

EXTENSION FOR 1 YEAR OF THE TEMPORARY PLAN FOR DEPOSIT INSURANCE AND OTHER AMENDMENTS TO THE FEDERAL RESERVE ACT

MAY 21, 1934.—Committed to the Committee of the Whole House on the state
of the Union and ordered to be printed

Mr. STEAGALL, from the Committee on Banking and Currency,
submitted the following

REPORT

[To accompany S. 3025]

The Committee on Banking and Currency, to whom was referred the bill (S. 3025) to amend section 12B of the Federal Reserve Act so as to extend for 1 year the temporary plan for deposit insurance, and for other purposes, having considered the same, report that the bill be amended and recommend that the bill do pass as amended.

STATEMENT

The general purpose of the bill (S. 3025), as passed by the Senate, was to extend the life of the temporary insurance fund from June 30, 1934, to June 30, 1935, and to postpone for a like period the operation of the permanent insurance plan provided for in the Banking Act of 1933. The Committee on Banking and Currency has given careful consideration to the bill and has considered as well some of the allied provisions of the Banking Act of 1933. It views the bill in the light of what has been accomplished by the Federal Deposit Insurance Corporation and other agencies of the Federal Government which have been working to relieve the distress of those who were adversely affected by numerous bank suspensions and which were working to strengthen the position of both the banks and the depositors.

It has been desirous of taking such steps as seemed to be feasible in the direction of national recovery. Although the goal set by Congress is not yet reached, the committee recognizes the substantial accomplishment of one of the major purposes of the Banking Act of 1933 in the insurance of bank deposits throughout the country in the temporary fund. The evidence before the committee shows that

13,983 banks are now insured, 45 percent being National and State banks which are members of the Federal Reserve System and 55 percent being nonmember State banks, the nonmember State banks having become insured through voluntary application. The insured banks represent over 38 billions of deposits and under the temporary plan more than \$15,761,000,000 or 41.14 percent of this deposit liability is insured. In the matter of protection to the vast number of depositors in the banks, the insurance in the temporary fund operates to insure in full the accounts of about 95 percent of the depositors in them. Insurance of bank deposits, therefore, is a reality, but much still remains to be done to make the insurance as complete as was intended when the Banking Act of 1933 was passed.

This insurance has operated to restore confidence in the banking structure of the country. There is no better index of this than the reports from practically every section of the country which show a marked increase in bank deposits since January 1, 1934, when the insurance went into effect. The value of this insurance as a means of restoring confidence and as an aid in general economic recovery cannot be overestimated and the committee is of the opinion that it is highly important to continue the condition that has resulted in this improved confidence on the part of patrons of the banks and to take such action now as will not only preserve the present status, but still further improve the foundation for that general confidence. It is highly important, therefore, in the judgment of the committee, that while insurance in the temporary fund is continued, further provision be made for adding to the insurance in order to secure still further protection pending such further preparation as may reasonably be deemed necessary before the inauguration of the permanent plan. In order to accomplish this further protection, the committee has provided for increasing the amount of the deposits of a depositor eligible for insurance during the extended period from \$2,500 to \$5,000.

Among the reasons which seem to the committee to justify an extension of the insurance on a temporary basis are the following:

The plan of insuring the deposits in banks of the country was such a highly important step that different types of State banks, such as Morris Plan Banks and mutual savings banks, felt that they would be adversely affected if not permitted to share in the insurance benefits. As a consequence it was expressly provided in the Banking Act of 1933 that such groups of banks should be eligible for insurance. Many of them have become members of the temporary fund and their millions of depositors are entitled to consideration while their permanent status and relationships are being determined. There are insured in the temporary fund at the present time 235 mutual savings banks. The aggregate amount of their insured liability is more than 28 percent of the insured liability of all banks and compares with that of all State nonmember banks. An extension of the temporary fund with the experience gained thereunder will be of assistance in the solution of this important problem.

Inasmuch as 55 percent of the banks that are now members of the temporary fund became members through their voluntary application and not by reason of being required to join the Corporation and inasmuch as their ultimately becoming class A stockholders likewise depends upon their voluntary application, it is the judgment of the committee that an additional period within which they may partici-

pate in the benefits incident to the insurance of their deposits will better enable them to decide upon entering into the permanent insurance plan.

While this work of preparation for the more complete protection of depositors, which is provided in the plan for permanent insurance, is under way, there is every reason to believe that the present feeling of confidence in the banking structure of the country will not only remain, but will improve as the work of rehabilitation, which was inaugurated with the passage of the Banking Act of 1933, will be carried out to complete fruition.

The committee has added to the bill a provision extending the powers of the corporation so as to enable it to further relieve depositors in closed banks. Much has already been done in this direction by the Reconstruction Finance Corporation, which has loan commitments on the assets of such banks in the aggregate amount of some \$780,000,000. The Reconstruction Finance Corporation is authorized only to loan on the assets of such banks rather than to purchase them. The Federal Deposit Insurance Corporation has been heretofore authorized to purchase or loan on the security of assets of closed national banks and State banks which are members of the Federal Reserve System, and it has been so engrossed in the work of insuring deposits that it has left the liquidation field to the Reconstruction Finance Corporation. In the judgment of the committee any reasonable steps taken by the Federal Government to place in the hands of depositors in closed banks their frozen deposits, to the extent at least of the full reasonable worth of the assets of those banks, are highly desirable and in the interest of business recovery. Provision is made to that end in this bill.

The amendment of the committee to S. 3025 strikes out all after the enacting clause and substitutes in lieu thereof the following:

That section 12B of the Federal Reserve Act is amended—

(1) By striking out "July 1, 1934" wherever it appears in subsections (e), (1), and (y), and inserting in lieu thereof "July 1, 1935".

(2) By striking out "June 15, 1934" where it appears in the last sentence of the third paragraph of subsection (y), and inserting in lieu thereof "October 1, 1934".

(3) By striking out "June 30, 1934" where it appears in the first sentence of the fifth paragraph of subsection (y), and inserting in lieu thereof "June 30, 1935".

(4) By adding after the first clause of the second sentence of the fifth paragraph of subsection (y) the following: "and the provisions of such subsection (1) relating to the appointment of the Corporation as receiver shall be applicable to the members of the temporary Federal deposit insurance fund."; and by striking out the initial words "and the" in the second clause of the second sentence of the fifth paragraph of subsection (y) and inserting in lieu thereof the word "The".

(5) by adding to the sixth paragraph of subsection (y) the following: "The Corporation shall prescribe by regulations the manner of exercise of the right of nonmember banks to withdraw from membership in the fund on July 1, 1934, except that no bank shall be permitted to withdraw unless twenty days prior thereto it has given written notice to each of its depositors and to the Corporation of its election so to do. Banks which withdraw from the fund on July 1, 1934, shall be entitled to a refund of their proportionate share of any estimated balance in the fund on the same basis as if the fund had terminated on July 1, 1934.";

(6) by adding to the end of the fourth paragraph of subsection (y) the following two additional paragraphs:

"On and after July 1, 1934, the amount eligible for insurance under this subsection for the purposes of the October 1, 1934, certified statement, any entrance assessment, and, if levied, the additional assessment shall be the amounts not in excess of \$5,000 of the deposits of each depositor.

"Each mutual savings bank, unless it becomes subject to the provisions of the preceding paragraph in the manner hereinafter provided, shall be excepted from the operation of the preceding paragraph and for each such bank which is so excepted the amount eligible for insurance under this subsection for the purposes of the October 1, 1934, certified statement, any entrance assessment, and, if levied, the additional assessment shall be the amounts not in excess of \$2,500 for the deposits of each depositor. In the event any mutual savings bank shall be closed on account of inability to meet its deposit liabilities the Corporation shall pay not more than \$2,500 on account of the net approved claim of any owner of deposits in such bank: *Provided, however,* That should any mutual savings bank make manifest to the Corporation its election to be subject to the provisions of the preceding paragraph the Corporation may, in the discretion of the board of directors, permit such bank to become so subject and the insurance of its deposits to continue on the same basis and to the same extent as that of fund members other than mutual savings banks."

(7) By striking out the period at the end of the first sentence of the fifth paragraph of subsection (x) and inserting in lieu thereof a comma and the following: "if the member closed on or before June 30, 1934, and not more than \$5,000 if closed on or after July 1, 1934";

(8) By (a) striking out "and until July 1, 1936," in the first sentence of subsection (1); (b) by striking out the words "until July 1, 1936," in the seventh paragraph of subsection (y) and inserting in lieu thereof the following: "notwithstanding any provision of this section to the contrary."; and (c) adding after the seventh paragraph of subsection (y) the following new paragraph:

"Any State bank may obtain the benefits of this section on and after the date the fund is terminated upon the conditions with regard to examination, certification, and approval governing the admission of State banks to the fund and upon purchasing such class A stock or making such a deposit as is prescribed in the preceding paragraph for former fund members."

(9) by (a) striking out the word "three" in subsection (o) and inserting in lieu thereof the word "five", and (b) by inserting the word "subscribed" before the word "capital" in said subsection.

(10) by adding at the end of subsection (o) the following new paragraph:

"Such of the obligations authorized to be issued under this subsection as the corporation, with the approval of the Secretary of the Treasury, may determine, shall be fully and unconditionally guaranteed both as to interest and principal by the United States and such guaranty shall be expressed on the face thereof. In the event that the corporation shall be unable to pay upon demand, when due, the principal of or interest on notes, debentures, bonds, or other such obligations issued by it, and guaranteed by the United States under this paragraph, the Secretary of the Treasury shall pay the amount thereof, which is hereby authorized to be appropriated out of any money in the Treasury not otherwise appropriated, and thereupon, to the extent of the amounts so paid, the Secretary of the Treasury shall succeed to all the rights of the holders of such notes, debentures, bonds, or other obligations. The Secretary of the Treasury, in his discretion, is authorized to purchase any obligations of the corporation to be issued under this subsection which are guaranteed by the United States under this paragraph, and for such purpose the Secretary of the Treasury is authorized to use as a public-debt transaction the proceeds from the sale of any securities hereafter issued under the Second Liberty Loan Act, as amended, and the purposes for which securities may be issued under the Second Liberty Loan Act, as amended, are extended to include any purchases of the corporation's obligations under this paragraph. The Secretary of the Treasury may at any time sell any of the obligations of the corporation acquired by him under this paragraph. All redemptions, purchases, and sales by the Secretary of the Treasury of the obligations of the Corporation shall be treated as public-debt transactions of the United States. The Secretary of the Treasury, at the request of the Federal Deposit Insurance Corporation, is authorized to market for the corporation such of its notes, debentures, bonds, and other such obligations as are guaranteed by the United States under this paragraph, using therefor all the facilities of the Treasury Department now authorized by law for the marketing of obligations of the United States. The proceeds of the obligations of the corporation so marketed shall be deposited in the same manner as proceeds derived from the sale of obligations of the United States, and the amount thereof shall be credited to the corporation on the books of the Treasury."; and

(11) by inserting after the first sentence of subsection (p) the following new sentence: "Any such obligations which are guaranteed by the United States under

the second paragraph of subsection (c) shall be exempt from all such taxation (except surtaxes, estate, inheritance, and gift taxes)."

Sec. 2. The first paragraph of section 9 of the Federal Reserve Act, as amended (U.S.C., title 12, sec. 321), is amended by adding after the second sentence thereof a new sentence to read as follows: "For the purposes of membership of any such bank the terms 'capital' and 'capital stock' shall include the amount of outstanding capital notes and debentures legally issued by the applying bank and purchased by the Reconstruction Finance Corporation."

Sec. 3. (a) The first sentence of the eighth paragraph of section 13 of the Federal Reserve Act, as amended, is further amended by inserting before the comma after the words "section 13 (a) of this Act" a comma and the following: "or by the deposit or pledge of obligations of the Federal Deposit Insurance Corporation which are guaranteed both as to principal and interest by the United States."

(b) Paragraph (b) of section 14 of the Federal Reserve Act, as amended, is further amended by inserting before the comma after the words "bonds and notes of the United States" a comma and the following: "obligations of the Federal Deposit Insurance Corporation which are guaranteed both as to principal and interest by the United States."

(c) Section 31 of the Banking Act of 1933 is amended as follows:

"So much of section 31 of the Banking Act of 1933 as relates to stock ownership by directors of member banks of the Federal Reserve System is hereby repealed."

Sec. 4. Section 12B of the Federal Reserve Act is amended (a) by adding after subsection (y) a new subsection to read as follows:

"(z) The Federal Deposit Insurance Corporation is hereby authorized and empowered to loan upon or purchase assets of any bank, savings bank, or trust company, which has been closed on or after December 31, 1929, and prior to January 1, 1934, and the affairs of which have not been fully liquidated or wound up, the assets of any such bank or any part of such assets upon such terms and conditions as the corporation may by regulations prescribe. This authority shall extend to any such institution that has reopened without payment of deposits in full. The Corporation is further authorized and empowered, in case the Reconstruction Finance Corporation has made a loan to any such closed bank, to negotiate with the liquidating agent or receiver of such bank for an appraisal of its assets and the purchase thereof or the making of a loan thereon to take up the loan of any part thereof made by the Reconstruction Finance Corporation, if the Federal Deposit Insurance Corporation deems it desirable in the public interest and the loan will be reasonably secured. In making any purchase of or loan on assets of any closed bank, the Corporation shall appraise such assets in anticipation of an orderly liquidation over a period of years, rather than on the basis of forced selling values in a period of business depression. The Corporation is authorized and empowered to sell any assets acquired under this subsection and shall with respect to such selling and to the liquidation of assets of closed banks pursue and encourage a policy of extending the period of liquidation so as best to conserve the value of such assets and to prevent unreasonable sacrifice thereof.

Not more than one half of the obligations authorized to be issued by the corporation shall be used for the purposes set forth in this subsection. No portion of the capital stock or other funds of the corporation raised for the purpose of insuring deposits in banks shall be used for the purchase of or loans on assets in banks closed prior to January 1, 1934, nor for the repayment of obligations the proceeds of which were used under the provisions of this section. Such obligations as are so used shall be paid only out of the funds received from the repayment of loans made and disposition of assets acquired pursuant to this subsection.

(b) by striking out the sixth sentence of the first paragraph of subsection (1) and substituting in lieu thereof the following: "The Corporation shall determine as expeditiously as possible the net amount due to depositors of the closed bank and shall make available to the new bank an amount equal to the insured deposit liabilities of such closed bank, whereupon such new bank shall assume the insured deposit liability of such closed bank to each of its depositors, and the Corporation shall be subrogated as hereinafter stated to the rights against the closed bank of the owners of such deposits. Where the net approved claim of a depositor on account of his deposits does not exceed the insured deposit liability the Corporation shall be entitled to receive all the dividends from the proceeds of the assets of such closed bank which would have been payable to such depositor on account of such deposits, and where the net approved deposit claim exceeds the insured deposit liability the Corporation and the depositor shall share ratably in the dividends insofar as the same are based upon deposit liability to such depositor

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according to the ratio that the insured liability to such depositor bears to the total amount of the net approved claim of such depositor.”; and

(e) by adding at the end of the first paragraph of subsection (v) the following additional paragraph: “Every insured bank shall display at each place of business maintained by it a sign or signs to the effect that its deposits are insured by the Federal Deposit Insurance Corporation. The Corporation shall prescribe by regulation the form of such sign and the manner of its display. Such regulation may impose a maximum penalty of \$100 for each day an insured bank continues to violate any lawful provisions of said regulation.”

