortgage Association, about 1 to 8.

The reserves of the Federal Savings and Loan Insurance Corporation, on the other hand, are less than seven-tenths of 1 percent of insured liability. From the standpoint of the loss experience of the Corporation, we do not believe the reserve would be inadequate. The total amount disbursed by the Insurance Corporation for insurance losses since 1934 is about 1.1 percent of the Corporation's cumulative gross income. There is, however, an inadequacy of working capital.

The Insurance Corporation does not sit idly by, wait for a loss to occur, and then pay out insurance to the insured account holders.

Under section 407(f) of the National Housing Act, the Corporation is authorized to make loans to or purchase the assets of an insured institution in order to prevent a default or to restore a defaulted institution to normal operation.

Under limited circumstances the Corporation is authorized to make contributions to prevent or cure a default. Use of this section may involve substantial cash disbursements without ultimate loss to the Corporation. The reserves of the Corporation that may be used under this section may be tied up for varying periods of time and thus not available to take care of losses that might occur.

The Corporation has served the public and our business well over the years and we want to make certain that it has the resources to continue to accomplish the objectives for which it was established. This bill would do just that. Under the most conservative estimates, the ratio of reserves to insured liability would reach 1.50 by 1965 and would exceed 2 percent by the end of this decade. We hope the committee will report the bill favorably.

The second bill before your committee, H.R. 7109, would change the method of electing directors to the Federal home loan banks. This bill, in our judgment, represents a procedural and substantive improvement over existing methods, and we recommend its adoption.

Since my testimony would be largely repetitious of what has already been said to the committee, we will terminate our formal testimony at this time and will attempt to answer any questions the committee may have.

Mr. SPENCE. Thank you very much, Mr. Sherbourne, for your statement.

The overwhelming sentiment of your institutions, the National League of Insured Savings Associations, is in favor of the bill?

Mr. SHERBOURNE. Yes, sir; they are very much in favor of the bill.

It has been approved at a convention of the league, and also has been formally, unanimously, approved by the board of governors of the league.

Mr. SPENCE. Mr. McDonough?

Mr. McDONOUGH. I thank you for appearing, Mr. Sherbourne. I appreciate your statement, and I have no questions.

Mr. SHERBOURNE. Thank you.

Mr. SPENCE. Mr. Barrett?

Mr. BARRETT. I just want to say, Mr. Sherbourne, if you voted for Congresswoman Dwyer you helped elect one of the finest women now serving in Congress.

Please convey this sentiment to all of her constituents.

Mr. SHERBOURNE. I certainly shall, sir. I suppose you have already guessed the fact that I am a Republican, and, therefore, we find such information rather useful.

Of course, I might also say, Mr. Spence, that I always work on the premise that southern Democrats and northern Republicans have very much in common.

Mr. SPENCE. Well, we all have a very high opinion of you.

Mrs. DWYER. Mr. Chairman, I do not have any questions, but I do want to thank my very distinguished Democratic colleague for his very kind remarks.

Mr. SPENCE. Mr. Moorhead?

Mr. MOORHEAD. I have no questions, Mr. Chairman.

Mr. SPENCE. Mr. Scranton?

Mr. SCRANTON. Just one.

Mr. Sherbourne, do you have any concern about this new arrangement for the election of Board members from the standpoint of the small savings and loan associations?

Mr. SHERBOURNE. None at all, sir.

I actually think that the present situation unduly favors these small associations. For example, the division between the States of New York and New Jersey is such that half of the directors from New Jersey must be class C and the other half then class A and B associations can only be represented through the directorship at large.

And we have had unusual situations that developed through this classification system.

I recall one of the finest directors of the bank was coming up for his second term. The State of New Jersey was unanimously in favor of his being elected, but when the announcement came out, he was no longer class C but he had become class B.

Class B directorships were entirely from New York. So he had to retire.

Mr. SPENCE. Mr. Stephens?

Mr. STEPHENS. I have no questions, Mr. Chairman.

Mr. SPENCE. Mr. Vanik?

Mr. VANIK. No questions, Mr. Chairman.

Mr. SPENCE. That concludes the testimony and we thank you very much.

(A document entitled "Estimated Reserve Position," prepared in the Office of the Comptroller, Federal Savings and Loan Insurance Corporation, follows:)

ESTIMATED RESERVE POSITION

After Giving Effect to the Provisions of

A BILL (H.R. 7108)

To Amend the Federal Home Loan Bank Act and Title IV of the National Housing Act



FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

F O R E W O R D

IN ADDITION TO THE SPECIFIC ASSUMPTIONS REFLECTED ON THE EXHIBITS AND SCHEDULES CONTAINED HEREIN, THE GENERAL ASSUMPTIONS LISTED BELOW WERE ALSO USED IN PREPARING THE ESTIMATES.

NO INSURANCE LOSSES.

PREMIUM INCOME COMPUTED ON ANNUAL BILLING BASIS AT RATE OF 1/12TH OF 1%.

INVESTMENT INCOME BASED ON ANNUAL AVERAGE RATE OF RETURN OF 3%.

OPERATING EXPENSES BASED ON CURRENT RATE OF EXPENDITURE EQUAL TO 3.7% OF PREMIUM INCOME.

MORTGAGE LOANS HELD ESTIMATED AT 96% OF TOTAL SAVINGS CAPITAL.

NET HOME MORTGAGES ESTIMATED AT 90% OF MORTGAGE LOANS HELD.

THE RESERVE RATIOS REPRESENT THE PERCENT OF DOLLAR RESERVE TO TOTAL SAVINGS CAPITAL (ALL ACCOUNTS OF INSURED MEMBERS) AND CREDITOR OBLIGATIONS.

PREPARED IN THE OFFICE OF THE COMPTROLLER,
FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

PART 1

ASSUMES ANNUAL GROWTH IN SAVINGS (NEW MONEY) OF \$ 5.5 BILLION
PLUS DIVIDENDS AT ANNUAL RATE OF 3%

ESTIMATED AGGREGATE (PRIMARY & SECONDARY) RESERVE POSITION EXHIBIT A
ASSUMES ANNUAL GROWTH IN SAVINGS (NEW MONEY) OF \$ 5.5 BILLION PLUS DIVIDENDS AT 3%
DOLLARS IN MILLIONS

DEC. 31	PRIMARY RESERVE		SECONDARY RESERVE		AGGREGATE OF PRIMARY & SECONDARY RESERVE	
	RESERVE (A)	RATIO (A)	RESERVE (B)	RATIO (B)	RESERVE	RATIO
1960	\$ 380.9	0.622	\$ -	-	\$ 380.9	0.622
1961	441.1	0.641	-	-	441.1	0.641
1962	509.0	0.665	149.7	0.196	658.7	0.861
1963	582.0	0.692	308.5	0.365	893.5	1.057
1964	669.5	0.722	476.7	0.514	1,146.2	1.236
1965	763.0	0.754	654.7	0.647	1,417.7	1.401
1966	865.9	0.787	842.9	0.767	1,708.8	1.554
1967	978.7	0.823	1,041.8	0.876	2,020.5	1.699
1968	1,101.9	0.860	1,251.9	0.977	2,353.8	1.837
1969	1,236.0	0.898	1,473.7	1.071	2,709.7	1.969
1970	1,381.5	0.937	1,697.4	1.151	3,078.9	2.088

(A) SEE EXHIBIT B.

(B) SEE EXHIBIT C.

(NOTE) IT IS ESTIMATED THAT AGGREGATE RESERVES WOULD BE REDUCED TO 1 $\frac{1}{2}$ % IN 1975 AT WHICH TIME ASSESSMENT WOULD BE RESUMED, AND THAT THE PRIMARY RESERVE ALONE WOULD REACH 2% IN 1993.

EXHIBIT B

ESTIMATED PRIMARY RESERVE POSITION
 ASSUMES ANNUAL GROWTH IN SAVINGS (NEW MONEY) OF \$ 5.5 BILLION PLUS DIVIDENDS AT 3%
 DOLLARS IN MILLIONS

DEC. 31	P R I M A R Y R E S E R V E					TOTAL SVGS. CAPITAL AND CREDITOR OBLIGATIONS	RESERVE RATIO	
	BEGINNING OF YEAR	PREMIUM INCOME	INVESTMENT INCOME	LESS EXPENSES	NET ADDITION DURING YEAR			END OF YEAR
1960	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 380.9	\$ 61,262.0	0.622
1961	380.9	50.0	12.1	1.9	60.2	441.1	68,804.0	0.641
1962	441.1	56.0	14.0	2.1	67.9	509.0	76,567.0	0.665
1963	509.0	62.1	16.2	2.3	76.0	585.0	84,557.0	0.692
1964	585.0	68.4	18.6	2.5	84.5	669.5	92,780.0	0.722
1965	669.5	75.0	21.3	2.8	93.5	763.0	101,244.0	0.754
1966	763.0	81.6	24.3	3.0	102.9	865.9	109,956.0	0.787
1967	865.9	88.5	27.6	3.3	112.8	978.7	118,923.0	0.823
1968	978.7	95.6	31.1	3.5	123.2	1,101.9	128,153.0	0.860
1969	1,101.9	102.9	35.0	3.8	134.1	1,236.0	137,654.0	0.898
1970	1,236.0	110.4	39.2	4.1	145.5	1,381.5	147,434.0	0.937

EXHIBIT C

ESTIMATED SECONDARY RESERVE POSITION
 ASSUMES ANNUAL GROWTH IN SAVINGS (NEW MONEY) OF \$ 5.5 BILLION PLUS DIVIDENDS AT 3%
 DOLLARS IN MILLIONS

DEC. 31	S E C O N D A R Y R E S E R V E					TOTAL SVGS. CAPITAL AND CREDITOR OBLIGATIONS	RESERVE RATIO
	BEGINNING OF YEAR	NET PREMIUM PREPAYMENTS (A)	INVESTMENT INCOME	NET ADDITION DURING YEAR	END OF YEAR		
1961	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 68,804.0	-
1962	-	146.8	2.9	149.7	149.7	76,567.0	0.196
1963	149.7	151.3	7.5	158.8	308.5	84,557.0	0.365
1964	308.5	155.8	12.4	168.2	476.7	92,780.0	0.514
1965	476.7	160.5	17.5	178.0	654.7	101,244.0	0.647
1966	654.7	165.3	22.9	188.2	842.9	109,956.0	0.767
1967	842.9	170.2	28.7	198.9	1,041.8	118,923.0	0.876
1968	1,041.8	175.3	34.8	210.1	1,251.9	128,153.0	0.977
1969	1,251.9	180.6	41.2	221.8	1,473.7	137,654.0	1.071
1970	1,473.7	176.0	47.7	223.7	1,697.4	147,434.0	1.151

(A) SEE SCHEDULE 2.

SCHEDULE 1

INSURANCE PREMIUM BASES - REGULAR AND PREPAYMENTS
 ASSUMES ANNUAL GROWTH IN SAVINGS (NEW MONEY) OF \$ 5.5 BILLION PLUS DIVIDENDS AT 3%

IN MILLIONS OF DOLLARS

DEC. 31	S A V I N G S C A P I T A L						TOTAL SVGS. CAPITAL AND CREDITOR OBLIGATIONS
	BEGINNING OF YEAR	N E T I N F L O W			END OF YEAR	CREDITOR OBLIGATIONS	
		NEW MONEY	DIVIDENDS	TOTAL			
1960	\$ -	\$ -	\$ -	\$ -	\$ 58,662.0	\$ 2,600.0	\$ 61,262.0
1961	58,662.0	5,500.0	1,842.0	7,342.0	66,004.0	2,800.0	68,804.0
1962	66,004.0	5,500.0	2,063.0	7,563.0	73,567.0	3,000.0	76,567.0
1963	73,567.0	5,500.0	2,290.0	7,790.0	81,357.0	3,200.0	84,557.0
1964	81,357.0	5,500.0	2,523.0	8,023.0	89,380.0	3,400.0	92,780.0
1965	89,380.0	5,500.0	2,764.0	8,264.0	97,644.0	3,600.0	101,244.0
1966	97,644.0	5,500.0	3,012.0	8,512.0	106,156.0	3,800.0	109,956.0
1967	106,156.0	5,500.0	3,267.0	8,767.0	114,923.0	4,000.0	118,923.0
1968	114,923.0	5,500.0	3,530.0	9,030.0	123,953.0	4,200.0	128,153.0
1969	123,953.0	5,500.0	3,801.0	9,301.0	133,254.0	4,400.0	137,654.0
1970	133,254.0	5,500.0	4,080.0	9,580.0	142,834.0	4,600.0	147,434.0

SCHEDULE 2

DERIVATION OF PREMIUM PREPAYMENTS
 ASSUMES ANNUAL GROWTH IN SAVINGS (NEW MONEY) OF \$ 5.5 BILLION PLUS DIVIDENDS AT 3%

IN MILLIONS OF DOLLARS

YEAR ENDING DEC. 31	NET SAVINGS INFLOW (a)	GROSS PREMIUM PREPAYMENTS (b)	MORTGAGE LOANS HELD	NET HOME MORTGAGES HELD	BANK STOCK REQUIREMENTS (c)	BANK STOCK PURCHASES (d)	GROSS PREMIUM PREPAYMENTS LESS BANK STOCK PURCHASES (e)
1961	\$ 7,342.0	\$ 146.8	\$ 63,364.0	\$ 57,028.0	\$ 1,141.0*	\$ -	\$ 146.8
1962	7,563.0	151.3	70,624.0	63,562.0	636.0	-	151.3
1963	7,790.0	155.8	78,103.0	70,293.0	703.0	-	155.8
1964	8,023.0	160.5	85,805.0	77,225.0	772.0	-	160.5
1965	8,264.0	165.3	93,738.0	84,364.0	844.0	-	165.3
1966	8,512.0	170.2	101,910.0	91,719.0	917.0	-	170.2
1967	8,767.0	175.3	110,326.0	99,293.0	993.0	-	175.3
1968	9,030.0	180.6	118,995.0	107,096.0	1,071.0	-	180.6
1969	9,301.0	186.0	127,924.0	115,132.0	1,151.0	10.0	176.0
1970	9,580.0	191.6	137,121.0	123,409.0	1,234.0	83.0	108.6

(A) SEE SCHEDULE 1.

(B) 2% OF NET SAVINGS INFLOW.

(C) 1% OF NET HOME MORTGAGES HELD. *2% MINIMUM REQUIREMENT 12/31/61.

(D) YEAR END REQUIREMENT LESS 2% MINIMUM REQUIREMENT 12/31/61.

(E) PAYMENT DUE (FSLIC) MAY 1 NEXT.

PART 2

ASSUMES ANNUAL GROWTH IN SAVINGS (NEW MONEY) OF \$ 6.0 BILLION
 PLUS DIVIDENDS AT ANNUAL RATE OF 3%

EXHIBIT D
 ESTIMATED AGGREGATE (PRIMARY & SECONDARY) RESERVE POSITION
 ASSUMES ANNUAL GROWTH IN SAVINGS (NEW MONEY) OF \$ 6.0 BILLION PLUS DIVIDENDS AT 3%
 DOLLARS IN MILLIONS

DEC. 31	PRIMARY RESERVE		SECONDARY RESERVE		AGGREGATE OF PRIMARY & SECONDARY RESERVE	
	RESERVE (a)	RATIO (a)	RESERVE (b)	RATIO (b)	RESERVE	RATIO
1960	\$ 380.9	0.622	\$ -	-	\$ 380.9	0.622
1961	441.3	0.637	-	-	441.3	0.637
1962	509.8	0.657	160.1	0.206	669.9	0.863
1963	586.9	0.681	329.8	0.383	916.7	1.064
1964	672.8	0.709	509.6	0.537	1,182.4	1.246
1965	768.2	0.739	699.9	0.673	1,468.1	1.412
1966	873.5	0.771	901.1	0.796	1,774.6	1.567
1967	989.2	0.805	1,113.8	0.907	2,103.0	1.712
1968	1,115.8	0.841	1,338.5	1.009	2,454.3	1.850
1969	1,253.9	0.878	1,575.6	1.103	2,829.5	1.981
1970	1,404.2	0.916	1,777.8	1.160	3,182.0	2.076

(A) SEE EXHIBIT E.

(B) SEE EXHIBIT F.

(NOTE) IT IS ESTIMATED THAT AGGREGATE RESERVES WOULD BE REDUCED TO 1 1/2% IN 1975 AT WHICH TIME ASSESSMENT WOULD BE RESUMED, AND THAT THE PRIMARY RESERVE ALONE WOULD REACH 2% IN 1993.

ESTIMATED PRIMARY RESERVE POSITION
 ASSUMES ANNUAL GROWTH IN SAVINGS (NEW MONEY) OF \$ 6.0 BILLION PLUS DIVIDENDS AT 3%

EXHIBIT E

DOLLARS IN MILLIONS

DEC. 31	P R I M A R Y R E S E R V E					TOTAL SVGS. CAPITAL AND CREDITOR OBLIGATIONS	RESERVE RATIO	
	BEGINNING OF YEAR	PREMIUM INCOME	INVESTMENT INCOME	LESS EXPENSES	NET ADDITION DURING YEAR			END OF YEAR
1960	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 380.9	\$ 61,262.0	0.622
1961	380.9	50.2	12.1	1.9	60.4	441.3	69,312.0	0.637
1962	441.3	56.5	14.1	2.1	68.5	509.8	77,597.0	0.657
1963	509.8	63.1	16.3	2.3	77.1	586.9	86,125.0	0.681
1964	586.9	69.8	18.7	2.6	85.9	672.8	94,903.0	0.709
1965	672.8	76.7	21.5	2.8	95.4	768.2	103,938.0	0.739
1966	768.2	83.9	24.5	3.1	105.3	873.5	113,238.0	0.771
1967	873.5	91.3	27.8	3.4	115.7	989.2	122,811.0	0.805
1968	989.2	98.8	31.5	3.7	126.6	1,115.8	132,665.0	0.841
1969	1,115.8	106.5	35.5	3.9	138.1	1,253.9	142,809.0	0.878
1970	1,253.9	114.6	39.9	4.2	150.3	1,404.2	153,251.1	0.916

ESTIMATED SECONDARY RESERVE POSITION
 ASSUMES ANNUAL GROWTH IN SAVINGS (NEW MONEY) OF \$ 6.0 BILLION PLUS DIVIDENDS AT 3%

EXHIBIT F

DOLLARS IN MILLIONS

DEC. 31	S E C O N D A R Y R E S E R V E				TOTAL SVGS. CAPITAL AND CREDITOR OBLIGATIONS	RESERVE RATIO	
	BEGINNING OF YEAR	NET PREMIUM PREPAYMENTS (A)	INVESTMENT INCOME	NET ADDITION DURING YEAR			END OF YEAR
1961	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 69,312.0	-
1962	-	157.0	3.1	160.1	160.1	77,597.0	0.206
1963	160.1	161.7	8.0	169.7	329.8	86,125.0	0.383
1964	329.8	166.6	13.2	179.8	509.6	94,903.0	0.537
1965	509.6	171.6	18.7	190.3	699.9	103,938.0	0.673
1966	699.9	176.7	24.5	201.2	901.1	113,238.0	0.796
1967	901.1	182.0	30.7	212.7	1,113.8	122,811.0	0.907
1968	1,113.8	187.5	37.2	224.7	1,338.5	132,665.0	1.009
1969	1,338.5	193.1	44.0	237.1	1,575.6	142,809.0	1.103
1970	1,575.6	151.9	50.3	202.2	1,777.8	153,251.0	1.160

(A) SEE SCHEDULE 4.

INSURANCE PREMIUM BASES - REGULAR AND PREPAYMENTS
 ASSUMES ANNUAL GROWTH IN SAVINGS (NEW MONEY) OF \$ 6.0 BILLION PLUS DIVIDENDS AT 3%
 IN MILLIONS OF DOLLARS

SCHEDULE 3

DEC. 31	S A V I N G S C A P I T A L					CREDITOR OBLIGATIONS	TOTAL SVGS. CAPITAL AND CREDITOR OBLIGATIONS
	BEGINNING OF YEAR	N E T I N F L O W			END OF YEAR		
		NEW MONEY	DIVIDENDS	TOTAL			
1960	\$ -	\$ -	\$ -	\$ -	\$ 58,662.0	\$ 2,600.0	\$ 61,262.0
1961	58,662.0	6,000.0	1,850.0	7,850.0	66,512.0	2,800.0	69,312.0
1962	66,512.0	6,000.0	2,085.0	8,085.0	74,597.0	3,000.0	77,597.0
1963	74,597.0	6,000.0	2,328.0	8,328.0	82,925.0	3,200.0	86,125.0
1964	82,925.0	6,000.0	2,578.0	8,578.0	91,503.0	3,400.0	94,903.0
1965	91,503.0	6,000.0	2,835.0	8,835.0	100,338.0	3,600.0	103,938.0
1966	100,338.0	6,000.0	3,100.0	9,100.0	109,438.0	3,800.0	113,238.0
1967	109,438.0	6,000.0	3,373.0	9,373.0	118,811.0	4,000.0	122,811.0
1968	118,811.0	6,000.0	3,654.0	9,654.0	128,465.0	4,200.0	132,665.0
1969	128,465.0	6,000.0	3,944.0	9,944.0	138,409.0	4,400.0	142,809.0
1970	138,409.0	6,000.0	4,242.0	10,242.0	148,651.0	4,600.0	153,251.0

DERIVATION OF PREMIUM PREPAYMENTS
 ASSUMES ANNUAL GROWTH IN SAVINGS (NEW MONEY) OF \$ 6.0 BILLION PLUS DIVIDENDS AT 3%
 IN MILLIONS OF DOLLARS

SCHEDULE 4

YEAR ENDING DEC. 31	NET SAVINGS INFLOW (A)	GROSS PREMIUM PREPAYMENTS (B)	MORTGAGE LOANS HELD	NET HOME MORTGAGES HELD	BANK STOCK REQUIREMENTS (C)	BANK STOCK PURCHASES (D)	GROSS PREMIUM PREPAYMENTS LESS BANK STOCK PURCHASES (E)
1961	\$ 7,850.0	\$ 157.0	\$ 63,852.0	\$ 57,467.0	\$ 1,149.0*	\$ -	\$ 157.0
1962	8,085.0	161.7	71,613.0	64,452.0	645.0	-	161.7
1963	8,328.0	166.6	79,608.0	71,647.0	716.0	-	166.6
1964	8,578.0	171.6	87,843.0	79,059.0	791.0	-	171.6
1965	8,835.0	176.7	96,324.0	86,692.0	867.0	-	176.7
1966	9,100.0	182.0	105,060.0	94,554.0	946.0	-	182.0
1967	9,373.0	187.5	114,159.0	102,653.0	1,027.0	-	187.5
1968	9,654.0	193.1	123,326.0	110,993.0	1,110.0	-	193.1
1969	9,944.0	198.9	132,873.0	119,586.0	1,196.0	47.0	151.9
1970	10,242.0	204.8	142,705.0	128,435.0	1,284.0	88.0	116.8

- (A) SEE SCHEDULE 3.
- (B) 2% OF NET SAVINGS INFLOW.
- (C) 1% OF NET HOME MORTGAGES HELD. *2% MINIMUM REQUIREMENT 12/31/61.
- (D) YEAR END REQUIREMENT LESS 2% MINIMUM REQUIREMENT 12/31/61.
- (E) PAYMENT DUE (FSLIC) MAY 1 NEXT.

PART 3

ASSUMES ANNUAL GROWTH IN SAVINGS (NEW MONEY) OF \$ 6.5 BILLION
PLUS DIVIDENDS AT ANNUAL RATE OF 3%

ESTIMATED AGGREGATE (PRIMARY & SECONDARY) RESERVE POSITION EXHIBIT G
ASSUMES ANNUAL GROWTH IN SAVINGS (NEW MONEY) OF \$ 6.5 BILLION PLUS DIVIDENDS AT 3%
DOLLARS IN MILLIONS

DEC. 31	PRIMARY RESERVE		SECONDARY RESERVE		AGGREGATE OF PRIMARY & SECONDARY RESERVE	
	RESERVE (A)	RATIO (A)	RESERVE (B)	RATIO (B)	RESERVE	RATIO
1960	\$ 380.9	0.622	\$ -	-	\$ 380.9	0.622
1961	441.4	0.632	-	-	441.4	0.632
1962	510.5	0.649	170.4	0.217	680.9	0.866
1963	588.5	0.671	351.2	0.400	939.7	1.071
1964	675.9	0.697	542.6	0.559	1,218.5	1.256
1965	773.2	0.725	745.1	0.699	1,518.3	1.424
1966	880.8	0.756	959.3	0.823	1,840.1	1.579
1967	999.4	0.789	1,185.8	0.936	2,185.2	1.725
1968	1,129.5	0.823	1,424.7	1.039	2,554.2	1.862
1969	1,271.7	0.859	1,676.9	1.133	2,948.6	1.992
1970	1,426.6	0.897	1,859.2	1.169	3,285.8	2.066

(A) SEE EXHIBIT H.

(B) SEE EXHIBIT I.

(NOTE) IT IS ESTIMATED THAT AGGREGATE RESERVES WOULD BE REDUCED TO 1 $\frac{1}{2}$ % IN 1975 AT WHICH TIME ASSESSMENT WOULD BE RESUMED, AND THAT THE PRIMARY RESERVE ALONE WOULD REACH 2% IN 1994

ESTIMATED PRIMARY RESERVE POSITION
 ASSUMES ANNUAL GROWTH IN SAVINGS (NEW MONEY) OF \$ 6.5 BILLION PLUS DIVIDENDS AT 3%
 DOLLARS IN MILLIONS

EXHIBIT H

DEC. 31	P R I M A R Y R E S E R V E					TOTAL SVGS. CAPITAL AND CREDITOR OBLIGATIONS	RESERVE RATIO	
	BEGINNING OF YEAR	PREMIUM INCOME	INVESTMENT INCOME	LESS EXPENSES	NET ADDITION DURING YEAR			END OF YEAR
1960	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 380.9	\$ 61,262.0	0.622
1961	380.9	50.3	12.1	1.9	60.5	441.4	69,819.0	0.632
1962	441.4	57.1	14.1	2.1	69.1	510.5	78,627.0	0.649
1963	510.5	64.1	16.3	2.4	78.0	588.5	87,693.0	0.671
1964	588.5	71.2	18.8	2.6	87.4	675.9	97,025.0	0.697
1965	675.9	78.6	21.6	2.9	97.3	773.2	106,631.0	0.725
1966	773.2	86.1	24.7	3.2	107.6	880.8	116,519.0	0.756
1967	880.8	94.0	28.1	3.5	118.6	999.4	126,698.0	0.789
1968	999.4	102.0	31.9	3.8	130.1	1,129.5	137,176.0	0.823
1969	1,129.5	110.3	36.0	4.1	142.2	1,271.7	147,963.0	0.859
1970	1,271.7	118.8	40.5	4.4	154.9	1,426.6	159,067.0	0.897

ESTIMATED SECONDARY RESERVE POSITION
 ASSUMES ANNUAL GROWTH IN SAVINGS (NEW MONEY) OF \$ 6.5 BILLION PLUS DIVIDENDS AT 3%
 DOLLARS IN MILLIONS

EXHIBIT I

DEC. 31	S E C O N D A R Y R E S E R V E					TOTAL SVGS. CAPITAL AND CREDITOR OBLIGATIONS	RESERVE RATIO
	BEGINNING OF YEAR	NET PREMIUM PREPAYMENTS (A)	INVESTMENT INCOME	NET ADDITION DURING YEAR	END OF YEAR		
1961	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 69,819.0	-
1962	-	167.1	3.3	170.4	170.4	78,627.0	0.217
1963	170.4	172.2	8.6	180.8	351.2	87,693.0	0.400
1964	351.2	177.3	14.1	191.4	542.6	97,025.0	0.559
1965	542.6	182.6	19.9	202.5	745.1	106,631.0	0.699
1966	745.1	188.1	26.1	214.2	959.3	116,519.0	0.823
1967	969.3	193.8	32.7	226.5	1,185.8	126,698.0	0.936
1968	1,185.8	199.6	39.3	238.9	1,424.7	137,176.0	1.039
1969	1,424.7	205.6	46.6	252.2	1,676.9	147,963.0	1.133
1970	1,676.9	129.7	52.6	182.3	1,859.2	159,067.0	1.169

(A) SEE SCHEDULE 6.

SCHEDULE 5

INSURANCE PREMIUM BASES - REGULAR AND PREPAYMENTS
 ASSUMES ANNUAL GROWTH IN SAVINGS (NEW MONEY) OF \$ 6.5 BILLION PLUS DIVIDENDS AT 3%

IN MILLIONS OF DOLLARS

DEC. 31	S A V I N G S C A P I T A L					CREDITOR OBLIGATIONS	TOTAL SVGS. CAPITAL AND CREDITOR OBLIGATIONS
	BEGINNING OF YEAR	N E T I N F L O W			END OF YEAR		
		NEW MONEY	DIVIDENDS	TOTAL			
1960	\$ -	\$ -	\$ -	\$ -	\$ 58,662.0	\$ 2,600.0	\$ 61,262.0
1961	58,662.0	6,500.0	1,857.0	8,357.0	67,019.0	2,800.0	69,819.0
1962	67,019.0	6,500.0	2,108.0	8,608.0	75,627.0	3,000.0	78,627.0
1963	75,627.0	6,500.0	2,366.0	8,866.0	84,493.0	3,200.0	87,693.0
1964	84,493.0	6,500.0	2,632.0	9,132.0	93,625.0	3,400.0	97,025.0
1965	93,625.0	6,500.0	2,906.0	9,406.0	103,031.0	3,600.0	106,631.0
1966	103,031.0	6,500.0	3,188.0	9,688.0	112,719.0	3,800.0	116,519.0
1967	112,719.0	6,500.0	3,479.0	9,979.0	122,698.0	4,000.0	126,698.0
1968	122,698.0	6,500.0	3,778.0	10,278.0	132,976.0	4,200.0	137,176.0
1969	132,976.0	6,500.0	4,087.0	10,587.0	143,563.0	4,400.0	147,963.0
1970	143,563.0	6,500.0	4,404.0	10,904.0	154,467.0	4,600.0	159,067.0

SCHEDULE 6

DERIVATION OF PREMIUM PREPAYMENTS
 ASSUMES ANNUAL GROWTH IN SAVINGS (NEW MONEY) OF \$ 6.5 BILLION PLUS DIVIDENDS AT 3%

IN MILLIONS OF DOLLARS

YEAR ENDING DEC. 31	NET SAVINGS INFLOW (A)	GROSS PREMIUM PREPAYMENTS (B)	MORTGAGE LOANS HELD	NET HOME MORTGAGES HELD	BANK STOCK REQUIREMENTS (C)	BANK STOCK PURCHASES (D)	GROSS PREMIUM PREPAYMENTS LESS BANK STOCK PURCHASES (E)
1961	\$ 8,357.0	\$ 167.1	\$ 64,338.0	\$ 57,904.0	\$ 1,158.0*	\$ -	\$ 167.1
1962	8,608.0	172.2	72,602.0	65,342.0	653.0	-	172.2
1963	8,866.0	177.3	81,113.0	73,002.0	730.0	-	177.3
1964	9,132.0	182.6	89,880.0	80,892.0	809.0	-	182.6
1965	9,406.0	188.1	98,910.0	89,019.0	890.0	-	188.1
1966	9,688.0	193.8	108,210.0	97,389.0	974.0	-	193.8
1967	9,979.0	199.6	117,790.0	106,011.0	1,060.0	-	199.6
1968	10,278.0	205.6	127,657.0	114,891.0	1,149.0	-	205.6
1969	10,587.0	211.7	137,820.0	124,038.0	1,240.0	82.0	129.7
1970	10,904.0	218.1	148,288.0	133,459.0	1,335.0	95.0	123.1

(A) SEE SCHEDULE 5.

(B) 2% OF NET SAVINGS INFLOW.

(C) 1% OF NET HOME MORTGAGES HELD. *2% MINIMUM REQUIREMENT 12/31/61.

(D) YEAR END REQUIREMENT LESS 2% MINIMUM REQUIREMENT 12/31/61.

(E) PAYMENT DUE (FSLIC) MAY 1 NEXT.

PART 4

ASSUMES ANNUAL GROWTH IN SAVINGS (NEW MONEY) OF \$ 7.0 BILLION
PLUS DIVIDENDS AT ANNUAL RATE OF 3%

EXHIBIT J

ESTIMATED AGGREGATE (PRIMARY & SECONDARY) RESERVE POSITION
ASSUMES ANNUAL GROWTH IN SAVINGS (NEW MONEY) OF \$ 7.0 BILLION PLUS DIVIDENDS AT 3%

DOLLARS IN MILLIONS

DEC. 31	PRIMARY RESERVE		SECONDARY RESERVE		AGGREGATE OF PRIMARY & SECONDARY RESERVE	
	RESERVE (A)	RATIO (A)	RESERVE (B)	RATIO (B)	RESERVE	RATIO
1960	\$ 380.9	0.622	\$ -	-	\$ 380.9	0.622
1961	441.6	0.628	-	-	441.6	0.628
1962	511.2	0.642	180.8	0.227	692.0	0.869
1963	590.1	0.661	372.5	0.417	962.6	1.078
1964	678.9	0.685	575.5	0.581	1,254.4	1.266
1965	778.0	0.712	790.3	0.723	1,568.3	1.435
1966	888.1	0.741	1,017.6	0.849	1,905.7	1.590
1967	1,009.6	0.773	1,257.7	0.963	2,267.3	1.736
1968	1,143.1	0.807	1,511.4	1.067	2,654.5	1.874
1969	1,289.3	0.842	1,757.8	1.148	3,047.1	1.990
1970	1,448.8	0.879	1,940.7	1.177	3,389.5	2.056

(A) SEE EXHIBIT K.

(B) SEE EXHIBIT L.

(NOTE) IT IS ESTIMATED THAT AGGREGATE RESERVES WOULD BE REDUCED TO 1 1/2% IN 1974 AT WHICH TIME ASSESSMENT WOULD BE RESUMED, AND THAT THE PRIMARY RESERVE ALONE WOULD REACH 2% IN 1995.

EXHIBIT K

ESTIMATED PRIMARY RESERVE POSITION
 ASSUMES ANNUAL GROWTH IN SAVINGS (NEW MONEY) OF \$ 7.0 BILLION PLUS DIVIDENDS AT 3%

DOLLARS IN MILLIONS

DEC. 31	P R I M A R Y R E S E R V E					END OF YEAR	TOTAL SVGS. CAPITAL AND CREDITOR OBLIGATIONS	RESERVE RATIO
	BEGINNING OF YEAR	PREMIUM INCOME	INVESTMENT INCOME	LESS EXPENSES	NET ADDITION DURING YEAR			
1960	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 380.9	\$ 61,262.0	0.622
1961	380.9	50.5	12.1	1.9	60.7	441.6	70,327.0	0.628
1962	441.6	57.6	14.1	2.1	69.6	511.2	79,658.0	0.642
1963	511.2	65.0	16.3	2.4	78.9	590.1	89,263.0	0.661
1964	590.1	72.6	18.9	2.7	88.8	678.9	99,150.0	0.685
1965	678.9	80.4	21.7	3.0	99.1	778.0	109,328.0	0.712
1966	778.0	88.5	24.9	3.3	110.1	888.1	119,805.0	0.741
1967	888.1	96.7	28.4	3.6	121.5	1,009.6	130,590.0	0.773
1968	1,009.6	105.2	32.2	3.9	133.5	1,143.1	141,693.0	0.807
1969	1,143.1	113.9	36.5	4.2	146.2	1,289.3	153,123.0	0.842
1970	1,289.3	123.0	41.1	4.6	159.5	1,448.8	164,890.0	0.879

EXHIBIT L

ESTIMATED SECONDARY RESERVE POSITION
 ASSUMES ANNUAL GROWTH IN SAVINGS (NEW MONEY) OF \$ 7.0 BILLION PLUS DIVIDENDS AT 3%

DOLLARS IN MILLIONS

DEC. 31	S E C O N D A R Y R E S E R V E				END OF YEAR	TOTAL SVGS. CAPITAL AND CREDITOR OBLIGATIONS	RESERVE RATIO
	BEGINNING OF YEAR	NET PREMIUM PREPAYMENTS (A)	INVESTMENT INCOME	NET ADDITION DURING YEAR			
1961	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 70,327.0	-
1962	-	177.3	3.5	180.8	180.8	79,658.0	0.227
1963	180.8	182.6	9.1	191.7	372.5	89,263.0	0.417
1964	372.5	188.1	14.9	203.0	575.5	99,150.0	0.581
1965	575.0	193.7	21.1	214.8	790.3	109,328.0	0.723
1966	790.3	199.6	27.7	227.3	1,017.6	119,805.0	0.849
1967	1,017.6	205.5	34.6	240.1	1,257.7	130,590.0	0.963
1968	1,257.7	211.7	42.0	253.7	1,511.4	141,693.0	1.067
1969	1,511.4	197.1	49.3	246.4	1,757.8	153,123.0	1.148
1970	1,757.8	127.6	55.3	182.9	1,940.7	164,890.0	1.177

(A) SEE SCHEDULE 8.

SCHEDULE 7

INSURANCE PREMIUM BASES - REGULAR AND PREPAYMENTS
 ASSUMES ANNUAL GROWTH IN SAVINGS (NEW MONEY) OF \$ 7.0 BILLION PLUS DIVIDENDS AT 3%
 IN MILLIONS OF DOLLARS

DEC. 31	S A V I N G S C A P I T A L					CREDITOR OBLIGATIONS	TOTAL SVCS. CAPITAL AND CREDITOR OBLIGATIONS
	BEGINNING OF YEAR	NET INFLOW			END OF YEAR		
		NEW MONEY	DIVIDENDS	TOTAL			
1960	\$ -	\$ -	\$ -	\$ -	\$ 58,662.0	\$ 2,600.0	\$ 61,262.0
1961	58,662.0	7,000.0	1,865.0	8,865.0	67,527.0	2,800.0	70,327.0
1962	67,527.0	7,000.0	2,131.0	9,131.0	76,658.0	3,000.0	79,658.0
1963	76,658.0	7,000.0	2,405.0	9,405.0	86,063.0	3,200.0	89,263.0
1964	86,063.0	7,000.0	2,687.0	9,687.0	95,750.0	3,400.0	99,150.0
1965	95,750.0	7,000.0	2,978.0	9,978.0	105,728.0	3,600.0	109,328.0
1966	105,728.0	7,000.0	3,277.0	10,277.0	116,005.0	3,800.0	119,805.0
1967	116,005.0	7,000.0	3,585.0	10,585.0	126,590.0	4,000.0	130,590.0
1968	126,590.0	7,000.0	3,903.0	10,903.0	137,493.0	4,200.0	141,693.0
1969	137,493.0	7,000.0	4,230.0	11,230.0	148,723.0	4,400.0	153,123.0
1970	148,723.0	7,000.0	4,567.0	11,567.0	160,290.0	4,600.0	164,890.0

SCHEDULE 8

DERIVATION OF PREMIUM PREPAYMENTS
 ASSUMES ANNUAL GROWTH IN SAVINGS (NEW MONEY) OF \$ 7.0 BILLION PLUS DIVIDENDS AT 3%
 IN MILLIONS OF DOLLARS

YEAR ENDING DEC. 31	NET SAVINGS INFLOW (A)	GROSS PREMIUM PREPAYMENTS (B)	MORTGAGE LOANS HELD	NET HOME MORTGAGES HELD	BANK STOCK REQUIREMENTS (C)	BANK STOCK PURCHASES (D)	GROSS PREMIUM PREPAYMENTS LESS BANK STOCK PURCHASES (E)
1961	\$ 8,865.0	\$ 177.3	\$ 64,826.0	\$ 58,343.0	\$ 1,167.0*	\$ -	\$ 177.3
1962	9,131.0	182.6	73,592.0	66,233.0	662.0	-	182.6
1963	9,405.0	188.1	82,620.0	74,358.0	744.0	-	188.1
1964	9,687.0	193.7	91,920.0	82,728.0	827.0	-	193.7
1965	9,978.0	199.6	101,499.0	91,349.0	913.0	-	199.6
1966	10,277.0	205.5	111,365.0	100,229.0	1,002.0	-	205.5
1967	10,585.0	211.7	121,526.0	109,373.0	1,094.0	-	211.7
1968	10,903.0	218.1	131,993.0	118,794.0	1,188.0	21.0	197.1
1969	11,230.0	224.6	142,774.0	128,497.0	1,285.0	97.0	127.6
1970	11,567.0	231.3	153,878.0	138,490.0	1,385.0	100.0	131.3

(A) SEE SCHEDULE 7.

(B) 2% OF NET SAVINGS INFLOW.

(C) 1% OF NET HOME MORTGAGES HELD. *2% MINIMUM REQUIREMENT 12/31/61.

(D) YEAR END REQUIREMENT LESS 2% MINIMUM REQUIREMENT 12/31/61.

(E) PAYMENT DUE (FSLIC) MAY 1 NEXT.

Mr. SPENCE. Mr. Holifield desires to present his statement to the committee and I recognize him for that purpose.

STATEMENT OF HON. CHET HOLIFIELD, A REPRESENTATIVE IN CONGRESS FROM THE 19TH CONGRESSIONAL DISTRICT OF THE STATE OF CALIFORNIA, AT THE COMMENCEMENT OF THE HEARING

Mr. HOLIFIELD. Mr. Chairman, I will not take the time of the committee this morning. I know you have a regularly scheduled list of witnesses. However, in view of the importance of any legislation which has to do with the election of directors in the different regions, I wish to call to the attention of the chairman and members of the committee the fact that the 11th and 12th regions remain welded together.

I believe that it should be separated, as it was once some 12 or 13 years ago, separated for the most expeditious and efficient handling of the affairs of the region.

I, therefore, would like to have permission to file with you a statement and submit some copies of the statement, and ask permission that it be printed at any place that you choose in the hearings.

Mr. SPENCE. That will be done without objection. We are glad to have your views.

HOUSE OF REPRESENTATIVES,
Washington, D.C., July 12, 1961.

HON. BRENT SPENCE,
Chairman, Committee on Banking and Currency,
New House Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: I note that you have pending before the committee, among other legislation, H.R. 7109, a bill which you introduced relating to the election and appointment of directors of Federal home loan banks. It is my understanding that hearings on this bill will be held by your committee the latter part of this week.

I have not had the time to analyze H.R. 7109, but the mere fact of its pendency suggests that there are problems associated with representation of member associations in the directorates of Federal home loan banks.

To a large extent, it would appear the problems of representation have been created or aggravated by the disproportionately large size of the 11th bank district, which comprises 11 States including California, Alaska, and Hawaii, and also the island of Guam. The geographical area probably exceeds one-quarter of the whole United States, touches the borders of Mexico and Canada, and includes our noncontiguous States of the Union.

According to the terms of the Federal Home Loan Bank Act as originally enacted, each district bank was entitled to 12 directors, 8 of whom were elected by member associations and four appointed by the Board. Following a 1935 amendment, six of the eight elective directors were elected by member associations grouped according to size categories and two were elected at large by the members.

While the legislation provided for representation of member associations by size groups, the Board in its regulations also tried to include the principle of geographical representation by States.

In the cast of the outsized 11th district which had nine States and the territories of Alaska and Hawaii before the latter two were admitted to the Union, it was impossible to provide even one director for each State, since there were only eight elective directors permitted by law. The Board dealt with this problem administratively by alternating directorships between two of the States.

In 1955 the Board recommended, and your committee and the Congress accepted, legislation which, among other things, authorized the Board by regulation to increase the number of elective directors of any bank whose district comprised five or more States. The number of elective directors was limited to twice the number of States in the bank district, except that each State was to have at least 1 director, and no State more than 3, with the total number in any district not to exceed 11.

Under this arrangement California was enabled to have three elective directors, and the other States of the 11th district one each. However, the admission of Alaska and Hawaii into the Union again raised the problem of State representation, and accordingly further amendatory legislation was adopted in 1959. The Board was authorized to increase the number of elective directors up to 13 in districts with 5 or more States. At the same time the Board was authorized to increase the number of appointive directors in such districts up to one-half the number of elective directors in order to preserve the previous statutory ratio of 2 to 1 between elective and appointive directors.

As matters now stand in the 11th district, the San Francisco bank has 19 directors, while each of the other 10 district banks has 12 directors. Thus, the practical effect of the legislation has been confined to the 11th district.

The bill before your committee, H.R. 7109, would change the formula for representation without affecting the total number of directors now permitted by law. While there may be merit in the proposed change, I believe that before any new legislation is enacted regarding district bank representation, consideration should be given by the committee to the special problem created by the 11th district.

As you know, the Federal Home Loan Bank Act originally authorized the Board to divide the United States into not less than 8 nor more than 12 districts. These districts were to be created on the basis of the convenience and customary course of business of the institutions eligible to and likely to subscribe for the stock of the Federal home loan bank. In each district a city was to be designated as the bank center.

In accordance with this legislation the Board created 12 bank districts, the same number as were created under the Federal Reserve System. One of these districts, the 12th, comprised the States of California, Arizona, and Nevada, and the then Territory of Hawaii, and this region was served by the Federal home loan bank of Los Angeles. The then 11th district, with a bank centered in Portland, Oreg., comprised the States of Idaho, Montana, Wyoming, Oregon, Washington, and the then Territory of Alaska.

For some 13 or 14 years since the inception of the Federal Home Loan Bank System in 1932, these bank districts served their members well and created no problem suggesting that the district arrangements should be modified.

Then suddenly on March 29, 1946, the 11th and 12th districts were declared merged, the Los Angeles bank was dissolved, and the Portland bank was brought to San Francisco to serve the reconstituted and greatly enlarged 11th district. This action was taken without notice to the member associations or the district banks concerned, without hearings, and solely on the decree of Commissioner John H. Fahey, who was at that time the single head of the Home Loan Bank System.

Mr. Fahey's action was arbitrary and vindictive, and the circumstances are documented in the report of investigation conducted in 1946 by a select committee of the House chaired by Representative Howard W. Smith of Virginia. In large part, Mr. Fahey's action was in the nature of a reprisal against member associations of the 12th district who elected a president of the Los Angeles bank not favored by Mr. Fahey, who had his own preferred candidate. The dissolution of the Los Angeles bank was followed by the seizure of the Long Beach Federal Savings & Loan Association, whose president, Thomas A. Gregory, was a leading member of the association representatives who had incurred Mr. Fahey's enmity.

The grievance events set in motion by Mr. Fahey's arbitrary action have continually disturbed the industry, plagued the Board, and resulted in complex litigation not fully resolved to this day, 15 years later. This whole matter has been the subject of investigation by at least three committees of the House of Representatives and was a key factor in the enactment of legislation by your committee in 1954, when provision was made by law for orderly administrative procedures. The legislative history of that enactment clearly shows that the Congress intended to provide means for effective supervision by the Board of associations without the need for drastic seizure action such as occurred in the *Long Beach* case.

Notwithstanding the declared congressional intent and the amendments sponsored by your committee, these have remained virtually a dead letter as far as the Board is concerned, and it was persuaded in 1960 to seize the Long Beach association a second time. A special subcommittee of the Committee on Government Operations under the chairmanship of Representative John E. Moss has

inquired into this matter and has issued House Report 2083, 86th Congress, 2d session, which found the Board action completely unwarranted and in defiance of the congressional mandate. Other aspects of the Board operations also are under subcommittee scrutiny.

There was a time, after Mr. Fahey left office and his administration was reconstituted as a three-man Board, when the Long Beach association was returned to Mr. Gregory's management following the initial seizure. By this action in 1948, the Board impliedly acknowledged that Mr. Fahey's action was unjustified. In fact one of the Board members, J. Alston Adams, now the president of the San Francisco bank, termed Mr. Fahey's action "arbitrary and capricious and vindictive." This characterization was made in sworn testimony before a subcommittee than under my chairmanship.

In returning the association to Mr. Gregory's management, the Board did not act to reestablish the Los Angeles bank. The desirability of restoring the 11th and 12th districts was publicly acknowledged by the then Board Chairman, William K. Divers, and other Board members. However, the Board was persuaded by certain of its personnel and by others in the Department of Justice that restoration of the Los Angeles bank and the two districts would prejudice the Government's position in litigation which involved both the Los Angeles bank and the Long Beach association.

Information on these matters were conveyed to you by Raymond M. Foley, then Administrator of the Housing and Home Finance Agency, of which the Board was until 1955 a constituent unit. You had asked Mr. Foley to comment on a bill (H.R. 1232 of the 81st Cong.) which proposed to recreate the original 11th and 12th Federal home loan bank districts and to reestablish the Los Angeles and Portland banks in original form. Mr. Foley's letter to you of July 14, 1949, the text of which is printed in hearings held by my subcommittee in 1950, reads as follows:

"HOUSING AND HOME FINANCE AGENCY,
"OFFICE OF THE ADMINISTRATOR,
"Washington, D.C., July 14, 1949.

"Re H.R. 1232, 81st Congress.

"HON. BRENT SPENCE,

"*Chairman, House Banking and Currency Committee,*
"*House of Representatives, Washington, D.C.*

"DEAR CONGRESSMAN SPENCE: This is in further reply to your letter of May 3 requesting the views of this Agency with respect to H.R. 1232. This bill would amend section 3 of the Federal Home Loan Bank Act, as amended, to provide that the original 11th and 12th Federal home loan bank districts and Federal home loan banks be reestablished in their original form.

"The original Federal home loan banks of Portland and Los Angeles were consolidated in 1946 into the Federal home loan bank of San Francisco. The question of dissolving the Federal home loan bank of San Francisco and the reestablishment of the Federal home loan banks of Los Angeles and Portland has been under consideration by the Home Loan Bank Board for some time. The Board has given public recognition to the desirability of such reestablishment, but has not so far found itself able to take the necessary action because the question of reestablishing the banks has been closely related to pending litigation involving not only the two banks, but a Federal savings and loan association in Long Beach, Calif.

"The Home Loan Bank Board is desirous of reestablishing the banks but is unwilling to take any action which in the opinion of the Department of Justice would be prejudicial to the litigation now pending, which is under the jurisdiction of the Department of Justice. The legislative proposal embodied in H.R. 1232 is not necessary since the Home Loan Bank Board has under existing law adequate authority to accomplish the objectives of that bill. Therefore, I believe that action on the bill should be deferred until appropriate administrative action can be taken which will not prejudice the pending litigation.

"I have been advised by the Bureau of the Budget that there would be no objection to the submission of this report as the enactment of the proposed legislation would not be in accord with the program of the President.

"Sincerely yours,

"RAYMOND M. FOLEY, *Administrator.*"

More than a decade has passed since that letter was written, but the case for the recreation of the 11th and 12th home loan bank districts is still valid. In fact, with the rapidly expanding population and business of the West and

the admission of the new States to the Union, it would seem more appropriate than ever to divide up the outsized 11th district into two districts.

The 11th district San Francisco bank, in terms of lending operations and total assets of member associations, is the largest in the System. It advances (loans) to members during calender year 1960 totaled \$845,324,243. This was more than 3½ times the advances of \$232,666,200 of the seventh district Chicago bank, which ranked second. In fact the total advances by the San Francisco bank for 1960 were more than the total of the next six highest district banks, which ranked as follows:

District banks:	<i>Advances</i>
San Francisco-----	\$845, 324, 243
Chicago-----	232, 666, 200
Greensboro-----	184, 650, 000
New York-----	122, 972, 188
Cincinnati-----	108, 687, 700
Pittsburgh-----	93, 783, 700
Little Rock-----	84, 180, 000
Total-----	826, 939, 788

In total assets of members (insured Federal and State associations) the San Francisco bank district represented \$13,651,413,000. This was \$3.6 billion more than the association assets in the next highest bank district, which is Greensboro.

I may note in this regard that of the 11 States in the 11th district, the California associations have \$10,728,183,000 of assets, or 80 percent of the total within the district. The assets of the insured associations in California are greater than the assets of the insured associations not only in any other State but in any other bank district. California alone even tops the fourth district, which comprises eight States including the District of Columbia. This concentration of assets in California suggests by itself that, whatever the permissible number of directors for the whole district, California always will be underrepresented in the bank directorate. Nevertheless, its representation will be improved if the unwieldy 11th district is divided into two districts.

Furthermore, the reestablishment of the Los Angeles bank will properly reflect the concentration of population and business in southern California. The State's population is now 15.7 million, and 6 million of these persons reside in Los Angeles County alone. The next largest California county, San Diego, has 1 million persons. Thus, these two southern counties contain about 45 percent of California's total population.

After years of costly litigation, painful efforts, and many setbacks to settlement, the Long Beach association controversy is on the threshold of resolution. The Bank Board in negotiations with Mr. Gregory has drawn up a settlement document which now awaits ratification by the Department of Justice. This settlement will wind up all outstanding litigation involving the Board, the Insurance Corporation, the Long Beach association, and the San Francisco bank. Whatever excuse the Board had in the past, because of the litigation, to withhold the reestablishment of the 11th and 12th districts will be gone. As a simple act of justice and of good business judgment as well, the Board now should take action, previously promised and long delayed, to restore the district bank arrangements upon which the Federal Home Loan Bank System was nurtured.

I recognize, of course, that many associations and others have become adjusted to the existing setup. However, I have outlined the reasons why restoration of the Los Angeles bank is fully justified. I have discussed the matter with the new Board Chairman, Joseph P. McMurray. He has indicated that he is willing to consider the merits of this request.

Since the Board is empowered by law to take the necessary action, I would ask that you urge the Board to do so before further legislative action is taken on H.R. 7109 or any other bill to rearrange the district bank representation. Restoration of the Los Angeles bank and a 12-district system will provide a more rational basis for establishing a representation formula. If the Board fails to act, I intend to introduce legislation to restore the Los Angeles bank and the 12-district system.

Sincerely yours,

CHET HOLIFIELD,
Member of Congress.

Mr. SPENCE. Thank you. We will adjourn to meet at the call of the Chair.

(The following letter from the United States Savings & Loan League, dated July 17, 1961, has been received and is inserted at this point in the record:)

UNITED STATES SAVINGS & LOAN LEAGUE,
WASHINGTON OFFICE,
Washington, D.C., July 17, 1961.

HON. BRENT SPENCE,
*Chairman, House Banking and Currency Committee,
House Office Building, Washington, D.C.*

DEAR MR. CHAIRMAN: When Henry Bubb testified before your Subcommittee No. 1 with respect to H.R. 7108 on July 13 he raised a question regarding the method of payment of earnings on prepaid premiums. He indicated that the United States League might submit an amendment to clarify that section of the law.

We have reviewed this question and have discussed it with the staff of the Federal Home Loan Bank Board and we are satisfied that the present language is adequate to achieve our objective. Therefore, it is not necessary for us to submit an amendment.

We appreciated the opportunity to testify and we are hopeful that the committee will support both H.R. 7108 and H.R. 7109.

Sincerely yours,

STEPHEN SLIPHER, *Legislative Director.*

(Whereupon, at 12 o'clock noon the subcommittee adjourned, subject to the call of the Chair.)

