A meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council was held in Washington on Tuesday, November 21, 1939, at 10:30 a.m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Davis
Mr. Draper

Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman
Mr. Paulger, Chief of the Division of Examinations
Mr. Smead, Chief of the Division of Bank Operations
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Parry, Chief of the Division of Security Loans
Mr. Dreibelbis, Assistant General Counsel
Mr. Leonard, Assistant Chief of the Division of Examinations
Mr. Thompson, General Assistant in the Secretary's Office

Messrs. Thomas M. Steele, Leon Fraser, Howard A. Loeb, T. J. Davis, Edward E. Brown, John Crosby, John Evans, R. E. Harding and Paul S. Dick,
Members of the Federal Advisory Council representing the First, Second, Third, Fourth, Seventh, Ninth, Tenth, Eleventh and Twelfth Federal Reserve Districts

Mr. W. V. Crowley, Vice President of the Fulton National Bank, Atlanta, Georgia, as alternate for Mr. Edward Ball, representing the Sixth Federal Reserve District
Mr. Sidney Maestre, President of the Mississippi Valley Trust Company, St. Louis, Missouri, as alternate for Mr. Walter W. Smith, representing the Eighth Federal Reserve District

Mr. Walter Lichtenstein, Secretary of the Federal Advisory Council

Mr. Loeb stated that at its separate meeting the Federal Advisory Council adopted two statements which it desired to present to the Board. At Mr. Loeb's request, Mr. Lichtenstein read the first statement entitled "Proposed Amendments to the Federal Home Loan Bank Act, Home Owners' Loan Act, and Title IV of the National Housing Act", and Mr. Loeb said the statement was being submitted to the Board with a request that at the appropriate time the Board file it with the Committees on Banking and Currency of the Senate and House of Representatives.

During a discussion of the statement it was amended by the Council to read as follows:

"House Bill #6971, introduced June 23, 1939, by the Hon. Henry B. Steagall, of Alabama, proposes certain amendments to the Federal Home Loan Bank Act, Home Owners' Loan Act, and Title IV of the National Housing Act. The ostensible purpose of the amendments is to liberalize the acts so as to promote or create activity in home-building. They would lessen the periodic payments required to be made by increasing the time limit on loans, and also include for financing under the plan types of buildings not permissible under the original acts. All this financing, of course, is to be done through building and loan associations, savings and loan associations and similar organizations holding membership in the Federal Home Loan Banks."
"Other institutions making mortgage loans and not holding memberships in the Federal Home Loan Banks -- commercial banks, savings banks, insurance companies, building and loan savings and loan associations organized under state charter -- are opposing the amendments on the ground that such 'liberalization' would create a preferred field for these federally-chartered organizations; in fact, give them a virtual monopoly. And the amendments, moreover, would cause the acts to depart from their original intent, which was to encourage home building by the people who would use those homes. Structures of a purely investment type could be financed through the federal institutions, and the funds, in some measure at least, would be withdrawn or withheld from institutions which could not compete for one reason or another.

"In its study of these proposed amendments the Council, in addition to its examination of the proposed measures themselves, has studied as much of the available literature as it found reasonably available. There are two admirable presentations of the subject, too long to incorporate in this report, but which the Council warmly commends and with the major conclusions of which the Council finds itself in full agreement. These are:

(1) The so-called 'Minority Report' (really a Majority Report) of the House Committee on Banking & Currency accompanying HR-6971, being Part 2 of House Report No. 933, submitted at the First Session of the 76th Congress.

(2) A letter from Chairman Eccles of the Board of Governors of the Federal Reserve System to Honorable Henry B. Steagall, Chairman of the House Committee on Banking and Currency, dated June 7th, 1939, and printed on page 439 et seq. of the Hearings Before the Committee on Banking & Currency.

"The Council wishes to lay stress on the following points:

"The first nine sections of the Federal Home Loan Bank Act are administrative, and such slight changes as may be made in them are not important. The first real controversy or objection to amendments comes with Section 10, and there are quoted below portions of this important section. The parentheses represent the deletions from the original Act and the under-scored portions represent new matter. To read the Act as it is proposed to be amended, therefore, it is necessary only to omit the parentheses.

"SEC. 10 (a) Upon such terms and restrictions as the Board may impose, each Federal Home Loan Bank
is authorized to make advances to its members, upon the security of (home mortgages, or) (a) home mortgages, (b) first mortgages on real estate upon which is located a structure or structures designed principally for residential use for more than four families in the aggregate, irrespective of whether any such structure has a party wall or is otherwise physically connected with any other structure or structures, or (c) obligations of (the United States) or (obligations) fully guaranteed as to principal and interest by the United States (subject to such regulations, restrictions and limitations as the Board may prescribe. Any such advance shall be) subject to the following limitations as to amount:

"Sub-sections (1), (2) and (4) not changed; change of sub-section (3) relatively unimportant.

"(b) No (home) mortgage shall be accepted as collateral security for an advance by a Federal Home Loan Bank if, at the time such advance is made ((1)) the (home) mortgage loan secured by (1) has more than (twenty) twenty-five years to run to maturity, or (2) (the home mortgage) exceeds ($20,000) $100,000 or (3) is past due more than six months when presented, unless the amount of the debt secured by such (home) mortgage is less than 50 per centum of the value of the real estate with respect to which the (home) mortgage was given, as such real estate was appraised when the (home) mortgage was made (.)

"Each Federal Home Loan Bank may make advances to its members secured by obligations issued pursuant to this Act, the National Housing Act, or other obligations acceptable to the Board, which a member may lawfully have available, but no such advance shall exceed the market price or face value of such obligation, whichever is lower, and no such obligation shall be accepted as collateral security for an advance if such obligation is in default.

"The original act provided that advances could be made to members on the security of 'home mortgages' only, and it specifically defined a home mortgage. To be included were only single-family, two-family, three-family and four-family structures. Anything beyond a four-family building presumably was left to investment capital, banks, insurance companies and thrift organizations. If Congress, in the original
"act, had intended to throw open an unlimited building campaign, loans would not have been limited to a 'home mortgage' on structures having not more than four families. The act, if amended, would remove this restriction as to size (housing capacity) of the structure, thus opening the way for financing large apartment houses and kindred buildings. Amount of mortgages serving as collateral is raised from $20,000 to $100,000. There is danger in raising the time limit from twenty to twenty-five years. Even a twenty-year mortgage is sometimes difficult to defend, but with the extension of another five years, builders of the homes are really paying a low rental, in monthly installments, on property of comparable value; and there is no real deterrent to abandonment of the property in times of adversity.

"Another objectionable amendment is (i) of Section 11, all of which is new, and reads as follows:

"(i) The Secretary of the Treasury, in his discretion, is authorized to purchase any obligations issued under the provisions of this Act or Title IV of the National Housing Act, and for such purpose the Secretary of the Treasury is authorized to use as a public-debt transaction the proceeds of the sale of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under the Second Liberty Bond Act, as amended, are extended to include such purchases. The Secretary of the Treasury may, at any time, sell any of the obligations acquired by him under this sub-section. All redemptions, purchases, and sales by the Secretary of the Treasury of such obligations shall be treated as public-debt transactions of the United States.

"If the act, as amended, will make federally chartered building and loan and savings and loan associations favored investment organizations in the mortgage field -- and it does no less -- commercial banks must supply a large share of the capital which the Secretary of the Treasury will use in helping to finance Federal Home Loan Banks, and they are deprived, for competitive reasons, from sharing in this mortgage loan business. The amendment stands condemned from the standpoint of equity. But over and above the question of right or wrong, it carries a potential stepping-up of the public debt, contingently at least, equal to the aggregate amount of the
"capital, bonds and other obligations of the Federal Home Loan Banks. Other provisions of the act enable Federal Home Loan Banks to make advances to nonmember institutions over which the Board exercises little or no control, and the danger here is obvious. These advances, if the nonmember should get into financial difficulty, tend to diminish the capital of Federal Home Loan Banks, and in the final analysis, the loss must be borne by the Treasury.

"It seems quite apparent that the Federal Home Loan Banks, with all the rights and privileges granted under the amended act, would be a third banking system, cut loose from tried regulatory measures. They would not be answerable to the Federal Reserve System or the Federal Deposit Insurance Corporation, nor would the Comptroller have anything to say about examinations. The Board has complete jurisdiction in the matter of examinations, and whereas the original act provided for two examinations a year, the number is halved by a proposed amendment.

"The Federal Savings & Loan Insurance Corporation (the name of which will be shortened to Federal Savings Insurance Corporation under the proposed amendment) will insure its Federal Savings & Loan Associations in the same way as the Federal Deposit Insurance Corporation does its insured banks. Its capital was provided by the Home Owners Loan Corporation, another government organization, and in the event of loss upon liquidation, the loss would fall upon the Treasury. When the act was passed in 1933 creating this relief to home builders, a survey showed that the average amount invested by individuals in the shares of savings and loan associations was approximately $700. Therefore the average amount of liability of a savings and loan association to its shareholders was a like amount, and it would seem that under the circumstances, the insurance feature should have been gauged by the amount of liability. Instead, a maximum insurance on each deposit (account) of $5,000 was provided, the same as for banks making up the membership of Federal Deposit Insurance Corporation. But savings and loan associations are essentially thrift organizations, intended to accumulate small deposits until the customer can make a down-payment on a home, whereas commercial banks are depositories of excess funds of whatever source or intended application. With the same protection on a mis-named 'thrift' account as if it were carried in a commercial bank, a depositor is influenced in leaving his money with a savings and loan association, for
"in the absence of special circumstances, he will receive a greater return on it. The depositor is lured into leaving his money with the savings and loan association by the promise of larger dividends, and the savings and loan association is tempted into making loose or unsound investments in order to have greater earnings to pay these larger dividends.

"Notwithstanding the more obvious risk in accounts insured in the Federal Savings and Loan Insurance Corporation, it is now proposed to lower the rate to 1/12th of one percent, the same as for banks which are members of the Federal Deposit Insurance Corporation. A portion of Section 404 of the National Housing Act is quoted.

"Sec. 404. ( ) 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 charge for such insurance equal to (one-eighth) 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.

"The utmost in concession was made when the higher limit was fixed for insured accounts, and if now the cost of this insurance is made the same as for Federal Deposit Insurance Corporation members, the savings and loan associations will have gained a point far-reaching in its effect.

"The principles which underlie opposition to governmental paternalism apply clearly here in view of the extent to which enactment of the proposed legislation will put Federal savings and loan associations in the savings-bank business in competition with savings banks, cooperative banks, mutual savings banks, state-chartered building and loan associations and other thrift institutions. They could even go a step farther and crowd out all these presently-existing institutions by having decidedly more latitude -- by not being hedged about with safeguards and having the added advantage of being tax-exempt.

"Rarely does such a controversial bill run the gauntlet of the Committee on Banking and Currency, and this one did it only by the merest accident. It was reported out of Committee by a bare majority of one, and had it not been for the absence of two committeemen whose views are stated to have been adverse, the bill would have been killed in committee.
"The so-called minority report of this Committee, referred to at the outset, so well supplemented by the objections presented by Chairman Eccles to Chairman Steagall, offers, in the opinion of the Council, an unanswerable argument against the enactment of the proposed measure."

Mr. Ransom inquired as to what the Council had in mind as to an appropriate time for filing the statement with the Congressional Committees and Mr. Loeb replied that it was felt that that would be determined by the Board as it was constantly in touch with the consideration being given to the legislation. The matter was discussed and it was agreed unanimously by the members of the Council to request the Board to file the statement with the appropriate committees of the Senate and House of Representatives at such time as the bill comes up for active consideration in either house of Congress during the next session, unless a subsequent request is made by the Council through its Secretary to file the statement sooner.

In response to an inquiry by Mr. Ransom as to whether the members of the Council felt that members of the Federal home-loan banks are in active competition with savings banks, and savings departments of commercial banks, it was indicated as the general consensus of the members of the Council that there is substantial competition between these institutions.

The Secretary of the Council then read the second statement adopted by the Council at its separate meeting which was as follows:
"Referring to its resolution of October 9, 1939, the Council is pleased to observe that the Open Market Committee has recently initiated some sales from the System's portfolio of long term Governments. This action has not been attended by any disturbance in the market or by any apprehension on the part of banks lest the action represent a profound alteration in credit policy. On the contrary, the price of long Governments advanced after the sales, as well as before. When the Council passed its resolution on October 9, last, the quotation of the two longest issues was 101-7/32. On November 16 it was 104-7/32.

The Council recommends that the volume of sales be promptly expanded in an orderly manner. It is not believed to be consistent with sound central banking principles that the System retain an unduly large quantity of long term Governments especially at a time when nearly all insurance companies and many banks are desirous of acquiring these securities. Furthermore, from the current earnings record of the System, it does not appear that the retention of all the bonds purchased last September is really requisite. The System should seize the opportunity in an orderly market to clear the decks so that when and if another grave emergency develops, it will be in a position to act without then having on hand an unnecessarily heavy inventory of long term Government bonds."

Mr. Loeb said that the above statement was being submitted to the Board as a resolution of the Council. The resolution was discussed briefly.

Mr. Loeb then stated that at the separate meeting of the Council there had been some further discussion of the suggestion that a more intimate relationship between the Board and the Council and a more interesting program might be developed if a more or less informal meeting of the Council and the Board were held prior to the
separate meeting of the Council for a discussion of any problems or questions that may be actively before the Board or in which the Board is interested and on which it would like to have the views of the Council; that the Council desired to be as helpful as possible and to do a good job; and that it would like to know the reaction of the members of the Board to such a preliminary joint meeting, it being understood that such meeting would not in any way take the place of the usual joint meeting which follows the separate meeting of the Council.

Some of the members of the Board expressed agreement with the proposed procedure and in response to an inquiry from Mr. Davis several of the members of the Council expressed approval of the suggested procedure.

Mr. Ransom expressed the thought that it might be helpful if before the members of the Council come to Washington for its meeting, a list could be prepared of the matters which any of the members of the Council or the Board wish to discuss. Mr. Lichtenstein stated that it was his practice, as Secretary of the Council, to send an agenda to the members of the Council prior to each meeting of the Council and that copies of the agenda could also be sent to the members of the Board. Mr. Ranson stated that such a procedure would be very helpful to the members of the Board and that if it were followed it would not
necessarily mean that all of the items listed would be fully discussed
but that at the preliminary joint meeting a brief discussion could
determine which of the matters should be given further consideration.

At the conclusion of the discussion it was unanimously agreed
that the suggested procedure should be followed.

In connection with the above discussion Mr. Ransom stated that
the suggestion had been made that if the Council had an Assistant Sec-
retary permanently located in Washington he could keep the members of
the Council correctly advised on such matters as the members of the
Board and staff might discuss with him and keep the Board advised of
matters under consideration by members of the Council, and this might
bring about a more effective working arrangement in the preparation
of agenda for meetings of the Council and the Board. Mr. Ransom said
that it also had been suggested that such an Assistant Secretary might
have an office in the Board's building. Mr. Loeb said this suggestion
would be given consideration.

Mr. Loeb stated that he had been instructed by the Council to
request that, before the factual study which was being made by mem-
ers of the Board's staff at the request of Mr. Ransom for submission
to the Board in connection with the anticipated hearings on the Wagner
Resolution is submitted by the Board to the Banking and Currency Com-
mittee of the Senate, the Council be given an opportunity to read
this material, the reason for this request being that this was a
subject in which the Council was interested and that it desired to be
helpful in the matter. Mr. Loeb stated further that the Council would appreciate having submitted to it in advance of presentation to the Banking and Currency Committee of the Senate any recommendations that the Board might make in connection with the hearings on the Wagner Resolution. Mr. Ransom stated that the request of the Council would be given consideration by the Board.

Mr. Evans made inquiry regarding certain provisions of Senate Bill 2998, introduced by Senator Mead on October 31, 1939, and relating to the establishment of a permanent industrial loan corporation to assist financing institutions in making credit available to commercial and industrial enterprises. In connection with this matter there was read a memorandum which Mr. Draper had prepared on the subject of industrial loans and the Mead Bill. A copy of the memorandum has been placed in the Board's files and after this meeting copies were handed to Mr. Lichtenstein for the members of the Council. Mr. Draper stated briefly the reasons for his interest in the bill and said that the Board of Governors had not expressed any opinion regarding it.

A discussion of the proposed bill ensued during which various members of the Council expressed their opinions, the consensus of which was that the proposed bill was not necessary or desirable. Mr. Loeb stated that the Council had appointed a special committee to study the bill and that such committee, as well as the other members
of the Council, were glad to have the benefit of the points of views which had been expressed.

Thereupon the meeting adjourned.

[Signature]
Assistant Secretary.

[Signature]
Vice Chairman