

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, June 7, 1943, at 11:30 a.m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. Draper
Mr. Evans

Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman

The action stated with respect to each of the matters herein-after referred to was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on June 5, 1943, were approved unanimously.

Telegram to Mr. Mulroney, Vice President of the Federal Reserve Bank of Chicago, referring to the application of the "Jackson State Savings Bank", Maquoketa, Iowa, for permission to withdraw immediately from membership in the Federal Reserve System, and stating that the Board waives the usual requirement of six months' notice of intention to withdraw, and that, accordingly, upon surrender of the Federal Reserve Bank stock issued to the "Jackson State Savings Bank", the Federal Reserve Bank of Chicago is authorized to cancel such stock and make appropriate refund thereon.

Approved unanimously.

Draft of letter to Honorable Robert F. Wagner, Chairman of the Senate Committee on Banking and Currency, reading as follows:

"This is in reply to your letters of February 23rd requesting an opinion as to the merits of the bills, S. 756 and S. 757,

6/7/43

-2-

"which would amend the Federal Home Loan Bank Act and the Home Owners' Loan Act of 1933.

"You will recall that on three previous occasions the Board, in response to similar requests, has expressed opposition to like or related proposals contained in legislation which was then pending. During the first session of the 76th Congress it reported on S. 2098, and during the third session of the same Congress it reported on S. 4095. Again, during the first session of the 77th Congress, it reported on S. 2146, S. 2147, and S. 2148, which together constituted one program. Its opposition to S. 2098 was directed generally at provisions which would have expanded the field of operations of Federal Savings and Loan Associations and other member institutions of the Federal Home Loan Banks beyond their original objectives and at provisions which would have lent further liquidity to the shares of such institutions. In the bills or series of bills which followed, some of the provisions specifically opposed by the Board were changed and some were omitted; but the basis of the objections remained and the Board has consistently opposed their enactment both in its reports and in the testimony of Governor Ransom and myself at hearings on S. 4095.

"It has come to the Board's attention that, in addition to the bills, S. 756 and S. 757, now under consideration, there is also a bill pending, S. 1034, in which there is a proposal also similar to one which the Board heretofore has been called upon to consider. Accordingly, the Board's views on S. 1034 are included with its views on S. 756 and S. 757. The Board continues to believe that the enactment of any of these proposals would not be desirable in the public interest.

"The objectionable provisions of the above-mentioned bills to which the Board wishes to call attention are (1) the provision in S. 756 which would authorize the Secretary of the Treasury to purchase obligations of Federal Home Loan Banks and the Federal Savings and Loan Insurance Corporation, (2) the provision in S. 1034 which would reduce the insurance premium rate from 1/8 of 1 per centum per annum to 1/12 of 1 per centum per annum, (3) the provision in S. 757 which would allow Federal Savings and Loan Associations to invest their funds in any obligation which is insured under any provision of the National Housing Act 'as heretofore, now, or hereafter in force', and (4) the provision in S. 756 allowing Federal Home Loan Banks to make advances to their member associations on the security of any such obligations.

"The first of these provisions would make it possible for the Federal Home Loan Banks to obtain additional funds from the Treasury with which to meet the demands of their members. It would also make it possible for the Federal Savings and Loan

6/7/43

-3-

"Insurance Corporation likewise to obtain additional funds. Either operation would add liquidity to the obligations of insured savings and loan associations, the bulk of which are represented by shares. The Board knows of no reason why the Federal Home Loan Banks should not be able to meet the needs of their members so long as they operate within the scope of the principles on which they were created. The need to resort to the Treasury of the United States would seem to follow only if operations are broadened to the point that the market for the obligations would weaken or disappear. This would appear to be sufficient reason neither to broaden their operations nor to authorize the purchase of their obligations by the Secretary of the Treasury.

"S. 1034 would reduce the premiums or assessments due by insured members to the Federal Savings and Loan Insurance Corporation from the existing rate of $1/8$ of 1 per centum per annum to $1/12$ of 1 per centum per annum. The purpose of such action apparently would be to place the premiums charged by the Federal Savings and Loan Insurance Corporation and those charged by the Federal Deposit Insurance Corporation upon a similar basis. In this connection, however, it should be remembered that the Federal Deposit Insurance Corporation insures only deposits and not the shareholders of its insured banks. The capital, surplus, undivided profits, and reserves of its insured banks stand between it and loss, and there is no comparable counterpart in the case of savings and loan associations. Moreover, the liabilities which it insures are offset by diversified assets, the greatest portion of which is short-term in character and a substantial portion of which is represented by cash and Government obligations. The institutions insured by the Federal Savings and Loan Insurance Corporation are largely mutual in character. The great bulk of their liabilities is to shareholders. These liabilities, as they should be, are offset almost wholly by long-term investments secured by real estate. An investment in such institutions should partake of the same character and should be for the purpose of acquiring and holding the investment. Insured banks pay no interest on demand deposits and only limited interest on time or savings deposits. Insured savings and loan associations pay dividends at greatly higher rates and upon all of their liability to shareholders. It follows that holders of their obligations should not expect such obligations to be as freely convertible into cash as bank deposits. By all of these standards the premium charged by the Federal Savings and Loan Insurance Corporation should be higher than that charged by the Federal Deposit Insurance Corporation.

6/7/43

-4-

"Federal Savings and Loan Associations are now permitted to lend their funds only on the security of their shares or on the security of first liens upon homes within 50 miles of their office, with certain exceptions. The effect of the two provisions of the pending bills (S. 756 and S. 757) would, therefore, be to enlarge the field of their permissible operations and the sources from which they could attract funds by permitting them to invest (a) in modernization loans, (b) in home mortgages regardless of location and (c) in large scale mortgages, such as those upon large apartment houses, if FHA insured, and to obtain advances from their Federal Home Loan Banks on the security of such investments. In addition, this expansion in the permissible field of operation would extend to any mortgage or obligation insured under any provision of the National Housing Act 'as heretofore, now, or hereafter in force.'

"The Board is in sympathy with what it understands to have been the original objectives of the Federal Home Loan Bank System whereby Federal Savings and Loan Associations and similar institutions would supply the need for local mutual thrift and home financing institutions, and Federal Home Loan Banks would act as reservoirs of funds for the accommodation of their member institutions. The Board believes that the enactment of these bills would represent a material departure from these objectives. On the one hand, high dividend rates to shareholders plus the insurance of their investment in such shares would tend to attract funds far beyond those incident to local mutual thrift and home financing programs. On the other hand, broadened powers would offer investment outlets for such funds equally beyond the scope of the original objectives. Thus, their enactment would constitute a step in the direction of establishing a separate and complete banking system with an opportunity to compete for ordinary banking deposits on favored terms.

"For the foregoing reasons, the Board of Governors is of the opinion that the enactment of the bills would not be in the public interest."

Approved unanimously, with the understanding that the letter would be sent only in the event it appeared that the pending bills referred to in the letter were to be given active consideration at this session of Congress, in which event the letter would be sent over the signature of Chairman Eccles or in his absence over the signature of Mr. Ransom.

6/7/43

-5-

Letter to Mr. F. J. Bailey, Assistant Director of Legislative Reference, Bureau of the Budget, reading as follows:

"This refers to your letter of May 31, 1943, addressed to Chairman Eccles, enclosing a copy of the Treasury Department's proposed report to the Chairman of the Senate Committee on Banking and Currency relative to S. 986, which apparently is intended to exempt any deposit made by the United States in an insured bank from insurance assessments; and asking an expression of the Board's views with respect thereto.

"In the proposed report of the Treasury Department, reference is made to the bill S. 700, approved on April 13, 1943, which exempted from insurance assessments and reserve requirements balances payable to the United States that arise solely as a result of subscriptions for Government securities, and it is stated that the reasons which prompted the Treasury to recommend S. 700 afford no justification for the enactment of S. 986. Accordingly, the Treasury recommends against enactment of S. 986.

"The Board of Governors is in agreement with the statements contained in the proposed report of the Treasury Department on this bill and sees no objection to the transmission of the report in the form enclosed with your letter."

Approved unanimously.

Letter to Mr. Young, President of the Federal Reserve Bank of Chicago, reading as follows:

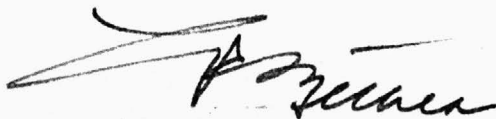
"This refers to your letter of May 29, 1943, requesting the Board's approval of the purchase of the building and land known as 150 West Fort Street, Detroit, Michigan. It is noted that the proposed purchase has been approved by the Executive Committee of your Bank and by the Board of Directors of the Detroit Branch.

"The Board of Governors has considered the matter in the light of the material enclosed with your letter and will interpose no objection to the purchase of the property in question at a cost of not to exceed \$76,666."

Approved unanimously.

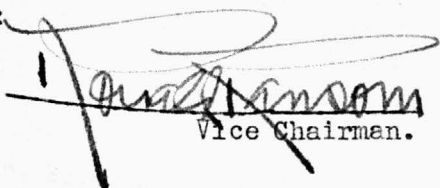
6/7/43

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:


Vice Chairman.