

The aggregate of outstanding advances made to any member or non-member cannot exceed 12 times the paid-in capital or the security substituted therefor by such borrower. Borrowers may be required to put up additional collateral security or to make substitutions, and when necessary the value of stock owned, or security substituted therefor in the case of non-member borrowers, may be applied upon indebtedness.

Each Federal Home Loan Bank may borrow money, which shall be secured at all times, in an amount as nearly as possible equal to 100% thereof, by home mortgage loans. Cash or direct obligations of the United States at par may be substituted for home mortgage loans as security for bonds and debentures.

With the exception of temporary borrowings under special authorization, all Federal Home Loan Banks will be jointly and severally liable for the payment when due of all obligations issued by any Federal Home Loan Bank, with interest thereon, in accordance with their terms.

All obligations of Federal Home Loan Banks will be exempt both as to principal and interest from all taxes (except surtaxes, estate, inheritance, and gift taxes) and each Bank and its franchise, except real property, is exempt from all taxation.

All obligations of the Bank shall plainly state that they are not obligations of the United States and that they are not guaranteed by the United States. Notes, debentures and bonds issued by any Bank must be accepted by it at par in payment of or as a credit against obligations of home owner debtors.

The rate of interest which may be borne by bonds or debentures issued by the Banks is limited to 5½% per annum for those issued within seven years after the enactment of the act and 5% for those issued thereafter. The margin between interest rates received on advances and interest paid on obligations cannot exceed 1½% per annum.

Investment Restrictions on Capital and Deposits.

There are certain detailed restrictions upon investments of capital, reserves and current deposits held by Federal Home Loan Banks. Current deposits are limited to non-checking accounts of borrowers upon which not more than 2% per annum interest may be paid. No Federal Home Loan Bank may transact any banking or other business not expressly authorized by the act.

The board of directors of each Bank is to be composed of 11 members, 2 of whom are to be appointed by the Federal Home Loan Bank Board. The other nine are to be chosen from among persons connected with the home financing business, and are to be elected in three classes—A, B and C—by members, who shall be divided into three groups representing, respectively, the large, the medium-sized, and the small members, based upon aggregate unpaid principal of home mortgages held by each member. When less than \$1,000,000 of the capital stock of a Bank is owned by members, the Board may fill vacancies among these directors temporarily. The Board may designate the Chairman and the Vice-Chairman of the board of directors of each Bank.

Federal Loan Bank Board.

The Federal Loan Bank Board is to be composed of five members appointed by the President, with the approval of the Senate. Not more than three may be members of one political party. For the purpose of inaugurating the system the Board is provided with an appropriation by Congress, but beginning with the second half of the calendar year of 1933 all expenses of the Board are to be paid from the proceeds of assessments against the Banks.

Approval of Board for Bank Procedure.

The exercise of all powers of the Banks will be subject to the approval of the Board and the Board may make such rules, regulations and orders as shall be necessary for carrying out the provisions of the Act. It will have power to suspend or remove any director, officer, employee or agent of any Federal Home Loan Bank.

The Board's organization may be employed without reference to civil service, classification, or other laws of the United States applicable to the employment and compensation of Government employees, except that no salary may be paid in excess of those authorized by the act for members of the Board.

The Banks shall have succession until dissolved by the Board under the provisions of this Act, or by further Act of Congress. The Board may wind up the affairs of and liquidate any Federal Home Loan Bank whenever it finds that the efficient and economical accomplishment of the purposes of the Act will be aided by such action.

The Federal Reserve Banks are authorized to act as depositories, custodians, and (or) fiscal agents for Federal Home Loan Banks.

Other provisions relate to criminal offenses, co-operation of various governmental organizations, and matters of an incidental nature.

Franklin W. Fort, Chairman of Federal Home Loan Bank Board Points Out that Market for Small Homes is Greater than that for Million-Dollar Office Buildings—Problem of Arrangement of Home Loan Bank Districts—New Board Takes Oath of Office.

The new Federal Home Loan Board, supervisory body of the Federal Home Loan Bank System, was formally organized Aug. 9, and began immediately to consider its policies and program "with a desire to alleviate a condition that is costing thousands of people their life savings as best we may," according to an oral statement by Franklin W. Fort, its Chairman.

The foregoing is from the "United States Daily" of Aug. 10, from which the following is also taken:

Mr. Fort and the other four members, William E. Best of Pennsylvania, H. Morton Bodfish of Illinois, Nathan Adams of Texas and Dr. John W. Gries of the Department of Commerce, took the oath of office and called at the White House to inform the President that they were ready to proceed with all possible haste "in the development of a sound unit of the country's banking structure." Mr. Fort felt that all members of the Board were prepared to move "with a harmonious spirit" in carrying out the intent of Congress as expressed in the Home Loan Act, and he predicted that success would be attained in accomplishing relief.

Debentures to Be Offered.

"We hope," said Mr. Fort in discussing the prospective work of the Board, "that we may be able to ameliorate a condition that is causing people to lose life savings through their inability to meet obligations such as their installments and taxes—all through no fault of their own. It is our belief

that we can render a service and that is the spirit in which we are attacking this problem."

The Chairman spoke "with satisfaction" of the high type of debentures which will be offered to the public as a means of supplementing the capital of the banks. He declared that he looked upon them as the "highest type" of securities that will be available to investors, because of the prohibitions of the statute creating the Board, and the banks which will function under it. He suggested that when a bond is backed by the security that must be employed as is required under the Home Loan Act, it is hardly possible to find one anywhere that is safer.

Explains Security Restrictions.

"Anything that is secured on American real estate up to only 20% of its appraised value," said Mr. Fort, "ought to hold a wide appeal. It is far better than it appears on its surface, because the terms of the law place restrictions about the security that obtain nowhere else."

"The market for small homes obviously is far greater than the market for million-dollar office buildings or hotels. These debentures first are backed by a loaning agency which borrowed the money, then by the property upon which the original mortgage was made. That mortgage may not be discounted in an amount exceeding 40% of appraised value of the property on which it was placed and when the banks issue their bonds against this paper, it has to put up security amounting to \$100,000,000 for each \$100,000 in bonds."

Organization to Be Perfected.

Mr. Fort explained that the Board had had no formal meeting prior to being sworn into office; that its policies had not even begun to take shape; that none of the members had "even the remotest idea" of where the banks would be located, and that the whole question of organization had to be taken up and carefully developed. In consequence, he suggested that it would be some days before the Board would be able to determine except tentatively what its course would be in many of the matters upon which it must act.

The Chairman said in reply to inquiries that there seemed to be "more applications by cities for bank sites than there are cities in the Union." He added that every large city and hundreds of smaller ones were eager to have a bank located in their community and were moving with all of the arguments available to accomplish their purpose.

"But we can not tell what we will do," he continued. "While I can not yet speak for the individual members of the Board, I believe the feel as I do that we must proceed cautiously. The discretion of selecting the sites is ours, and that means the responsibility is likewise ours."

Home Loan Districts.

Mr. Fort pointed out that the home loan districts, of which the law prescribes from eight to 12, may not coincide with the Federal Reserve Districts, for the reason that the statute prohibits division of States. He said he assumed the reason for this was that each State has its own mortgage and banking laws and each State, therefore, constitutes an entity in and of itself. To split a State, consequently, would be to work a hardship either on the system or on the members of the banks located in separate districts.

It has not been determined whether the Board will hold hearings to give city-appliants an opportunity to present their arguments in behalf of claims for a Bank site. Such hearings were held, it was recalled, when the Federal Reserve and Farm Loan systems were established, but Mr. Fort explained that hearings "may or may not be held in this instance as the Board determines when it reaches that point." He suggested that probably the first decision necessary, after perfection of a Board organization, would be the arrangement of districts.

Problem of Arrangement.

"The arrangement of the Districts presents a problem in itself," he added. "It must be remembered that in some of the less thickly populated areas where distances are great and cities and towns are few, the question of raising sufficient capital for the banks must be considered."

"It is contemplated that the private agencies who use the banks and who must subscribe to its capital before being allowed to discount their paper are fewer in some of the sparsely settled States than they are in the more populous States of say, Pennsylvania, or my own State of New Jersey. So some of the districts necessarily are going to be much larger in area than others."

"While the initial capital will be provided by the Reconstruction Finance Corporation, it is contemplated that this shall be repaid as rapidly as private subscriptions take up stock."

Membership in Banks.

Congressional debates during consideration of the measure developed some expression of fear that there would be an insufficient number of loaning agencies seeking membership in the regional banks to make them profitable, but Mr. Fort said he failed to see how any one could arrive at that conclusion offhand.

He suggested that there are real estate mortgages on urban homes aggregating in excess of \$15,000,000,000 and that obviously many of these are held by corporations whose cash resources are low and who will desire to convert them into cash that they may continue loaning operations. While he did not know, he explained, whether all of them would obtain membership status in the banks, he felt that conditions made it imperative for great numbers of them to do so.

"We know," he continued, "that hundreds of building and loan associations are not making loans now because they have no cash with which to do it. They are getting a little cash and withdrawals have been heavy. They do not desire to sit idle. If they can get cash by discounting the good paper they hold, it appears that they will do it."

"Further, if we can sell the debentures on a favorable market, we will be in a position where discounting can be done by the loaning corporations at a profit to them. If we can sell our debentures at 5%, for example, and can make loans then to the building and loan association that charges 6%, it represents a profit to that association and I see no reason why they won't take advantage of the opportunity."

The Chairman called attention to what he considered to be "a changed psychology" respecting home mortgage loans. He explained that "for the first time in history" such loans are now liquid in character, since the holder, if that holder be a corporation, can discount the paper "at once" with one of the Home Loan Banks and get a portion of the original outlay in cash for additional operations.

What the ultimate effect of the changed psychology will be, Mr. Fort said it was too early to foretell. He thought, however, that it would have a far-reaching effect on the mortgage situation in so far as it concerns loans on residences and distinguished from larger structures and from farm lands.

The members of the Board are prepared to give their full time to the system operations, according to Mr. Fort, who explained that he and Mr. Adams had taken indefinite leaves of absence from their private businesses "with the understanding that we are not to be called upon for any service whatsoever."

Dr. Gries is retiring from service in connection with the President's home building Conference Program and Mr. Bodfish and Mr. Best, execu-

tive manager and president, respectively, of the United States League of Building and Loan Associations, are arranging their private affairs to be free from all duties except those involved in their Board membership.

The following is from the "United States Daily" of Aug. 9:

Early Operations Sought.

President Hoover and the Board members are desirous of initiating operations of the system at the earliest possible date because of frequent representations by Senators and others who have claimed that additional losses to home owners may be avoided by speedy action. The Board plans to waste no time in perfecting its own organization and then to proceed with questions of bank organization and location.

In this connection Senator Watson (Rep.) of Indiana, sponsor of the home loan legislation, told President Hoover recently that he believed it possible to begin actual loaning operations within 90 days after the Board members were selected. The Indiana Senator said he recognized the necessity for caution in arranging plans for bank establishment, but that experience gained in picking the cities where Federal Reserve banks and Federal Farm Loan banks were to be located gave the new Home Loan Board an advantage of facts which were not available to the others at the outset.

Criticism of Federal Home Loan Discount Banks by R. S. Beachy of First Mortgage Investment Co.—Hearing Before Congressional Committee Authorized Under Shannon Resolution to Inquire into Government Competition with Private Business.

Criticism of the new Federal Home Loan Discount banks was made before the Shannon investigating Committee at Kansas City, Mo., on Aug. 5 by R. S. Beachy, President of the First Mortgage Investment Co., representing the Mortgage Bankers' Association of America. A dispatch from Kansas City, Aug. 5 to the Chicago "Journal of Commerce": noting this added:

Beachy said the Home Loan Bank experiment would bring chaos into the city real estate field as the Federal Farm Loan and Joint Stock Land banks caused chaos to agricultural real estate.

The testimony of the banker brought to conclusion hearings in Kansas City by the Congressional committee investigating governmental competition with private business authorized by a resolution in the House of Representative Joseph B. Shannon, Missouri, Democrat.

"Communism" Charges Hurdled.

The final day of the hearing was a colorful one with charges that the country "is drifting into communism" and the appearance of a group of veterans to reply to the hospital and medical witnesses who favored return of the contract system of hospitalizing veterans.

In protesting new home loan banking by the Government, representatives of mortgage bankers said investors already had lost more than a half billion dollars in securities of Joint Stock and Farm Land banks that "sold tax exempt securities as tax free competitor of private banking."

"If there had been any occasion for experiment of the Government in the farm loan business, there might have been some excuse for the failure of the experiment," Beachy said. But, it was pointed out, when that law went into effect all the money necessary to finance farmers owning land that merited loans was available at rates current conditions justified.

Declares Losses Were Huge.

"Losses to investors was only a part of the losses to the nation by the farm loan experiment. Farmers were not benefited by lower rates but in turn suffered on account of depression of his land values through unadvised dumping on an unwilling market of land acquired through foreclosure by the government loan system.

"It is to be regretted with this unfortunate example before us, in face of our depleted Treasury and an overload of taxation with Government already too much in business. We must be further harassed by another similar experience in the form of new Home Loan Discount Bank, which will be a repetition of the Federal farm loan experiment in city real estate loan field."

Beachy charged losses of farm loan experiment "still are with us," and pointed to the congressional appropriation at the last session of \$125,000,000.

Cleaners and Dyers.

Thomas Dods, Jr., representing the National Association of Cleaners and Dyers' Association, charged the Government is reaching out to take private business to justify its existence.

"There are 15 large cleaning and dying plants operated by the Government and we find they reach out to take civilian business to make their plants show a profit and continue their operation," he said, "that means we are drifting near communism in this country and it is reasonable to believe eventually the Government will run all business."

Myron Green representing the National Restaurant Association protested operation of Government restaurants. He presented a letter from the Postmaster general in which that official defended the system as promoting "social welfare benefits."

Shannon declared the committee was more interested in welfare of the people than their "paid agents."

Shannon Raps "System"

"Such examples as you are citing are enough to arouse citizens of this country," Shannon declared. "For a hundred years people have been saying they will stop these Government restaurants and canteens, but they still exist. They tell us that they serve meals in Federal buildings; so the employees will be absent from work only half hour, but the fact is that they use that half hour to get off that much earlier in the afternoon. There is one large restaurant in Washington operated by the Government that serves three meals a day to civilians as well as Government employees."

A group of veterans appeared to voice their approval of the Government hospitals, as opposed to contract hospitals, advocated by the American Medical Association and the American Hospital Association witnesses early in the hearing.

Today's hearing was the tenth session held in Kansas City in which 114 witnesses appeared. Almost every industry has been represented at the hearing here and elaborate evidence was presented the committee by 16 general lines of industry, including the grain, livestock, printing, hotels, restaurant and others.

Shannon will go to Lawton, Okla., next week for two days and hearings will be resumed in St. Louis, Mo., Aug. 22. Shannon expressed himself as highly pleased with the progress of his hearings and said:

"The country is going to be enlightened on this subject of Government driving private business out of business." He said already there had awakened a National response to the evidence brought out by the hearings,

Federal Home Loan Board Says Selection of Cities for Location of Banks is Deferred Pending Determination of Districts.

Announcement that the Federal Home Loan Board devoted "practically continuous sessions of the last two days" to consideration of policies and territorial outlines of the prescribed bank districts and has given no consideration to location of the banks, Aug. 10, by Franklin W. Fort, Chairman. The announcement follows:

The Federal Home Loan Bank Board has been in practically continuous session since Tuesday morning discussing organization and policy problems. No consideration has yet been given to the selection of particular cities for the location of any regional bank, nor can any be given until the Board has decided definitely upon the number and territorial outline of the Home Loan Bank districts and other major policy questions.

E. H. Lee of Guaranty Trust Co. Temporarily Joins Staff of Federal Reserve Bank of New York.

Elliott H. Lee, Vice-President of the Guaranty Trust Co. of New York, has temporarily been added to the staff of the Federal Reserve Bank of New York as Acting Deputy Governor to take charge of the department handling the applications for loans.

First Relief Loan by New York Federal Reserve Bank To a Non-Banking Borrower.

The first direct loan to a non-banking borrower, authorized under the amendment to the Federal Reserve Act embodied in the Emergency Relief Act, was made last week by the Federal Reserve Bank of New York, said the New York "Times" of Aug. 9, which further stated:

No details of the loan were disclosed, but under the terms of the regulation the borrower was compelled to prove "unusual and exigent circumstances" necessitated the credit, to assure the Federal Reserve Bank that credit had been refused him at other banking institutions and to present eligible commercial paper.

Applicants for loans continued to apply to the Reserve Bank yesterday and it is expected that further loans will be granted, although a large number of applicants are unable to fulfill the rigid restrictions with which the new lending power of the Reserve banks is hedged. The loan just made is not merely the first to be advanced by the local Reserve Bank, but is also believed to be the first to be made by the Reserve System.

Reference to the direct loans to the Reserve Bank under the Emergency and Reconstruction Act appeared in our issue of Aug. 6, page 906.

E. G. Buckland of Railroad Credit Corporation Urges That Rail Carriers Be Accorded Equal Opportunity to Compete with Other Forms of Transportation.

Declaring what the railroads want and must have is "a fair field and no favor," E. G. Buckland, President of the Railroad Credit Corporation, in a speech on the subject "The Shackled Railroads" at Buffalo, N. Y., on Aug. 3 urged that the rail carriers be allowed an equality of opportunity to compete on a fair basis with other forms of transportation. "The railroads," said Mr. Buckland, in addressing the opening session of the Railway Accounting Officers' Association, "can only meet the situation with which they are faced to-day on a basis of equality of opportunity. There should be, first, a relaxation of existing regulation imposed upon rail carriers in view of the recent and rapid development of competitive forms of transportation, and second, the application of appropriate regulations to those new forms of transportation which have entered the same fields of service." Mr. Buckland went on to say:

Since the invention of the locomotive, carriage by rail has been, is now and bids fair to continue to be, the principal method of transportation in the United States. No other has yet been devised, which can perform as efficiently and economically the service required for the bulk of the movement necessary to serve the agricultural, mining and manufacturing interests of our country in normal times. Eighty-five per cent of the ton miles performed in 1931, other than traffic on the Great Lakes, moved over the railroads. If the railroads should go out of business, the United States would go out of business with them.

Among the regulations placed upon rail carriers are: to treat all shippers alike; to treat all localities without prejudice, preference or discrimination; to make no secret rates, but to carry only at published rates; to refrain from rebating or in any other way giving one shipper advantage over another. There are many other regulations, but these will do to illustrate. All of them are now the law because of their inherent fairness. But these regulations which apply to railroads and violation of which means a fine or imprisonment of their officers or both, do not apply to the competitors of the railroads. These competitors are currently performing transportation under practices forbidden by law to rail carriers.

In my judgment, action along the following general lines should be taken to bring about this result:

1. Changes in existing Federal legislation to permit the establishment of rates and adjustments thereof to the extent required to meet competition fairly, however arising. This frankly means the limitation of the Interstate Commerce Commission's power to suspend rates and the privilege to carriers to make rate changes on shorter notice than the 30 days now required by law.

2. Permission to rail carriers to engage in transportation on the inland waterways, including inter-coastal, and even with foreign countries under such regulation as may at any time be applied to other carriers by water.