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INVESTIGATION AND STUDY OF THE FEDERAL HOME LOAN BANK BOARD

PART 3—ATLANTA, GA.

GOVERNMENT
Storage

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON GOVERNMENT OPERATIONS HOUSE OF REPRESENTATIVES

EIGHTY-SEVENTH CONGRESS

AUGUST 11, 1961, AUGUST 17, SEPTEMBER 6 AND 7, 1962

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INVESTIGATION AND STUDY OF THE FEDERAL HOME LOAN BANK BOARD

(Part 3—Atlanta, Ga.)

FRIDAY, AUGUST 11, 1961

House of Representatives,
Special Federal Home Loan
Bank Board Subcommittee
of the Committee on Government Operations,
Washington, D.C.

The subcommittee met, pursuant to call, at 10:05 a.m., in room 100–B, George Washington Inn, Hon. John E. Moss (chairman of the subcommittee) presiding.

Present: Representatives John E. Moss, Chet Holifield, Neal Smith, and George M. Wallhauser.

Also present: David Glick, counsel; Orville J. Montgomery, counsel; Sidney McClellan, counsel; Edith T. Carper, research analyst; and John P. Carlson, minority counsel.

Mr. Moss. The subcommittee will be in order.

Today we are opening hearings by a Special Subcommittee of the Committee on Government Operations. This subcommittee was established by Chairman William L. Dawson during the 86th Congress to inquire into actions by the Federal Home Loan Bank Board affecting the Long Beach Federal Savings & Loan Association. Extensive hearings were held on this subject during the last session of the Congress and 2 additional days of hearings were held during April of this year.

During the course of those hearings and subsequent thereto, the subcommittee received a substantial number of complaints from officers of other associations in various areas of the country. These complaints, which were received by Members of Congress and others and referred to this subcommittee for attention, reported what appeared to be serious deficiencies in the supervisory procedures of the Home Loan Bank Board. Accordingly, on June 8, 1961, Chairman Dawson of the parent committee directed a broadening of the inquiry then underway and instructed the subcommittee to—

> undertake a comprehensive inquiry, study, and investigation of the operations of the Federal Home Loan Bank Board, the Federal Savings and Loan Insurance Corporation, and the Federal home loan banks. This study should include organization, practices, and procedures, as well as the Board's relationship to other departments and agencies of State and Federal Governments.

This 3-day series of hearings is designed to develop further information on the practices and procedures employed by the Home Loan Bank Board in regulating the activities of federally chartered insti-

tutions as well as those operating under State charters and insured by the Federal Savings and Loan Insurance Corporation.

In a report adopted last year, the House Government Operations Committee expressed the view that the Board should by regulation establish uniform criteria for association management. Because of the complexities of operation of the savings and loan industry, it is imperative that there be uniformity in the exercise of supervisory and regulatory responsibility and authority.

Complaints received by this subcommittee to date indicate that there is a wide disparity in the application of supervisory policies and practices on the member institutions. This subcommittee will develop the actual experience of some of those who are subject to supervision and regulation by the Federal Home Loan Bank Board.

For the purpose of aiding the subcommittee in developing the facts, we will hear from the following witnesses initially:

Mr. George W. West, chairman of the board, First Federal Savings & Loan Association of Atlanta, Atlanta, Ga.

Mr. Robert R. Mullen, president of the Alice Savings & Loan Association, Alice, Tex.

Before calling the first witness, I would like to recognize Mr. Clarence Smith, assistant to the Federal Home Loan Bank Board for a brief statement on behalf of the Board. This is at the request of the Chairman of the Federal Home Loan Bank Board. Mr. Smith.

Mr. CLARENCE SMITH. Mr. Chairman and members of the committee, at the request of Chairman McMurray, I am to express the regret of the Board that it cannot be here in person. There are so many matters of pressing importance requiring their immediate personal attention that unless the committee desires specifically that they be present, they will not attend the hearings. They will have Mr. Trevas here, and I will be here, and other representatives of the Board.

He did want me to say that the Board is following with keen interest the record developed here at this hearing, and to also assure the committee of the Board's fullest cooperation in developing that record.

Now that I have conveyed the message, with your permission I would like to introduce some of the Board's staff and others who are here, if that is satisfactory.

Mr. Moss. I think it would be very helpful if you would introduce them.

Mr. CLARENCE SMITH. From our legal department we have the General Counsel, Mr. Creighton, and two of his assistants, Mr. Trevas and Mr. Sloane.

From our Division of Supervision, Mr. Wyman, with two of his assistants, Mr. Broullire and Mr. Kilmer.

From our Division of Examinations, Mr. Walters, who has with him the chief examiner of Little Rock, Mr. Chastain; and the chief examiner from Greensboro, Mr. Harbison, and one of his assistants, Mr. Dorine.

The president of our Little Rock Bank, Mr. Oakes, is here; Mr. Fogarty, the president of the Greensboro Bank, will be here Monday. Prior commitments did not make it possible for him to be here today, but he will be here Monday.

That is all I have to say, and thank you very much for the opportunity of getting this into the record.

Mr. Moss. Thank you, Mr. Smith.

It will not be necessary at this time for the purposes of the hearings to have members of the Board present. I want to acknowledge the very fine cooperation that we have been receiving from the Board.

Mr. CLARENCE SMITH. Thank you very much, and I will tell the Board.

Mr. Moss. At this point I would like to introduce into the record the four exhibits which bear upon the directions to this subcommittee and the authority for its investigations. Is there objection? Hearing none, they will be included at this point in the record.

(The exhibits Nos. 1–4 referred to follow:)

EXHIBIT NO. 1.—LETTER FROM HON. WILLIAM L. DAWSON, CHAIRMAN, HOUSE GOVERNMENT OPERATIONS COMMITTEE, TO ALBERT J. ROBERTSON, JUNE 2, 1960

HOUSE OF REPRESENTATIVES,
COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D.C., June 2, 1960.

HON. ALBERT J. ROBERTSON,
Chairman, Federal Home Loan Bank Board,
Washington, D.C.

DEAR MR. CHAIRMAN: Under authority of law and rule XI, 8 of the House of Representatives this committee is charged with responsibility for, among other things, studying matters of Government organization, public accounts, and the operation of Government at all levels.

I have appointed a subcommittee of five members and have authorized and directed the subcommittee to inquire into the recent action of your Board concerning the Long Beach Federal Savings & Loan Association and into such other matters concerning the functions, powers, and duties of the Federal Home Loan Bank Board and the Federal Savings & Loan Insurance Corporation as the subcommittee deems necessary and relevant.

Representative John E. Moss of California, chairman of the subcommittee, will communicate with you regarding the committee's plans.

Sincerely yours,

WILLIAM L. DAWSON, *Chairman.*

EXHIBIT NO. 2.—LETTER FROM HON. WILLIAM L. DAWSON, CHAIRMAN, HOUSE GOVERNMENT OPERATIONS COMMITTEE, TO HON. JOHN E. MOSS, MARCH 7, 1961

HOUSE OF REPRESENTATIVES,
COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D.C., March 7, 1961.

HON. JOHN E. MOSS,
House Office Building, Washington, D.C.

DEAR COLLEAGUE: At the organization meeting of February 15, 1961, I announced that existing special subcommittees not specifically discussed at the meeting would be continued in order to enable them to complete the studies on their agenda.

This is to notify you that the Special Subcommittee on the Home Loan Bank Board is being continued for the purpose of carrying out its study and investigation of the seizure of the Long Beach Federal Savings & Loan Association by the Home Loan Bank Board in April 1960 and of matters relating to or resulting from such seizure.

The members of the subcommittee, in addition to yourself as chairman, will be Hon. Chet Holifield, Hon. Neal Smith, Hon. George M. Wallhauser, and Hon. Clare E. Hoffman.

Sincerely yours,

WILLIAM L. DAWSON, *Chairman.*

EXHIBIT NO. 3.—LETTER FROM HON. WILLIAM L. DAWSON, CHAIRMAN, HOUSE GOVERNMENT OPERATIONS COMMITTEE, TO HON. JOHN E. MOSS, JUNE 8, 1961

HOUSE OF REPRESENTATIVES,
COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D.C., June 8, 1961.

Hon. JOHN E. MOSS,
Chairman, Special Subcommittee on the Home Loan Bank Board,
House of Representatives, Washington, D.C.

DEAR COLLEAGUE: The Special Subcommittee on the Home Loan Bank Board was created during the 86th Congress to inquire into actions of the Federal Home Loan Bank Board in connection with the Long Beach Federal Savings & Loan Association and into such other matters involving the functions, powers, and duties of the Board and the Federal Savings and Loan Insurance Corporation as the subcommittee might deem necessary and relevant. As you were notified by letter of March 7, 1961, this special subcommittee was continued for the 87th Congress.

Thus far, the special subcommittee has been concerned in its studies primarily with questionable activities and practices of the Home Loan Bank Board in connection with the Long Beach case. In the meantime, the committee has received a number of communications from Members of Congress and others complaining of other questionable activities of the Home Loan Bank Board in connection with other savings and loan associations in various parts of the country, as well as the general operation of the Board in exercising its supervisory responsibilities. It occurs to me that it would be helpful to these Members of Congress, as well as to members of this committee, if factual information were developed concerning the subject matter of these communications and such other matters as may be deemed relevant.

Accordingly, in carrying out the committee's responsibility to study the operation of Government activities at all levels with a view to determining its economy and efficiency, and its other responsibilities under rule XI of the Rules of the House of Representatives, it is requested that the subcommittee expand its efforts so as to undertake a comprehensive inquiry, study, and investigation of the operations of the Federal Home Loan Bank Board, the Federal Savings and Loan Insurance Corporation, and the Federal home loan banks. This study should include organization, practices, and procedures, as well as the Board's relationship to other departments and agencies of State and Federal Governments.

Sincerely yours,

WILLIAM L. DAWSON, *Chairman.*

EXHIBIT NO. 4.—LETTER FROM JOHN E. MOSS, CHAIRMAN, SPECIAL FEDERAL HOME LOAN BANK BOARD SUBCOMMITTEE, TO JOSEPH P. MCMURRAY, AUGUST 4, 1961

HOUSE OF REPRESENTATIVES,
COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D.C., August 4, 1961.

Hon. JOSEPH P. MCMURRAY,
Chairman, Federal Home Loan Bank Board,
Washington, D.C.

DEAR MR. MCMURRAY: The Special Subcommittee on the Home Loan Bank Board was created in the 86th Congress and reconstituted in the 87th Congress to inquire into the actions of the Federal Home Loan Bank Board in connection with the Long Beach Federal Savings & Loan Association and such other matters involving the functions, powers, and duties of the Board and the Federal Savings and Loan Insurance Corporation as the subcommittee might deem necessary and relevant.

Since its creation the subcommittee has received numerous communications from Members of Congress and others making allegations of questionable activities on the part of the Board. Some questions have also been raised about the Board's general operations.

The subcommittee has been directed by Congressman William L. Dawson, chairman of the House Committee on Government Operations, to make a comprehensive inquiry, study, and investigation of the operations of the Federal Home Loan Bank Board, the Federal Savings and Loan Insurance Corporation, and the Federal home loan banks.

This letter is to confirm your telephone conversation of August 3, 1961, with Mr. David Glick, counsel for the special subcommittee, notifying you of the public hearings to be held by the subcommittee on August 11, 14, and 15, 1961. The hearings are scheduled to begin at 10 a.m. each day in the hearing room of the George Washington Inn, New Jersey and C Streets, SE., Washington, D.C.

The initial witnesses to be heard include:

George W. West, chairman of the board of the First Federal Savings & Loan Association of Atlanta, Ga.

Robert R. Mullen, president of the Alice Savings & Loan Association of Alice, Tex.

There is enclosed herewith a copy of the news release announcing these hearings.

While it is not contemplated that the members of the Federal Home Loan Bank Board or its employees will be called to testify on August 11, you are most welcome to attend the hearings. It is requested that the following members of the staff of the Board attend on the 11th and that these staff members and the Board be prepared to testify on either August 14 or August 15:

Mr. Thomas H. Creighton, Jr., General Counsel.

Mr. John M. Wyman, Director, Division of Supervision.

Mr. L. Walters, Director, Division of Examinations.

You might also consider having present the presidents of the Home Loan Banks of Greensboro and Little Rock.

Sincerely,

JOHN E. MOSS,
Chairman, Special Subcommittee on the Home Loan Bank Board.

Mr. MOSS. I would like now to ask Mr. George W. West to take the witness chair.

Mr. West, do you desire to be accompanied by anyone or are you accompanied by anyone?

Mr. WEST, Senior. Mr. Chairman, I have my son here who is the president of the First Federal Savings & Loan Association. If you will permit him, I will sit him here and he will thumb through some literature.

Mr. MOSS. All right, sir.

Mr. WEST, Senior. If you permit, I will start off standing.

Mr. MOSS. Will you raise your right hand, both of you. Do each of you solemnly swear that the testimony you are about to give to this subcommittee shall be the truth, the whole truth, nothing but the truth, so help you God?

Mr. WEST, Senior. I do.

Mr. WEST, Junior. I do.

Mr. MOSS. All right, you may proceed.

TESTIMONY OF GEORGE W. WEST, SR., CHAIRMAN, BOARD OF DIRECTORS, FIRST FEDERAL SAVINGS & LOAN ASSOCIATION, OF ATLANTA, ATLANTA, GA.; ACCOMPANIED BY GEORGE W. WEST, JR., PRESIDENT, FIRST FEDERAL SAVINGS & LOAN ASSOCIATION OF ATLANTA, ATLANTA, GA.

Mr. WEST, Senior. Mr. Chairman and gentlemen, my name is George W. West from Atlanta. I am chairman of the board of the First Federal Savings & Loan Association of Atlanta.

It is a privilege for me to come before you and your committee to relate to you a story of how Mr. Wyman, the Director of Supervision of the Federal Home Loan Bank Board, kicked me out of the First Federal Savings & Loan Association of Atlanta, and how I kicked myself in.

Mr. Moss. Could we have your son identify himself for the record also.

Mr. WEST, Junior. George W. West, Jr., president of the First Federal Savings & Loan Association of Atlanta.

Mr. Moss. Mr. West, you may proceed.

Mr. WEST, Senior. I have two sons. My other son is the president of the West Lumber Co.

I have a nephew named Herbert J. West, and he is president of the Home Owners Co. I name these two companies because they will be involved as I go along.

I will start off with the West Lumber Co. because, of course, it has been in business in Atlanta ever since I was born about 1892, and it is engaged in the business of selling building material.

Obviously, my father started it and it sells all kinds of building material. I have worked for it since 1910, and handled principally finances during that time.

It is engaged in selling building materials, both wholesale and retail, manufacturing some—it operates under two registered trade names, one Associated Distributors, and one Cash-and-Carry Building Materials.

To that extent it has in Atlanta eight places of business. When I say Atlanta, I mean metropolitan Atlanta, and it has, since I can remember, had as much money invested in mortgages as it has in inventory, and that condition is about the same today, which is possibly about $890,000 in each.

It does enjoy the finest rating that Dunn can give anybody and, by the way, I don't believe there is any more secret, there are any more secrets, in business. I think I can find out about somebody else for $1.50 all I want to know, and I think they can find out all I know for $1.50, and who I am, and also the business they are associated with.

So we have no secrets because I don't think we could have any if we wanted to.

I married in California in 1915, and I have been in Atlanta all my life that I remember, and I don't think I moved but three times, to my memory anyway.

The West Lumber Co. is in the manufacturing business, to some extent; we start off with a small forestry department. We go on through to wholesale, where we sell under one of these registered trade names. We actually sell up this way paneling, which we manufacture, and which is our principal manufacture, with 60 different species of wood, three-quarter inch solid paneling, and then in the cash-and-carry business of building material, and that is heavy building material sales, we also have a place in Alabama, Tuscaloosa.

Now, in 1924 my attorney at Atlanta was Horace Russell.

I have attorneys, although I happen to be one myself, having passed the bar several years ago just for the fun of doing it, and I think I understand real estate law, in the main, and I don't try to understand many other kinds.

Horace Russell came around to my house in 1924, and had a college friend of his with him, Bill Saucier, and he wanted to interest me in a savings and loan business, starting one. And this association that I represent today is it.

It was obviously a State-chartered association, which we called the First Mutual Savings Association, believing that even the name "building and loan" would hardly be acceptable, and it was the first one in Atlanta since way back in the early days when I could remember as a boy.

This association had some obstacles. One was, of course, to get its securities approved by the State insurance commissioner, who happened to be the secretary of state, a man named McLendon. The securities had to be classified by him, and so we were friendly with him, and he was friendly with the savings and loan people as he went on, because he himself was interested at one time in south Georgia, in Thomasville, in a little savings and loan association that I didn't know existed.

At the time, there was probably $40,000 in the whole State of Georgia in the savings and loan business; I believe the figures were 90 cents per capita, whereas in New Jersey, where a comparable population exists, it was $191 per capita.

So Mr. Russell and I started off in this business. His interest was certainly that of having another client. He was a young lawyer; and my business was to see capital provided for customers of the West Lumber Co., and so this association struggled around for many years.

We worked for it free except for the service we rendered. Certainly I got nothing for being president for many years.

Finally, Mr. Russell left me to come here to be the general counsel to the Federal Home Loan Bank Board, and after the Board was probably 6 months old, he was counsel for 10 to 12 years, the record will show.

We had another big obstacle in Georgia, and that was ad valorem taxes on mortgages, which was at the approximate rate of 4¼ per $100, so obviously it was pretty tough to operate a business where you had to pay $4.25 every year on the balance of a mortgage, so our lending rate was pretty high, and, by the way let's don't forget that the original rate of the Federal Home Loan Bank Board, the wholesale rate, was 6 percent.

Anyway, we struggled along with this savings and loan business.

I recall going to one of our wealthiest men to ask him to put some money in it, and he said, "You are trying to run a mortgage business in Georgia?" And I said, "Yes." And he said, "You can't do it."

For several years I thought he told the truth.

Almost all of the capital that we had for home financing in the State of Georgia was foreign capital for which we were very grateful.

We came along finally with another tax proposition called the intangibles tax and, of course, the men who had the money out of the State didn't pay that because the situs of his mortgage was elsewhere, and so we battled.

After we had run a few months, due to the secretary of state's invitation, we organized a State trade association, five or six of us. There was an association at Cartersville, there was one at Rome that had been there for some time. They were all very small, they weren't growing. They didn't have enough money to do any good, so to speak.

Anyway, we organized the Georgia Savings & Loan League, and I was the first president.

They celebrated last year and gave me a fancy brass plaque, having $1 billion in the State of Georgia in this kind of business, and half of it is in Atlanta.

It must be loaned on homes, in the main, and if it weren't available for loans on homes, I don't know where we would be in difficult times.

So I think finances in Georgia are much more stable by reason of all that.

I promised in the meanwhile most any community in Georgia that I would go there at my expense and try to sell them the idea of starting a savings and loan association, which I did, and if I was working for the Government, so to speak, I went off the payroll to go there and do that job, and come back free, and others went with me.

I attended the Home Ownership Conference of Mr. Hoover's here in 1932. I thought it was going to be about a 2-day deal, and I think we stayed 10, the outcome of which was the Federal Home Loan Bank System.

And after it had run about a year, I ran for class C director of the Winston-Salem Bank, which is now Greensboro, and in the meanwhile Mr. Franklin Fort was the original chairman of the board. He was Mr. Hoover's campaign manager and, I think, a Member of Congress, and I think he was succeeded by Mr. Stevenson, a Congressman from South Carolina, whom I knew very well.

Mr. Stevenson sent me a telegram after I had served about a month on this board, I will call Greensboro, now to simplify it, and the telegram wanted to know could I come to Washington Monday morning.

And so I simply answered, the simplest answer I ever gave to anybody in a telegram was one word, "yes."

So I was here Monday morning.

I might digress a minute and say that—well, I will keep on the story.

They apparently couldn't get the Home Owners' Loan Corporation off the ground. I thought he wanted to discuss the Federal Home Loan Bank System, but he didn't. He wanted to discuss the HOLC in Georgia that had run then from June 13 to probably January and hadn't made many loans.

After about a week they decided they would send me to Georgia with a title of "Special Representative in Charge," and it took them about 4 more days to, and I didn't ask them the price they were going to pay me or to find out who I was in charge of. I did, as to whether I had the right to hire and fire without asking them, which they finally gave me reluctantly, and so I went to Georgia, and I told them I wouldn't give up the job—I had been elected to the job on the board at Greensboro—if I had to do the home owners loan job.

So they said I could do one of them; when I did one I went off the payroll of the other. Of course, this job at Greensboro was a directorship and nothing but a fee job, plus traveling pay.

In the meanwhile, I reorganized, if that is the name for it, I made up my mind that I could take a model A Ford and make a twin six out of it, and I think I did.

We led every State in the Union for weeks and months in loans closed for applications received which, on second investigation, is not much of a record. If you had been doing nothing and then do something, obviously that is a thousand percent gain, so we operated on

that basis for a long time, and those loans turned out to be good loans, and I had some very interesting experiences.

I had a right to issue transportation requests, and I think I am a businessman, and when I couldn't get through red tape to get a requirement of 10,000 envelopes, I bought them myself, and then I spent 2 weeks up here trying to get them paid for. So far I am even—and other things went along the same way.

So there were about $32 or $33 million loaned under my supervision there; there were very few people who had to lose their jobs, and it is hard to believe, but a good legal stenographer made $70 a month, and an expert secretary to an executive made $90 in the Home Owners' Loan Corporation in 1934 in Atlanta, and they worked.

They worked Saturday and Sunday and half of Christmas and all day Thanksgiving. We were trying to save homes, and they were being foreclosed awfully fast, and some of the mortgages broke themselves, and you couldn't ever tell whether you had a good canceled security deed or not for a long period of time.

Anyway, I thought I did a good job there.

In addition to that, the Board finally sent me to Louisiana, Missouri, and Tennessee, at least to close up about half of the offices and to discharge about half of the employees.

By that time Mr. Fahey was Chairman. I think they sent me there because he knew I was going to quit, and they could say something, "if they didn't like it, well, we got rid of him, too."

Anyway, I was going anyway, and so I think the record that we made in that rare transaction, after staying a week here to get instructions about it, and saying, "I wouldn't do it," I finally went, and the system there was to select people, if you could, to go to the regional office at Memphis, and, of course, if I would have used the system of having to shake hands with all these people and determining their category or ability, I would have been there yet, it seems to me; whereas, I devised one that they accepted, and I don't think I stayed but a day or two in either State. And the record will speak for itself.

Mr. Francis Moore, if he were in the delegation here this morning—he was secretary of the Board—would testify that the people who did go to Memphis, the few of them who could go, were very high-class people, previously rated such.

So, in doing those jobs I thought I became fairly close to the Federal home loan bank group and, as all of you know, the Federal Home Loan Bank Board has changed from three to five or five to three and commissioner and whatnot, and back to three.

Then I was elected a class A member. I don't recollect whether it was in between that that Mr. Fahey appointed me a so-called appointed director and chairman of the board at Greensboro, at Winston-Salem, now Greensboro.

I believe I was chairman of the board three 2-year terms. That would be 6 years. And I think I was on the board either 10 or 12. The record will show, and I didn't take trouble to look up to see. Whatever that was, it was.

In the meantime, the First Mutual Savings & Loan Association had converted to a Federal charter.

Meanwhile, of course, we had FSLIC insurance on accounts. Meanwhile I worked pretty close with the trade association, the

United States Savings and Loan League, and I finally got to be president of that in 1939.

Mr. GLICK. Mr. West, excuse me, but do you recall what year the State mutual association converted?

Mr. WEST, Senior. 1934.

Mr. GLICK. 1934 to a Federal charter?

Mr. WEST, Senior. I might say that's stranger than it sounds, that the Federal Home Loan Bank Board of Greensboro had to change management, and in the changes we got a hold of Oscar O. K. LaRoque who had been a State supervisor or examiner for North Carolina, a sympathetic sort of person, and the board there approved the employment of the man to go around the 11 States and promote savings and loan associations.

I recommended a director of mine named Emmett Quinn. He was in the employ of the bank system for probably 2 years, and all he did was to go around to the southeast and organize savings and loan associations or boost it up, and get ones going that could.

By the way, he was a machinist by trade, past president of the Atlanta Federation of Trades, who knew a lot about organizing.

The first thing I did when I went to a town was to find the lawyer who could probably check some titles and live out of it, and to find an insurance man who could write some insurance and live out of it, and find a building materials man who ought to be head-over-heels in favor of it, and the ones I knew started that way, and it hadn't started that way, and if those fellows had no interest—not in borrowing money themselves but for their customers—they wouldn't have been started.

So I can remember when Frank Chase of the Chase Federal, in Miami Beach which was named after him, was an itinerant preacher, and he used that approach, and he published a book on that subject, and when we finally left town, he bummed a couple of dollars from the lumber dealer in order to get to the next town, plus a number of dollars to stay at the hotel the next day, and so he preached and that is what he practiced, and then he started off the way I started off, and that was to find some three or four interested people to have some chance, so it wasn't uncommon.

I recall very well that a lumberman in Jasper, Ala., which is the hometown of Mr. Bankhead and, I believe, Senator Sparkman, came over to see me, and I sent Emmett Quinn over to see him, and so they had a savings and loan started and I think there are two over there now, maybe—I haven't kept up with it closely—and it was all started because some lumber dealer was interested in Jasper, Ala., and so it started in different places. I could name the different places all over the State I did go and savings and loans were started.

Mr. GLICK. Mr. West, if I may, you have been telling the committee about your background experience, and I wonder if you would tell the committee just what the situation was at that time insofar as the obtaining of Federal charters is concerned? Was this something that was easy to get? Was there a dire need on the part of the Government to interest people in this field as compared to the situation existing today?

Mr. WEST, Senior. Yes. I might say, to start with, that bank membership was pretty easy. This bank went up to Baltimore, where there

were 800 building and loan associations, and took in 125 on "profession of faith," and giving them the fine bank seal, and so after that we had one of our good friends shoot himself, and I went up and looked at all that collateral, at my expense, and we spent our time and money trying to get our collateral in Winston-Salem. There wasn't much demand in the 11 States of the country, if that is your question, as there ought to have been. The demand had to be created to some extent.

I recall a little town this side of LaGrange called Hogansville, where the lumber dealer was a friend of a brother of mine, who was a lumberman, and he talked to him about it, and I went down and talked to the rest of them about it, and they got up a little savings and loan association, I'm pretty sure, with a Federal charter, Hogansville, which is nothing but a small town, and they got so much money they loaned money to LaGrange, where they wouldn't start one at that time.

So the money was there in nickels and dimes and pennies of the common people if somebody could sell them the idea, and it wasn't because of past experience.

I might say when mortgage money was taken away from Atlanta and the South periodically and not on account of past experience, but it was because lenders could do something else more profitable with the money or because they had other demands for it, one of which was the cash surrender value on insurance policies.

I might say that all of us thought there was a demand, especially in HOLC days, for more and competent appraisers, and so three of us started what is now the Society of Residential Appraisers. I am the second member, and have the authority in my pocket that says so, and I am the second president. Obviously, when you are that, there are just the other two fellows and you, and now they have 13,000, and I wouldn't know how many chapters.

Last year they celebrated the 25th anniversary here and, strangely enough to say, I was chairman of the program committee that got up an International Appraisal Conference and celebration. I have been on the board of governors ever since. I try to attend the meetings, and I never did appraise for a fee myself that I remember anywhere.

The Home Owners Co. is in the life insurance business, the fire insurance business, casualty insurance business, the real estate business, and actually an outgrowth of a bonus system which I think is an admirable one of giving all the employees you have some percent every Christmas of all they ever made since they have been with you.

If you work that out to the *n*th degree, I believe you will agree it is a pretty good system as compared to most of them.

We had the feeling in the West Lumber Co. that these fellows probably threw that money away, so we started giving them stock in the Buildmore Finance Corp. that finally consolidated with an insurance agency that belonged primarily to employees of the First Federal.

My nephew has been president of that for several years. He is no boy, he is 46 or 48 years old, and he owns the majority of stock in it. I am a minority stockholder. I am afraid to buy any more stock in it for fear of criticism, and I will tell you a little more about that as I go along.

The First Federal Building in Atlanta we built, and then we bought the next one to it, an old mill construction building, and we were lucky to get tenants, and they have been tenants for a long, long time.

Well, during all this process I have been on the board of the Chamber of Commerce of the United States for 16 years, and I usually stayed at the Mayflower Hotel in Washington. One Christmas I got a Christmas card that said, "Merry Christmas, you stopped here 23 times this year."

And I sent the telegram back saying, "Happy New Year, and I will never do it again," and I kept my word.

I was on the board for 12 straight years, representing the construction and civic department, and I was elected by members in the entire United States.

I was on 4 years and off 4 years, and have not been on it for 6 or 8 years.

I was chairman of that committee for probably 10 or 12 of those years that dealt with the general subject of construction and town planning and what not.

It had been my policy at First Federal for many years that when comments and criticism came from Federal supervisors I would attempt to answer these. They were addressed to the board of directors, and then I would submit them to the board, and the board would modify them or change them or whatnot, and then, when the reply was made which they requested, it was signed for by every board member.

We had selected our board members with great care, and I think I had a good board and, like other boards, half of them died in the meanwhile, and they were replaced from time to time.

I believe I knew every man around Washington Federal Home Loan Bank Board, and I believe I even know most of them now in the topflight fellows, except the present Chairman; I have never had the pleasure of knowing him or meeting him or seeing him that I know of.

I think most of them know me, and I find some of the ladies over there who stayed probably longer than some of the rest of them, that know me, I don't even know their names, but they know me. I was not especially a disturber in the crowd, but I was over there so many times trying to get something done.

In 1954—well, to start with, I will simplify this that when I say Mr. Wyman, although you know that means the supervisor, either his local crowd with his knowledge or him, and we will get it down to that, Mr. Wyman had insisted for 10 years or more at that time, 1954, on calling these three corporations affiliates, and every time I complained I didn't get anywhere because the next time they reported they said it again, and they got it to where they finally quoted it.

I don't know who they were quoting because it wasn't me. I presume they were quoting themselves.

Well, they weren't affiliated in any way, shape or form or fashion.

I was president of all three in 1924, and——

Mr. HOLIFIELD. 1924?

Mr. WEST, Senior. I don't mean 1924, I am sorry; I mean 1954.

At the present time, the Home Owners Co., I understand, has 52 or 38, in other words, nearly 50 stockholders. I think it was completed for the record, and probably George Jr. has it, and I have to hit or miss.

The West Lumber Co. certainly has about 7 and, of course, the First Federal has about 25,000, and I believe these three corporations are separate enough to be kept separate all their lives and have been.

So when we replied in 1954, they came back with several comments and criticisms or——

Mr. MONTGOMERY. Mr. West, at this point I think it would be helpful to the committee if you outline the nature of the criticisms, just how were you criticized in connection with the operation of these three corporations.

Mr. WEST, Senior. Well, I will dwell a little more than on the affiliate question because I think the examiners found the word "affiliate" enough to where they thought they were all one and the same thing, so they thought they were entitled to anything.

My nephew went out of his office one day and told the girls he was going to see his auditor, who was in the same building, and, while he was gone, one of Mr. Bonesteel's boys walks in and says he wanted to see something, and she turned the business over to him.

When my nephew came in he obviously took everything away from him and threatened to throw him out of the place.

Mr. GLICK. This was at the Home Owners Co?

Mr. WEST, Senior. At the Home Owners Co.

Before that a year or so we had a question from them as to who all the stockholders of those three corporations were. We would give them a list of all the stockholders, who they were and where they were.

Finally, when I passed on to be chairman of the board of these three corporations, George West, Jr., was the president of the First Federal; my youngest son, Charles B., was president of West Lumber; and my nephew the president of the Home Owners; and the examiners wanted to go in and make an examination, and when they were stopped by these two other respective presidents, they finally gave an excuse that they would save the First Federal a lot of money if they were permitted to investigate all their records and second mortgages on their books, and with that excuse and to prove they weren't affiliated, they were denied right to examine West Lumber Co. and Home Owners.

I will say to you gentlemen any information all of them have is available to you, and I told Mr. Montgomery or Mr. Glick the first time I saw them.

I know there wasn't any use to have them harp on affiliation when we weren't affiliated, and these two presidents decided to do the same thing, having nothing to do with them.

We sent that reply up in 1954 and came back, a statement which I call Baylis Loans.

Mr. HOLIFIELD. Call what?

Mr. WEST, Senior. B-a-y-l-i-s. He was a builder who developed, a borrower.

Mr. GLICK. This correspondence is the result of the 1954 examination?

Mr. WEST, Senior. Yes.

Mr. GLICK. I wonder, sir, if you would take a look at these Thermo-Fax sheets, and identify them for the committee.

Mr. WEST, Senior. Yes, sir. This is a letter addressed to the board of directors of the First Federal Savings & Loan Association dated

August 16 on the Home Loan Bank Board stationery, Office of Supervisory Agent, Federal Home Loan Bank Building, Greensboro, N.C.

Mr. WALLHAUSER. What year would that be, Mr. West?

Mr. WEST, Senior. August 16, 1954, signed by J. M. Sink, Jr., supervisory agent.

He was the president of the bank at that time also, and was a supervisory, agent, this is a letter to which I referred a while ago.

Let me talk a little bit about this Baylis——

Mr. GLICK. Mr. West, that group of papers also includes correspondence in connection with that examination report; does it not?

Mr. WEST, Senior. Yes; and it is that correspondence that I am trying to find. So I will identify the second letter, dated September 10, 1954, to J. M. Sink, Jr., supervisory agent, Greensboro. I will brief it to that extent.

Mr. GLICK. Mr. West, excuse me, these papers were submitted to the committee by you, were they not, sir?

Mr. WEST, Senior. That is right.

Mr. GLICK. Mr. Chairman, I would like to have them—they were submitted to the committee?

Mr. WEST, Senior. By the board of directors.

Mr. GLICK. By the board of directors of the First Federal. These papers are in the hands of this committee?

Mr. WEST, Senior. Yes, sir; I thought you were talking about my committee.

Mr. GLICK. From you, from the board of directors of the First Federal Savings & Loan Association of Atlanta.

Mr. WEST, Senior. Yes, sir.

Mr. GLICK. Mr. Chairman, I would like to have this included in the record at this time.

Mr. MOSS. Is there objection?

Mr. WALLHAUSER. Where are the originals?

Mr. GLICK. The originals are in the files of the First Federal Savings & Loan Association of Atlanta.

Mr. MOSS. Hearing no objection, so ordered.

(Exhibit No. 5.—Correspondence between the Federal Home Loan Bank Board, Washington, D.C., and First Federal Savings & Loan Association of Atlanta, Atlanta, Ga., and other material relative to the examination and audit of the association as of March 19, 1954, appears in the appendix on p. 213.)

Mr. GLICK. These are true copies, Mr. West?

Mr. WEST, Senior. Let me see. I referred to the first one, which is addressed to the board of directors. Let me see where it stops off—signed by Sink. This is documentation, it is from the supervisory letters, and the comments, and it goes on through down to paragraph 4, and the financial statement. Some of these sheets are numbered and some are not. Maybe I can identify these sheets better. Let me see just a minute. They are not exactly in sequence. They all seem to be numbered 16, 16B, 16O, 16P, 16R, 16S, 16D, 16Q, 16F, and then a letter of September 10 addressed to Mr. Sink from my board of directors, in answer to his supervisory letter.

Then a letter addressed to Mr. Sink, dated September 29, which is the letter that I want to talk about in just a second. It seems to be a nine-page letter addressed to Mr. Sink and written by me explaining all of the questions that are asked about.

Mr. WALLHAUSER. Excuse me, Mr. West.

Mr. Chairman, would it help if the staff sorted these Thermo-Fax copies out and put them in proper order and specifically asked for identification of them at some later time?

Mr. MOSS. I think it would be most helpful. We will hold the record at this point to receive them, and they will be identified prior to going in.

Mr. GLICK. Mr. West, may I clarify one thing? This series of pages numbered 16 with letters following, consists of pages from the examiner's report, with comments?

Mr. WEST, Senior. Yes, sir.

Mr. GLICK. And which were attached to the letter from Mr. Sink or part of that, and referred to in the letter from Mr. Sink to the First Federal Savings & Loan Association of Atlanta?

Mr. WEST, Senior. Yes. They are all copies of correspondence in this entire transaction in about that dateline.

Mr. GLICK. Thank you, sir.

Mr. WEST, Senior. I think they might be rearranged by number such as I think Mr. Wallhauser suggested, better to identify them. Let me get a piece of my file. This is a letter of September 29, of which one of those letters seems to be. That is not either, that is not one either. This letter is dated November 1, and probably is in there. If it is not, it is somewhere in your files or you can have this one.

This is addressed to Mr. Sink, and the subject is First Federal Savings & Loan Association of Atlanta, and it is dated November 1, 1954, and the last paragraph of which I expect I had better read and then I will start back and comment on it.

> Repeating the substance of your reference to this matter in your letter of August 16, 1954, to the association's board of directors, the lending activity just described clearly ignores the well-recognized principle that the loan percentage should be based on appraised value or sale price, whichever is less. As a practical matter, the regulatory restrictions on percentage of value that the association may lend on a security of real estate is made empty and meaningless by a practice that does not give effect to this principle. We must insist that the association's lending practice be revised accordingly, and you should so advise the association's board of directors.

That is signed "John M. Wyman, Chief Supervisor."

Now, this is the Baylis loan transaction that that statement caused me to go to Washington with my gang to see them.

To start with, a few months before this time we were in Washington at some sort of meeting, and Mr. Baylis, whom I had known for many years and done a lot of business with, Eugene A. Baylis, I am sure, was up here with us, and in the hotel, although I am a poor real lumberman, there was a lumberman from Pampa, Tex., named Boyd, who is a past big man in the Hoo-Hoos, they go by numbers, and I think they are all dead but me, I am so low, but Lynn was there, and he had a Texas Retail Lumber Association house plan called the San Angelo plan that, after all, there are not too many small home plans, and this was one.

They prepared it and they were selling it. Somebody wanted to buy it and I bought a set of them and paid him $100.

It was nothing but about a 640-foot house with a wide living room across the front, and in the back two bedrooms, with a bath between, and then the area back of the bath could either be two closets or a pas-

sageway, with side closets, and in one end of the long living room you cooked, and the other end you lived, and in between you ate at a bar.

Being interested all my life in trying to get some shelter for less money for poor folks, if they are poor, and that is the way they get rich is to own a piece of property, I told Gene Baylis—I happened to have my chief appraiser with me and a construction man and a vice president, Joe Shaw, I told him if he would go back home in two to three areas that we outlined and buy some lots cheap enough we would loan $4,000 at 6 percent for 15 years.

He said one time he built 583. I don't know whether he built 583 exactly or not. He dressed them up with a shirt front of brick and increased the size, and I believe got $8,500 on an FHA commitment.

We were satisfied with our deal. It is right back of the airport, which is south and west of the airport, and at that point Atlanta is surrounded by three municipalities, College Park where these lots were, and Hapeville, which is in front of the airport, named after an old doctor named Hape that everybody has forgotten about but me, and East Point, which is exactly south of Fort McPherson.

East Point, by the way, is not the east point, it is the east point of the Atlanta & West Point Rail Road, not to confuse anybody.

We told him if he built his house in that place we would loan him $4,000. We didn't ask him what they cost. We thought it was worth $5,000. We didn't care about the costs, although Mr. Shaw had figured out costs, and he had figured out the lot cost.

He went out to this place on the edge of College Park, it is about 7 miles straight out from Atlanta. Of course, the airport had stretched out, and it is adjacent to the airport now, these houses are, and we never foreclosed, not a single one; is that right?

Mr. West, Junior. We never lost on one.

Mr. West, Senior. We never foreclosed but one that I know anything about and that was before—that was about 1955.

I thought we did a magnificent job there, and he bought the lots for $300 to $350 apiece, he said. That is 50 by 150 feet minimum, with asphalt street, no curb, water, in the main sewer, gas, and electricity. Some, I think, had septic tanks, all inside the limits of College Park, which is a very high-class little neighborhood.

And so, now, when Mr. Wyman is talking about—the examiners come down and they find out that Mr. Baylis sold some for less than $5,000, and that is a hanging crime.

By the way, a year later one was reappraised by the VA, and they valued the lot at $1,150, the same lot with no more improvements than Baylis had.

We appraised the lot, I think, at either $750 or $800, even though he had paid $300 for them.

The man who owned them wanted to get rid of them, and Baylis bought so many and paid cash and took an option on the balance, and so forth, and whether he lost or made money is not my business, or how he got them paid I don't know myself, but I am like the little boy was, I think it was worth still $600 or $700, and if they were, and we thought they were, and they are still, they are worth more—our appraisal was one thing.

Yet Mr. Wyman said they were sold for less money than the appraised value, and that selling price or appraised value, whichever is

less, is the thing to fix your loan on; he has got a new name for the appraised value which I never heard of before this time.

Appraised value, if I know anything about appraising, considers all these questions, and then you come up with an appraised value; but he proposes to get a different tack on appraised value, and get it equal to appraised value.

As little as I have investigated so far since I have been back, he has a new one, and that is cost or selling price, or appraised value, whichever is less.

Mr. GLICK. Mr. West, at that time did you know what the regulations of the Home Loan Bank Board provided insofar as value for an 80-percent loan? Was it appraised value or do the——

Mr. WEST, Senior. Eighty percent of appraised value—not exceeding 80 percent of appraised value.

Mr. GLICK. It made no reference then to cost or selling price?

Mr. WEST, Senior. I don't think they ever tried to tell anybody how to appraise property. I don't think they know enough about it to tell them how to appraise property. I don't think they have ever had an appraiser on the staff. If they have, I don't know him.

Mr. GLICK. You have indicated though that the regulation has been revised since then?

Mr. WEST, Senior. They have revised regulations so many times that I don't know whether I can answer that one or not.

Mr. MOSS. Well now, you indicated a change by Mr. Wyman.

To your knowledge, does that reflect a change in the formal regulations of the Federal Home Loan Bank Board?

Mr. WEST, Senior. If I thought they were running by regulation, Mr. Chairman, I wouldn't be here. They are running by ear.

I thought enough of this statement to take it to Washington with me, first Horace Russell from Chicago, who is practicing law, and who once was their General Counsel; I took my lawyer, Herbert Johnson; I took George West, Jr.; I took Mr. Shaw, who is our chief appraiser and a construction engineer; and Mr. Walter McAllister was Chairman of the Board; Mr. Ira Dixon had only been on the Board about 3 weeks, so that time can be well fixed, and we sat down, and much to my surprise, I thought we were going to discuss values of property, which were never discussed.

Apparently all we went there for was to talk about—"You sold it for less than $5,000," the man did, and if he did "You had no business to value it at $5,000."

Of course, on that theory, if you gave your son a house at about half price, why, then, you would lower the value of his house faster, or if you bought a bargain in a lot, which Baylis did buy in a lot, and none of my business was it to inquire as to how he bought it. I didn't care. We still—by the way—excuse me, sir.

Mr. WALLHAUSER. Did Mr. Baylis buy this as raw land and convert it?

Mr. WEST, Senior. No; he didn't. This was one of the deals where he didn't. He actually bought these lots from a man named McElroy, whom I don't know, but apparently he owned a farm out there.

By the way, there were one or two streets already paved in this area, and the airport was in the act of cutting off a little of this area at that time.

Actually, the property in front of it now is the east-west runway of the Atlanta Airport, which is nearly 2 miles long, so you see what they have been doing is stretching it this way.

And the city of College Park, every time whatever they undertook to do with it, whether it was by legislative act or whatnot, it increased the limits a little more, so actually from the time Baylis optioned them I would guess McElroy promised him—I think he was on the city council, for that matter—and they did it everywhere, they were taking in more property, and if they didn't, the City of Atlanta did, and they were beating them to it, and this was on the backside of where the airport didn't extend. College Park lies in two counties—Fulton and Clayton.

Mr. WALLHAUSER. Were your loans construction loans or on completed residences?

Mr. WEST, Senior. No, sir; we loaned him construction money on it, as I remember.

Mr. WALLHAUSER. Did you have investigatory practices?

Mr. WEST, Senior. Oh, yes.

Mr. WALLHAUSER. And supervision, and so on?

Mr. WEST, Senior. We never advanced him a dollar on a single house unless we knew we had 80 percent less loan material on the ground.

Mr. WALLHAUSER. Certified by whom?

Mr. WEST, Senior. By our appraiser, chief appraiser, plus me. We didn't make a loan for 25 years that I didn't scratch my name to the bottom of it, because I thought our chief appraiser, who had not lived in Atlanta all of his life, might be deficient in where it is growing, and I don't think I am.

Mr. WALLHAUSER. Did you personally inspect every house?

Mr. WEST, Senior. That the First Federal ever made a loan on, probably the first 25 years; some of them at 40 miles an hour, and some of them I stayed half a day.

Mr. WALLHAUSER. I mean of the basic Baylis tract?

Mr. WEST, Senior. Yes; oh, yes. I was on his tract while building them. This was on a concrete slab, it was not difficult to see. He built 8, 10, 15, at a time, which a workman can get to where he builds a house without as much labor himself, physical labor, and cheaper price if he does the same thing over and over again, and he really learns how to put in the plumbing and pour slab over it, and get the house on top of it and do it quicker—just automatically. You don't have to try to make him work faster. He would do it anyway. He does it in an easier way.

Mr. WALLHAUSER. How fast did they sell? Was there a demand for them?

Mr. WEST, Senior. They sold immediately, yes. He probably sold them for $100 cash. We didn't care how he sells them; that is his business. In other words, he sold them and he found us an acceptable borrower. We didn't loan to him the final loan. We loaned it to the purchaser.

Mr. WALLHAUSER. You retained the loans in your association?

Mr. WEST, Senior. Oh, yes. We never sold conventional loans since we have been in business. We have a hard enough time getting them.

So this was a new doctrine.

There were Mr. McAllister and Mr. Dixon and Mr. Creighton, I believe, if he was General Counsel then, and I see he is here, and he ought to remember.

Mr. WALLHAUSER. Excuse me, for the record, Mr. Chairman, just to clear it, Mr. Creighton is here. Was he General Counsel then?

Mr. CREIGHTON. I became General Counsel on January 3, 1956. I was not General Counsel.

Mr. WEST, Senior. Would you ask him, sir, who he succeeded, because I knew him.

Mr. WALLHAUSER. Just for the record, Mr. Creighton, who did you believe was General Counsel then?

Mr. CREIGHTON. What time in 1955?

Mr. GLICK. In 1954.

Mr. CREIGHTON. 1954 I believe it was Harrison or James Hall. I succeeded Jim Hall.

Mr. WEST, Senior. Anyway, McAllister was Chairman, and Dixon had to be on the Board—Mr. Wyman knows, he was present.

Mr. MOSS. We will establish that for the record and place it in the record at this point.

(The information was subsequently furnished and the General Counsel referred to was T. Wade Harrison.)

Mr. WEST, Senior. Anyway, Mr. McAllister seemed to think it was a big joke. We all got into an argument about this question, and he didn't do anything about it. He seemed to think it was a big joke. He was the Chairman, and Mr. Dixon never said a word one way or the other, and the argument was between Mr. Wyman and Mr. Russell principally, whereupon Mr. Russell says, "If you will put this in the regulation, appraised value or cost, whichever is less, we will abide by it. If you don't, we won't."

I agreed with that or concurred in it.

Meanwhile, they had some words that Mr. Wyman said hurt him to the heart, and so forth, on account of how much he thought of Mr. Russell because he worked with him through the years.

So we all went back. So far as I know, they never changed their minds, nor did we change our mind.

Mr. WALLHAUSER. But you maintain Mr. McAllister did not support Mr. Wyman in this?

Mr. WEST, Senior. I don't know what he did. I have known Mr. McAllister for many, many years, and I am sure I am not the man to tell what he did. I don't know what he did. We didn't hear any more from him.

They didn't tell us "Yes" or "No." They never acknowledged the fact we were there; they never told us they insisted on this or "we will put it or won't put it in the regulation."

There was never anything said after that except when they made more examinations we continued to be hounded on lending practices and policies.

Mr. GLICK. Mr. Chairman, if I may? Mr. West, in connection with that sequence of events, and immediately prior thereto, I have here some papers which were submitted by the First Federal Savings & Loan Association dealing with the 1952 examination of your association which raised certain questions of operation, and comments were made in the examiner's report.

I wonder if you would identify these for the record, and then I would like to ask you a couple of questions about them.

(Exhibit No. 6.—Correspondence between the Federal Home Loan Bank Board, Washington, D.C., and First Federal Savings & Loan Association of Atlanta, Atlanta, Ga., and other material relative to the examination and audit of the association as of April 22, 1952, appears in the appendix on p. 245.)

Mr. WEST, Senior. Well, this is a copy of a letter on the Home Loan Bank Board stationery, Office of Supervisory Agent, Greensboro, June 5, 1952, addressed to the board of directors of the First Federal at Atlanta, a two-page letter signed by J. M. Croson, supervisory agent; and attached then are sheets from the examination, one undated, one 16–C, and I would say this is out of place, because the transmittal letter which I will identify again on the same stationery, is dated December 5.

This is to all Federal savings and loan associations in the fourth district controlled by the Federal Home Loan Board, over the placing of hazard insurance, and signed by Joe Holt, supervisory agent, who was also president of the bank at that time, and then it had 16–B in sequence of examination papers, and 16–A, and under investments, page 12, these people document the supervisory letter, and then a letter of July 5—these are all copies—to the Home Loan Bank Board, supervisory agent—that is July 11, 1952, I should have said, attention Mr. Croson, and it has six pages signed by Federal Savings & Loan Association by the officers and directors, actually the directors, some of them are officers, and that concludes on page 6.

Then, there is a list of stockholders of the Home Owners Co., 38 in number, it says of record May 31, 1952; and then by asterisk, officer, director, employee of the First Federal, or attorney for the First Federal seems to be marked, and the amount in dollars and cents of the shares they own; a list of officers of the same company, and they are star marked; and a letter of July 24, 1952, signed by Croson, supervisory agent, Greensboro, addressed to George W. West, president, acknowledging with thanks letters of July 11, and so forth. They are all company correspondence.

Mr. GLICK. This is a true copy of your own records, is it not?

Mr. WEST, Senior. Yes, sir.

Mr. GLICK. Now, in this report some of the examiner's comments deal with hazard insurance and correspondence which finally ends up with the letter of July 24, 1952, and would appear to close the conversation, would it not, sir?

Mr. WEST, Senior. Yes, as I scanned it.

Mr. GLICK. And yet in the prior exhibit of the examination of 1954, some 2 years later, they again bring up the matter of hazard insurance for discussion.

Mr. WEST, Senior. That is true.

Mr. GLICK. They bring it up anew, even though it would have appeared to have been a closed matter for discussion, from their own correspondence, would it not, sir?

Mr. WEST, Senior. Yes, sir. As a matter of fact, Mr. Divers expressed in an epistle an opinion as to how to handle fire insurance.

I will say for the record, I have been in the mortgage field over 50 years, and certainly every security deed I have ever had, which is a

deed of trust up here, makes a very legal contract for the borrower and lender to name an agency on the matter of fire insurance.

I would say just because the borrower pays the premium doesn't make that contract any worse or better.

We likewise don't give the borrower a chance to name the man who checks the titles. We likewise don't give him the chance to name the surveyor, and we have one on every house and lot we ever made one on.

Mr. GLICK. If I may, at this point, Mr. Chairman, I would like to read into the record the regulation from the rules and regulations for the Federal savings and loan system, with amendments to January 4, 1960, dealing with insurance. This is section 555.5 entitled "Insurance," subsection (a), "Hazard; control over placing of," and it reads as follows:

> The board of directors of each Federal savings and loan association has not only the right but the duty to establish and maintain such requirements over hazard insurance as, in the fair and considered judgment of such directors, are necessary to protect the association's interest in the real estate security for its loans. Subject to this limitation those who borrow from Federal associations on real estate security should have reasonable freedom of choice in the placing of hazard insurance on their property.

That is the end of that section, sir.

Mr. WEST, Senior. Let me continue then, Mr. Chairman.

We likewise had a character or credit report, and the borrower pays for that, and we have a contract with the reporter company that we can't even show it to them.

By the way, in our town we have the home office of the Retail Credit Co., which is the foremost one in the world, I guess, and one of the vice presidents is on our board, and before he got on our board, one of their general counsel called me about an association that showed one of the reports to a prospective borrower and got a lawsuit against them or threatened against them in another State; and still they are rights I think that we have as a lender, if we have any number of instances where people won't pay premiums or we have to pay them or where people balk about it, and certainly with 4,446 GI loans we have made to the amount of $37 million, and with 2,307 on hand, valued at $22 million, all of which, except very few, were made for more than 100 percent, because the Veterans' Administration made the appraisal and permitted you to lend the man loan costs, plus a 5-year insurance premium, so there is no use to say that more than a 100-percent loan have not been made. We made that many and we thought the spirit of Congress was to take that fellow and charge him nothing, if possible, to move in a house and, by the way, the record on those loans is just about as good as any other kind I know, and I still think that was the intent of Congress.

I have one real good incident that happened many years ago where a man named Lee owned a combination store and a little house about 6 miles out from Atlanta, and he was a balky sort of fellow, and the first thing you know we had to pay the premium.

We scolded him every way in the world, and finally we insured the property with somebody, probably with the Home Owners Co., if they were in business at that time.

About a week later the house burned up. Of course, Mr. Lee came in with a tall walking stick, and his face down about here,

he had lost his store and house. But, strange enough to say, the First Federal had exercised its rights, kept the property insured, and he got $4,400, which he would never have gotten otherwise.

I had one lady 3 weeks ago where the First Federal had a mortgage of $2,000, the West Lumber $400 and a man named Magby $2,200, and the house—and nobody had paid the premium. Finally, the Home Owners Co. said "send $44. If you don't, none of you have insurance."

They dunned everybody else. I sent $44, and the house burned down the next week. You should have seen the morning when Magby was bringing in his $45 worth of premium, and he was knocking on my door. He didn't know I had paid it; and so the man got the lot free and clear of debt, with a garage or two in the back, and a lot of junk on it that was half burned up, with aluminum siding he had bought from somebody, I imagine from this lumber dealer, not mine, and West Lumber Co. got the $200 or $300, and the First Federal got the $2,200. It was one transaction that nobody in the whole Federal Home Loan Bank Board staff could understand, a check made payable to five people.

What are you going to do about it? Are you all going to meet in a dark room and tear it in two and give each other a part or what are you going to do? There was nothing for me to do but get endorsements on it, and I certainly endorsed for the First Federal and the West Lumber Co., and converted it into money, and then go see the ginks and hand them all the money and get them all paid off. I don't know what else you could do about it. When they find that next year they will comment on that, they will be raising the dickens on that, and they probably won't find the check, but it is in somebody's files.

Mr. GLICK. Mr. West, you were telling us about the problem of appraisal on the Baylis loans.

Now, this mortgage of $4,000 was loaned on the completed property which had been appraised by the association for $5,000, had it not?

Mr. WEST, Senior. Correct.

Did you finish your questions?

Mr. GLICK. Yes, sir. I just wanted to establish that this was on a completed property and not for construction purposes.

Mr. WEST, Senior. I believe that to be in sequence I will go along and continue with the reports.

We finally were examined in January of 1957, and they did not report it until December of the same year, which is 11 months later.

In the meanwhile, about 2 years before any conversation about insurance policies, I personally had prepared a checksheet, which is in the files of the committee, with 15 insurance agents in Atlanta, with 2 companies a piece, without their consent, some I don't even know, and so when a customer came to make a loan, we let the customer check his choice. The Home Owners is on there, and there is also a blank space, as I remember, I am not looking at it, and so our attorney at closing time had the man check who he wanted insurance with, and so our insurance had been handled on that basis.

Notwithstanding that, along comes the examining department and they still comment on no customer choice in the matter of getting

insurance, and in correspondence I had with the Chairman at a much later time——

Mr. GLICK. Is that a copy of your checksheet attached?

Mr. WEST, Senior. Yes, sir.

Mr. MOSS. Is there objection? Hearing none, the checksheet will be placed in the record at this point.

(Exhibit No. 7.—Insurance check sheet and list of 14 insurance agents in Atlanta, Ga., appears in the appendix on p. 257.)

Mr. WEST, Senior. One transaction we had during this time was an easy one to understand, and I will come to it later again, but the Chairman, I had one correspondence with Mr. Robertson once, I remembered it, and he ought to remember one, and his reply was that the Home Owners Co. had sold so many hundred loans and insured so many hundred houses.

Well, all of these were GI loans, and they are easy to explain because we have done a lot of business with a man named W. H. Smith, I have, for 35 or 40 years. He built 109 houses 2 miles from Atlanta from this other place I had described in a little town called Hapeville. They were all GI loans. He couldn't have a sewer for them because the little town said they didn't have any sewer.

I was in the city hall when he asked the man and got the permits, who did the septic tank work, and they said Cox Bros., and he said, "I will hire them," and he did.

He sold these houses and, I would say—by the way, there never was any complaint made about one of those houses, either verbal, hearsay, or written that I didn't see personally, and I don't believe there were over 10 percent of them, which would be 11, and most of those complaints were septic tank trouble running over, and most of them were some lady with about six kids who was going to wash all day long, and the septic tank didn't have the capacity to hold the water.

Anyway, that wasn't the big trouble. The big trouble was just about the time all these houses got moved into and everybody was semi-happy, at least, although one fellow had two or three complaints, he couldn't find old man Smith; well, he lived in the first house all this time, and the one I looked at was some fellow had written in, one fellow got him up a lot of stock complaints, they had no electric doorbell. Well, none of them had, and so on.

They sold for $7,200, I remember, and they had septic tank trouble, and had this trouble and that trouble.

This house I went to, I remember very well. I go by it once in a while yet, and none of these troubles occurred in this house.

It was the stock sheet that the fellow had gotten and passed around the neighborhood, and he filed them all.

The VA, and the straw that broke Mr. Smith's back, the minute they all got moved in and did quiet down, and went along living in the houses, along came an expressway coming through by the airport and through either Federal funds or what not, everyone had to be connected to the sewer. That doesn't sound quite as simple to the layman as it does to me, because most of them had the sewer running out the back and the drainage field in the back, so they had to turn all the cast iron soil pipe around and started in the street.

Of course, they really had a complaint to the Veterans' Administration because it cost $250, $300 to connect the sewer, which the city charged them. It is one of those things that happened.

Bert King, by the way, who works for us over in the Washington office running the VA, he and Tom Sweeny—we went to see Bert and Tom, and they would not have anything to do with the 170 Smith houses on the other side of town on account of these "109 house" complaints.

They got the houses at "Hilltop" about finished, and I said, you are going to blacklist him. They had a right to put them on the blacklist, according to the act of Congress, and they could cut him off. They cut him off just about the time he finished them.

So the only solution I knew was to offer to Mr. King the proposition that if he deeded them to anybody, and anybody did everything they say they would do, would they take them.

He said, "Yes," and Smith deeded them to the Home Owners Co. I went out there with the VA man, and the Home Owners Co. had to do everything the VA said to do, and we went over every house, and I will say that some of the things they recommended to be done were detrimental to the property, which is easily explained.

They had a picture window, and they wanted it caulked. When you caulk it in the way they wanted it, you rot out the bottom rail of the sash and the sill.

My promise was to nickelplate it if they wanted them nickel plated, and we got them nickel plated, and the Home Owners made the loans on them, and put the insurance on them themselves. They had title to them and settled with Mr. Smith for whatever the costs were, and they sold all the loans to the First Federal at par or less, which Mr. Smith intended to do to begin with, and so we acquired any number of loans with the policies already on them, and we had nothing to do with the placing of the insurance or anything else.

There is no mystery about it, and thus 170-odd houses were saved. The veterans moved in, and they didn't depreciate and didn't break down, and one of the troubles we all have with courts is that the average judge doesn't understand the physical property that sits out here somewhere, and if you will just let it sit awhile you will find you don't have much left without somebody else fighting about it, and, while property melts away, houses, and so we have that trouble, all of us do. We always have had. It is nothing new.

Mr. GLICK. Mr. West, you referred to a letter from Chairman Robertson of the Home Loan Bank Board. I hand you a Thermo-Fax letter dated September 9, 1960. Is that the letter to which you referred?

Mr. WEST, Senior. Yes, sir.

Mr. GLICK. Would that be introduced in the record, Mr. Chairman?

Mr. WEST, Senior. Yes, sir; dated September 9, addressed to me, and signed by Albert J. Robertson.

Mr. MOSS. Is there objection?

Hearing no objection, the letter will be made a part of the record at this point.

(Exhibit No. 8.—Letter from Albert J. Robertson, Chairman, Federal Home Loan Bank Board, to George W. West, September 9, 1960, appears in the appendix on p. 259.)

Mr. WEST, Senior. And I have a reply somewhere, or you have.

Mr. GLICK. I believe I have the reply.

Mr. WEST, Senior. I will be glad to identify it.

It is addressed to Mr. Robertson, dated September 21, and signed by me. It says:

"I have your letter of September 9,"—and it is a 5-page letter.

Mr. Moss. Is there objection to its being inserted in the record at this point?

Hearing none, it will be inserted.

(The document referred to follows:)

(Exhibit No. 9.—Letter from George W. West, Atlanta, Ga., to Albert J. Robertson, September 21, 1960, appears in the appendix on p. 260.)

Mr. WEST, Senior. In that letter, you see, it even questions what West Lumber Co. should do with the equity in the property. I didn't answer him because I didn't think it was any of his business and, by the way, somebody was kind enough to set out apparently what he said, and then what somebody else wrote for him, that set it out in a different column. I am quite certain he didn't write it all himself.

Mr. Chairman, I call your attention to the letter which is dated way ahead of what I am talking about, but inasmuch as it seemed to be apropos at this time, and the Chief Counsel over there asked me about it, I thought I would go on to comment about it.

Mr. Moss. All right, go ahead.

Mr. WEST, Senior. In other words, I will get up to that point finally as to where it is.

Mr. GLICK. Will you continue?

Mr. WEST, Senior. Is there anything else you want to ask me? Have you finished?

Mr. GLICK. All right, you may continue.

Mr. WEST, Senior. I might add, I think at this time, by reference that examiners do come down and examine, in my opinion, without any knowledge of State laws, and certainly we have 50 State laws that control the mortgage business, notwithstanding the Federal regulations, and in our State we have a very good mortgage law or group of laws, plus foreclosure laws.

If we go out and check a title on a piece of property and find it is clear and take a security deed, which is a deed of trust here, I think, and we find no work has commenced, then we have a first mortgage regardless of laborers' liens, or materialmen's liens, and I believe I have filed 10,000 materialmen's liens, the books are full of them. That is an awfully low-grade lawyer. It takes a lot of hard work.

But you will never tell these fellows that, either in the Examining Division or the supervisors, which means that we don't have to worry about whether the contractor pays for labor and material. He can throw the money away if he wants to or buy him a new Cadillac with it; take a $10,000 check right down and buy it, providing we have got the collateral on a loan that amounts to no more than 80 percent on that property, and he can't take it away, and that is all we do have to do.

Yet they would say to you if a man is going to come in and draw $10,000 next week, you are supposed to sit him down and make an affidavit and make a joint check of every single, solitary man he owes money to.

There is no man with any established reputation that I know of certainly in Georgia who is going to do that, and, to begin with, you don't want to make out 150 checks if you can avoid it when you don't have to.

So we make an inspection on Wednesday or Thursday, and then he gets money on Friday.

These fellows come down and they say that is the wrong way to do it. They say that you have got to make joint checks to all the people he owes money to.

In this Robertson matter, by the way, I went in his office about that time and he admitted, as a banker, that the insurance requirement I just described, the insurance contract with the borrower was sound, and he required one himself.

In the matter of this construction loan question, it is a thing that requires a lot of close work, but you still are not in business with everybody in the neighborhood in Georgia if you simply know that you have got an 80-percent loan against value at the time you make the advance. You don't care whether he pays them or not. They can file their lien, it won't be worth anything, and it will automatically expire within a year from the date of last delivery in the matter of a materialman's lien.

Now, by the same token, I have never made a construction loan in my life that I didn't have a contract on the side with the borrower that said that I reserved the right to credit the unexpended balance to the loan at any time I saw fit because that is in my favor.

These ginks come along and say that you can't do that, that that is not fair to your borrower.

Well, if I agree with a man to finance him on 20 houses and he builds 2 and, first, he doesn't know how to build them or can't sell them or for any other reason, I elect, maybe I am out of money by that time. I think my contract is a good contract. It is all in my favor. I intend for it to be. It is all my money.

Yet if I may say so, the examiners first don't understand the laws of the States under which they are operating, and then they have no legal facility, and if they ever had one over here I don't know it, and I have known it pretty well. They pass it along to Mr. Wyman, and he has no legal facility, and never has had, in the field to study the question; he certainly never had any at Winston-Salem when I was there 10 or 12 years.

Then they come along and impose it on management, and you can tell them 14 times and they never pay any attention to you whatever. Next year they come back with the same deal.

They are just little things. We find them corresponding with a man in Atlanta, and they do it with others, and they admit it, building up a case against our association. The bird's name is Robertson, and he lives on Ninth Street, and he called me up one time 15 minutes all night long for 3 days.

He is not even our borrower. They are corresponding with him and telling him his rights. He has got no rights. He never has endorsed a loan. He never endorsed, to start with, and he is telling us what we ought to do, and sending us the correspondence about a 10-cent item.

And, of course, that gets to where you are fussy about that kind of treatment. I certainly am, anyway.

All of this was about the time when Mr. Wyman and others were going around the country trying to sell all these boards of directors they were trustees, and in which he said we were trustees in a speech he made at the Georgia League, which I have taped, and I will be glad to play for you gentlemen, and if he said it once, he said it a dozen or two times, trying to convince these fellows that the board of directors were trustees, fiduciaries, and trustees. Fiduciaries and trustees, if I understand it, mean the same thing, but he compounds them, he calls them fiduciary trustees, a double deal, and they are not trustees.

The trade association at the same time published literature saying they are policymakers and members of the board of directors, and money is not trusted to them to hold in their hands until some fellow goes to get it, and I don't think the trade association—I never changed my mind that they are directors, as he never changed his mind either up to now.

Mr. HOLIFIELD. Has there ever been a regulation issued designating the board of directors as fiduciaries or trustees?

Mr. WEST, Senior. Not to my knowledge. As a matter of fact, I think it would be illegal if he did issue it.

Mr. SMITH of Iowa. I don't fully understand your position, Mr. West. These people are in the position of being trustees for the funds that are deposited by the various shareholders, are they not?

Mr. WEST, Senior. No, sir; they are not. A mutual savings bank, I think, is. But I think my board is just a policymaking group.

Mr. SMITH of Iowa. Is this a savings and loan association?

Mr. WEST, Senior. Yes, sir; it is the First Federal Savings & Loan Association of Atlanta.

Mr. SMITH of Iowa. Who are the trustees?

Mr. WEST, Senior. Who are the trustees?

Mr. SMITH of Iowa. Yes.

Mr. WEST, Senior. They have no trustees; they don't require any. The West Lumber Co. has no trustees, and they have money.

Mr. SMITH of Iowa. Each one of these people are shareholders?

Mr. WEST, Senior. Yes, sir.

Mr. SMITH of Iowa. And so they have someone to be the officers of the organization to hold these——

Mr. WEST, Senior. Take the Standard Oil Co. which has shareholders, and if they have a man whom they call a trustee I never heard of him.

Mr. SMITH of Iowa. The officers and directors of the company are entrusted——

Mr. WEST, Senior. But they are not trustees. A board of directors in a savings and loan association are policymakers.

Mr. SMITH of Iowa. We are just playing with words.

Mr. WEST, Senior. I don't think they manage it; I don't think they have anything to do with managing the business. I think that is one of our big differences, too. We are in a cleavage here.

We have been talking about that for 10 years. Nobody has ever changed their minds, and there is a lot of difference.

By the way, there is a lot of difference in the trusteeship in a mutual savings bank where five men are the trustees and they succeed themselves.

If I know anything about mutual savings banks, in the main, the so-called shareholder-depositor in that case is nothing but a shareholder. He hasn't even got anything to do with the electing of them.

Mr. SMITH of Iowa. Well, they exercise a trust. I guess it doesn't make any difference what you call it?

Mr. WEST, Senior. I don't know even if they exercise a trust. I don't think you can confront one of our directors and say, "Where is the money?"

I don't think he has ever had the money. He might catch me or the president or treasurer, but I don't think he is trusted with any funds.

Mr. SMITH of Iowa. The officer of an organization that has no money exercises a trust for the organization members, doesn't he?

Mr. WEST, Senior. He is not bonded for that money anyway, that I know of.

Mr. HOLIFIELD. He is a director.

Mr. WEST, Senior. Yes, sir; a director is not bonded to handle any money, and he wouldn't go to jail if he mishandled it, if he has. That is a right cute little study. I would be glad to keep on that one a long time. That is a good one.

Mr. GLICK. Mr. West, about the time this speech was made in 1958, that was about the time when you have indicated that you were forced out from your position with the First Federal Savings & Loan Association of Atlanta, is it not?

Mr. WEST, Senior. About the time this speech was made?

Mr. GLICK. Yes.

Mr. WEST, Senior. By Mr. Wyman down in Savannah. He made it after.

Mr. GLICK. After?

Mr. WEST, Senior. I will get it after that point, with your permission, Mr. Chairman.

Mr. MOSS. Yes.

Mr. WEST, Senior. Then came this delayed action report of 1957, examined in January and delivered December 14, I believe it was, and it raised the same old questions, although we thought from what had been said in the last report that we had settled every difference except maybe this Baylis loan question of what is an appraisal.

And so we were admonished, and that document is around here somewhere; you have a copy of it—well, I haven't been admonished since I was a boy, and I wouldn't know what it was, and so I looked it up. I thought it was tough enough to where I ought to do something about it.

So I named a special committee of the board that, presumably, were much more neutral than anybody else, if that is the word, and they interrogated everybody in sight and hearing, and meanwhile we had one or two lawsuits. We always have had them.

Lawsuits, when somebody sues me, I don't get mad. I am always going to have two to one on the deal. We undertook to foreclose on a man named Norwood who wouldn't pay interest on a construction loan. That case is well known. I don't think there is any use to even go into it here.

We were enjoined from foreclosure, and after 2 years, with 43 houses out of 200 and some, which had already been sold and financed, we got the houses back, and we got all the land back and all the lots back.

That is all we could have got if our foreclosure had gone through, and we got the rent on the houses for the time, which was a secondhand house at the end of that time, but that is the slow process of law, and you can't do anything about it.

We didn't lose any money. We won't lose any money nor will we lose any interest in the transaction.

What we are suing him for now is principally a 10-percent attorney's fee which was included in the note. We didn't lose that because we never did have it, and yet that jury decided in paragraph No. 5 that one of these 7, 8, or 10 notes contained usury.

Well, of course, right then the Federal home loan bank boys want to get you around the corner and tell you that because you charged usury they will throw you out right away.

Well, under the Truman, I called it, edict, you could charge 5 percent on construction loan and 2.5-percent service fee in our State. The 2.5 was regulated, I think, through the Federal Reserve into the FHA, if I remember it, and so we charged them 5 and 2.5, 2.5 service fee.

Well, in the process of this loan, which lasted a much longer time than we thought it would, the "edict" was revoked. It had applied to loans going through the Federal Government or VA or FHA channels.

When it was revoked we went back to the 8 percent interest, which is a legal contract and rate in Georgia, and not 2.5, but ½-percent service charge.

Well, if in seven-eighths of this contract 2.5 service charge was good, then it would seem to me that a half percent ought to have been good for doing the same identical servicing, and the same job or everything.

But the jury, and one of the jurors told somebody, who told somebody, who told me, and if quoted right, thought they ought to compromise somewhere.

Well, the $70,000—we are still pursuing the Norwood case. They are trying to pay us, and he charged everything that the examiners ever charged us with, and we whipped all that in court, and we are still pursuing them for a deficiency judgment, and they have offered us money to settle everything he is suing us for or we are suing him for.

We won't take it, and if we did get the $70,000 we would have to give him credit for $14,000. If we got that much, that would be much more than we ever intended to get out of the property anyway, and the property shows a profit, both for the time the money has been out and for the sale of the lots and houses and everything, and we have not lost any money, and that is the so-called *Norwood* case briefly explained.

So when we were admonished, I thought we ought to do something about it.

Mr. HOLIFIELD. What was the nature of the admonishment?

Mr. WEST, Senior. Well, that is a top line in an examination in paragraph 1, I believe it is, and you have the document before you.

He says:

Construction lending. Notwithstanding previous supervisory comments and admonitions designed to bring about a more prudent construction lending policy and practice, the report clearly shows the association has continued to make substantial loans to speculative builders—

and so forth. That is dated November 2d and it is from the Federal Home Loan Bank Board Supervisory Agency. That is dated December 2, 1957, to the board of directors of the First Federal. That is the supervisory letter, and you have a copy of it.

(Copy of correspondence between Federal Home Loan Bank Board of Washington, D.C., and First Federal Savings and Loan Association of Atlanta, Atlanta, Ga., relative to examination and audit of the association as of January 14, 1957, retained in subcommittee files.)

Mr. GLICK. That is it?

Mr. WEST, Senior. Is this your copy? That is your copy. Excuse me, I didn't know this came from it.

That is signed by John A. Fogarty, supervisory agent.

Then, there is a loan subject to comment sheet, and another one; then a reply by our board of directors, by the special committee of the board, and then some material here that called in men to whom we were advancing money and asked them all kinds of questions about the West Lumber Co. and the Home Owners Co., and everybody. That is our board of directors. That is our board of directors that is carrying on an investigation of us.

So then we had a special board meeting, and we reread all of this material. I asked Mr. Horace Russell to come from Chicago and be with us to get us out of this terrible shape we were in, and we wondered what to do. The best thing to do was to go see Mr. Wyman to find out what he had in mind, and Mr. Russell didn't seem to want to go. He had several cases up there, and traveled around the country, and it seemed appropriate to send our attorney, Mr. Herbert Johnson whom I had employed 10 or 12 years before, because he knew something about real estate law, and he did go.

I believe on his first visit, whereas if I could read before this—do you have it before you, where the report before this indicated that everything now is fine except this? In other words, we thought we were in pretty good shape in this period, and we had inquired into this delay in reporting, and it seemed as if everybody had a delay, and we thought nothing of it.

So when it comes in we were admonished, and we sent Mr. Johnson to Washington. That was in March about last year, 1960.

Mr. MOSS. 1958.

Mr. WEST, Senior. I mean 1958, excuse me. That is when I got back, I am sorry.

I got that mixed up, March 1958, that is right.

Mr. Johnson came back with the news that he had talked to Mr. Wyman at great length, and he made three trips up there, as I remember, and Mr. Wyman had said that he was going to throw me out, throw me off the board, throw George Jr. out, throw him off the board; throw Mrs. Mobley off the board, who had run the association actually, when George Jr. was a young fellow, had been every year except one of our existence, and is still there, and George Jr. must sell his stock.

Well, that was subsequent. We must get four new directors, and I believe that is about all.

Well, that was about the time that seizure was a pretty popular affair, and the courts were trading on discretion with these fellows, and they could have amalgamated us with one in town in about three

seconds; and my 30 or 40 years, whatever it is that I fooled around with it, would have been shot out the window.

And finally Mr. Johnson got together on another visit or two the fact that they would throw me out, and I had to leave the premises, but George West, Jr., could stay as president, but could not preside over the meeting and couldn't be a board member.

He would have to sell his stock in the Home Owners Co., which I gave him or he didn't buy it, or somebody did, for $1,000, and he would have to sell his stock in the West Lumber Co., which he can't afford to do, and hasn't done, which I gave him. He never bought any of that, or some of our family gave him.

Finally it boiled down to a conversation between Mr. Wyman and Mr. Johnson and myself from Atlanta to Washington, in which Mr. Wyman denied that he said that George Jr. had to be thrown off the board and not preside; but so long as I got out and left the place it would be all right, and throw Mrs. Mobley off the board and get four new board members.

Well, I thought I had better go to Washington myself, distrusting most people, and so I went to see Mr. Wyman.

I have known John ever since he has had a job up here with the Federal Home Loan Bank Board. I confirmed the fact that that was what he was going to do with me, and after spending 3 hours and a half with him, he said that he couldn't determine whether or not George West, Jr., was competent to be the president as long as I stayed there. And then, of course, he described all the troubles he had, which I didn't care anything about. It is his job, not mine.

He couldn't get regulations he wanted from the Board, and I said, "Why do you want to try to enforce them until the Board changes them." I know all his troubles, too, and by the way, that was him and me. If he made a record of it I don't know. I didn't know he had a record going, but if he had it going it would be a good thing to play over again because I went over to see him, and whenever I go see anybody I see them.

Mr. MOSS. Now, in the visit of Mr. Johnson to Washington in the negotiations preceding your visit, was this entirely between Mr. Wyman and Mr. Johnson?

Mr. WEST, Senior. Yes, sir. So far as I know, he never called in a soul when Johnson was there, although I wasn't there and can't say so far as I know.

He didn't call anybody when I was there. He did do this, he wanted to know where I was stopping, and I said nowhere, because I came up by plane. He indicated if I was at a hotel he was going to look it up and see—wait a minute, I am 2 years ahead of my story.

Then there was nothing for me to do but to go see the Board members. I told him he had whipped me, and I admitted it, and I have told that to mighty few, and never have had to.

Mr. GLICK. Mr. West——

Mr. WEST, Senior. Yes, sir.

Mr. GLICK (continuing). Did Mr. Wyman indicate to you that this decision for your removal was a decision of the Board—of the Home Loan Bank Board?

Mr. WEST, Senior. No, sir. He never talked to the Board members in my presence about it, but I did go talk to them right then.

Mr. GLICK. Was this meeting with Mr. Wyman before or after a letter from the association to Mr. Wyman—the letter from Johnson setting up practices?

Mr. WEST, Senior. No. That was before that. That was afterward, in talking back and forth—something he could present to our board to really do the job.

Mr. GLICK. The letter then preceded your visit to Washington?

Mr. WEST, Senior. That is right—no. This Johnson letter of which I think you are referring to——

Mr. GLICK. Yes, sir.

Mr. WEST, Senior (continuing). Was prepared after I went up there to see Mr. Wyman.

Mr. GLICK. You had gone to Washington to see Mr. Wyman?

Mr. WEST, Senior. That is right.

Mr. GLICK. And then returned?

Mr. WEST, Senior. That is right; and on the same day, the same hour I went down the hall and I saw the Chairman. He didn't know me very well. I don't know why he should have, and I told him who I was, something like I told you gentlemen here, which you are awfully patient to listen to. I didn't waste that much time with him.

I told him that Mr. Wyman was going to throw me out, I told him I was a fairly good businessman and honest, that is, Mr. Robertson.

I apparently didn't make much impression on him because he didn't ask a second word, but says, "Thank you."

I walked out and I went down to see Mr. Hallahan and, by the way, having testified before congressional committees for the Chamber of Commerce of the United States principally, some 20 times in the last 25 years, and knowing Mr. Spence and Mr. Rains and Paul Brown, one of my fellow citizens, and doing about the same job I am trying to do here now, Hallahan knew me well, he knew me longer than anybody else down there, and so did Mr. Dixon, because I have done the same thing in the Senate, and they were both clerks to those committees at those places, and I knew them then.

Mr. Hallahan didn't ask a second word.

I went in to see Mr. Dixon, and Mr. Dixon said, "When you fellows were up here before talking to Mr. Wyman or Chairman McAllister, you treated him pretty rough," so he remembered it. He was one who did remember, and he was the only member left because McAllister was gone, and there wasn't any third board member when we were scolded about this 1954 deal about appraising.

So anyway they were all three on notice as to what Mr. Wyman was going to do to me, and they seemed to be satisfied with it.

I told them in their own place of business, so then the record will show that I went back to First Federal and Mr. Johnson got up a lot of stuff. It's a good thing he didn't put it in the minutes when it passed, what I actually told them. I asked them to retire me, and so I moved out of the place.

There is a letter of transmittal that goes with the letter you have before you with all the insinuating material in it that I was willing to take; one is you have got to select your board members in the future with more good judgment.

Well, they always have been selected with more good judgment. One is if the Home Owners Co. is going to sell any real estate they

can't sell real estate in excess of a fee fixed by the Atlanta Real Estate Board.

As near as I can tell they never paid but one-half of 1 percent to sell any real estate, and the fee fixed at that time by the real estate board was 5 percent, and that is a matter of record with you.

Mr. Moss. Let me ask, who instructed you that the Home Owners would have to sell at a fee fixed by the Atlanta Real Estate Board?

Mr. West, Senior. This is a document that you have that I would be glad to read to you that Mr. Johnson prepared, that was an agreement reached with Wyman as to what terms had to be done—would you like me to read it, sir?

Mr. Moss. I would like to read that letter and then I think we might just ask for some comments from the Department of Justice as to a policy which directs a firm to comply with a price-fixing arrangement in a community.

Mr. West, Senior. That is exactly what it was, sir, nothing else.

Mr. Moss. I know that it is quite customary that real estate boards more or less agree or follow a practice; I just didn't know that agencies of the Federal Government directed that you had to do that.

I think, Mr. Glick, we will request Judge Loevinger's comments on such a policy.

Mr. West, Senior. Let me read that to you, sir, so I will not travel, myself, under false statements. Some of it is written in numbered paragraphs, and some of it is just conversation. It is all addressed to Mr. Wyman.

The Home Owners Co. will be allowed—

this is a letter that—let me see what it is. This is a letter of April 14, 1958, addressed to Mr. John Wyman from Mr. Herbert Johnson and on Herbert Johnson's stationery.

(This letter of April 14, 1958, is contained herein as part of exhibit No. 19 and appears on p. 96.)

Let me, Mr. Chairman—I know you gentlemen—I don't know how you put up with me, but here I am, how I discussed with the—I will cut out the whole name:

I have discussed with the board of directors of the First Federal Savings & Loan Association of Atlanta our conversations regarding the steps necessary to eliminate the criticisms of the association by the supervisory division of the Federal Home Loan Bank Board. It is the sincere desire of the board that the association be operated in such a manner as to avoid such criticism and to cause a minimum amount of trouble to the supervisory authorities.

The board wishes to fully comply with your requirements. In order to accomplish this, the First Federal Savings & Loan Association of Atlanta will not knowingly:

(*a*) Make any construction loan on real estate where the builder does not have an investment in the property of at least 20 percent of its cost.

(*b*) Accept the value of real estate generally as being in excess of the selling price.

(*c*) Make any loan in excess of 80 percent of the selling price or the appraised value of the property, whichever is lower, save in exceptional cases.

(*d*) Make any loan on property on which the West Lumber Co. will have a second mortgage.

Now may I digress and make an open statement that the First Federal never loaned anybody any money to the West Lumber Co. in their lifetime nor has the West Lumber Co. endorsed anybody else's notes or become liable for them in its lifetime or the Home Owners Co.

KANSAS STATE UNIVERSITY LIBRARY JAN 14 1963 MANHATTAN, KANSAS

And, by the way, that goes for any West Lumber Co. subsidiary, which they have none. They operated under registered trade names, but they haven't done the same thing. West Lumber Co. never borrowed any money from the First Federal.

Let me see, we must have left off after this one:

(*e*) Allow any coercion of any builder by which he would be required to buy any building material from any particular company.

(*f*) Make any loan on property on which the Home Owners Co. will have a second mortgage.

(*g*) Require any borrower to list a house for sale through the Home Owners Co.

(*h*) Require any borrower to carry hazard insurance through the Home Owners Co.

Then it quotes—well, I guess this is all quoted:

The association will dispose of its real estate as promptly as it can do so on a reasonable basis and will not build any more houses except when necesary as a salvage operation, and then only after reporting to you.

In other words, under the rule that we all operate under, if we, for salvage purposes, have to build a house, to sell lots or get your money out, we have a right to, but now they can't do it unless they report to him, "and to you," that is him. The whole Board isn't mixed up in this, this is just Mr. Wyman.

The person who takes applications for loans will tell his prospective borrowers that fire and extended coverage insurance is required and ask if they have any preference as to agency. If the borrower names a choice, his choice will be accepted; if not, the Home Owners Co. will be suggested.

That is what we have been doing, not even that.

The borrower can accept or refuse this suggestion. The borrower or any subsequent purchaser shall have the right to change insurance on any anniversary date of the policy.

The Home Owners Co. will be allowed to act as agent for the First Federal in the selling of any real estate only when the price charged the First Federal is not greater than the recommended minimum of the Atlanta Real Estate Board.

This is what you asked about, Mr. Chairman, and, by the way, that rate was published at that time, I am sure, on a sales contract which you can go downtown and buy from printers who print legal documents.

I hope I don't belong to the real estate board.

Mr. SMITH of Iowa. In effect, that says they can't charge any higher rate.

Mr. WEST, Senior. And that rate fixed by the Atlanta Real Estate Board. Shall I read it again?

Mr. SMITH of Iowa. It doesn't say they can't charge less, does it?

Mr. WEST, Senior. The Home Owners Co. will be allowed to—

act as agent for the First Federal in the selling of any real estate only when the price charged the First Federal is not greater than the recommended minimum of the Atlanta Real Estate Board.

Mr. SMITH of Iowa. It doesn't say he could not charge less.

Mr. WEST, Senior. That is right.

Mr. WALLHAUSER. Have you ever charged more?

Mr. WEST, Senior. No, sir; we never had charged. From what we have investigated, we never charged as much as 1 percent.

Mr. WEST, Junior. We were never charged.

Mr. WEST, Senior. You were never charged as much as the amount.

Mr. WALLHAUSER. The fixed rate.

Mr. WEST, Senior. Yes; and, generally from the record. That was one-half of 1 percent.

Mr. WALLHAUSER. What then was your idea as to the reason for this charge?

Mr. WEST, Senior. This is sort of appeasement of a policeman. It is to let him know that you look like you are doing wrong, and you say you won't do it again. Anyway, he took it. It seemed to be all right.

Neither purchasers of property from the association nor borrowers will be required to purchase any building material from the West Lumber Co., but they shall not be prevented from doing so.

I told him we would take an affidavit in the First Federal from every prospective borrower that, if anything in that house had anything to do with the West Lumber Co. or the Home Owners Co., we would not accept the application. He was afraid to do that one, but that is what he wants. That is what he did want.

Mr. MOSS. Mr. West, how many federally chartered savings and loan institutions are there in Atlanta, in your competitive area?

Mr. WEST, Senior. There are about 8 or 10. George, Jr., is chairman of the Atlanta Savings & Loan Association Club, or whatever they call it.

Mr. MOSS. Are either of you gentlemen familiar with the practices prevailing in the Atlanta area by federally chartered savings and loan associations?

Mr. WEST, Junior. Generally, yes.

Mr. MOSS. Do any of them, to your knowledge, follow a policy of making construction loans on real estate that a builder does not have an investment in the property of at least 20 percent of its costs?

Mr. WEST, Senior. No, sir; we never have either.

Mr. MOSS. You never have either.

Mr. WEST, Senior. Now, Mr. Chairman, notwithstanding the fact we might advance a man at the rate of $175 an acre to buy 50 acres, but if we think it is worth $500 an acre, as it is, and appraise it as such, we would loan him the money, and we did loan the money.

Mr. MOSS. And you loaned on the basis of appraised value?

Mr. WEST, Senior. Yes, sir; what we think about it.

Mr. MOSS. Is that the practice prevailing in the Atlanta region?

Mr. WEST, Junior. Yes, sir.

Mr. MOSS. Do you know any area where it is not the practice?

Mr. WEST, Junior. No, sir.

Mr. MOSS. You served as national chairman of the Savings & Loan League. Do you know of any area where it is not the practice?

Mr. WEST, Senior. No, sir.

Mr. SMITH of Iowa. Mr. Chairman, would you yield?

Mr. MOSS. I would be happy to yield.

Mr. SMITH of Iowa. It might be more than 80 percent of the appraised value.

Mr. WEST, Senior. I am not going to subscribe to that. He will throw me out again.

Mr. SMITH of Iowa. You might loan more than 80 percent of cost if the appraised value were more, right?

Mr. WEST, Senior. Yes, sir. I am not going to change my opinion about appraised value.

Mr. MOSS. Do you know whether it is the practice to accept the value of real estate generally as being in excess of the selling price?

Mr. WEST, Senior. That is kind of like "show me the cat." I don't think generally I know. But I know well we have made some loans in excess of selling price or equal to selling price, and especially when we were overcoming the depression, and a man comes along, a real estate speculator, and I have in mind a two-story slate roof, four-bedroom, two-bath house, with downstairs living quarters and kitchen for $15,000 spot cash, and he got our $15,000 to buy it with, and turned around and sold it for $25,000. A man wants to leave town or left town and he wants to dump his place, we don't care what it was.

Mr. MOSS. Before becoming a Member of Congress I was in real estate, and I recall many instances in all types of loans where the appraisal exceeded the selling price.

Mr. WEST, Senior. That is right.

Mr. MOSS. FHA, GI's, conventionals, through savings and loans, through insurance companies. I am just wondering if the practice in the Atlanta region was different from that which I had become accustomed to in my part of the country.

Mr. WEST, Senior. No, sir; it was not.

Mr. WALLHAUSER. Mr. Chairman, may I interrupt there? I think we will all agree that one of the approaches to a proper appraisal is the comparison of sales.

Mr. WEST, Senior. That is right.

Mr. MOSS. Correct.

Mr. WALLHAUSER. Of similar structures, and so forth. So the sale price does have some effect on the ultimate appraisal.

Mr. WEST, Senior. That is right.

Mr. MOSS. A very major impact.

Mr. WEST, Senior. That is right. You take it into consideration if you can honestly take it.

Mr. MOSS. But you cannot lay down a rule of thumb and say that is the major thing.

Mr. WEST, Senior. George, Junior, disagrees with me a little, but these supervisory agents now are going to make crooks out of all the builders even in our business because they are going to come along now and say cost or selling price or appraised value, whichever is less, constitutes loan value.

I am going to come to you and want to borrow $8,000 on a $10,000 house I am yet to build. I am going to put the lot in at some value. This, by the way, just to digress 1 second, in this lot question. If we have got the money to make a loan worth $800 at cost, which is worth $1,500, a single lot, whether the fellow does or not, then we are not losing any money if we know what we are doing.

Now back to my question again, though, then they have got the builder now coming in every week and making a drawing, making him make an affidavit of what his cost is. I don't know how many costs they have got. I know this, in the cash and carry business at the present time, a man can save 25 to 40 percent because the delivery system and the service system and the credit system in the building materials has reached such ridiculous proportions, and it is one which I don't

need any order to tell me, and a truck used to cost $1,500, now it costs $6,000.

I send out two men with a thousand feet of wallboard—nothing to begin with, and maybe it costs me $40 and I am selling it for $45 or $50. They want 10 sheets delivered upstairs in this room, and 20 sheets in that room, and so on and so on. The streets have been dug up, where there are water, gas, sewer, and electricity and house connections cut in, and it is raining, and all the boys have a convenient little tractor that gets him out of the mud, so we have no back axle or front axle in the truck, and so you had better give him $10 when he comes in to buy on that basis—when he doesn't haul himself, and you are doing it, and you invite him to haul it out to the place—the cash and carry service is making remarkable strides around the country.

Mr. Moss. I think we will want to review some of these practices and why the letter was drafted to reflect a pledge not to follow them in the future. That will take considerable time, so the subcommittee will now recess until 1:30.

Mr. West, Senior. Thank you, sir.

(Whereupon, at 12:05 p.m., the subcommittee adjourned, to reconvene at 1:30 p.m.)

AFTERNOON SESSION

Mr. Moss. The subcommittee will come to order.

Mr. West, would you like to continue?

Mr. West, Senior. Thank you, sir.

Mr. Glick. Mr. West, at the time we recessed for lunch you were discussing the letter of April 14, 1958, from Herbert Johnson to John Wyman. Would you continue with that, please?

FURTHER TESTIMONY OF GEORGE W. WEST, SR., CHAIRMAN, BOARD OF DIRECTORS, FIRST FEDERAL SAVINGS & LOAN ASSOCIATION OF ATLANTA, ATLANTA, GA.; ACCOMPANIED BY GEORGE W. WEST, JR., PRESIDENT, FIRST FEDERAL SAVINGS & LOAN ASSOCIATION OF ATLANTA, ATLANTA, GA.

Mr. West, Senior. Thank you, sir.

Mr. Glick. You had read it and questions were being asked you.

Mr. West, Senior. I did not complete the reading of it. Do you want me to continue?

Mr. Moss. Yes, I think you should.

Mr. West, Senior (reading):

The board of directors of the association will exercise more careful control of the association and assume responsibility for its future operation. Vacancies on the board will be filled with extreme care.

All communications from the supervisor will be replied to in a dignified and respectful manner. All persons communicating with the association, whether by letter or in person, will be treated courteously.

This letter has been read to the board of directors and they have approved its contents. These decisions have been reached by the board on its own responsibility and are made in good faith and without any reservation, so that future operations of the association will comply not only with the rules and regulations of the Federal Home Loan Bank Board but with good business and ethical practices.

In the event of any future complaints, the board would appreciate your calling it to its attention so that an investigation can be made and steps taken to eradicate the cause.

Apparently, Mr. Johnson transmitted that letter the next day.

(The April 15, 1958, letter from Mr. Johnson to Mr. Wyman is contained herein as part of exhibit No. 19 and appears on p. 96.

So April 15, to John M. Wyman, entitled:

DEAR JOHN: I am enclosing a letter which I have been authorized to mail you by the board of directors of the First Federal Savings & Loan Association of Atlanta.

This is on Johnson's legal stationery, by the way.

The only change in this letter and the one which I showed you is that on the second page the word "future" has been substituted for the word "successful." Some members of the board thought that they might be assuming more financial responsibility if they authorized the latter word.

This letter has been approved by a motion of the board of directors that was unanimously adopted.

I am also enclosing a copy of the minutes of the board meeting of last Friday.

You will note that Mr. George West, Sr., resigned all connections with the association and is now on retirement; Mrs. Mobley resigned as a director and George West, Jr., resigned as a member of the executive committee.

As I told you I would appreciate your calling any complaints to my attention so the board may take steps to remedy the cause.

Sincerely yours,

HERBERT JOHNSON.

Mr. GLICK. Mr. Chairman, I would like to have included in the record a copy of the minutes submitted to me by Mr. West of the meeting mentioned in the second letter just read. That would be the minutes of April 11, 1958.

Mr. MOSS. Is there objection?

Hearing none, the minutes will be included in the record.

(Exhibit No. 10.—Minutes of meeting of board of directors of First Federal Savings & Loan Association of Atlanta, Atlanta, Ga., held at the office of the association on Friday, April 11, 1958, at 2 p.m., appears in the appendix on p. 264.)

Mr. GLICK. Mr. West, in discussing some of the specific provisions of the letter of April 14, 1958, item (d), "make any loan on property in which the West Lumber Co. will have a second mortgage," are you aware of any regulation that might have existed at that time which would limit the making of a first mortgage by First Federal, depending upon who might hold a second or if any second existed or did not exist?

Mr. WEST, Senior. No, sir.

Mr. GLICK. From this provision it would appear that if the West business interests and West Lumber Co. were going to make a second mortgage on a piece of property they would send their first mortgage to a competitor of First Federal of Atlanta.

Mr. WEST, Senior. Which they have been doing since this time.

Mr. GLICK. If I recall correctly, very shortly after you started testifying this morning, you said that one of the reasons for starting this association back in 1924 was to create a market for building materials which would have provided money to the people who dealt with West Lumber Co.

Mr. WEST, Senior. That is correct.

Mr. GLICK. You feel this is a proper purpose in organizing a savings and loan association?

Mr. WEST, Senior. Well, it doesn't make sense to me that I would have to send, or the West Lumber Co. would have to send, any inquiry

of any kind in the way of a customer they had or I had to a competitor association which I spent my lifetime competing with. But I do it, and they are very nice to take care of it, and they do take care of it.

Mr. Moss. To your knowledge, are there any rules or regulations of the Home Loan Bank Board which prohibit the placing of a second mortgage by any firm unless it was, in fact, owned by the association? Do you know of any parallel instance in your experience where such a restriction has been applied?

Mr. West, Senior. No, sir.

Mr. Moss. Do you know of any rule or regulation of the Board which was being violated in the practice followed by West Lumber Co. prior to this agreement?

Mr. West, Senior. No, sir.

Mr. Moss. Were you ever told that this was a violation of a rule or regulation?

Mr. West, Senior. No, sir.

Mr. Moss. Was it inferred that it might be contrary to the personal convictions of Mr. Wyman?

Mr. West, Senior. Yes, sir.

Mr. Moss. Had you ever followed the practice of requiring builders who were borrowers of First Federal to buy their lumber at West Lumber Co.?

Mr. West, Senior. No, sir.

Mr. Moss. Has any charge been made that such practice was being followed?

Mr. West, Senior. Yes.

Mr. Moss. Had any evidence been offered to support that charge?

Mr. West, Senior. No, sir.

Mr. Moss. If you were doing it, do you know of any rule or regulation being violated?

Mr. West, Senior. No, sir.

Mr. Moss. Was any letter ever written to you calling attention to the specific violation of any rule or violation in connection with this practice?

Mr. West, Senior. Prior to this time, I don't think so. I don't recall that there was.

Mr. Moss. Well, even on this occasion, was there any citation——

Mr. West, Senior. Oh, no.

Mr. Moss (continuing). Of a rule or regulation?

Mr. West, Senior. No, sir.

Mr. Moss. It would appear again to be a matter of the personal view of the top supervisory representative of the Home Loan Bank Board?

Mr. West, Senior. That is correct.

Mr. Moss. I think these are important because in connection with this inquiry, we are trying to determine how chartered institutions are regulated, whether they are regulated uniformly under rules and regulations adopted by the authority of a board or whether we have rules and regulation at the whim of an individual.

Mr. Glick. Mr. West, did the association's board of directors ever conduct an inquiry into the question of coercion of its borrowers?

Mr. West, Senior. Yes. In other words, when this special committee of the board was appointed, after the admonishing which I described this morning, they interrogated every contractor that I know that we had anything to do with.

Mr. GLICK. Who was the "they", sir?

Mr. WEST, Senior. This special committee of our board of directors. They interrogated me and interrogated everybody in sight, or hearing, and so far as I know all the record that was made of their interrogation is in the documents which you have.

They even interrogated one of the supervisors who happened to be around there, an examiner named Tanner, and I believe that is in that volume of material. In other words, I wasn't present when they were doing this.

Mr. GLICK. You were not present during the course of the interrogation?

Mr. WEST, Senior. No, except when they interrogated me.

Mr. GLICK. You were not a part of that committee?

Mr. WEST, Senior. No.

Mr. GLICK. Was Mr. West, Junior, a part of that committee?

Mr. WEST, Senior. Not that I know of.

Mr. WEST, Junior. No, sir.

Mr. GLICK. Did this committee render a report of any type to the board of directors of First Federal Savings & Loan Association?

Mr. WEST, Senior. Yes, sir; the one which says they interrogated this man or that man, all of the questions.

Mr. GLICK. I show you this document which has been forwarded to the committee by the savings and loan association and ask you to identify it.

Mr. WEST, Senior. It is dated January 22, 1958, and it is headed at the top "E. R. Hawkins." He was a builder and a borrower. There are two sheets of questions and answers.

The other one is the same date, D. S. Harrington, and it was of the same kind, two sheets.

The next one is J. M. Buice, same date.

Mr. MONTGOMERY. Mr. West, these were all builders——

Mr. WEST, Senior. And borrowers.

Mr. MONTGOMERY (continuing). Who may have bought lumber from West Lumber Co.?

Mr. WEST, Senior. Could have. Wait a minute.

Mr. MOSS. Let us finish the identification.

Mr. WEST, Senior. There are two sheets on J. M. Buice on that same date.

Of the same date Richard F. Doetsch, three sheets.

Fred G. Fett, Jr., all bear the same date, that is three sheets.

O. V. Turner, that is three sheets.

Ellis M. Creel, that is three sheets.

Mr. GLICK. Now, Mr. West, this document is dated January 22, 1958, which precedes your removal from the board of directors.

Do you know whether there were any other documents in connection with this report by the special committee or the executive committee of the——

Mr. WEST, Senior. Yes, there is somewhere a conversation between this special committee and a man named Tanner who was on the examining staff, and I am not certain I could identify—I could find it in this mass of material I have got here. I'm pretty sure you have a copy of it. There are a lot of miscellaneous questions this committee gave him, and he gave us most unofficial advice on how to run the business.

Suppose, Mr. Chairman, we do this, suppose we see if we can find it in my stuff somewhere.

Mr. GLICK. Mr. Chairman, with your permission, I would like to have this introduced in the record at this point.

Mr. WEST, Senior. Here is that copy, and whether this be all or less that I have I will give it to you now.

Mr. MOSS. The item will be exhibit No. 11.

(Exhibit No. 11.—Transcript of inquiry by special committee of the board of directors of First Federal Savings & Loan Association of Atlanta, Atlanta, Ga., Jan. 22, 1958, into question of coercion of its borrowers appears in the appendix on p. 266.)

Mr. WEST, Senior. Here is a nine-sheet document entitled "Meeting of Special Committee, Dated January 29, 1958," and the chairman is E. W. Gottenstrater, and it lists the other board members' names, and sitting in with them was our lawyer, one of our lawyers, named Henry Hatcher, our lawyer Herbert Johnson, Jack Tanner, examiner, and W. A. Vaughan, examiner, and Mrs. Pendergrass acted as secretary, and here are the questions that the special committee of our board asked principally Mr. Tanner, as I remember. You can have that.

Mr. GLICK. Mr. Tanner is who?

Mr. WEST, Senior. Well he is a——

Mr. GLICK. At that time.

Mr. WEST, Senior. He was senior examiner examining us at that time.

Mr. GLICK. He was then an employee or agent for the Federal Home Loan Bank Board?

Mr. WEST, Senior. Yes, one of Bonesteel's men.

Mr. MOSS. Is there objection to including that as exhibit No. 12?

Hearing none, the exhibit will be included at this point.

(Exhibit No. 12.—Transcript of meeting of special committee of the board of directors of First Federal Savings & Loan Association of Atlanta, Atlanta, Ga., Jan. 29, 1958, appears in the appendix on p. 284.)

Mr. GLICK. Item No. (f) in this letter deals with the making of second mortgages by the Home Owners Co.

The question I would ask here is virtually the same that I asked dealing with the West Lumber Co.

Mr. WEST, Senior. My answer would be the same.

Mr. GLICK. You know of no regulation which would prevent——

Mr. WEST, Senior. No, sir.

Mr. GLICK (continuing). The association from lending to anyone?

Mr. WEST, Senior. Let me say that one cure for all these questions in addition to the 20-percent question is whether or not the property is appraised at sufficient value to justify an 80-percent loan.

I don't think it is anybody's business if a man is holding an equity, to discuss who owns the other 20 percent. It can belong to 20 people or 1 person. It belongs to somebody.

If you make an 80-percent loan, who it is, somebody else, certainly owns the 20 percent, and it doesn't make any difference whether he owns it in spot cash or that many chickens or what he owns in it. The 20 percent belongs to somebody else. If the appraisal is wrong, then you have got the mixture between the 80 and 20 wrong, but if the

appraisal is not wrong, then it doesn't make any difference who owns the 20 percent. It is a 20 percent ownership by some people and I don't see that this association has any business to say who they are.

Mr. GLICK. To your knowledge and recollection, Mr. West, was there ever an occasion where the appraisal practices of the First Federal Savings & Loan Association were questioned by the examining authorities?

Mr. WEST, Senior. I don't know one single instance where either supervisors or examiners ever questioned us on our ability to appraise anything, anywhere, at any time.

Mr. MONTGOMERY. Did you construe, Mr. West, the criticism of the Board of the fact that you had loaned more money, on a piece of property than it sold for as being a criticism of your appraisal?

Mr. WEST, Senior. No, sir.

Mr. GLICK. Is it proper to assume——

Mr. WEST, Senior. Of course—go ahead, excuse me.

Mr. GLICK. Go ahead.

Mr. WEST, Senior. Well, I say we have an instance ever since that time that I am going to show you in a little while where they undertake to lean over backward to show that we were making greater loans—an amount of loans because they copied a whole lot of ridiculous figures which were wrong, and they apologized for it.

The only one, I think, in the history of the country where they apologized.

I will read it to you in due time, but you can go ahead, please, sir. I don't want to stop you.

Mr. GLICK. Well, without going into the remaining lettered items in this letter, is it proper to assume that, following the transmission of this letter from Mr. Johnson to Mr. Wyman, the association immediately proceeded to comply with the provisions as set forth in that letter?

Mr. WEST, Senior. Well, I might say that I left, when I made up my mind that I was a man who was going to have to leave the premises, I left. I never had a private office in my life there. I packed up what little I had, and on a Saturday I left the premises and I don't think that in the next 2 years, 2 or 3 months, I went in there six or eight times, and if I saw the president any time anywhere I said nothing to him about the business, and I know very little about what they did except when I came back, and in agreement with Mr. Wyman I made some investigations, which I am still at, and still doing.

I stayed away from the premises. I made up my mind if I had to quit in order for him to prove that George Junior was competent, I was—notwithstanding the fact that one time he said it doesn't make any difference where I am, he said, "Your son would do this or that," and I want to say there is nobody who accused me yet, and I want to say further they had better not, that I had anything to do with the operation of that business for 2 years and 3 months, or whatever the time is. It is easy to find out.

Mr. GLICK. Even though you had founded this institution and nursed it for a goodly number of years, you suddenly divorced yourself from it?

Mr. WEST, Senior. Worse than that, I spoke on the radio, three to five stations every day in the week for 5 minutes every day in its

behalf for 10 or 12 years; that is a good ball and chain job, and I haven't done it for 10 years, and I see people every day who say they listened to me.

Mr. GLICK. Well, I think then we might direct some questions to Mr. George West, Jr.

Following the submission of this letter on April 14 of Mr. Johnson to Mr. Wyman, did the association proceed to comply with these provisions as set forth?

Mr. WEST, Junior. Yes, sir.

Mr. GLICK. To your knowledge, are these common practices—the provisions that are set forth here—is this a common practice of the business in the Atlanta area?

Mr. WEST, Junior. No, only except so much as I hear that if a threat was made of seizure, as it was in our case, that this practice would either be done or they would have been seized.

Mr. GLICK. You say a threat was made of seizure. I would like to explore that for a moment.

Where or how was this threat communicated to you or the members of the board of directors of the association?

Mr. WEST, Junior. Well, from the meeting that Johnson came to Washington after we were admonished and had with Mr. Wyman, the compromise was this letter, and if we hadn't arrived at some compromise or his original agreement that both myself and Mr. West, Senior, would be thrown out of the association, and he would seize it, if we insisted on staying in.

Mr. GLICK. Did Mr. West say that he had been told that the association would be seized?

Mr. WEST, Junior. This is what I understood him to say, anyway. This was my impression. There was nothing in writing that I have in any of this matter.

Mr. GLICK. What I am asking you is this. When Mr. Johnson returned from Washington, did he inform you that the association would be seized unless the Wyman requirements were complied with?

Mr. WEST, Junior. Yes.

Mr. GLICK. You clearly understood that the association would be seized by the Federal Home Loan Bank Board or its officials?

Mr. WEST, Junior. That is my understanding.

Mr. GLICK. Was there anyone else present at the time this conversation took place between you and Mr. Johnson?

Mr. WEST, Junior. Mr. West, Senior, was there.

Mr. GLICK. I wonder if I might then ask Mr. West, Senior, what his understanding was.

Mr. WEST, Senior. Well, Mr. Wyman told him he would either do this or else. I don't know what "or else" is. It means the policeman is going to do something bad to you if you—I am not going to say he would seize it or not.

Mr. GLICK. I am not asking what Mr. Wyman said.

Mr. WEST, Senior. I would say the same thing about Johnson.

Mr. GLICK. Johnson stated that the association would be seized?

Mr. WEST, Senior. Well, Johnson didn't state in that many words to me. Johnson simply said "You either do this," he says, "or else."

Mr. GLICK. And the "or else" you assumed——

Mr. WEST, Senior. So far as I am concerned I don't know what "or else" means, even though it comes from him.

Mr. GLICK. Thank you.

Now, to get back, following this letter and the departure of Mr. West, Senior, from the association and the premises, I wonder if you would tell the committee what your experience was in the operation of the association and what your capacity was at that time.

Mr. WEST, Junior. My capacity was then president. I was still a member of the board of directors. I was not on the executive committee.

As an operation matter from a day-to-day practice, this gets to be rather cumbersome.

I have to—the executive committee is not there, so in order for me to operate I have to call them together in order to have things done, and the items (a) through (h) and the other general statements in this letter immediately meant that certain things had to be done in an administrative way to put it into operation, and I felt that it was necessary that these go into the minutes of our board of directors and, of course, rather than calling a full board meeting every day, I practically had day-to-day meetings with the executive committee which, I am sure, it is known, our charter will show, has the right to operate, as most executive committees do, during the interim periods of regular board meetings.

This, of course, first of all, means that these gentlemen get a fee for attending directors' meetings, and they meet with me as much as two-thirds of the day, day after day.

They immediately voted themselves a fee for meeting, which is logical for them to do, and the immediate result was it increased our operating costs unnecessarily.

Shortly this occurred—the formulation and acceptance of this letter in April. Early in June of that year I had a communication from the president of the Federal Home Loan Bank of Greensboro, Mr. Fogarty, saying he would like to meet with our board of directors and discuss some matters which were included in the examination which Mr. West, Senior, just discussed that they were making at the time. The special committee was meeting in January of 1958, in which this special committee had talked to Mr. Tanner.

Subsequently, I called a meeting of the board of directors, and Mr. Fogarty and Mr. Mank met with our board on June 17, 1958, and at that meeting they imposed again, by this inference of mandate, certain things which we must additionally do in addition to this letter.

I am not—I can't say definitely in my mind whether at that time they had any knowledge of this letter or not. But since that time I have had personal, of course, contact with each examining group that has examined us, almost annually, in each January within a few days of the extra 12-month period since 1959, and the examiners seem to have no knowledge of this letter, and when they found us operating under this we, of course, had to make certain explanations as to why we were doing this to them, and it was all news to them.

It seems again that supervision didn't let examination know anything about this agreement that they had reached with us and, furthermore, didn't transmit this down through the district bank to their district examiners.

Copies of these additional resolutions which they required us to pass on the June 17 meeting have been furnished to the committee.

Mr. Moss. If there is no objection, we will insert a copy of the minutes of the June 17 meeting in the record.

(Exhibit No. 13.—Minutes of special meeting of board of directors of First Federal Savings & Loan Association of Atlanta, Atlanta, Ga., held at the office of the association, Wednesday, June 17, 1958, at 10 a.m., appear in the appendix on p. 290.)

Mr. West, Junior. The first resolution they required that we adopt reads as follows:

Be it resolved that the association make no loan on the secruity of real estate in which any director, officer, employee or attorney of the association has a direct or indirect interest or has had for the past 12 months or to the purchaser from any corporation in which any such person has an interest in excess of 2 percent, except as expressly permitted by the regulations, or as necessary to salvage the association's investment in real estate in the Meadow Cliff subdivision.

Mr. Moss. By the regulations, is that by the regulations of the Home Loan Bank Board?

Mr. West, Junior. Yes, sir; we so construct it.

The next was that:

Be it resolved that agreements with second mortgage holders be limited to the value of their second mortgages and that any conveyance of property be deferred until the date when the association's first mortgages on the properties on an overall basis are reduced so as not to exceed 80 percent of value as appraised on the date of conveyance.

Mr. Smith of Iowa. Mr. Chairman, I wonder, do you want to ask an explanation as we go or——

Mr. Moss. Certainly you can at any point.

Mr. Smith of Iowa. Will you explain that particular resolution?

Mr. West, Junior. This resolution and the one preceding it where it mentions the Meadow Cliff subdivision—was a subdivision in which the builder defaulted on, and we, of course, subsequently owned the subdivision.

In this particular instance, the builder was willing to deed us the subdivision without going through the foreclosure proceedings.

However, he had a second mortgage on this property in about $130,000, from memory, I would say.

This was with the West Lumber Co.

It has always been the practice of our association to guarantee to second mortgagees when we have to take over a property or foreclose on it, that if we possibly can we will protect their interest.

In this instance, the only way we could get them to cancel their second mortgage so that we could get the property and salvage it and do something with it and not lose money, was for them to cancel their second mortgage, which they would have no more interest in, $100,000-odd, which they did.

Mr. Smith of Iowa. Does this guarantee in any way provide they will get some of their money before you get all of yours?

Mr. West, Junior. No, sir. They would only get whatever is left, if there is anything left, and after we have salvaged the property and gotten back all our money, plus interest, plus costs, whatever that cost may be. This is what they did.

Subsequently, we salvaged this subdivision. This is the incident that is specifically referred to that we won't build any more houses.

One way to salvage, the quickest way possible, on the vacant lots that were completed, was to build houses on these lots and then sell them ourselves.

Some of this land we sold in an undeveloped state, some we sold in a partially developed state.

Mr. SMITH of Iowa. What do you care about the second mortgagee so long as you are protected? What is your concern with a subsequent mortgagee?

Mr. WEST, Junior. We could not get this property without reckoning with the $130,000 debt that was on it. It then becomes whether he is going to take it over for $130,000 and do something with it or whether we are.

Mr. SMITH of Iowa. You mean he would have the right to pay you off and then take it over in his own name?

Mr. WEST, Junior. That is right. He had a second mortgage on it, sir.

By doing this, which was the quickest, the least expensive sort of way. Now, it can't be said that this is the way to do everyone of them. You have got to look at them each one and as you look decide what you would do.

Certainly one this large, this subdivision, probably entailed as many as several hundred lots in the final stage.

In the meantime, the northeast expressway went through there and put industrial property on both sides of the expressway.

We know the builder paid for this land originally $1,000. We subsequently sold part of it for as much as $2,100 cash, and thereby the record will show, which we will be happy to furnish, that we had a substantial profit in this.

Now, the regulations provide that in the salvage of improved real estate, that is, those lots with houses on them, that we can sell those to subsequent homeowners, and in a salvage manner the very best way we can for as little or as much as we can get down on them, and finance the balance on a monthly payment basis, which is what we did.

As soon as we had sold some land and credited these receipts or the sale of these houses, some unsold houses that the builder left in there, some unfinished, the whole ball of wax, so to speak, we then had some dollars, because we sold land for cash and had real estate left, and this we were then prepared to turn over, and this agreement had been made with West Lumber Co. prior to this time, and it had been made at other times with other second mortgagees and this is what both of these resolutions referred to.

The last resolution, wherein it refers that the conveyance of the property be deferred until the date when the association's first mortgage—well, this is another thing that is peculiar to Georgia.

We sell these properties as provided for in the regulations and they are not a first mortgage under the Federal Home Loan rules and regulations, although they are in Georgia because we have actually sold them. For example, the maximum would be nothing down, so to speak; a fellow, whatever he owes, moves in and starts making monthly payments.

So what they are referring to here is that never again would we do anything like that, and it says here where a second mortgagee was involved until such time as that purchase price, if it was more than 80 percent, will be down to 80 percent of the original sale price.

Mr. SMITH of Iowa. I still don't understand what you care, or your organization cares, whether or not there is a second, third, fourth, fifth, or sixth mortgage, what do you care? What you are interested in is your security.

Mr. WEST, Junior. Well, this is true. But we couldn't have gotten our security without reckoning with the second mortgagee. Maybe I am leaving this out, which we spoke of earlier. Since this was a material man who had a second mortgage, he also had lien rights to be reckoned with within this property.

Mr. SMITH of Iowa. But I thought your father said that—peculiar to Georgia—there were no lien rights ahead of yours.

Mr. WEST, Junior. That is true. But, as a second mortgagee he would still have a claim in this. We have just been through one of these in another subdivision like the Norwood instance, where the second mortgagees and all the creditors, whether or not they have a case, put us into court and kept us 9 months, even though we finally won out, but time is running against a bunch of half uncompleted——

Mr. SMITH of Iowa. Does the holder of the mechanic's lien have a right of action?

Mr. WEST, Junior. Ultimately he won't have any, but——

Mr. WALLHAUSER. How long does the foreclosure process take in Georgia?

Mr. WEST, Junior. Four weeks.

Mr. WALLHAUSER. You could have foreclosed, couldn't you?

Mr. WEST, Junior. We could have, and run the risk of being enjoined once again as we previously had, so the experience dictated that this would be the fastest, most equitable, and it has proved to be so, to a profit.

The next resolution is:

> Be it resolved that the purchase of materials for completing construction on real estate owned by the association be made on the basis of competitive bids, except when very small amounts of materials are involved.

This was the substance of the actual actions that were taken at that meeting.

There were other things discussed in the implementation of the letter of April 14.

For example, disposing of this real estate as quickly as possible and as rapidly as possible which is, of course, not always the way to get what you have in it out, let alone sell it for profit and sell it for the best possible means.

So we have operated under that, and have not been criticized. We have had no words from the supervisors that we have ever violated any part of this letter.

We have never had any criticism from them that we have, that they have received from any of our customers, whether they would be borrowing members or would be customers or savers or whatnot, from them; they have had no complaints.

This entails in each of these items a rather ridiculous concept of doing daily business in the matter of distributing insurance all over

the face of the earth, actually clear out of our Atlanta market area, and losing all control of it. We have had several houses 3 years that we had loans on where we did not have more than 50-percent interest, but always less than 80 percent, burn down—total losses. We had one in the last 8 months, and that takes us about 8 months to settle with an insurance company because it was an out-of-State, out-of-town, insurance company that we had no——

Mr. WALLHAUSER. Excuse me, don't they settle losses through the General Adjustment Bureau or some other firm like that?

Mr. WEST, Junior. No, sir, not necessarily. There are some that do and some that don't. This happened to be one that did not.

Mr. WALLHAUSER. Did not?

Mr. WEST, Junior. It took a long time, and it tied up what we had in it, you see, and we finally settled with them—had to go in and rebuild the house, so to speak—rebuild it and suffered an 80-percent loss. We had to hire additional insurance clerks, and we opened the door on 6,000 loans for everybody to switch and change insurance because, as you will see here, it does not recognize anywhere in this letter that this would apply only to our borrowers, the fellow who actually signed the original contract and deed and the note and, therefore, in many instances occasions occurred, as they have in the past, which probably people don't understand, who buy from somebody who made the loan with us, and in this area is where most of the problems arise, so we then began to do business with third parties.

We almost had to submit every one of these to our lawyers because, generally speaking, particularly in Georgia, if you get a third party in between you and your original borrower, you lose your interest if you make any agreements with him that are not agreed to by the fellow who actually still has the contract and whom we do legally and technically have to foreclose on. He is the fellow who signed the paper, no matter how long he has been gone, no matter who else is in possession and has actually bought the property.

This generally has just increased costs and, of course, as Mr. West, Sr., mentioned earlier, we have lost business from a very good source, from both of these other corporations.

I would like to state here for the record that I know that it is against the regulations to lend either of these corporations any money. I know that it is against the regulations, and we never have done it—that is to lend any corporation that one of our directors or officers—I'm not so sure about attorney or employees—but that is what the resolution says, whether they have a 2 percent or a one one-hundredth of 1 percent interest in it. We never have, to our knowledge. We have had occasion to turn down loans which I thought might have some possibility.

We had a house in Atlanta which was owned by the General Motors Corp. They buy houses and put loans on them in their name for their topflight executives.

Well, I just turned the loan down. I would have to go back to my board and ask all the employees if they owned any stock, owned 2 percent interest in this corporation before I could consider the loan. So this gets to the matter of turning perfectly good business away from the door. We have and are today operating under this mandate.

Mr. WALLHAUSER. Some of the questions that I had in mind, Mr. Chairman, have been answered by questions from counsel. I'm just trying to recapitulate for just a minute, Mr. West, Senior. You undoubtedly are a man of stature and standing in the community and you organized this association.

You are actually, or you were, a member of the family of the Federal Home Loan Bank Board. Your troubles, as I remember the testimony, began in 1954 or thereabouts.

The fundamental difference between you and the Federal home loan bank, as I analyze the testimony, comes about because of what they would call your affiliate companies. They are, in effect, considering that you have interlocking boards of directors.

Are any of the members of the board other than you and your son members of boards of the other corporations?

Mr. WEST, Senior. There have been. In other words, he has been a member of the board of directors of the West Lumber Co., which he is not now. In other words, that is one of the questions.

Mr. WALLHAUSER. Yes. The items that you have mentioned as being upsetting to the supervisory staff and the examining staff, such as the appraisal definition—that is merely a byproduct, isn't it, of the charge, maybe not openly made, but of the implied charge that you were operating an interlocking group of companies for the benefit of——

Mr. WEST, Senior. Yes; I would think so.

I would hate awfully bad to imagine in this country that we would have directors on a bank board, a New York bank board or national bank board, which bank would not do business with some association or some corporation that he might be a stockholder and officer of.

Mr. WALLHAUSER. Right. I agree with that.

Mr. WEST, Senior. It pretty nearly would disqualify all of them.

Mr. WALLHAUSER. But the premise would be that you were doing an unusual amount of business among the three corporations.

Mr. WEST, Senior. Well, I am on the board of a holding company that operates five national banks in Georgia and belongs to the Trust Co. of Georgia, a State-chartered bank. Certainly the First Federal does a lot of business with the Trust Co. of Georgia. I have been for 40 years. Of course, that whole question resolves itself into, I mean, are you crooked or are you not crooked.

The first line of somebody being crooked is the people have got the money in their hands. If you are going to be crooked, it seems to me, they have real money.

Mr. WALLHAUSER. I am certain, at least I feel sure in my mind, that the Federal Home Loan Bank Board members or staff are not charging you with being crooked. I don't see how they could possibly do so. However, they might possibly be trying to prevent——

Mr. WEST, Senior. Me from being crooked?

Mr. WALLHAUSER. Not you from being crooked, but other instances of a similar arrangement of interlocking companies or affiliate companies or whatever name you wish to designate.

Now, moving on to your debate about trusteeship with Representative Smith, a board of directors of a savings and loan institution ordinarily approves the actions of the officers, approves the loans made by the officers, approves purchases of personal property, in fact, approves almost every act of the officers.

In addition to that, even though they may not have a legal stature or status as a trustee, do they not represent the shareholders in checking the actions of the officers for the benefit of the shareholders?

Wouldn't you call that a moral trusteeship?

Mr. WEST, Senior. I think the last part of your statement is in agreement with me. I think the first part is not. I don't think they approve every act as you go along. I think they give you a policy under which to operate, and when that policy is once fixed, management has a right to do business under that policy.

Mr. WALLHAUSER. Let me take a specific case.

Mr. WEST, Senior. After they have done it they can look at it and change the policy, but it has already been done. I don't believe my board is to approve every loan before it is made.

Mr. WALLHAUSER. You do not?

Mr. WEST, Senior. No, sir.

Mr. WALLHAUSER. Well, my experience——

Mr. WEST, Senior. If it is we would be meeting all the time.

By the way, let me go to the Federal Home Loan Bank Board. When I got on the board at Winston-Salem they were meeting every Thursday, a committee of five men coming from a great area to approve loans which had come in since last Thursday, when they met, and nobody had a line of credit.

They never heard of a line of credit in the Federal Home Loan Bank System, and all of it contrary to business principles, in my opinion.

I think my board is to fix policy.

Now, they can look at loans after they are made, and if they want to set a new policy, they can sure do so, and you have got to operate under it.

Mr. WALLHAUSER. Then your board probably would only have to meet once a year, wouldn't it, to fix policy?

Mr. WEST, Senior. Unless they wanted to change it.

Mr. WALLHAUSER. There would be no point in meeting monthly, is what you mean.

Mr. WEST, Senior. That is the reason they do meet monthly in order to check up on management once a month. They have to meet monthly, whether they want to or not.

Mr. WALLHAUSER. I cannot say in most associations, because I certainly don't have the facts, but I know in some associations, at least, the board of directors do or does approve the loans that are made.

Mr. WEST, Senior. Oh, yes.

Mr. WALLHAUSER. That is one of their functions, one of their primary functions.

The facts are given as to the personal income of the individual, his credit standing, the appraised value by an outside appraiser, the appraised value by the management, and on that basis the loan is either approved or disapproved, with the terms submitted by management.

This, to me, is good business practice. Perhaps your association hasn't found it to be so, I won't debate that point, but I do believe—I am not speaking for Representative Smith—but in my judgment the board of directors is at least a moral trustee representing the shareholders, and goes far beyond just making of policy.

Now, then——

Mr. Moss. Would you yield at that point?

Mr. WALLHAUSER. Yes.

Mr. Moss. Wouldn't you agree that whatever the form of trusteeship or the relationship of the board to the shareholders, that that is a determination, when in dispute, which should be made by the Federal Home Loan Bank Board or by the Congress but not by supervisory personnel who are there for the purpose of executing or carrying out policy but not for making it?

Mr. WALLHAUSER. I would certainly agree that the members of the Federal Home Loan Bank Board would have the authority. Indeed, I would agree with that.

Mr. Moss. And it should be formally expressed so that all associations are alerted to the fact that they will all be expected to operate in the same relationship to their shareholders and not have it applied on a piecemeal basis, differently in different areas.

Mr. WALLHAUSER. Yes, I think I would agree with that.

It could well be, however, that the Federal Home Loan Bank Board or its staff might believe that it is such a general practice for boards of directors to operate in a given manner, that to operate differently would be an unusual circumstance, which they apparently have decided was the fact in this case.

Now, Mr. West, I am not antagonistic.

Mr. WEST, Junior. Excuse me. May I say something on this subject if you are going to leave it, Mr. Chairman?

Mr. WALLHAUSER. Yes.

Mr. WEST, Junior. There are two things here that we seem to overlook. In the growth of this or any other business, first of all, as I look at it today, the general structure of these boards of directors in the savings and loan business, as well as generally in the financial field, our commercial bankers and all others, as well as the life companies, the officers and directors—the officers, the management of the institution in the financial field, are members of the board of directors, and in many, many cases in the largest of these institutions, which are in the lending business, these officers who are management constitute most of the board, a majority of the board, and they are meeting daily about these matters. They are the management.

Mr. WALLHAUSER. Let me get that statement again very clearly. You say that in the largest, in some of the largest institutions the officers constitute a majority of the board?

Mr. WEST, Junior. Yes, sir.

Mr. WALLHAUSER. I just don't happen to know of any. Perhaps you can specify some. I am not debating the question, but——

Mr. WEST, Junior. You can simply look at their published statements on the backs where they publish officers and directors and see those officers and directors.

Mr. WALLHAUSER. I have looked at thousands of them, and I can't recollect any one where there is a majority of officers on the board of directors.

Mr. WEST, Junior. Yes, sir. Well, I can supply you with some.

Mr. WALLHAUSER. I would appreciate it very much.

Mr. WEST, Junior. Then, secondly, in the general lending field, and as it becomes larger and more competitive, and so forth, it seems to be, that if this is going to be constituted, and it is good because

you have, you put certain members on your board of directors who have talents in this area, have experience and knowledge in the lending field, that loans are approved by a loan committee of the board of directors.

In other words, this is the second alternative to the first.

Mr. WALLHAUSER. That is an alternative; that is right.

Mr. WEST, Junior. I will agree with you, I am not too happy to have the majority of officers on the board. This is not a healthy situation, but certainly the latter, and this seems to be from what I see again looking day to day, particularly our large insurance operations, not only in their mortgage field but their whole investments, are handled by finance committees in the banks.

Mr. WALLHAUSER. Indeed, this may be true.

Mr. WEST, Junior. This may be several members of the board, and it may be some officers who are not on the board, but not the whole board of directors.

Mr. WALLHAUSER. In answer to Mr. West, Senior's, statement that the board of directors does not approve the loans as a usual thing—I seem to believe that out of minutes of your meeting where it is reported that Judge Hathcock submitted 135 closed loan files which had been inspected by the loan review committee, he moved the approval of these loans by the board.

Mr. WEST, Junior. That is right.

Mr. WALLHAUSER. So they do approve.

Mr. WEST, Junior. They have already been closed within their policy directed to us management for making loans.

Now, if this committee has any one of those loans which they have any minute question which would come up about it, they review it at that time. They make——

Mr. WALLHAUSER. What could they do about it after the loan is closed?

Mr. WEST, Junior. They can't do anything about that. We then have to change the policy in the future.

Mr. WEST, Senior. That is a loan review committee, just what it says it is.

Mr. WALLHAUSER. And was the experience unusual where they ever found any fault with a closed loan, for instance, what they object to on a closed loan?

Mr. WEST, Senior. One thing, of course, what the committee does is check the dockets to see whether or not they look right from the standpoint of content and reports and, in fact, Judge Hathcock has been a judge; he knows a lot about real estate law and he generally goes through them.

Mr. WALLHAUSER. Legally your counsel has approved all of the documents?

Mr. WEST, Senior. That is right. Legally he might make a mistake and not include one, however, or he might have some exception to one which he hadn't approved as an exception, which he thought was good.

Now, actually, to start with we are in a straitjacket before we start, because we are under the rules and regulations of the Federal Home Loan Bank Board as to what kind of loan we can make or where, and the second whether or not collateral is to be made, if it has to be collateral, so we start off with regulations on making loans before

we ever get to our own port. We have to operate first under our own charter, you see.

Mr. WEST, Junior. I think, if I might——

Mr. WALLHAUSER. Yes.

Mr. WEST, Junior. Each of our directors, and we give this consideration in selecting directors, lives, as well as we can pick, in a geographical, different geographical area in town.

In addition to that loan review committee, one director has been designated by the appraiser after the loan is made, to himself look at this loan, to photograph the appraisal, the application, the individual.

Mr. WALLHAUSER. After the loan is closed.

Mr. WEST, Junior. Yes. I can't say whether it was started in 1924, I wasn't there to remember—but certainly this has grown up to be a very satisfactory way, and very competitive and very fast way, and has proved not to be detrimental.

Mr. WALLHAUSER. Just let me get that clear. The director looks at the loan before it is closed?

Mr. WEST, Junior. No, after it is closed. He reviews it, in other words; in addition to the material, the judge, for example, there, that is the——

Mr. MOSS. Sort of locking the stable door after the horse is gone, isn't it?

Mr. WEST, Junior. Why we—I can't say why we—built this up except I know this in the very beginning, in a small town, in a small association, all the board did was to meet and decide as to where they had general knowledge—as to where they set a policy—and it has been built up over the years.

The associations that I know of that the Congressman refers to are in communities which are not quite as complex as 1 million people and 5 counties with 49 different incorporated communities, and we would almost have to have a perpetual board of directors, if this is the case, who would have to come to the office and stay all day every day in order to accomplish what you speak of.

Mr. WALLHAUSER. Well, I am not going to belabor the point. I just want to ask one more question. I mean, you are running the association properly, there is no question about it, in your own mind. It is just an unusual procedure to me to have the loans only reviewed after they were closed, and no consideration given to them before by anybody other than the officers, unless you had an agreement somewhere along the line that this was the way it was to be done and I presume you have from your board of directors.

Mr. WEST, Junior. That is correct.

Mr. WALLHAUSER. In reading your reply or the letter that Mr. Johnson wrote, in which you agreed to various requests by the Federal Home Loan Bank Board, I just cannot understand why you agreed to make, for instance, more careful control of the association than you had heretofore, if you felt that you had made very careful control of the association, or where you say that all communications from the supervisor will be replied to in a dignified and respectful manner. I would assume that you had always replied in a dignified and respectful manner.

Mr. WEST, Senior. Yes, we have, and Mr. Wyman's complaint was that we talked back to him, and he didn't like it, because when we

talked back to him we said we did not break any regulation, and yet he's telling us we did, and I should like to find that document of the $235 second mortgage.

Let me go back one second, if you will.

Mr. WALLHAUSER. Surely.

Mr. WEST, Senior. I am confident in my study of the savings and loan business that in the old days management was nothing but a bookkeeper, and he had four or five board members, all of which thought they were running the association, and for that reason they didn't progress very much.

Now, certainly the West Lumber Co.—I am not there today—and I have got a credit man that I pay $25,000 a year. He has been there 30 years, and he is approving credit, and he is approving credit within brackets even on Dunn & Bradstreet. He doesn't ask me anything about it. He doesn't ask the board about it.

He will sell $25,000 worth of merchandise today to a man in Cartersville. As a matter of fact, he is doing worse than that, he is selling that man that simply because the president of the C. & S. Bank told me to sell him all I could. I didn't take the trouble to look him up. He told me to do the same thing.

In other words, a credit man certainly in any sort of an institution I know of doesn't have the board meet in order to do business, and we have come a long way in the short period of time in this business where management is now running the businesses, I hope.

They are reverting, however, if they are doing what this Home Loan Bank Board is trying to do to us I wouldn't say they are doing it, I will say Mr. Wyman is doing it, and that is where we are going back to the horse and buggy days.

I have a competitor who is the president of an association in Atlanta who a few years ago said his board wouldn't give him money enough to go to a savings and loan meeting and wanted me to go over and ask his board to give me money to go to a savings and loan meeting.

I said I wouldn't let him come and talk to my board. I said, "If you can't talk your board out of enough money to go to Chicago, why, stay home."

I certainly wouldn't want to have a board meet to send me on a trip somewhere. The Home Loan Bank Board gave me more authority than that as a two-bit employee of the Home Owners' Loan Corporation.

Mr. WEST, Junior. Mr. Chairman, if I can add—I can't stay out of this——

Mr. WALLHAUSER. Certainly.

Mr. WEST, Junior. I don't want my chairman to mislead you gentlemen. We certainly get that approval to go to the savings and loan meeting in the form of an annual budget where we predetermined how many meetings and what we are going to spend that money for, and we operate within that budget, so we just don't haul off and spend money that is not approved by the board. But we cannot have the board meet every day to approve buying another pencil or taking a trip in the interests of the business or whatever it is.

Mr. WALLHAUSER. Let me just call attention to this paragraph (letter of April 14) which is possible of several interpretations. That is why I am bringing it up. I refer to the paragraph which begins:

This letter has been read to the board of directors and they have approved its contents. These decisions have been reached by the board on its own responsibility and are made in good faith and without any reservation—

here is where you could get the several interpretations—

so that future operations of the association—

meaning past operations of the association have not—

will comply not only with the rules and regulations of the Federal Home Loan Bank Board but with good business and ethical practices.

Mr. WEST, Senior. Have you quit beating your wife? That is the same sort of question.

Mr. WALLHAUSER. Meaning, perhaps, you are in agreement that the past behavior has not been——

Mr. WEST, Senior. That is purely a question of not getting two men fired but getting one man fired—anything goes——

Mr. WEST, Junior. This is guilt by association and implication. In other words, we have to agree who doesn't, so this is——

Mr. WALLHAUSER. This is your letter to them.

Mr. WEST, Junior. Yes, sir; no question about that.

Mr. WALLHAUSER. You are agreeing if one interpretation is correct, in effect, that you will not in the future operate the way you have in the past?

Mr. WEST, Senior. That is right. If it hadn't been, he would have been fired.

Mr. WEST, Junior. This is their interpretation of good ethical business practices.

Mr. WALLHAUSER. Fired by whom?

Mr. WEST, Senior. By Mr. Wyman. Don't you think he wouldn't fire you; he can run your business out of business.

Mr. WALLHAUSER. I wish that you had pursued the threat, implied threat, "or else" to its final conclusion.

Mr. WEST, Senior. How could he discharge me, Mr. Wallhauser, without any record in the minutes of the Federal Home Loan Bank Board of any kind and character?

Mr. WALLHAUSER. He didn't discharge you, did he? You resigned, didn't you?

Mr. WEST, Senior. Oh, yes; yes, sir; under threat and, by the way, I got back under threat the same kind of way, which I haven't dealt with yet.

Mr. WEST, Junior. We have the interests of the members. Had we taken these steps, and I have read some of this committee's previous hearings into an association where, as if we calculated this, and if we would have stood up and objected, all we would have had left to argue about the next morning would have been the building and the furniture and fixtures.

Mr. WALLHAUSER. In other words, you feel that they would have seized——

Mr. MOSS. I think he is assuming too much, that he would have had the building and furniture and fixtures.

Mr. WEST, Junior. We probably wouldn't have had those.

Mr. WALLHAUSER. In other words, your final conclusion is that had you not agreed with the suggestions of Mr. Wyman, you would have been seized?

Mr. WEST, Senior. Yes, sir; yes, sir. That was the business.

Mr. WALLHAUSER. On what grounds——

Mr. WEST, Senior. Nobody thought they would operate under this section of the Home Owners' Loan Act, but they never did operate under the first one, they chose to operate under the second one, which we thought would be a last resort one. We have all gone into that. This committee certainly has in great detail. If this wasn't a threat, what was a threat?

Mr. WALLHAUSER. All right, Mr. Chairman.

Mr. MOSS. I think it might be helpful in order to clarify this point to call Orville Montgomery to the stand who was the investigator sent to Atlanta and in interviews with the attorney, Mr. Johnson, gained the background on this, and let Mr. Montgomery report to the committee the conversation with Mr. Johnson.

Mr. Montgomery, will you take the stand?

Will you be sworn? Do you solemnly swear the testimony you are about to give this subcommittee will be the truth, the whole truth, nothing but the truth, so help you God?

Mr. MONTGOMERY. I do.

TESTIMONY OF ORVILLE J. MONTGOMERY, COUNSEL, SPECIAL FEDERAL HOME LOAN BANK BOARD SUBCOMMITTEE

Mr. MOSS. Will you identify yourself for the record.

Mr. MONTGOMERY. Orville J. Montgomery, counsel for this subcommittee.

Mr. MOSS. You were sent by the subcommittee to Atlanta, Ga., for purposes of developing background information on a complaint received by the subcommittee regarding the resignation of Mr. George West from the board of directors?

Mr. MONTGOMERY. Yes, sir.

Mr. MOSS. Will you tell the subcommittee the persons you contacted and of the interviews you had with them. We are particularly interested in Mr. Johnson who was, at the time of the resignation, attorney for the Atlanta association.

Mr. MONTGOMERY. Yes, sir.

After arriving at Atlanta, I think it was on June 22, Mr. Glick and I interviewed Mr. West, Senior, at great length concerning all the facts and circumstances leading up to the requested resignation, and also interviewed other officers of the association, including Mr. West, Junior, the president who has just testified.

After receiving from them very much the same story as they have told to the subcommittee, we proceeded to interview other people in Atlanta, among whom was Mr. Johnson who we had been informed was the attorney for the association during the period Mr. West was requested to resign.

Our purpose in interviewing Mr. Johnson was to try to determine exactly what transpired during his visits to Washington to interview Mr. Wyman on behalf of the association, and what he told Mr. West after he had returned.

In answer to a specific question which I asked Mr. Johnson at the time, he stated that Mr. Wyman told him that if George West, Senior, did not resign as chairman of the board of directors, and remove himself physically from the premises, the association would be seized either by request for appointment of a conservator or appointing a representative in charge.

Mr. Moss. Did he give any reasons for the request or the ultimatum from Mr. Wyman?

Mr. MONTGOMERY. None other than those which have been discussed here this afternoon, Mr. Chairman; that is, the failure or the alleged failure of the association in Atlanta to comply with supervisory directives on the various subject matters that have been mentioned here.

Mr. Moss. Any questions, Mr. Glick?

Mr. Smith?

Mr. WALLHAUSER. I just have one possible question. Mr. Johnson didn't say whether it was Mr. Wyman or the members of the Board themselves who made this supposed threat or alleged threat.

Mr. MONTGOMERY. As I recall it, Congressman, it was only Mr. Wyman.

Now, I am not absolutely sure about that, whether Mr. Johnson said he talked to Mr. Wyman exclusively or whether he also talked to members of the Board but my impression is that he only talked to Mr. Wyman.

Mr. WALLHAUSER. But you gathered from the conversation that Mr. Wyman actually was representing the Board because he himself, I wouldn't believe, would have the right to send a conservator in. He would have to have the official approval of the members of the Board, wouldn't he?

Mr. MONTGOMERY. I would agree that would be the case. However, I did not get that impression from Mr. Johnson.

Mr. WALLHAUSER. He felt it was a personal statement from Mr. Wyman?

Mr. MONTGOMERY. Well, it was a discussion of a supervisory action and, perhaps, Mr. Johnson assumed that it was with the Board. I don't think that matter was specifically discussed with him.

Mr. WALLHAUSER. That is all.

Mr. Moss. Mr. West, Senior, and Mr. West, Junior, will you both return to the stand?

All right, Mr. Glick.

FURTHER TESTIMONY OF GEORGE W. WEST, SR., CHAIRMAN, BOARD OF DIRECTORS, FIRST FEDERAL SAVINGS & LOAN ASSOCIATION OF ATLANTA, ATLANTA, GA.; ACCOMPANIED BY GEORGE W. WEST, JR., PRESIDENT, FIRST FEDERAL SAVINGS & LOAN ASSOCIATION OF ATLANTA, ATLANTA, GA.

Mr. GLICK. Mr. West, Senior or Mr. West, Junior, I direct this to both of you, Do either of you know whether the Board has at any time acted formally with respect to the resignation of Mr. West, Senior? Has the Board, through any formal action, requested his resignation or instructed the Director of Supervision to make such request?

Mr. WEST, Senior. I have no record that they ever did.

Mr. WEST, Junior. I don't either.

Mr. GLICK. Do you know of any action taken by the Federal Home Loan Bank Board relative to requiring this April 14 letter from Mr. Johnson on behalf of the First Federal Savings board of directors to Mr. Wyman?

Had the Board formally requested this agreement?

Mr. WEST, Senior. Not to my knowledge.

Mr. WEST, Junior. I have none.

Mr. MOSS. Was the request for the resignation ever made in any communication from anyone?

Mr. WEST, Senior. No, sir; not to my knowledge.

Mr. GLICK. Mr. West, you mentioned during the course of your testimony this morning, I believe, that this letter and your resignation followed a telephone call between Mr. Johnson and Mr. Wyman, at which time you believe it was agreed that Mr. West, Junior, would be allowed to stay on; is that correct?

Mr. WEST, Senior. That is right.

Mr. GLICK. Were you a part of that telephone conversation?

Mr. WEST, Senior. Yes, sir.

Mr. GLICK. You could overhear both Mr. Johnson and Mr. Wyman?

Mr. WEST, Senior. Yes, sir.

Mr. GLICK. Did you participate in that conversation?

Mr. WEST, Senior. No.

Mr. GLICK. Do you recall whether or not there was any indication that Mr. Wyman was acting pursuant to Board directive?

Mr. WEST, Senior. None that I know of. I thought when I went to the Board members and told them what he was going to do to me, I didn't write them a letter, I went to them, I knew them, I thought that was enough to confirm that he had authority to do what he was going to do.

Mr. GLICK. Did the Board members indicate that they had discussed this matter with Mr. Wyman and had given him such authority?

Mr. WEST, Senior. They did exactly what I had indicated this morning. The chairman, to ask no questions; Mr. Hallahan didn't ask a second one, and Mr. Dixon said that, "When you boys were up here the last time you treated Mr. Wyman awfully rough."

Otherwise they didn't say, "We will get together Wednesday, see you later, it's too bad you are going to be kicked out, you ought to have been kicked out." They didn't say anything.

Mr. MONTGOMERY. Mr. West, did you get the impression at the time Mr. Dixon made that statement that your treatment of Mr. Wyman might be the reason why he was not going to intercede?

Mr. WEST, Senior. All I do remember, he did remember in 1954 what was said and done, which was pretty rare to me because of the fact of what was said and done. He had that much memory.

These statements were simply miscellaneous statements which were good enough to let Mr. George West, Jr., stay on the job and otherwise we would have both been kicked out. We would have signed any kind of statement and, by the way, it is not in the minutes of the First Federal what I said in the board when this was passed by the board, and I would hate mighty bad to repeat it here, with just one lady in the room, and so it didn't go into the minutes.

I said everything in there was a lie, and nothing else but one.

Mr. GLICK. Are we to understand, then, that the board of directors of the First Federal Savings & Loan Association of Atlanta acceded to this letter or its contents because of a desire——

Mr. WEST, Senior. At my request.

Mr. GLICK. At your request, and because of the desire to retain George West, Jr., as part of the operating personnel of that association?

Mr. WEST, Senior. Yes, sir; I can say worse than that, and bring it up to date; at the last meeting of the board they rescinded everything that is in all of them.

Mr. GLICK. At the proper time——

Mr. WEST, Senior. Which Mr. Wyman don't know yet.

Mr. GLICK. At the proper time, Mr. Chairman, I would like to introduce into the record, and if need be——

Mr. WEST, Senior. At my request they did so.

Mr. GLICK (continuing). The board resolutions concerning this.

Mr. MOSS. I think in order that the record be somewhat chronological that we may develop those steps leading up to the return of Mr. George West, Sr.

Mr. WEST, Senior. Thank you, Mr. Chairman, and I am ready.

Mr. GLICK. I would like to ask one more question with respect to this communication.

I direct this question to both of you gentlemen: I think it is safe to say and assume that you meet with other officers, managing officers, directors of savings and loan associations, around Atlanta and elsewhere in the country.

Do you know of any other association which has had to abide by requirements as set forth in this letter on April 14, 1958?

Mr. WEST, Senior. Well, you mean the exact requirements?

Mr. GLICK. Or anything similar.

Mr. WEST, Senior. We know other associations that they have done all sorts of intimidating to and with, and have been afraid to speak their minds, and some of them in Georgia, and that is largely hearsay. We weren't in it fighting ourselves.

Mr. GLICK. Would they be similar requirements insofar as their operating practices are concerned?

Mr. WEST, Senior. I think in the main there is a general thread through all of this material that they have demanded of others.

Mr. WEST, Junior. We know other associations in Georgia about this same time, some before and some after, that officers, for no apparent reason, all of a sudden resigned and went on retirement. There were new officers that came in, and from then on just what we heard is all we know what happened, and why this happened.

Mr. WEST, Senior. We know two top men at Rome, Ga., the Shahan boys. Both savings and loan associations in Rome, Ga., were sponsored by national banks, many, many years ago; one represented by the last window on the right, and one representing the last window on the left in the bank, and finally they got big enough to where they went out by themselves, and the Shahan boys were both thrown out, and they hired one back, and the other one is still out. They hired him back to some office boy job, and rapidly raised him up again, and they had to hire him—that is me talking—I am not—well, I could get one of them by the collar and bring him here.

They hired him back then, and they let the other one off, and it is the most embarrassing thing that anybody ever imagined. How are you going to take a First National Bank and take the two top men in it and fire them, and then let one come back as the second vice president and leave the chairman gone? That is what they did up there, and I think they are honorable men. I think the people in Rome, Ga., think they are honorable men and that is not the only time they have done it here.

I told the Federal Home Loan Bank Board Chairman if they had put in the regulations over here a lumber dealer couldn't sit on the board of an association or couldn't send them a loan to close for somebody else where he might participate in the final money that revolves around the neighborhood, certainly we would have to abide by it. But for just the opinion about this matter or that we might get in trouble some way because we operate, I don't know how you are going to operate in a smaller town. Actually the man in the smaller town, it is the real estate man and probably the building-material man who knows more about this business than all the other Board members combined.

We have got this situation of this 2-percent resolution of a vice president of the Retail Credit Co., and we buy credit reports from him, and if he owned 2 percent of the stock we would be violating this thing here. They had a pistol to our head, and had to pass after I left.

We have a dentist who might get $200 from the proceeds of a loan to pay some fellow's bridge bill that he did for him, and that would violate the resolution.

This does not make sense—this sort of straitjacket—and there is no rule or regulation about it and, by the way, I have done some compromising with everybody. As a material man, with the biggest association in the town; where I would have to waive a lien right and a promise some day if the property could go ahead they would reimburse me for money, if a fellow had it, and so forth, which they have done, and others.

I have had to pay Jefferson Mortgage Co., which was an investor's syndicate branch of Atlanta, $40,000 or $50,000 on one occasion to protect a debt due the lumber company.

It is not uncommon that a material man gets in the middle of all these kinds of business, and it is the only way you can do, finally, is to get it out, and we will be doing it always.

Now, I will say this, that I am afraid these fellows do not understand enough about the mortgage business, the sequence of liens mixed with honesty to let a mortgage company operate.

Mr. West, Junior. Mr. Chairman, if I might in this same area, in response to Mr. Glick's questioning, I gave him some documents yesterday that on two different occasions last fall I attended hearings at the Federal Home Loan Bank Board. One was for the application of a new association in a metropolitan area in one of these incorporated towns near Atlanta where we had had an application for a branch several years ago, and had been turned down with no reason given.

The other occasion was the application for a branch of an association that exists now in this same metropolitan area, both of these in great geographically different areas. Because I had knowledge of

such a mandate as we are discussing here, in both of those hearings the record will show, one for the chartering of a new association which the petitioners, as they are called, were there, the same pattern, a lumber dealer, two insurance men, one real estate man, and the county attorney who was going to be the attorney of this association, was presenting the case. On cross-examination I asked him to take the stand, which he did, and also on the case of the officers and their attorney of the association in that application for a branch, I asked them if they intended to operate on these same areas that we have been discussing, and we have been prohibited from, and they all reluctantly said, "Why, certainly we do."

In other words, the attorney is going to be a member of the board of directors, he is going to close loans for the association, and thereby benefit from the proceeds of that loan; that, self-dealing; that the insurance man intended to get all the insurance that was written; the real estate man intended to bring loans to the association and they would close them, and he would get the proceeds and sales commission, and they were all going to be on the board of directors.

They granted the charter for the new association, and they granted permission for that association that was in existence to have a branch in the last 8 months.

Mr. Moss. Are transcripts of those hearings available?

Mr. GLICK. The Federal Home Loan Bank Board has those transcripts.

Mr. Moss. Could I interrupt? Mr. Smith, I would like to make a verbal request for a transcript of the hearing referred to by Mr. West, Junior, and it will be confirmed in writing to the Chairman of the Board.

Mr. GLICK. I have the case numbers and the Board numbers on these matters.

Mr. WEST, Senior. Here is their line of thinking that brings this up to date. This is in the last examination, an excerpt from the supervisory letter dated May 2, 1961, in connection with the report of examination. This is a case where the First Federal was about ready to make a $3,000 loan, no question about the appraised value or the borrower, and when they checked the title they found that West Lumber Co. had a $253 mortgage, second mortgage, and so the loan No. 14294—

was granted by the association when a mortgage held by a company in which a director has a financial interest was repaid from the loan proceeds. The policy and practice of granting loans on the security of real estate in which a director has an indirect or direct proprietary interest is contrary to well-established principles of fiduciary relationship widely recognized and accepted by the courts, as well as by prudent management. It is our firm opinion that strict adherence to these principles is essential to the responsible operation of the affairs of a mutual financial insitution and that any transaction that involves or might lead to a conflict of personal interest with official duty and the interests of the association should be scrupulously avoided.

Mr. Moss. And that is from whom?

Mr. WEST, Senior. That is a hanging crime from Mr. Wyman's office, because we paid, First Federal paid, $253, not to the West Lumber Co., we paid it to the First Federal borrower. But the borrower owed it to the West Lumber Co. because the West Lumber Co. had a second mortgage and that is a hanging crime in this business which is ridiculous.

Mr. GLICK. That's from a supervisory agent's letter dated May 2, 1961, addressed to the board of directors of the First Federal Savings & Loan Association?

Mr. WEST, Senior. Yes, sir.

Mr. GLICK. By whom is it signed, sir?

Mr. WEST, Senior. Signed by Mr. Mank who, likewise, signs himself supervisory agent at Greensboro. It is in that total supervisory document; that is just a piece of it.

Mr. WEST, Junior. I would say though that that loan was not made in the regular course of business; that Mr. Johnson closed this loan, whom we have referred to in this letter from Mr. Wyman, and his title people in his law firm consulted me about this, and we got a written opinion from him that it was not in violation of this mandate letter to make such a loan, knowing that we were paying off the second mortgage of $200.

Mr. Moss. Well, we will develop the policies on these matters further when we have Mr. Wyman before the committee.

Mr. WEST, Senior. In that same letter is another one they paid off, a loan of $9,000, and $1,100 of it went to West Lumber Co. for material, but they don't comment on it.

The man had credit at the West Lumber Co., and the loan was made to the man's wife and not to the same two people. In Georgia, which is not a community property State, the man had credit at the West Lumber Co. and, of course, when they got ready to close the loan, they are supposed to make checks to every fellow, and he made an affidavit with about 10 or 15 creditors or she did, and when she did, it is either he or she or vice versa, and when she did, why, the First Federal had to make checks to all these people and, of course, in order to get a materialman's clear lien, a lien clear, which is already clear; by the way, the man who bought it had credit; he had credit before; he was with the Delta Air Lines, and there was no question, he just owed some money and, of course, we owned stock in West Lumber Co., so we got rich by reason of that, and that is against the rules, although they don't comment on that here because, for what reason, I don't know.

Now, Mr. Chairman, if you want me to travel on——

Mr. Moss. Go right ahead.

Mr. GLICK. Yes, sir. How long was the period of time during which you had no connection whatever with the association?

Mr. WEST, Senior. Well, it was about 2 years and 4 months, as I recollect, and sometime in July of last year I decided to go to Washington to see Mr. Wyman. I thought he had had over 2 years to decide whether or not George West, Jr., was a competent president.

By the way, I don't think it is his business to decide whether he was a competent president or not. That is what he said when he caused me to leave the place. Nobody knew where I was going, except my wife and she didn't know for what purpose I was going.

I walked into Mr. Wyman's office which, by the way, I never had any trouble getting in in my life, and discussed this matter with him, and he said, well, as far as he knew he thought he was doing a pretty good job, and I reminded him of the fact that he had 1,400 or how many it was, and didn't expect him to know whether he was doing a pretty good job offhand, and he sort of acted like he could go

find out and let me know later, wanted to know what hotel I was staying at, and I told him none.

By the way, I went in there, as I remember, about 2:15, and stayed until about 4:30.

We discussed everything again. Mr. Wyman is a pretty difficult man to get any questions out of, I mean any answers out of.

I have known him all this time, he qualifies every statement he makes to where when you leave he has said nothing. He is sitting and listening to me, and I am glad he is.

Well, anyway, I told him I was going to give him a full week so he would have plenty of time. I would catch a 5 o'clock plane, and I would be back in 1 week, and when I came back he was to decide. He could find out whether or not George West, Jr., was a competent operator.

He said in conclusion that he didn't think his time was his own. He didn't know where he would be. I told him I didn't care where he would be in a week, that I would be in his office at 15 minutes to 9. I believe it was Tuesday, July 29, I believe. This is a matter of record here. And I left him with that admonition. I had one myself at that time.

Mr. GLICK. What year was that?

Mr. WEST, Senior. 1960.

Then I went and caught a plane and went back to Atlanta. I gave him a full week to decide the question with the information that when I came back my second question was going to be "What was he going to do with me." And we discussed all sorts of things, and finally he understood exactly what I came for, and I left.

I told nobody about the conversation. I discussed it with nobody anywhere, and one week from that I was in his office at 15 minutes to 9. I think it was Tuesday. And I went in and we talked from 15 minutes to 9 until about noontime.

In the process of conversation I understood him to say that George West, Jr., was competent, and he said—he seemed to say that in about 44,000 words, but he finally said he was, and he felt sorry for himself, the job he has got, and I didn't.

I might say when I left his office the first time he wanted to know whether it was a threat. I told him it was, and he cut my throat, and I was ready to cut his, on both sides. If it was a threat I would say furthermore to him no matter what his decision was, when he came back I promised him no immunity of any kind as for exposing him.

I might say for the record here, as long as Mr. Hallahan was there and Mr. Dixon was there and still there, I saw no chance to get any relief whatever from a congressional committee on complaints, and I had found out that this committee was one that apparently had undertaken to find out what they were doing, and I had confidence.

I went back anyway, and we talked from then until nearly noontime, and he decided Mr. George West, Jr., was competent. And then I asked him what was he going to do with me. And at the end of the conversation, he finally decided I would go back as far as I could go. Apparently he decided he had taken away from me that

which he himself could not replace. He couldn't put me back on the board, nor could he make me chairman.

Meanwhile the First Federal had picked up four directors, two of which I kept off the board as long as I was there. And Mrs. Mobley had gone off the board. George, Jr., had sold his stock. There was general turmoil, having to meet an executive committee bunch to run the association from day to day, and very limited authority, and still president all this 2 years he has been there.

Mr. GLICK. Mr. West, in your conversation with Mr. Wyman when it was indicated you might again become a board member, did he say there would have to be action of any type, formal or informal, by the Home Loan Bank Board itself?

Mr. WEST, Senior. No, sir. And, just for information, I went from there to the Chairman's office, and Mrs. Ada said he was down the hall in Mr. Dixon's office. I went into Mr. Hallahan's office, and his secretary, who knew me, said he was in Mr. Dixon's office. And I said, "I am going to see him, and I am going to sit down here until he comes out."

She said, "They have been in a meeting every day and part of the night for days and weeks, and I don't know how you are going to get to see him."

I said, "I know. I have got plenty of magazines, and I have got 6 months, and I am going to stay here like Grant hung around Richmond, and I am going to find him."

Evidently she got the word to him, and in about an hour or an hour and a half he came out. Mr. Hallahan was in a highly nervous state. I told him I didn't want to ask him anything; I wanted to tell him something. I told him what transpired.

On 2 different days I talked to Mr. Wyman, and he wanted me to sit down and tell him all about it. I said, "I told you all about it when I came up here 2 years and 4 months ago" when he decided to fire me. "I have seen you a dozen times since then in different places and you said nothing about it to me, and now I have been out and I am saying something about it to you."

With that I left him and went on to see Mr. Dixon. The chairman was in Dixon's office. I didn't see him, but the secretary knew me, Mr. Dixon's secretary. She stated they were in there, in a powwow, would be so engaged for hours and hours and hours, and by that time it was about 4 o'clock. Mr. Dixon came out and said he had to go see his doctor at 4 or 4:30. I told him I wanted to see him just 5 minutes, and he had to see his doctor. I said, "You go to see your doctor. I will be in tomorrow morning at 8 o'clock." He said he was going to be pretty busy. I said I didn't care how busy he was going to be, I would just stay there until he got "unbusy."

Meanwhile, I stayed in the same place because Mr. Robertson was there. At 15 minutes to 6 he came out in shirtsleeves, perspiring. He apparently had let Mr. Hallahan go one way, and he came out through Dixon's office. I hailed him and stopped him and reminded him of coming into his office 2 years and 4 months before, and reminded him what Wyman said he was going to do me, and did do. I told him if he found someone complaining about him being a sorry operator, I wanted him to let him know it was me.

He thought the lady ought to leave. I said no, I had already told her why I was there, whereupon she turned and ran down the hall as fast as she could. And I guess that was the best thing in the world she could do.

The next morning I was back at 8 o'clock and I found Mr. Dixon. He came in about 8:30, and I walked into his office and reminded him of what he said when I told him Wyman was going to fire me. And he sat and listened to it all, and I talked to him about 5 minutes. He didn't say much to me. I said it all to him. He had been around the country making big speeches about 50-percent loans were better than 80's and a few other things which any of us know about from years ago. Anyway, I told him off to my perfect satisfaction, and then I went on to see Mr. Bonesteel and I reminded Mr. Bonesteel that he was partially to blame for this transaction which Mr. Wyman had set about to enforce on people, and he said, well, he was going to get out of this thing; he didn't have to worry about it. He was going to retire in another week or two. And I told him I was sorry, I didn't think he would miss it because even in retirement he might be called back. Then I went home, and, without lobbying with the board, some of who long since thought they were running the association, I went to the next meeting of the annual shareholders, and the shareholders elected me as a director.

I went back and told George West, Jr., for the first time where I had been. I telephoned him from Washington at lunch time from my hotel room, and told him what I was doing, and I was back in the First Federal, and, by the way, with agreement of Mr. Wyman, I was going to rifle through all the stuff ahead and find out how much of it they were doing and bring it to him one piece at a time.

By the way, in the next 6 or 8 weeks I wrote him one letter at a time, to no one of which he ever replied, and I found him doing just as many ridiculous things down there as I expected.

The shareholders met and then elected me a director, and when the directors met I asked them to put me back just where I was before, as chairman of the board, and here I am, Mr. Chairman.

The first letter I wrote to him when I got back you have a copy of. I found then, much to my surprise, in their examination——

This is not the first letter. This is about the second or third one, dated October 28, 1960. I just happen to have copies of it. I would like to read it because I think it is——

I don't often read this kind of thing. I think I have talked about it. But here is one of the things that it looks like they can't be convinced about, and not yet, I guess.

To Mr. Wyman, October 28:

I now respectfully call your attention to the First Federal Savings & Loan Association's report of examination and audit as of January 22, 1960, page 19, entitled "Rollover Loans from the Association Blanket Construction Loans."

I have been in the home mortgage business more than 50 years and the use of the word "rollover" is one that I have never heard applied. Certainly the savings and loan people have promoted, since the day they started in 1831, the use of their money for construction loan purposes, and for one reason, and the primary reason, that they could more than likely, through this process, get the final or permanent mortgage on the property. By the use of their money for construction, they became known as "building societies."

This word "rollover" must be a patent of the examination department or your department and it is certainly used, in my opinion, for no other reason than

to call to the attention of the board of directors that this sort of operation is illegitimate and of some special smelly type. I think you should discontinue the use of it because it certainly is not justified at any time, anywhere. I should like to ask why it is quoted.

Without too much searching in the records, I'm sure the initial loan was made to E. R. Hawkins, a man of good moral and financial responsibility, and this initial loan was made on so many acres with a perimeter description. Hawkins developed lots and built houses. He was good enough to permit the final loans to be made in his name, and a few of them were made in his business associate's name, who likewise is a desirable borrower, Mr. Bates.

The records will show at the First Federal that they have never foreclosed on either Hawkins or Bates. This is the same audit report and the same page 19 to which I called your attention, and that of Mr. Bonesteel, to the erroneous second mortgage figures which caused the complaint against the association to be that they were making 108.3-percent loans, and in which I complained in my joint letter to you two, dated August 11, 1960.

I call your attention to a letter, dated August 19, 1960, from John F. Harbison, the chief examiner of the fourth district, addressed to Mr. Mank and the First Federal, and to the last paragraph which reads: "We regret the error and inconvenience caused."

Now I call your attention to a letter from Mr. Philip J. Mank, supervisory agent at Greensboro, bearing the same date, addressed to George W. West, Jr., president of the First Federal, in which the last paragraph reads as follows: "We also regret any inconvenience caused by this error."

Mr. Mank still contends that the First Federal should control Mr. Hawkins and Mr. Bates, and make sure that they do not sell any one of these houses to other than people with certain fixed responsibilities and with certain amounts of cash. As you well know, Hawkins or Bates could keep these properties and rent them at any price they choose. They could elect to give them away or they could elect to sell them at any price for any sum of money to whom they please, and no matter if this were done in sequence dozens of times, Hawkins would still be the borrower, or Bates, if he were the borrower.

These people holding under them could either buy one or two ways; namely, assume the Hawkins loan or buy subject to it. They could endorse the Hawkins note, or not. It would be none of First Federal's business. Hawkins has a right to sell his equity without consulting First Federal.

There is a mass of correspondence between this association and the supervisory agent, and the supervisory agent has apparently never changed his mind. To begin with, he was confused as to who the borrower was, and I notice several references to the famous Greensboro service manual, and certainly a portion of its contents has nothing to do with rules, regulations or law.

In the Mank letter of July 5 to the President, he says "the basis of our criticism is that sound lending policies dictate that the borrower should have sufficient equity in the mortgage security to assure his continuing interest in the integrity of his obligation. We suggest that your directors give more consideration to this type of lending and not rely upon the interest of the speculative builder who holds the second mortgage to protect the interest of the association or to protect the borrowing member from possible loss of his home."

He is confused. The borrowing member is Hawkins and whether or not the man to whom he sells endorses the First Federal note, Hawkins is still the borrowing member, and if foreclosure should take place in the future, the foreclosure would be against Hawkins and nobody else's name would appear in the foreclosure notice under power of sale in this State, whether they were endorsers or not, nor no matter how they held under Hawkins. Hawkins surely has a continuing interest and an all time one.

You should review some of this correspondence and stop this coercion by a supervisor, for it is certainly proof that he knows little about the mortgage business, and he is insisting now that they explain to him what their lending policy is, so you haven't stopped any complaints thus far that I have made, and unless I hear from you within the next 10 days, I'll come to see you again.

Yours truly,

GEORGE W. WEST, *A Member.*

P.S.—To say the least, these two apologies for errors made in the examination report on the part of Messrs. Harbison and Mank were refreshing, and certainly ought to be to the industry.

Now I just can't imagine in the home mortgage business that a Federal supervisor can say to us that we are going to make Mr. A a loan, and then, no matter what else he does with his equity in the property, we have got to tell him what to do and where to go.

Mr. Moss. Well, I can only tell you if I were Mr. A I would darn soon tell you what to do and where to go.

Mr. West, Senior. Yes, sir; I think so, too.

They haven't changed their minds one particle about this, and, as I have said to begin with, he didn't know who the borrower was. He was also confused about who the borrower was, and when these people endorse the notes—some do and some don't; I don't know.

Now if there is any argument about the value of those houses, we never heard it. No appraisal; argument of any kind or character; none; no question about it; no nothing. But simply this kind of ridiculous stuff going on, and they won't stop it. They haven't stopped it yet. And, of course, what they actually did was to copy the wrong figures on his second mortgage. They copied them $500 more than they were. One time they went out to his place and copied all his books.

Mr. West, Junior. At our expense.

Mr. West, Senior. I didn't believe this fact or anything until I went to the courthouse, which is 30 miles away from where Atlanta is, and read his mortgage—we don't know what kind of mortgage he had—to see for myself whether it says $2,200 or $2,700, $500 too much. But when this fellow copied them wrong, he just copied them all down $500 wrong, and then, of course, the directors of the First Federal get a letter from the Government supervisors that says to the directors the management doesn't know how to run the business; making 108.6 percent loans. And, of course, they don't even know that in Hawkins' note is the closing costs which we charge Hawkins, and he charges it to the fellow he turned around and sold the house to.

As a matter of fact, we don't care what he sold the house for or what kind of second mortgage was made. We don't replace Hawkins. Nobody else does. And under a power of sale, if all those people—and if there was a sequence of 10—none of them would be mentioned in a foreclosure because our transaction—and it is on record in the security deed, the deed of trust—is with Hawkins, and certainly if actually we made separate trades as Mr. West, Junior, explained this morning with the subsequent people, well, you would let Hawkins out.

So you have got to be pretty careful not to say to some "gink," "You don't have to pay $20 a month; you can pay $10." And if you do and if Hawkins can find that out, you altered his contract without his consent, and he is gone. Hawkins knows he is still in, and if he don't he would certainly find it out if somebody didn't pay.

Now they can't be stopped. They are not stopped yet on this kind of racket right there. Nobody can stop them.

We had a pension plan going on down there, and I have got no correspondence here, in which they had to approve another pension plan of some sort, and this man Mank—I am sure it is, finally approved a different pension plan. He writes down his approval and then says in the last paragraph it is with the understanding you pick up all the outstanding pension plans.

How can they abrogate my pension plan when there is no plan in it to change it?

Well, if we are going to have that kind of man running a supervisory business who doesn't understand the operation of law, it just seems to me the management has reached a state of difficult operation in this country.

Mr. Moss. Do we have copies of the supervisory letters in the record?

Mr. GLICK. No, sir; and I would like permission, sir, to have these inserted into the record at this point.

Mr. Moss. Will you read them for the record as you insert them.

Is there objection to inserting the supervisory letters in the record?

Mr. SMITH. No objection.

Mr. GLICK. The first series of documents dealing with the Federal examination of January 22, 1960, include a two-page letter dated April 13, 1960, from Mr. Philip J. Mank, supervisory agent, Federal Home Loan Bank Board, from Greensboro, N.C., addressed to the board of directors, First Federal Savings & Loan Association of Atlanta.

This contains five sheets which are attached to the two-page letter.

There is a letter dated May 11, 1960, to Mr. Mank from Mildred Pendergrass, vice president of the savings and loan association, including a copy of an excerpt from minutes of the meeting of the board of directors of the association held on May 5, 1960.

We have a copy of the minutes of June 1, 1960, of the special committee of the board of directors of the First Federal Savings & Loan Association which is five sheets in length.

We have a copy of a construction loan agreement in blank taking some three pages.

An excerpt from the minutes of the First Federal board meeting of March 7, 1960.

A letter dated June 17, 1960, to Philip J. Mank from George W. West, Jr., with a copy of the board's answer certified by Ludie Cornwell, the secretary of the association.

A letter dated June 16, 1960, to Philip J. Mank from the board of directors of the savings and loan association, which letter is four pages in length.

A letter dated July 5, 1960, to Mr. West, Junior, president of the association, from Philip J. Mank.

A two-page letter dated July 8, 1960, to Philip J. Mank from Johnson, Hatcher, Meyerson & Irvin, attorneys for the savings and loan association.

A letter dated July 13, 1960, to Mr. West from Philip J. Mank.

A letter dated July 15, 1960, from George West, Jr., to Philip J. Mank, two pages.

A letter dated July 26, 1960, from Johnson, Hatcher, Meyerson & Irvin, previously identified, to Philip J. Mank, four pages in length, plus three sheets of an attachment to that letter.

A letter dated August 9, 1960, to Philip J. Mank, signed by Mildred Pendergrass, vice president of the association, with an attached certified copy of an excerpt from the minutes of the meeting of August 4, 1960, of the board of directors of the association.

A letter dated August 15, 1960, from Philip J. Mank to George West, Jr.

A letter dated August 19, 1960, from Philip J. Mank to George West, Jr., enclosing a copy of a memorandum dated August 19, 1960, from John F. Harbison to Philip J. Mank, and a revised schedule of loans of the audit of January 22, 1960.

A letter dated September 8, 1960, from George West, Jr., to Philip J. Mank.

A letter dated September 12, 1960, from Philip J. Mank to George West, Jr., including four pages of suggested policy resolutions.

A letter of September 16, 1960, from George West, Jr., to Philip J. Mank, attaching a certified copy of excerpts from minutes of the meeting of September 15, 1960, of the board of the savings and loan association.

A letter dated November 30, 1960, from George West, Jr., to Philip J. Mank.

Mr. Moss. That will be identified for the record as exhibit No. 14.

(Exhibit No. 14.—Correspondence between Federal Home Loan Bank Board, Washington, D.C., and First Federal Savings & Loan Association of Atlanta, Atlanta, Ga., and other material relative to the examination and audit of the association as of January 22, 1960, appears in the appendix on p. 292.)

Mr. GLICK. I would also like to introduce into the record as exhibit No. 15, communications and correspondence dealing with the examination of the institution, dated March 2, 1961. The first of these is a letter dated May 2, 1961, from Philip J. Mank to the board of directors, First Federal Savings & Loan Association of Atlanta, with five schedule attachments.

Letter dated May 12, 1961, from George West, Jr., to Philip J. Mank with a resolution, an excerpt from the minutes of the meeting of the board of directors of the association held on May 11, 1961.

A letter dated May 30, 1961, from Philip J. Mank to George West, Jr., and a copy of the excerpts from the minutes of the meeting of the board of directors held on June 8, 1961.

Mr. Moss. That will be exhibit No. 15.

(Exhibit No. 15.—Correspondence between the Federal Home Loan Bank Board, Washington, D.C., and First Federal Savings & Loan Association of Atlanta, Atlanta, Ga., and other material relative to the examination and audit of the association as of March 2, 1961, appears in the appendix on p. 324.)

Mr. GLICK. Mr. West, if we can get back to you, sir, since you have returned to the board of directors of the First Federal Savings & Loan Association of Atlanta, have you been operating under the Johnson-Wyman letter?

Wr. WEST, Senior. Until it was revoked.

Mr. GLICK. Until it was revoked. How long——

Mr. WEST, Senior. I haven't been operating to begin with. The president——

Mr. GLICK. Excuse me. Then I would direct this to Mr. West, Junior.

Mr. WEST, Junior. Yes, sir, we have been operating under the Johnson-Wyman letter.

Mr. GLICK. And from the statement just made by Mr. West, Senior, it would indicate that this letter has been revoked.

Mr. WEST, Junior. Yes, sir.

Mr. GLICK. I show you three sheets which were supplied along with Mr. West's original submission and statement here, and ask you to identify them, please.

Mr. WEST, Junior. This is a resolution which was passed by our board of directors.

Mr. GLICK. Do you have the date on that?

Mr. WEST, Junior. The date is not here, but I am sure it was at their July 1961 meeting which was passed at the recommendation of Mr. West, Senior, and revokes the so-called Johnson-Wyman letter of April 14, 1958, as well as those resolutions which were passed by the board at the meeting of June 17, 1958, when Mr. Fogarty, president of the Home Loan Bank of Greensboro, and Mr. Mank were present.

Mr. GLICK. With permission, I would like to have this included in the record as exhibit No. 16.

Mr. MOSS. Is there objection?

Hearing none, it will be included as exhibit No. 16.

(Exhibit No. 16.—Resolution adopted by First Federal Savings & Loan Association of Atlanta, Atlanta, Ga., July 1961, revoking the Johnson-Wyman letter of April 14, 1958, as well as those resolutions passed by the board, June 17, 1958, appears in the appendix on p. 337.)

Mr. GLICK. If this resolution adopted by your board revokes those prior letters, it would be reasonable then for this committee to assume that the First Federal Savings & Loan Association of Atlanta will return to its former business policies and practices. Is it reasonable to assume that?

Mr. WEST, Junior. Yes.

Mr. GLICK. That is those policies where there would be no question about granting a first mortgage to a borrower who might have a second mortgage with Home Owners Co. or West Lumber Co.?

Mr. WEST, Junior. Yes.

Mr. GLICK. And insurance would again be placed with the Home Owners Co.?

Mr. WEST, Junior. Yes, with certain modifications which we, of course, have got a lot of insurance in the files now.

Mr. GLICK. Yes.

Now, would you go back to using the checksheet which you had in use prior——

Mr. WEST, Junior. This has been just passed by our board, and, as far as my—it is necessary now that I go back to them.

First of all, you see, we have changed not only our loan application form; we have changed our security deed or deed of trust and note, and the provisions are not any longer part of our contract where we can designate agency and company.

Now, I would certainly take this to our board and make a determination, present them with it as I did to get it out of there and operating under this mandate letter, and say "Is that what you want to do?"

I frankly would not recommend that we go back to an exclusive right although I think we should have in our contracts this contractable right to do this if we so desire.

Mr. GLICK. Well, then, board policy has not been established since the adoption of these resolutions which would clearly indicate the position the association will assume in operating?

Mr. WEST, Junior. That is correct.

Mr. GLICK. Then you are roughly operating under the same procedure at this moment?

Mr. WEST, Junior. That is correct.

Mr. GLICK. However, there is a possibility that you will be running afoul again of the same old problems?

Mr. WEST, Junior. Yes, sir.

Mr. MOSS. Mr. Smith, do you have any questions?

Mr. SMITH. No questions, sir.

Mr. MOSS. Mr. McClellan?

Mr. MCCLELLAN. No.

Mr. MOSS. Mr. Montgomery?

Mr. MONTGOMERY. Nothing further, Mr. Chairman.

Mr. MOSS. Mr. Carlson, do you have any?

Mr. CARLSON. No, sir.

Mr. MOSS. Mr. Glick, have you any further questions?

Mr. GLICK. No, sir.

Mr. WEST, Senior. Mr. Chairman, I might put this in——

Mr. MOSS. I do have some questions.

I am interested in the matter that was alluded to very briefly here, this question of criticism of a proposed pension plan. Will you get me the supervisory letter where that is mentioned and let us get those facts in the record.

Briefly, in summary, is it fair to say that the principal issues which have caused the strained relations between the management and directors of First Federal and supervisory authorities of the Federal Home Loan Bank Board go to the matter of loans and valuation, insurance placement or the relationship of so-called affiliates with First Federal. Throughout this testimony the matter of loans in speculative building crops up but it is never clearly focused. There is also a fourth issue of pension plans. Are there any major points we have overlooked?

Mr. WEST, Junior. Mr. Chairman, I think, if I may, I would have to answer because the pension plan came about after Mr. West, Senior's, so-called retirement here in April of 1958. My memory doesn't serve me, and I am unable to determine it, but we will furnish you the correspondence.

I do not think that it is in the supervisory letter except the first mention of it.

The fact of the matter in brief, to set the stage, is that we have had a nonfunded deferred compensation contract with all the officers and full-time employees of the association for many, many years.

Mr. MOSS. Well, had this been criticized?

Mr. WEST, Junior. No.

Mr. MOSS. All right. Now——

Mr. WEST, Junior. Since that time the Federal Home Loan Bank has passed a regulation which I think is highly proper for those plans that come from the date the regulations passed, and in the future and laid down some certain requirements in them. This probably came about with us on the occasion of Mr. West retiring under his deferred compensation contract. Our board of directors then proceeded to bring the deferred compensation plan into focus after a comment in a supervisory letter with a date that would certainly be after 1958. They made certain changes.

I was perfectly aware, as the operator—and our minutes would even reflect that I reported to them that I thought if they made any changes, they would then have to come under the new regulation. So this is, in effect, what happened.

We then have had to set up a complete pension contract, pension agreement and fund it.

Now this agreement is in the hands of our attorney, Mr. Henry Hatcher, and is in the process of being approved, as you know, by Internal Revenue as well as the Federal Home Loan Bank, and the reference that Mr. West, Senior, made was the last correspondence to my memory that I have of our attorney Mr. Hatcher's correspondence with someone in the Federal Home Loan Bank supervisory system. It is either a gentleman named Mr. Mondell, whom I don't know and have never met, or it is Mr. Mank or Mr. Fogarty at Greensboro.

The problem is one of extreme complication and administration which Mr. West was talking about, because we have certain contracts which are now outstanding.

This is a contract, deferred compensation contract that has been signed by the association and by the individual, and, of course, we can't revoke this unless the individual consents to it.

Since the pension program, which is funded, our board of directors has set up trustees and has funded this, and it is now included on an annual expense basis to funding, based on actuarial studies. But the pension plan itself hasn't been presented to our officers and staff for them to accept it as yet.

Now I can give you complete correspondence, documentation, a copy of the plan which will be in whatever state it is in now. That is the brief of it.

Mr. Moss. If it is the subject of mention in a supervisory letter, I think you had better supply the material to the committee because we will want to examine very carefully the supervisory letters with Mr. Wyman and his staff.

Mr. West, Junior. I see. You have the supervisory letters, but you may not have all the correspondence on this matter, and certainly not the plan itself.

Mr. Moss. We would appreciate as much information as you have.

Mr. West, Junior. All right.

Mr. Smith. Mr. Chairman, is there a specific regulation relative to the type of pension plan that can be set up?

Mr. West, Junior. There is now, yes, sir.

Mr. Smith. And it requires that they be funded and the actuarial evaluation be sound?

Mr. West, Junior. Yes, sir.

Mr. Montgomery. Mr. West, do you recall and can you state briefly what the nature of the criticism was in the supervisory letter or what the nature of the mention made was of this pension plan?

Mr. West, Junior. Well, as I said, the first mention was after Mr. West, Senior, retired under our deferred compensation contract. Of course, we had to start taking his compensation under that contract out of annual operating expense, and I am going from memory, but I am positive it is accurate that this then became a matter of supervisory comment, that we had no funds set up to anticipate this or in the future.

I don't agree with that totally. Theoretically that is true, but in our financial statement we carry an item of $480,000 of true, clean, unattached surplus, which obviously was put in there, could have just as well been put in there each year as it would accumulate, funds for pension contracts or compensation for whatever the board of directors so classified it. They can take that out and fund this pension contract with it.

The question is, as Mr. West, Senior, very clearly said, as to whether or not he is willing to give up his contract for a pension fund.

There are slight differences in this. One of the major differences is that they reduced, which you might say generally speaking us young fellows don't mind, the percentage of the method figures, and certainly to him and anybody else that is past age 60—and we have two employees who are—this would be detrimental for them to give up their position. They would lose 10 or 15 percent from their old retirement, deferred compensation contract against the pension plan.

Mr. Moss. Was the Home Loan Bank Board aware of the fact that these deferred payment contracts were in existence?

Mr. West, Junior. Yes, sir.

Mr. Moss. It is reflected in the minutes of the board of directors over the years?

Mr. West, Junior. Yes, sir, and they were adopted by the members at the annual members' meetings.

Mr. Moss. Was it ever a point of discussion in supervisory letters prior to the time of Mr. West, Senior's, retirement?

Mr. West, Junior. Once again from my memory, I would say no. I will be glad to check.

You have copies of every supervisory letter since 1954, and I will go back beyond that and check those, too. But I am sure they are not.

Mr. West, Senior. Mr. Chairman, let me say I am not even questioning whatever the pension argument is. I just question a man saying in conclusion, or whatever he is saying, that it is understood when you approve this you pick up all the ones you have got out when there is no way for them to pick them up. That is all.

I am not questioning about the pension plan. It suits me, whatever it is. I just can't understand how after—it looks like they reached an agreement and then, if he says this is all right, but now you take up all the pension plans out. We can't take them that are out, and then you start all over in a brand new vein of argument.

I am not questioning the content of it at all. In fact, I didn't read it. I just want to show this committee how ridiculous two-bit items can be to management. I am not questioning the contents, didn't read them, and it suits me all right as far as I know.

Mr. West, Junior. In all fairness, I don't have any criticism because we and the members of the board of directors did it ourselves. If we change our contract we come under the regulations. No doubt about it. And they saw fit to change it, and when they did, we have got to get a pension plan that fits the regulation. That is what we are going to do.

Mr. Smith. I am wondering if you are not complaining in substance that in many matters there are no regulations, but in this pension matter there is a definite regulation and you know what you have to do.

Mr. West, Junior. We can't pick up the outstanding contracts unless the individual consents to it.

Mr. SMITH. As I understand it, on some of these other things there was no definite regulation and you didn't know exactly what to do. But where there is equal treatment and you would be doing the same as everybody else, you have no complaint?

Mr. WEST, Senior. I haven't any complaint unless a man—why would a man say "pick up the old ones" when he knows you can't pick them up? Then you start a brand new vein of 10-cent items.

Mr. MOSS. There was some mention of the number of points on loans for speculative building. Are most of your loans made on new properties? Home loans made on new properties?

Mr. WEST, Senior. I don't know what they are doing now. I can't answer that.

Mr. MOSS. Mr. West, Junior?

Mr. WEST, Junior. The only way I can answer your question is on what period. I would say there have been times since 1954—I don't mean just a day, but there were months that this was true, and this, of course, involved the whole atmosphere on the national level.

Mr. MOSS. Let me ask you this then:

Do you feel that First Federal has made more loans to speculative builders than the average of its competition?

Mr. WEST, Junior. No, sir, not near as many as our competition in our local area, and certainly since this mandate, because it took customers away from us in order for us to comply with it.

Mr. MOSS. Prior to the mandate?

Mr. WEST, Junior. No, sir; not near as many. We have got a $150 million association in our town. They certainly make twice as much money.

Mr. MOSS. I mean proportionately.

Mr. WEST, Junior. No, sir; not even proportionately. Atlanta is a fast-growing town, and most of the loans I would say in the last 10 years, if we were to check, were on new construction one way or the other.

Mr. MOSS. And usually to tract builders?

Mr. WEST, Junior. Five years ago, yes; today, no, sir.

Unless you understand again the change in the national housing picture brought about by the influence of FHA and VA, this statement of mine could look out of context. There is a new accepted method now of selling houses on a presale basis before you build them, and the builder doesn't go out and build 10 and then see if he cannot find somebody to buy. He brings us his tract and his plans, and, of course, Federal Home Loan Bank now has provisions for financing development of land and financing improved lots, lots that housing ultimately is going to be built on. This has greatly eased some of the tensions that we have had in the business that we couldn't go in kind of off center, and now the builder will find the buyer that is ultimately going to own that house before he ever starts, and he brings it to us and approves it and has one closing, one clean closing. These are mostly GI loans today. In the last 5 or 6 months most of them are GI loans being made this way.

Mr. MOSS. Was the pattern different in the period leading up to the disagreement which finally resulted in the resignation of your father? Were you making a lot of loans to speculative builders?

Mr. WEST, Junior. Construction loans, yes.

Mr. Moss. Was this an item repeatedly dealt with in complaints from the supervisory personnel?

Mr. WEST, Senior. I would answer that yes.

Now in the Norwood case, Norwood was going to make all the permanent loans himself. We were only going to make construction loans. We stayed out of the construction loan business as long as we could, but when it got to pay 3½ and 4 percent—you see we made $20 million worth of GI loans at 4 percent, and when you dilute your loan portfolio to that extent you are compelled to set about to try to make excess interest if you can to average up the rate. Our average rate is about 5.23, I think, now. And you have got to make all the construction loans you can.

In the Norwood case he had commitments with mutual savings banks, and they went back on him somewhere. We made a few of those loans, and, of course, seven-eighths of them I didn't think we would do at all.

Mr. Moss. Were you making, do you think, more of this type of loan proportionately than your competition?

Mr. WEST, Senior. I would think presently in the Los Angeles section, let us say, in new loans.

Mr. WEST, Junior. The metropolitan area of Atlanta, no.

Mr. WEST, Senior. It exceeds 100 percent. I think in Atlanta, too. Of course, it is a highly desirable sort of loan because you deal with the same property two or three times, and it is easy to do business.

Mr. Moss. Do you have any other questions?

Mr. GLICK. I would like to ask that a provision be made to include in the record excerpts from the Federal examination of January 14, 1959.

Mr. Moss. That will be exhibit No. 17.

(Exhibit No. 17.—Correspondence between the Federal Home Loan Bank Board, Washington, D.C., and First Federal Savings & Loan Association of Atlanta, Atlanta, Ga., and other material relative to the examination and audit of the association as of January 14, 1959, appears in the appendix on p. 340.)

Mr. GLICK. I would also like to insert in the record copies of correspondence dealing with the pension plans and deferred payment contracts.

Mr. Moss. That reservation will be noted on the record.

(The material relative to the pension plans of the First Federal Savings & Loan Association of Atlanta, Atlanta, Ga., is contained in the files of the subcommittee.)

If there are no further questions, I want to thank you gentlemen for appearing here and giving this information to the subcommittee.

The subcommittee will now stand adjourned until 10 o'clock Monday morning. You gentlemen are excused as witnesses.

Mr. WEST, Senior. Thank you, sir. We appreciate it.

(Whereupon, at 3:45 p.m., the subcommitteee recessed.)

74890—62—pt. 3——6

INVESTIGATION AND STUDY OF THE FEDERAL HOME LOAN BANK BOARD

(Part 3—Atlanta, Ga.)

FRIDAY, AUGUST 17, 1962

House of Representatives,
Special Federal Home Loan
Bank Board Subcommittee
of the Committee on Government Operations,
Washington, D.C.

(The subcommittee on October 5, 1962, ordered the testimony taken in executive session on August 17, 1962, of Herbert Johnson, former general counsel of the First Federal Savings & Loan Association of Atlanta, Atlanta, Ga., and John M. Wyman, Director of the Division of Supervision, Federal Home Loan Bank Board, on September 6 and 7, 1962, be printed and made public with such deletions as directed.)

The subcommittee met, pursuant to notice, in executive session at 1:30 p.m., in room 100-B, George Washington Inn, Hon. John E. Moss (chairman of the subcommittee) presiding.

Members present: Representatives John E. Moss, Chet Holifield, and George M. Wallhauser.

Present from the subcommittee staff: David Glick, chief counsel; Harry S. Weidberg, counsel; Catherine L. Hartke, clerk; and Jack Wild, Harvey Geist and Ernest Cooper, accountants, General Accounting Office.

Present from the Federal Home Loan Bank Board: Joseph P. McMurray, Chairman of the Board; Clarence Smith, Assistant to the Board; Thomas H. Creighton, Jr., General Counsel; George Murphy, member of the legal staff; John M. Wyman, Director, Division of Supervision; and John M. Broullire, member of the staff of the Division of Supervision.

Mr. Moss. The subcommittee will come to order.

This is an executive session of the Special Home Loan Bank Board Subcommittee of the House Government Operations Committee. We are resuming our inquiry today into the activities of the Federal Home Loan Bank Board and its constituent agencies as affecting the First Federal Savings & Loan Association of Atlanta, Atlanta, Ga.

In August of last year the subcommittee initially heard testimony from Mr. George West, Sr., chairman of the board of directors of the association. He testified as to his part in the origin and founding of this association and others in the Southern States in the early thirties. He described the growth of the association and his part in its activities.

Mr. West further testified to the difficulties with the supervisory authority of the Federal Home Loan Bank Board which resulted in

his forced resignation from the association in April 1958. At the same time the association was required to adopt certain policies of operation at the insistence of Mr. John M. Wyman. These actions, as described to the subcommittee, resulted from contacts between the attorney for the association, Mr. Herbert Johnson of Atlanta, and Mr. Wyman.

Mr. Johnson is here today to tell of his meetings with the supervisory authorities in the Greensboro bank district and his meetings here in Washington with Mr. Wyman.

TESTIMONY OF HERBERT JOHNSON, ATTORNEY, ATLANTA, GA. (FORMER GENERAL COUNSEL OF FIRST FEDERAL SAVINGS & LOAN ASSOCIATION OF ATLANTA)

Mr. Moss. Mr. Johnson, would you take the stand and be sworn.

Do you swear that the testimony you are about to give this subcommittee shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. JOHNSON. I do.

Mr. Moss. Will you identify yourself for the record?

Mr. JOHNSON. I am Herbert Johnson, attorney from Atlanta, Ga. I represented as general counsel the First Federal Savings & Loan Association of Atlanta from June 1, 1947, until January 31, 1961.

Perhaps I should say I am not appearing voluntarily but at the request of this committee and with the full approval of the people that I represented at that time; that is, the First Federal Savings & Loan Association of Atlanta, Atlanta, Ga., George W. West, Sr., and George W. West, Jr.

Mr. Moss. I was going to note in the record that Mr. Johnson is here in response to a subpena issued August 17, 1962. Or the date of the subpena was August 14, 1962, returnable at this time here in Washington.

I have a copy of the subpena for the record.

(The subpena is retained in the files of the committee.)

Mr. WEIDBERG. Mr. Johnson, you said you were counsel. Were you independently retained or were you a member of the association staff?

Mr. JOHNSON. I was never on the association staff or on the payroll as such. I was an independent attorney employed by the association to represent it in all legal matters.

Mr. WEIDBERG. Then you had knowledge of prior examinations of the association by the supervisory authorities?

Mr. JOHNSON. Yes.

Mr. WEIDBERG. Did you have knowledge of the 1957 examination and the supervisory letter?

Mr. JOHNSON. Yes.

Mr. WEIDBERG. Had you read the supervisory letter that was received in connection with the examination of January 14, 1957?

Mr. JOHNSON. Yes; I have read it and discussed it with officials of the association and the board of directors on many occasions.

Mr. GLICK. Mr. Johnson, as counsel for the association was it your custom to sit in on board of directors meetings?

Mr. JOHNSON. It was. I believe I sat in on all board of directors meetings at the time I was in Atlanta during the entire time I served

the association. On the few occasions when I was out of town one of my associates sat in.

Mr. GLICK. During the course of these meetings, then, I assume that you were present when any supervisory correspondence or the like was discussed by the board?

Mr. JOHNSON. That is correct.

Mr. GLICK. Did the association at times call upon you for legal opinions?

Mr. JOHNSON. Quite frequently.

Mr. GLICK. These were generally informal and discussed at the time?

Mr. JOHNSON. Generally informal. Sometimes they requested a written opinion or a letter.

Mr. GLICK. So then you were fully aware of the operation of this association and the interests of the Federal Home Loan Bank Board in the association's operations?

Mr. JOHNSON. That is right.

Mr. WEIDBERG. Did you have any part in the preparation of the reply by the association to the supervisory letter of December 1957?

Mr. JOHNSON. Was the first of your question "Did you aid in it?"

Mr. WEIDBERG. Did you have any role, did you have any part in the preparation of that letter?

Mr. JOHNSON. Yes.

Mr. WEIDBERG. Would you explain to the committee how?

Mr. JOHNSON. The president of the association prepared a suggested answer and discussed it with me. I believe some minor changes were made in it at that time. It is probably true that he discussed the letter before it was ever written by him, discussed what the letter should contain. And we discussed it after it was prepared and some changes were made in it and the contents of the letter were discussed before the board and with me and other members of the board taking part—not "other members"—members of the board taking part in the discussion.

Mr. GLICK. Now, Mr. Johnson and gentlemen, for the record the examination as of January 1957 was received by the association in December of 1957; is that correct?

Mr. JOHNSON. That is correct.

Mr. GLICK. Would you tell the committee what happened upon receipt of this examination report and the supervisory letter? What action did the board of the association take at that time?

In the earlier hearings Mr. West testified that an executive committee was formed. Can you give us any information on that matter?

Mr. JOHNSON. That is correct. The letter itself came as a surprise to the board, the management, and to me. I mean the contents of the letter. The letter was very critical of some of the operations of the association. The board discussed the contents of that letter and at a meeting following its receipt—if not the first meeting, the second meeting—appointed an executive committee consisting of persons who had nothing to do with the management of the association, a subcommittee to go into the detail of all matters that were discussed in this letter and to make any suggestions to the entire board that they felt advisable.

This committee had several meetings. I was present at all meetings although on one occasion I could not remain throughout the entire meeting and my associate, Mr. Hatcher, took my place.

The committee went thoroughly into all the matters of criticism, took some testimony—I'd say approximately a dozen of the largest borrowers from the institution. We had their testimony written up and the contents of it conveyed to the entire board.

That was not the only matter the subcommittee discussed. Every matter referred to in that letter was discussed at various and sundry times and at length, and again recommendations were made to the board by the committee.

Mr. GLICK. The testimony taken, Mr. Johnson, from some of the larger borrowers of the institution dealt with what aspect of concern?

Mr. JOHNSON. Either the letter to which you referred or the accompanying report showed that the examiner had obtained affidavits from one or more borrowers of the association, to the effect that the borrower was required to purchase all materials from the West Lumber Co. that were used in the construction of houses on which the association would make a construction loan and was also required to take hazard insurance through the Home Owners Co. on all these houses.

I knew as a fact that this was not true because either I or one of my associates closed every loan for the association personally, for this period of many years and it had not been true for several years prior to this time—if ever. So I thought—I believe the examiner first made that statement to the board, or some members of the board when I was present. I requested the examiner to give me the names of the people who furnished the information and he refused to do so.

I knew of one man named Feaster Norwood, with whom the association was in considerable litigation. It had to file foreclosure proceedings on property, and if my recollection is correct it was in excess of several millions of dollars. At least several million. I could think of no other person who would give such an affidavit. So I communicated with 12 of the largest borrowers from the association on construction loans. They all appeared voluntarily and gave their testimony. I do not know whether this committee has a copy of it. Every one of them testified they were not required to purchase materials from the West Lumber Co. and every one testified they were not required to carry insurance with the Home Owners Co. These were not prerequisites to securing a loan from the association.

Mr. GLICK. Do you remember the name of the examiner with whom this discussion was held?

Mr. JOHNSON. Mr. Tanner.

Mr. GLICK. Did you have any further discussion with Mr. Tanner relative to this matter?

Mr. JOHNSON. Yes, we had several discussions. At the first one I told him that this statement was just not true, and I knew it wasn't true, and I was in a position to know. And I offered to secure, or to obtain for him, if he wished, private consultations with every borrower of the association—I mean of every sizable amount—I offered to get these people so he could investigate it himself.

He showed no interest in doing it, he showed no interest in asking the men, he wouldn't go to see them. He wouldn't take affidavits.

Mr. GLICK. In other words, he refused your offer to supply him with statements or interviews from those who would have direct knowledge of any attempts to coerce while dealing with First Federal?

Mr. JOHNSON. I think that is a true statement, Mr. Glick. If I did not make it clear, these conversations with these people could be held just between him and them alone. Outside of my presence. Outside of any representing the association. I told him that would be entirely a personal matter between Mr. Tanner and each of these people.

Mr. GLICK. And here again he had no interest?

Mr. JOHNSON. He was not interested.

Mr. GLICK. He also refused the offer of affidavits?

Mr. JOHNSON. He refused my proffer of them originally. I mean when I offered to get them. He said he was not interested in that. I do not know if they were later offered to him and he accepted them or not. They were never again offered to him in my presence but I cannot testify whether or not he accepted them.

Mr. WEIDBERG. Was the answer to the supervisory letter sent to the supervisory authority?

Mr. JOHNSON. Yes.

Mr. WEIDBERG. Do you recall when this was done?

Mr. JOHNSON. I am sorry, I cannot recall the date. If you would refresh my memory I could tell you whether you are correct.

Mr. WEIDBERG. February 25, 1958, I believe is the date in my mind.

Mr. JOHNSON. That is just about right. We received the communication about December 12. I am sure that would be approximately correct.

Mr. GLICK. And this was after the executive committee had made its investigation of the statements in the supervisory letter?

Mr. JOHNSON. Yes. It was made after the investigation. Now I cannot testify positively whether it was after the affidavits were taken but there were other investigations in addition to that and I am also testifying to the best of my knowledge and belief that it was after the formal hearing with each of the people appearing and their testimony being taken down in writing so there would be no question about what they testified to.

Mr. GLICK. And this letter, then, was approved and accepted by the board of the association as its response to the supervisory letter?

Mr. JOHNSON. Yes, sir.

Mr. GLICK. Mr. Chairman, we have a thermofax copy of that here which we would like to introduce in the record at this point.

Mr. MOSS. All right, it will become exhibit 18.

Is there objection to including it in the record at this point?

Hearing none, it is so ordered.

(The document follows:)

EXHIBIT NO. 18.—LETTER FROM GEORGE W. WEST, JR., PRESIDENT, FIRST FEDERAL SAVINGS & LOAN ASSOCIATION OF ATLANTA, ATLANTA, GA., TO JOHN A. FOGARTY, SUPERVISORY AGENT, FEDERAL HOME LOAN BANK, GREENSBORO, N.C., FEBRUARY 25, 1958, WITH ENCLOSURE

FEBRUARY 25, 1958.

Mr. JOHN A. FOGARTY,
Supervisory Agent,
Federal Home Loan Bank Board,
Federal Home Loan Bank Building.

DEAR MR. FOGARTY: As stated in a letter from our board of directors to you on December 6, attached and enclosed are two certified copies of excerpts from the

minutes of the board of directors' meeting setting forth the action taken on each point discussed in your supervisory letter dated December 2, 1957, in connection with the report of examination and audit of our association made as of January 14, 1957.

Yours very truly,

GEORGE W. WEST, Jr.

"The President then called on Mr. Gottenstrater, Chairman of the Special Committee, for a report of his committee. Mr. Gottenstrater stated that the committee had investigated each question raised in the Supervisory Agent's letter, as well as having completely reviewed and studied each item of the audit and examination; made a study of the entire matter; and had prepared a report to the Board of Directors, a copy of which he submitted to each Director for consideration. In addition, the Special Committee recommended that the internal control items as set forth in section 6, page 16j, be implemented. In answer to this, the President stated that all of these had been done or were in the process except item C. An additional clarification and understanding of this item will be asked for and a complete study made of how to effectively accomplish this * * *.

"After a thorough review and discussion of each paragraph of the report of the Special Committee, motion was made by Mr. George West, Sr., that the report be adopted by the Board and made a part of these minutes. Motion seconded by Judge Hathcock and the report unanimously adopted.

"Mrs. Mobley stated that she would resign as a Director in Home Owners Company, and Mr. George West, Jr., stated he would resign as a Director in Home Owners Company and West Lumber Company.

"Mr. Gottenstrater moved that the following resolution be adopted: '*Resolved*, that the duties of the Chairman of the Board be confined to presiding at annual and other meetings of the members and meetings of the Board of Directors.' The motion was seconded by Mr. West, Sr., and carried."

I, Ludie Cornwell, Secretary of the First Federal Savings and Loan Association of Atlanta, certify that the above is a true and correct copy of excerpts from minutes of the Adjourned Special meeting of the Board of Directors held at the office of the association on Monday, February 24, 1958.

LUDIE CORNWELL, *Secretary*.

FEBRUARY 25, 1958.

FEBRUARY 24, 1958.

TO THE BOARD OF DIRECTORS OF FIRST FEDERAL SAVINGS AND LOAN ASSOCIATION OF ATLANTA.

At the December 1957 meeting of the Board of Directors, a Committee was appointed to investigate the matters set out in a letter dated December 2, 1957, addressed to the Board from the Office of the Supervisory Agent of the Federal Home Loan Bank Board at Greensboro, and the report of the examination and audit accompanying that letter. The Committee has had six meetings, each of which lasted from two to four hours; has heard witnesses and gone thoroughly into the matters referred to in the Supervisory Agent's letter.

We quote here from the Supervisory Agent's letter and wish to report to the Board as follows:

"1. *Construction Lending*.

"Notwithstanding previous supervisory comments and admonitions designed to bring about a more prudent construction lending policy and practice, the report clearly shows that the association has continued to make substantial loans to speculative builders who apparently have only limited financial means at best, and who obviously have invested little, if any, of their own funds in the projects. Included in the report are not only statements by borrowers as to their investments (or lack thereof) in speculative projects, but also evidence that the purchase price of the raw land and the cost of its development into building sites are paid from the proceeds of the association's construction loans. In summary, it seems quite clear that for all practical purposes the full risk of large-scale speculative building continues to be borne by the association.

"Undoubtedly due in substantial measure to practices and policies followed by the association, loans at the date of examination amounting to $3,398,729, equal to 8.51 of net assets, were delinquent (Schedule I of report). With the exception of two loans amounting to $13,352, all of the delinquent loans are

construction loans. In addition, during the period covered by the examination ten loans amounting to approximately $963,000 were foreclosed and became real estate owned; one large project (Creel and Hughes) involving a loan balance of $1,006,716 was taken over by Home Owners Company through foreclosure of a second mortgage; and another project (H. K. Clarke), on which the balance due the association was $105,069, was conveyed to West Lumber Company. At the time of the examination the real estate account (not including the projects totalling $1,111,783, acquired by the two 'affiliated' concerns named in the preceding sentence) totaled $905,561, or 2.2% of net assets. Moreover, since January 1957 the association's monthly reports reflect that real estate has been acquired in almost alarming proportions; in fact, by October 31 the real estate account totalled $2,084,000, equal to 4.8% of net assets, a figure to our knowledge that is without precedent in these times.

"Needless to say, it is the directors' responsibility to adopt and maintain prudent and sound lending and collection policies and we, therefore urge that this situation now be given the thorough consideration which it deserves; that policies be so revised as to assure an adequate and sound permanent correction; and that we be advised as to the specific remedial measures taken.

"It is requested also that aggressive steps be taken to eliminate loan delinquencies and to formulate plans for the early and sound disposal of real estate owned with a minimum of loss to the association and that we be advised of the program adopted to effect this needed action."

It is the unanimous opinion of the committee that the association should not be engaged in the business of building houses. In cases of foreclosure or deed in lieu of foreclosure, it is the recommendation of this committee that no further improvements be made on the property unless it is found absolutely necessary to recover the association's investment. We recommend that the association continue its practice of making no advances unless the borrower has at least a 20% interest in the real estate as it is, including materials and work in process at the time of the advance. We find no justifiable criticism of the collection process.

"2. *Appraisal Practice; Secondary Financing.*

"Information presented in connection with construction Loan No. 10,540 to E. R. Hawkins shows that association appraisers continue to appraise real estate security for loans for amounts exceeding the selling price and that with few exceptions the borrowers have no equity in the properties as the sum of the association's first mortgage and the second mortgage equals or exceeds the selling price. If the example furnished by the examiners is, in fact, typical of the association's lending policy and representative of the loan portfolio, it seems to us that a more prudent and conservative lending policy, and practice, should be put into effect without delay."

This Committee does not believe that the selling price of property is necessarily commensurate with value; however, we are disturbed by the fact that in a large number of cases the appraised value appeared to be greater than the selling price. We recommend that an appraisal procedure be adopted which would not result in properties being appraised, except in cases where the value is justified in writing by the appraiser, at a value in excess of the selling price within the past six months if known.

"3. *Conflict of Interest.*

"The report shows that in at least two instances involving the financing of speculative builders by the association, secondary financing was furnished by concerns (West Lumber Company and Home Owners Company) in which certain association directors and officers and relatives thereof had a financial interest also that Home Owners Company made or purchased secondary mortgages given by borrowers to whom the association granted first mortgage loans, in connection with the financing of their home purchases.

"Transactions of these types, as you directors well know, despite the best of intentions, are susceptible of abuse and do have a capacity to color management decisions by substituting personal considerations for independent judgment. Such transactions are not in the best interest of the association and its shareholders and are inimical to the concepts of fiduciary relationships; therefore, assurance is requested that there will be no further transactions which have either the appearance or fact of a conflict of interest."

While it is not the full conviction of this committee that officers and directors of the association, also serving in official capacity with Home Owners Company and West Lumber Company, operates to the disadvantage of the association, we believe in order to avoid unnecessary criticism that the active officers of the First

Federal Savings and Loan Association should give consideration to retirement from any official capacity or directorship in the Home Owners Company and West Lumber Company.

We have studied the secondary financing furnished by West Lumber Company and Home Owners Company and are of the opinion that this financing has been a substantial benefit to this association. On occasion, both companies have paid the association the monthly payments on the first mortgage and thus have made foreclosures by the association unnecessary.

"4. *Coercion of Borrowers.*

"Despite statements and assurances by the Association's directors and management furnished in the latter part of 1954 following the March 19, 1954, examination, the subject report contains information furnished by borrowers, some in the form of affidavits, to the effect that persons connected with the association and/or related enterprises (West Lumber Company and Home Owners Company) have required, through threat of stoppage of construction loan advances, that they (the borrowers):

"(*a*) purchase building materials from West Lumber Company;

"(*b*) obtain hazard insurance from the Home Owners Company;

"(*c*) permit the latter to act as agent in the sale of houses constructed with association financing.

"It is requested, therefore, that the directors make such independent investigation of these matters as may be necessary to determine the facts and to take such steps as will assure permanent discontinuance of any improper practice in respect to any of these matters.

"After you have considered the report of examination and this letter and have taken such action as is required, please send us two certified copies of excerpts from your minutes setting forth the action taken on each point discussed."

Because of the seriousness of the charges contained under this heading, the committee asked all of the available present or former construction borrowers from the First Federal to appear in person before the committee and answer certain questions. A copy of these questions and answers is attached hereto. Every one of these persons denied that any coercion existed or had ever been attempted. The Supervisory Agent's report did not contain the names of the persons who had given information to the contrary, and we were unable to ascertain who these were. For obvious reasons, the committee did not feel it proper to request those people who are suing the association; namely, Mr. Feaster Norwood, Mr. Jack Hanes, or Mr. Lee Lindsey, to appear before it.

From a thorough investigation, it is our considered opinion that no borrower from the First Federal is required to buy building materials from West Lumber Company; required to carry his hazard insurance through Home Owners Company; nor required to let Home Owners Company act as his agent in the sale of houses, and therefore no coercion exists.

Respectfully submitted.

E. W. GOTTENSTRATER,
Chairman.
T. O. HATHCOCK.
THOMAS J. HICKS, Jr.
A. S. HENDLEY.

Mr. WEIDBERG. What happened after the submission of the association's answer to the supervisory authority?

Mr. JOHNSON. Do you mean between the association and the supervisory authority? Would you make the question a little more clear?

Mr. WEIDBERG. What action did the association take after it had dispatched its answer to the supervisory authority?

Mr. JOHNSON. Well, the association adopted certain procedures which they thought would meet the proper objections of the supervisory authority.

There are some things the supervisory authority called attention to that needed to be corrected and it was proper that they do so and the board adopted actions which they thought would cure any differences—any material differences between themselves and the criticism of the supervisory authority.

Mr. WEIDBERG. Did the association's board communicate with the supervisory authority after the dispatch of this letter, and if so, how did they do it?

Mr. JOHNSON. There were several letters for and on behalf of the association to the authority. I believe there were letters between me, as general counsel, and the supervisory authorities.

Mr. GLICK. Let me clarify this. The letter was sent up on February 25, 1958. It has been testified to before the committee by Mr. West that shortly thereafter—namely, on March 3, 1958, you proceeded first to Greensboro, N.C., to meet with the supervisory agents, Mr. Fogarty and Mr. Mank, and then to Washington to meet with Mr. Wyman? Is that in fact correct?

Mr. JOHNSON. That is correct.

Mr. GLICK. Was there an exchange of telephone calls which gave rise to your coming first to Greensboro and then to Washington, or was it the board's concern that the answer may not have been all that supervision wanted? Do you have any idea why?

Mr. JOHNSON. If I may go back just a little and lay a background: The criticism of the association by the supervisory authority had seemed to be a little stronger each year and this year it was especially strong and the tone of it was such that I was afraid and I know that management was afraid that the association could not do anything to satisfy the supervisory agent. Mr. West requested Horace Russell, who had been one of the organizers of the First Federal Savings & Loan Association of Atlanta and also had been general counsel for the Bank Board and who was very familiar with the action of the Home Loan Bank Board, and also with the act under which the Federal savings and loan system was created, to attend a meeting of the board.

I believe it was the February meeting.

The contents of the supervisory letter were discussed with Mr. Russell and the suggestion was made by Mr. West that perhaps a committee from the association, Mr. Russell and I, should come to Washington and discuss all of our past difficulties with the Home Loan Bank Board, or with Mr. Wyman, or both.

Mr. Russell made a suggestion that it would be better, in his opinion, if I as an independent attorney representing the association came to Washington and discussed it with Mr. Wyman. The board of directors agreed and a resolution was adopted to that effect.

The purpose of my trip was to see what the association had to do to avoid this continuing criticism, to see if I could change the opinion of Mr. Mank, Mr. Fogarty, and Mr. Wyman on some matters on which the association strongly disagreed with them.

I called Mr. Wyman and made an engagement with him for the afternoon of March 3 and told him I was going to stop by Greensboro and called Mr. Fogarty and set up for him and Mr. Mank for the morning of March 3. I went to Greensboro and told Mr. Fogarty and Mr. Mank that I wanted to settle any issues I could at the lowest possible level, anything with them, but I was going to see Mr. Wyman and we discussed some of the matters of which they had been critical, for a couple of hours.

I couldn't get anywhere with them. They made no concession over their demands so I came to Washington and talked to Mr. Wyman, I would say, about between 2½ and 3 hours the afternoon of March 3 and a larger part of the next day.

Now our discussion, of course, was very, very serious. I mean there was just an implication, at least, in the letter that unless some drastic change were made in the management and the policies of the association the Board would take some serious action.

This was confirmed in my conversation with Mr. Wyman. Mr. Wyman took the position that the First Federal Savings & Loan Association, the West Lumber Co., and the Home Owners Co. were affiliates.

I discussed with him the various ownership of stock in the Home Owners Co. and the West Lumber Co. Mr. Wyman said that the Board, meaning the Home Loan Bank Board, could not stand by and see the association continue to be operated as it had been operated, that the management of the First Federal Savings & Loan Association was acting as trustees for the people who had invested money in the association; that they had to be absolutely above suspicion, that there must not only be no conflict of interest but nothing which could be construed as conflict of interest. He said that he had discussed this matter with the members of the Board and that certain actions had to be taken.

Mr. GLICK. Mr. Johnson, excuse me, before you get into that, at this point, when Mr. Wyman described the relationship between these three corporations as affiliates, did he give you any definition or any reasoning for this description?

Mr. JOHNSON. No. I told him that I did not agree with the fact that they were affiliates. I am sure we discussed what constitutes affiliates and he still said in his opinion they were affiliated institutions.

Mr. GLICK. Did he describe their relationship in any fashion?

Mr. JOHNSON. Mr. Wyman stated that the First Federal was not being operated for the benefit of the public but for the benefit of the West family; that the West's having control over the lumber company and the Home Owners Co. made any connection at all very undesirable; they must be completely divorced.

I disagreed with him very vehemently. I told him if there had been abuses in the past that this certainly had not been true for several years. I knew that of my own knowledge.

I believe that is about all. I mean all the questions of the affiliates that were discussed in the 2 days.

I would say it came up every couple of hours or maybe every hour, but that in the main was what the conversation consisted of.

Mr. GLICK. One of the matters, of course, that was discussed was that of placing hazard insurance on property by borrowers; is this correct?

Mr. JOHNSON. Yes, sir.

Mr. GLICK. As attorney for the association did you handle all of the closing of loans?

Mr. JOHNSON. Yes, sir.

When I say that—if I did not, one of my associates, one of my partners did.

Mr. GLICK. Do you know whether there was an opportunity for a borrower from the association to express some degree of choice as to where he got his, or obtained his hazard insurance?

Mr. JOHNSON. Well, there had always been at least some freedom of choice since I first represented the association. Sometime prior to

this particular letter, and to my particular visit, a list had been prepared of companies and agents that were acceptable to the association and prior to the time he obtained the loan the borrower was given his choice. He was not given unlimited choice, because some companies we would not accept, but there were lists of 12 to 20 companies and agents that were acceptable.

Mr. GLICK. Such a list has been submitted and is contained in the record as an exhibit on the initial hearings in this matter (see exhibit No. 7, in the appendix, p. 257).

Mr. JOHNSON. Of course, as you say, as an attorney we are required, by law, I believe, as well as rules of the Home Loan Bank Board, to obtain a policy covering fire insurance, at least, on each building on which the association makes the loan at the time the loan is made. As attorney it was necessary for us to check each policy, to see that it was first made out correctly in the name of the owner of the property and not in the wife's name, that the initials and spelling were right; second, there was a loss payable clause to the association; and third, that the amount was sufficient to protect the association and, of course, that the policy was in a company which the association approved.

Mr. WEIDBERG. Mr. Johnson, did you discuss the existence of this list with Mr. Wyman?

Mr. JOHNSON. Yes, sir.

Mr. WEIDBERG. Did he indicate that he knew about it?

Mr. JOHNSON. I cannot answer that question. I do not know whether he so indicated or not.

Mr. WEIDBERG. Did he make any reference at all to the possibility of freedom of choice or lack of freedom of choice?

Mr. JOHNSON. Oh, yes. That was constantly in discussions that, in spite of anything, the borrower could not make a loan from the association without placing the insurance with the Home Owners Co. That was one of the strong areas of disagreement between me and Mr. Wyman.

Mr. WEIDBERG. But you told him such a list was in existence?

Mr. JOHNSON. Yes. I told him I thought that the borrower was allowed adequate freedom of choice.

Mr. GLICK. Do you know from your own recollection, Mr. Johnson, whether other companies than Home Owners did supply insurance on loans approved by the association?

Mr. JOHNSON. I know that they did.

Mr. WEIDBERG. What other areas of criticism of the operations of the association did Mr. Wyman go into at that meeting?

Mr. JOHNSON. Mr. Wyman went at length into the selling of lumber to borrowers by the West Lumber Co. He thought that coercion was present in many cases. I informed him that I did not think so. As a matter of fact, I was sure it was not.

He went into the question at length of second loans, second mortgages. The association had made loans to individuals who were builders who sold these houses later and took a second mortgage on them. In many cases the purchaser from our borrower did not have much equity in the property. I did not think it was any of the association's business what a borrower did with his house after he made the loan from the association, whether he borrowed money on 1 house or

100 houses as long as the association had adequate responsibility, that he had a responsible person on the note. It was none of our business. In other words, we were going out of our way for trouble to tell a borrower that he could not sell a house, even though he was a builder, and he could not take a second mortgage on the house.

Mr. Wyman was especially critical of the loans made by the association to borrowers on which the West Lumber Co. made second mortgages and in many cases in which the Home Owners Co. had taken second mortgages. The board of directors and I did not think there was anything wrong with this policy. They thought they were building houses and furnishing houses in the community. I agreed entirely with the board.

Mr. GLICK. Then the board of the association was aware that the association was making loans to parties who were obtaining secondary financing elsewhere, including—from the West interests?

Mr. JOHNSON. It was discussed at many board meetings. They knew it throughout the time I served this association.

Mr. GLICK. These loans—you indicated in your opinion the association was adequately secured. If my recollection is correct, at that time the regulation was that a loan be no greater than 80 percent of the appraised value of the property.

Mr. JOHNSON. That is right.

Mr. GLICK. To your knowledge were any of these loans in excess of that figure of 80 percent of the property?

Mr. JOHNSON. I believe that in about two or three cases, they were slightly more, $80\frac{2}{10}$ percent rather than the actual 80 percent. I believe they did call attention to two or three of them, in which it was an accidental error. It was not done deliberately.

Mr. GLICK. Then it is safe to say that almost 100 percent of the loans made were only 80 percent of the appraised value of the property in accordance with the regulations?

Mr. JOHNSON. That is a fair statement.

Mr. WEIDBERG. Did Mr. Wyman give you any of the basis for his assertions that borrowers had been coerced into buying material from West Lumber?

Mr. JOHNSON. Mr. Wyman told me that they had, I believe three affidavits from borrowers that there had been coercion; told they had to buy every stick of lumber from the West Lumber Co., and had to place every bit of their insurance through the Home Owners Co.

Mr. WEIDBERG. Did he say whether the affiants had stated who told them they had to buy from those companies?

Mr. JOHNSON. I do not believe Mr. Wyman made such a statement.

Mr. WEIDBERG. Did he——

Mr. JOHNSON. As a matter of fact, I discussed that question and thought that we were entitled to know it because if a salesman for West Lumber Co. had told a man who had borrowed from First Federal, "You have to buy every stick of lumber from West Lumber Co.," he had no authority to speak for the association and could not bind it.

The same thing is true of the man from the Home Owners Co. We could not control what they said; I cannot imagine them saying it, but it is possible they did. There would be no liability for the

association unless an officer or employee or member of the board, or I as their general counsel—they would have been responsible for my statements, but if it was made by a person not connected with the association, I do not see how the association could control it.

Mr. WEIDBERG. Was this true, too, of the alleged coercion into purchasing hazard insurance from Home Owners Co.?

Mr. JOHNSON. Yes, that is true, the same statement.

Mr. WEIDBERG. Did you allude to your proffer to secure affidavits from borrowers that there had been no attempt to coerce into buying hazard insurance or building material?

Mr. JOHNSON. In my conversation with Mr. Wyman?

Mr. WEIDBERG. Yes.

Mr. JOHNSON. Yes, sir. I told him of my proffer to Mr. Tanner and I also informed him there was only one person I knew who would have given him an affidavit and that was a person who is in litigation with the First Federal.

Mr. WEIDBERG. Did Mr. Wyman indicate any willingness to take such affidavits at this time or at the time of the conversation?

Mr. JOHNSON. He did not express any willingness to take them.

Mr. MOSS. Did he take them?

Mr. JOHNSON. No, sir.

Mr. GLICK. What then developed in this conversation with Mr. Wyman—I believe still in the first meeting of March 3 and 4?

Mr. JOHNSON. Well, I informed Mr. Wyman of my purpose for being there. I informed him of the action of the board and that it looked from the tone of the letters from the supervisory agent and from the tone of their verbal conversations with members of the board that they were seriously considering some drastic action, and my purpose was to see what could be done. Mr. Wyman assured me that they were considering drastic action. We discussed briefly what could be done, what the Board might do, what the Board had done in other cases in the past, and I asked Mr. Wyman what was necessary for the association to do to remove this cloud of a seizure of the association, and we had considerable discussion about that.

Mr. GLICK. Mr. Johnson, at this point, if I may, did Mr. Wyman make you understand that he had certain ideas in mind as to what the association should do and, in failure to comply with those ideas, that the association might well be seized?

Mr. JOHNSON. I would put it a little bit differently. I, from our conversation, got the idea that positive action would be taken in the very immediate future by the Home Loan Bank Board unless the association adopted certain changes in procedure and management. I cannot say that Mr. Wyman positively told me that, but it certainly was understood between us throughout the whole conversation.

Mr. GLICK. And what did you believe would be the action taken by the Board?

Mr. JOHNSON. I believed there would be an attempt either for the Board to take even more stringent action or their sending a representative of the Board down there to take over the management of the association.

Mr. GLICK. You were about to tell us what Mr. Wyman requested the association to do.

Mr. JOHNSON. These conversations—it was not a listing of things, following one another—but these discussions took several hours. Mr. Wyman said that the Board was unwilling to see Mr. West establish a dynasty to operate the institution; that Mr. West had dominated its policies from the very time it had become federalized; that George Jr. had been there for several years, given a position of president, a high salary, and he had shown no ability; that Mr. West's domination of the board of directors was complete; that the board was not exercising independent judgment; that if the present board continued to operate the association, certain changes had to be made. Both the Wests must resign from the board; George West, Jr., resign as president, Mrs. Marilu Mobley, an officer of the association and on the board of directors, who had been associated with the association for 30-some-odd years, must resign as a member of the board; that the board must elect three or four new directors who were in no way connected with either the association, the Home Owners Co., or the West Lumber Co.; that they must be independent men, capable of exercising independent judgment; that the board itself must be independent and it must set the policies of the association in the future so that it was really the board operating the association, or under policies set by the board.

There were discussions of other things that had to be done: The association must not make any loans on which the Home Owners Co. or the West Lumber Co. had second mortgages and it must not appraise any real estate, save in most exceptional cases, in excess of its selling price.

This matter had been a bone of contention between the association and the authorities of the Home Loan Bank Board for many years. As a matter of fact, in 1954, I believe it was, a committee of the association and Mr. Russell, Mr. Joe Shaw, an independent appraiser, and I came to Washington to discuss the matter with Mr. Wyman and with the then Chairman of the Home Loan Bank Board, Mr. McAllister.

The association believed then, and continues to believe, that price is not at any time necessarily indicative of the value of property. All of you gentlemen know the classic definition of the value of property is what a willing seller under no coercion to sell will take from a willing buyer who is under no coercion to buy. That is, the value in the open market, what it will sell for under normal conditions, and I think that that is the definition or similar definition given by anybody who has ever been in any kind of business, including the real estate business.

For instance, if my father gave me a lot next door to him worth $10,000, it would cost me nothing. The supervisory authority's opinion is, you could not lend $8,000 on $10,000. If a man bought a lot at a bargain, and worth $8,000 for $1,000, you could only lend him 80 percent of a thousand dollars. That has been for many years the opinion of the supervisory authorities, examiners, and I will say, of the members of the Board, itself. It is contrary, I think, to the opinion of anybody who knows anything about economics or has been in the business for any length of time. We were not successful in getting them to change that rule or regulation—wait, it was not a rule or regulation. It was just an individual criticism of our actions by the supervisory authorities and by the examiners.

Mr. HOLIFIELD. At no time was that reduced to writing?

Mr. JOHNSON. No, sir.

Mr. HOLIFIELD. Or any letter given to you on that point?

Mr. JOHNSON. No, sir. As a matter of fact, when we left Mr. McAllister's office that day, Mr. Russell made a statement to Mr. Wyman and to Mr. McAllister, "We are going to continue to do it until such time as you put it in your rules and regulations. The minute you do that we will abide by it or take it to authorities to get it changed, because we are going to obey your rules and regulations as long as they are there unless you change them, but until they are changed, we are going to continue our present procedure," and this was in the statement. There has never been a penny lost by such procedure in the First Federal of Atlanta, and I can make the statement right now; it will still be true.

There were some other things that he required. When I say "he required," remember, Mr. Wyman was not speaking personally. He was speaking as agent for the Home Loan Bank Board as to what the Board itself would insist on being done.

There was reference to coercion of any builder by which he would be required to buy the building material from any particular company.

At that time the association had acquired, through foreclosure proceedings, most of which were in the Norwood matter which was brought before you gentlemen, a large amount of real estate. The association was not in the business of buying and selling real estate. We had acquired this to protect the association on loans.

Subsequently it was sold without a single bit of loss but a profit was made on every bit of it.

Another requirement was the board of directors should exercise more and complete control of the association.

The point has been brought up that letters from the supervisory agent, replies to letters from him, had been answered in a rather contemptuous manner. They wanted that removed so they would be answered in a dignified manner.

Mr. Moss. Off the record.

(Discussion held off the record.)

Mr. GLICK. This then was made clear to you at this March 3 and 4 meeting, that there were certain policies to be adopted by the association, and in addition to that, the two Wests were to be removed from the board of directors of the association, as well as Mrs. Mobley?

Mr. JOHNSON. From any part in management, and must not maintain any office in the association.

Mr. GLICK. This is Mr. West, Senior, you are talking about or both of them?

Mr. JOHNSON. Both were to be removed at that time.

Mr. GLICK. They were to leave the employment of the association?

Mr. JOHNSON. That is right.

That is with this modification: If a new management, or operating officer, wanted to employ George, Jr., in a minor capacity, that that would be all right, but not as manager of the institution.

Mr. GLICK. Then you returned to the association—you returned to Atlanta and discussed this with whom?

Mr. JOHNSON. First with Mr. West, Senior and Junior, told them exactly what had happened there, and later on discussed it with the board.

Mr. GLICK. What was the position of the board?

Mr. JOHNSON. I made this statement, not in Mr. Wyman's presence but I made this statement to Mr. West, and perhaps it will add something to subsequent developments:

That I thought, and I could not guarantee it, but if I came back and talked to Mr. Wyman, and we did everything else, conceded all the other mandatory requirements, that they might agree to leave one of the Wests on the board, or even leave George, Jr., as manager, and that I would like to try it.

As a matter of fact, we discussed the possibility of litigation should we refuse these requirements.

I advised against it because of what happened in the California case, to the institution, and even though we were successful in the litigation I felt it would hurt the association.

Mr. West said that, although he didn't like to, this was his brainchild, and he organized this thing, in 1924, 9 or 10 years before it became a Federal institution. He was proud of it but that he would sever his connection with it in favor of his son, George, Jr.

I told him I thought it would be easier for me to persuade Mr. Wyman to accept George, Jr., than it would George, Sr.

All of this was laid before the board and the board agreed.

I requested permission to come back to see Mr. Wyman on that basis. The board asked me to do that and I did.

On March 11, I believe it was, I came back to see Mr. Wyman, told him exactly what had happened, told him that the board would agree to all of the Board's requirements but we wished they would remove it so far as George, Jr., was concerned.

If it was true that Mr. West, Sr., had dominated the board and institution, that George, Jr., had not had a chance. If Mr. West got out completely he would have a chance.

If he couldn't run it then we would alter it.

Mr. Wyman and I discussed that for several hours on this particular occasion. He said he thought the Board would go along with the recommendation. If the board of directors of the association would assume responsibility for the operation of the association, I don't mean every day but the larger part of things, he thought it would be all right for George, Jr., to have a 6-month trial period, and at the end of that time if he had proven he could look after association affairs the board could take any action they wanted to.

If he did not, even after a shorter period of time, it would be up to the board of directors to get another manager who could do it.

Mr. GLICK. During the two conversations to which you referred, March 3 and 4, and March 11 with Mr. Wyman, did he indicate any authority for making this demand of the association; that is, the demand that either one or both of the Wests remove themselves from employment?

Mr. JOHNSON. He said that although there are many associations in the United States much larger than First Federal, more complaints were heard about the operation of that association than any of the others, and he believed almost as many as the rest of them put together, that this has been a matter of some concern to the Board, and the Board had thought that Mr. West was responsible—Mr. West, Sr., was responsible—for a large part of it, and the Board could not continue to see it operated as it had been in the past.

Mr. GLICK. You just recently referred to action by the Board against the California association. During your discussions with Mr. Wyman did he make reference to any other Board action against an association anywhere else?

Mr. JOHNSON. During our 2-day conversation, on the third and fourth, we discussed the California case, the Miami, Fla., case, and I believe the Minneapolis one.

Mr. GLICK. Beacon Federal Savings and Loan?

Mr. JOHNSON. That is right—Milwaukee case instead.

I do not mean to imply that those discussions were necessarily a threat by Mr. Wyman about the same action, but we did discuss what the Board did and why they thought the necessity arose for their taking the drastic action that they did in those three cases.

Mr. WEIDBERG. Did Mr. Wyman indicate that Mr. West was using the association as a vehicle together with his other companies for personal gain?

Mr. JOHNSON. Yes, sir.

Mr. WEIDBERG. Did he indicate that this personal gain was illegally tainted?

Mr. JOHNSON. Yes. He discussed illegality. I would say there was much more time spent on the question of conflict of interest and the immorality of it rather than the illegality, but the question of illegality was discussed.

Mr. WEIDBERG. Did he couple this conversation in any way directly or indirectly with the then recent indictment in Miami?

Mr. JOHNSON. I do not think he did. We discussed the Miami case and what had been done, the indictments down there, and how they had been obtained in one district rather than the other district, as you are familiar. Let me say that was more in the background. We were discussing this particular matter, First Federal of Atlanta, in the background of the Miami case, the Milwaukee case, and the California case. Both he and I were familiar with those and had discussed them.

Mr. WEIDBERG. Did you have the impression that this matter of criminality was an implied threat in back of all this conversation?

Mr. JOHNSON. The matter of what?

Mr. WEIDBERG. The matter of criminal action was an implicit threat?

Mr. JOHNSON. I can't say that there was an implicit threat of criminal action. I was much more afraid myself of civil action. In spite of my representation to Mr. West, Junior and Senior, and being general counsel for them, also, my first obligation was to the association. That was the thing I was afraid of, that is a civil action which would take away and destroy the assets of the association.

Mr. WEIDBERG. Did Mr. West get into any discussion of the aspects of the criminal section of the United States Code, court actions, and that sort of thing as part of the savings and loan association?

Mr. GLICK. You mean Mr. Wyman.

Mr. WEIDBERG. Mr. Wyman, yes. Did he do that?

Mr. JOHNSON. We discussed the appropriate section of the code at some time. I don't think there was ever any threat, direct or implied, that criminal action would be taken. There was hovering in the air the idea there might be a violation.

Mr. WEIDBERG. Would you say there was hovering in the air the thought that it could be taken?

Mr. JOHNSON. Oh, yes.

Mr. GLICK. Mr. Johnson, you said you were most concerned with civil action. By this you mean administrative action such as the appointment of someone to come down and take over?

Mr. JOHNSON. That is right.

Mr. GLICK. Then actually here you are talking about administrative action rather than just civil action in civil courts, are you not?

Mr. JOHNSON. Yes. I was thinking between civil and criminal. I don't think any threat was made, I am sure there was not, of any criminal action against Mr. West, and I wasn't afraid of any criminal action against Mr. West because I am confident I could have defended him successfully against any criminal action.

I was afraid because that is the thing for the future. The minute any financial institution is either seized, or there is a threat of seizure, or a rumor, people start withdrawing their funds and it is something you cannot cure except over a period of years. That was the danger, that is the thing I was very much perturbed about.

I never had any idea Mr. Wyman was going to try to put Mr. West in jail. I did have a strong idea that the Board might take some action, I mean the Home Loan Bank Board might take some action, which would if not destroy at least take away a lot of the assets of the First Federal Savings & Loan Association of Atlanta.

Mr. GLICK. And the prime concern was in seizure, in the sense of a representative going down and taking over. Is that correct?

Mr. JOHNSON. That is correct.

Mr. GLICK. Mr. Johnson, at these meetings with Mr. Wyman was there any member, to your knowledge, of the legal staff of the Board present?

Mr. JOHNSON. During some of our discussions, most of our discussions on the 3d and 4th of March, a Mr. Broullire and a Mr. Schellhase——

Mr. GLICK. Off the record.

(Discussion held off the record.)

Mr. GLICK. For record purposes, Mr. Broullire is in the Division of Supervision. Mr. Schellhase we are informed is no longer with the Board but was not in the Legal Department. I think he, too, was in Supervision.

These, then, were the only two present in your meetings with Mr. Wyman, or during a portion of them?

Mr. JOHNSON. Yes. I don't think at any time all four were in there. At times there were two. I don't think all four were in there. At times two, and at times only Mr. Wyman. At most of the discussions one or two of the parties were there during the discussions.

Mr. GLICK. At your meeting on the 11th of March with Mr. Wyman did you have any list or outline of the matters on which you were to agree?

Mr. JOHNSON. Yes, sir.

Mr. GLICK. I think you have indicated Mr. Wyman agreed to the proposal that you brought up with you; namely, that Mr. West, Sr., would resign and Mr. West, Jr., would be given an opportunity to exercise management ability, and that Mrs. Mobley would resign from the board of directors?

Mr. JOHNSON. And that able persons not connected with either the First Federal, the West Lumber Co., or the Home Owners Co. would be elected to the board to replace these.

Mr. WEIDBERG. A further question on that, Mr. Johnson. Were these proposals acceptable only if Mr. West, Sr., was to leave?

Mr. JOHNSON. Remember this was a counterproposal of mine. The first proposal by Mr. Wyman, the first demand, was that both leave the association completely. This was a counterproposal of mine where I asked him to let George, Jr., stay with the association, so that it was all predicated upon that, that Mr. West, Sr., would leave. He would sever all connections with the association.

Mr. WEIDBERG. But Mr. West, Sr., would have to leave if any proposal were to be acceptable?

Mr. JOHNSON. When you ask that question all I can say is that I think that is true. I never made a counterproposal and I don't think Mr. Wyman would have agreed to it.

In other words, when I left there on the first occasion, I came back and suggested a substitution of this thing. If I thought further conversation on my part would have kept Mr. West, Senior, in there I would have been there yet. Put it like that.

Mr. WEIDBERG. On March 11 you received Mr. Wyman's proposals?

Mr. JOHNSON. This was my proposal.

Mr. WEIDBERG. I misphrased that. Did you reduce these to writing and return to Mr. Wyman subsequently?

Mr. JOHNSON. Yes, sir.

Mr. WEIDBERG. When was this?

Mr. JOHNSON. After I went back to Atlanta, I reported to the board of directors of First Federal my conversation with Mr. Wyman, and what I thought we should do and what he was demanding we do, and drew up a letter.

I subsequently made a third trip on the 21st day of March, and at that time submitted my letter to Mr. Wyman. I do not know that I gave him one to keep but I showed it to him.

He suggested certain modifications, and I again returned to the board. They asked two modifications again and it was accepted by him.

Mr. GLICK. Mr. Johnson, I show you copy of a document and ask if you will identify this, please.

Mr. JOHNSON. The first one is the copy of a letter which I wrote to Mr. Wyman on April 15, 1958, which states that I am enclosing a letter approved by the board of directors of First Federal.

Attached thereto is a letter dated April 14, 1958, addressed to Mr. Wyman, signed by me. This letter had been approved by the board.

Also attached thereto is an extract of the meeting of the board of Friday, April 11, 1958, which board meeting referred to the fact that the board had approved the letter read by me.

Mr. GLICK. I would like to have this included in the record at this point.

Mr. MOSS. Is there objection to including the correspondence as exhibit 19?

Hearing none it is so ordered.

(Exhibit 19 referred to follows:)

EXHIBIT NO. 19.—LETTER FROM HERBERT JOHNSON, ATTORNEY, FIRST FEDERAL SAVINGS & LOAN ASSOCIATION OF ATLANTA, ATLANTA, GA., TO JOHN M. WYMAN, APRIL 15, 1958, WITH ENCLOSURE

JOHNSON, HATCHER, MEYERSON & IRVIN,
Atlanta, Ga., April 15, 1958.

Mr. JOHN M. WYMAN,
Director of Division of Supervision, Federal Home Loan Bank Board, Washington, D.C.

DEAR JOHN: I am enclosing a letter which I have been authorized to mail you by the board of directors of the First Federal Savings & Loan Association of Atlanta. The only change in this letter and the one which I showed you is that on the second page the word "future" has been substituted for the word "successful." Some members of the board thought that they might be assuming more financial responsibility if they authorized the latter word.

This letter has been approved by a motion of the board of directors that was unanimously adopted.

I am also enclosing a copy of the minutes of the board meeting of last Friday.

You will note Mr. George West, Sr., resigned all connections with the association and is now on retirement; Mrs. Mobley resigned as a director and George West, Jr., resigned as a member of the executive committee.

As I told you, I would appreciate your calling any complaints to my attention so that the board may take steps to remedy the cause.

Sincerely,

HERBERT JOHNSON.

JOHNSON, HATCHER, MEYERSON & IRVIN,
Atlanta, Ga., April 14, 1958.

Mr. JOHN M. WYMAN,
Director of Division of Supervision, Federal Home Loan Bank Board, Washington, D.C.

DEAR MR. WYMAN: I have discussed with the board of directors of the First Federal Savings & Loan Association of Atlanta our conversations regarding the steps necessary to eliminate the criticisms of the association by the Supervisory Division of the Federal Home Loan Bank Board. It is the sincere desire of the board that the association be operated in such a manner as to avoid such criticism and to cause a minimum amount of trouble to the supervisory authorities.

The board wishes to fully comply with your requirements. In order to accomplish this the First Federal Savings & Loan Association of Atlanta will not knowingly:

(*a*) Make any construction loan on real estate where the builder does not have an investment in the property of at least 20 percent of its costs;

(*b*) Accept the value of real estate generally as being in excess of the selling price;

(*c*) Make any loan in excess of 80 percent of the selling price or the appraised value of the property, whichever is lower, save in exceptional cases;

(*d*) Make any loan on property on which the West Lumber Co. will have a second mortgage;

(*e*) Allow any coercion of any builder by which he would be required to buy any building material from any particular company;

(*f*) Make any loan on property on which the Home Owners Co. will have a second mortgage;

(*g*) Require any borrower to list a house for sale through the Home Owners Co.;

(*h*) Require any borrower to carry hazard insurance through the Home Owners Co.

The association will dispose of its real estate as promptly as it can do so on a reasonable basis and will not build any more houses except when necessary as a salvage operation, and then only after reporting to you.

The person who takes applications for loans will tell all prospective borrowers that fire and extended coverage insurance is required and ask if they have any preference as to agency. If the borrower names a choice, his choice will

be accepted; if not, the Home Owners Co. will be suggested. The borrower can accept or refuse this suggestion. The borrower or any subsequent purchaser shall have the right to change insurance on any anniversary date of the policy.

The Home Owners Co. will be allowed to act as agent for the First Federal in the selling of any real estate only when the price charged the First Federal is not greater than the recommended minimum of the Atlanta Real Estate Board.

Neither purchasers of property from the association nor borrowers will be required to purchase any building material from the West Lumber Co., but they shall not be prevented from doing so.

The board of directors of the association will exercise more careful control of the association and assumes responsibility for its future operation. Vacancies on the board will be filled with extreme care.

All communications from the supervisor will be replied to in a dignified and respectful manner. All persons communicating with the association, whether by letter or in person, will be treated courteously.

This letter has been read to the board of directors and they have approved its contents. These decisions have been reached by the board on its own responsibility and are made in good faith and without any reservation, so that future operations of the association will comply not only with the rules and regulations of the Federal Home Loan Bank Board but with good business and ethical practices.

In the event of any future complaint, the board would appreciate your calling it to its attention so that an investigation can be made and steps taken to eradicate the cause.

Sincerely,

HERBERT JOHNSON,
General Counsel for the First Federal Savings & Loan Association of Atlanta.

(The minutes of the meeting of the board of directors of the association of April 11, 1958, are contained herein as exhibit No. 10 and appear in the appendix on p. 264.)

Mr. WEIDBERG. Is it the draft of this letter that you discussed with Mr. Wyman on the 21st?

Mr. JOHNSON. Yes, sir.

Mr. WEIDBERG. At the time of your meeting with Mr. Wyman on the 21st of March did you go over each one of these provisos, Nos. A through H?

Mr. JOHNSON. Yes, sir.

Mr. WEIDBERG. Did Mr. Wyman at that time indicate whether or not any one or every one of those provisos was supported by a regulation of the Board, a rule, or statement of policy?

Mr. JOHNSON. In all these matters which we discussed on several occasions the reiterated statement was that it was a policy of the Board. On some of the matters we discussed, on many of these matters from A to H there is no regulation. It was a matter of Board policy rather than rule or regulation adopted by the Board, or as a matter of law.

Mr. WEIDBERG. Did Mr. Wyman admit there were no rules or regulations covering some of these matters?

Mr. JOHNSON. Yes, although I prefer to say he said there were not rather than admitted it, and he stated very frankly this was a matter of policy not covered by the rules or regulations.

Mr. WEIDBERG. Did he indicate whether this was a published policy?

Mr. JOHNSON. No, he never indicated that. We knew it was not published policy in our board.

Mr. WEIDBERG. What is that?

Mr. JOHNSON. He and I both knew there was no published policy on several of the matters discussed in here.

Mr. WEIDBERG. This was a policy which he enunciated to you at that time?

Mr. JOHNSON. Yes, that is absolutely true, and yet I must say that that enunciation had been supported in some cases by our previous conversations with Mr. McAllister.

Mr. GLICK. Mr. Johnson, just for sake of clarity, when Mr. Wyman insisted, or proposed that the Wests remove themselves from the operation of the association, did you question his authority to make such a request?

Mr. JOHNSON. At some point during our conversation I asked Mr. Wyman whether he was speaking with the authority of the Board. He told me he was, that these matters had been discussed many times and the Board knew, and he was giving me the Board's opinion.

Mr. GLICK. His Board, the Bank Board?

Mr. JOHNSON. That is right.

Mr. GLICK. He gave you no citation of rule, regulation, or law to implement this authority, did he?

Mr. JOHNSON. No.

Mr. MOSS. Mr. Holifield?

Mr. HOLIFIELD. I have no questions.

Mr. MOSS. Mr. Wallhauser?

Mr. WALLHAUSER. Mr. Johnson, I think somewhere in the testimony you talked about the fact there had been past abuses by the association.

Mr. JOHNSON. Yes.

Mr. WALLHAUSER. Which were corrected?

Mr. JOHNSON. Yes.

Mr. WALLHAUSER. Can you give us some examples of what these past abuses were, please?

Mr. JOHNSON. Perhaps I should not have used the word "abuses," Mr. Wallhauser. May I substitute the word "practices" because I think it is justified. Mr. West told the board of directors of First Federal on several occasions where I was present that his object in establishing the First Federal Savings & Loan Association, which originally was the First Mutual of Atlanta, I believe, was not altruistic but to sell lumber for the West Lumber Co.

At that time he and several others put their money into the First Mutual. At that time, as you know, most loans were for a period of 5 years. The First Mutual was one of the first institutions in Atlanta to make monthly repayment loans. They were not going to make them unless the people who had put up their money received some profit from it.

The West Lumber Co. was the one he was interested in.

That was done for a long, long time, so that was the practice.

The same thing is true about the Home Owners Co. which was not started as an insurance company as much as it was to build houses and it later on became an insurance company. So borrowers were required for some period of time to purchase insurance through them rather than make loans through them.

Mr. WALLHAUSER. Was the First Federal being sued by others at the time during your stewardship?

Mr. JOHNSON. I think there were probably three suits against First Federal. All of them, however, arose out of foreclosure proceedings—where we were attempting to foreclose on a borrower because he would

not meet the payments. He would go to a court of equity and ask for an injunction to restrain us and sometimes he alleged the association charged too much.

I would say every one of those cases were decided in favor of the association.

Mr. WALLHAUSER. What appraisal practices did the association follow? You went into quite a long discussion about the requirement of the Federal Home Loan Bank Board as to the use of selling prices as the mark of value. Of course, you and I will agree that that is not the market value. Comparability, though—comparable values would be one mark of value.

What appraisal practices did you follow in the association? Did you have independent appraisers, did the association employ its own personnel to appraise? If you did have independent appraisers, of what stature were they? Were they recognized appraisers? Were they merely real estate brokers who now and then did a job? What was the general practice?

Mr. JOHNSON. Like the man says, I am glad you asked me that question. Mr. Joseph Shaw was an independent appraiser for the association. He did serve on the board of directors but he was employed solely as an appraiser and paid independently for his services.

Mr. WALLHAUSER. He was a member of the board of directors of the association?

Mr. JOHNSON. That is right.

Mr. Shaw was a college graduate—I have forgotten what college now—he was with the construction department of either the Norfolk & Western or the C. & O. Railway.

Mr. WALLHAUSER. I do not question his capabilities or his qualifications if you say they were the highest.

Mr. JOHNSON. They were very high. As a matter of fact, he was president of the Appraisal Society at one time in its early history. He was one of the organizers of it.

Mr. WALLHAUSER. Would there be, in your mind, any possible conflict of interest for an appraiser to be a member of the board of directors?

Mr. JOHNSON. No, sir; I don't see how.

Mr. WALLHAUSER. He wouldn't be anxious to secure loans for an association—even though it might be indirect and unconscious?

Mr. JOHNSON. Well, I think everybody in any capacity wants to secure loans for the association, wants to get money for it. Whether you are an independent appraiser or an independent attorney or whether you are an employee.

Mr. WALLHAUSER. Well, I don't say that I agree with you completely on that statement. I think an independent appraiser has less—is less likely to want to secure the loan for the association. He would be more anxious to see that the loan is well placed and merited.

Mr. JOHNSON. We pay our appraiser whether the loan is made or not. He doesn't get one more cent if the loan is made than if it is not made.

Mr. WALLHAUSER. I won't belabor the point but in your opinion the appraiser did not color his appraisals in any way to the benefit of the association in an effort to make the loan; is that correct?

Mr. JOHNSON. In this particular case I know it did not, having so much confidence in Mr. Shaw.

Mr. WALLHAUSER. In all of your conversations and conferences with Mr. Wyman or other members of the Federal Home Loan Bank Board, did you ever have any suspicion of any ulterior motives on their part of any kind?

Mr. JOHNSON. Not a bit; no, sir. No.

Mr. WALLHAUSER. You thought they were attempting to do the will of the Federal Home Loan Bank Board?

Mr. JOHNSON. Well, now that is a little different. I felt they were attempting to do what they themselves thought they should do—thought was right, I would say. I do not know whether they themselves thought that I thought they were carrying out the wishes of the Board.

Mr. WALLHAUSER. Well, they said they were?

Mr. JOHNSON. That is right.

Mr. WALLHAUSER. You apparently had once checked with Mr. McAllister who was an official of the Bank Board and was convinced what Mr. Wyman was telling you at that time at least was the will of the Board?

Mr. JOHNSON. Yes.

Mr. WALLHAUSER. So you don't ascribe any motive to the Bank Board other than those of trying to do the job that they were supposed to do?

Mr. JOHNSON. I think that is true. In my opinion, it is a mistake in judgment, Mr. Wallhauser, rather than anything else.

Mr. WALLHAUSER. What is the present status, if you know—before I get to that, maybe you can tell me, was your separation from the association in any way connected with this case or was it voluntary?

Mr. JOHNSON. It was not voluntary. Some year or so ago Mr. West, Senior, expressed a desire to come back on the board. Two or three of the members of the board of directors came and asked me what I thought of it. I told them that Mr. Wyman had had complete confidence in me and trusted me with these facts that I had written him; that I thought my duty to him and to the Home Loan Bank Board through him required me to call Mr. Wyman and ask him what he thought of it. So I put one of the members of the board on the telephone and called Mr. Ammann and asked him what he thought of it. Mr. West didn't like it, and I am sure it was for that reason that he discharged me as an attorney.

I have always thought that a man had a right to choose his own attorney and an attorney has a right to choose his client. He exercised his privilege, unfortunately.

Mr. WALLHAUSER. Is Mr. West, Junior, still president of the association?

Mr. JOHNSON. Yes, sir.

Mr. WALLHAUSER. I have no other questions.

Mr. GLICK. Now, Mr. Johnson, following the acceptance of the letters of April 14 and 15——

Mr. JOHNSON. Just one minute. Is it necessary for my last statement there to go in the record? I thought you were entitled to an answer, but does it have to go in the record?

Mr. MOSS. The committee has not considered the disposition of the record at any time.

Mr. JOHNSON. Mr. West had a perfect right to do what he did. I don't want to be complaining and I don't want you to think so. I am not volunteering this information, but I thought you were entitled to hear it.

Mr. WALLHAUSER. As I recalled it, it had no effect upon you or Mr. West or Mr. Wyman.

Mr. JOHNSON. All right, if it has that effect.

Mr. GLICK. Following the resignation of Mr. West and the transmittal of the letter of April 14—and this letter has been introduced as part of exhibit 19—which contained a provision that:

> The board of directors of the association will exercise more careful control of the association and assumes responsibility for its future operation. Vacancies on the board will be filled with extreme care.

This is a quote from that letter.

Did there come a time thereafter that members of the Division of Supervision or the supervisory agent met with the board of the association?

Mr. JOHNSON. Yes, sir; Mr. Fogarty and Mr. Mank came to Atlanta and had a special meeting with the board.

Mr. GLICK. Do you recall approximately when this took place?

Mr. JOHNSON. May or June 1958.

Mr. GLICK. According to the prior record of hearings on this matter there was then introduced as exhibit 13, "Minutes of special meeting of board of directors of First Federal Savings & Loan of Atlanta, held at the office of the association, Wednesday, June 17, 1958, at 10 a.m.," and these minutes reflect that Mr. Fogarty and Mr. Mank were present at that meeting.

Could you, without my reading what is contained in these minutes, could you briefly summarize what Mr. Fogarty and Mr. Mank put forth to the board of the association?

Mr. JOHNSON. Off the record. I haven't read those for quite a time. Could I refresh my memory from that?

Mr. GLICK. Let me phrase the question a little differently. Mr. Johnson: Would you agree that at that meeting Mr. Fogarty and Mr. Mank attempted to persuade the board of the association that they were responsible for operation of this association almost in its day-to-day operations?

Mr. JOHNSON. Yes, that is true.

Mr. GLICK. This is a true characterization of that?

Mr. JOHNSON. That is right.

Mr. GLICK. Would you say this went beyond the board just setting the general policy for operation, that it had been concerned with almost a minutia of detail which might be involved?

Mr. JOHNSON. I can hardly answer your last question yes or no. I would say it goes beyond—I mean they expected—Mr. Fogarty and Mr. Mank in their conversation with the board showed that they expected that the board of directors would take a more active control of management than it had generally taken or normally taken and a more active control than is normally taken by the board of directors of any corporation.

Mr. MOSS. Are there any further questions?

Do you have any further statement you would like to make?

Mr. JOHNSON. I would just like to add one or two sentences to my last statement. If you gentlemen will observe when you read the minutes of that meeting, Mr. Fogarty and Mr. Mank themselves wanted to dictate to the board what its lending policy should be. At least it appeared that way. We felt the association should control it rather than the Board.

They criticized the association because we made more money out of construction loans than permanent loans. That is a matter of safety and guidance and keeping the association from being led astray, not to go into detail. I think that was more true than anything else about that particular meeting.

Mr. MOSS. If there are no further questions, Mr. Johnson, the subcommittee will excuse you and we thank you for responding to its questions.

Mr. JOHNSON. Thank you, Mr. Chairman.

Mr. MOSS. Mr. Wyman, you have heard this testimony. Do you have any fault to find with it as to its accuracy?

STATEMENT OF JOHN M. WYMAN, DIRECTOR, DIVISION OF SUPERVISION, FEDERAL HOME LOAN BANK BOARD; ACCOMPANIED BY THOMAS H. CREIGHTON, JR., GENERAL COUNSEL

Mr. WYMAN. Mr. Chairman, I am in a position which I am sure you recognize. I have some difficulty in hearing. I could hear most of the questions but I could not hear the answers to a great many of the questions that were asked.

I would appreciate very greatly the permission of the committee to study the transcript, which I understand will be available, so that I can familiarize myself with it.

Mr. MOSS. The question of whether the transcript will be available is something the committee must decide at a later date. That is the transcript in the executive session. Availability at the present time is limited strictly to the committee. We will consider your request, however.

Mr. WYMAN. I have made my statement upon the contingency that it might be available. It was indicated to me it might be made available and I had that in mind when I made my comment. As I say, I have great difficulty in hearing the answers to the questions and I would appreciate it if there is any reasonable opportunity that can be given me, if I could study the matter. I would like to have the opportunity in order to reply to some of the testimony that probably would require comment by me.

Mr. MOSS. The committee will consider that matter and notify you as to its decision.

Mr. WYMAN. I would be very happy to comment on it if I could understand the statements that have been made clearly, so that I could comment to the point.

Mr. MOSS. The subcommittee will now stand adjourned.

Mr. JOHNSON. Before we adjourn, Mr. Chairman, Mr. West has just corrected me on something that I think should be corrected: That on the occasion I tried to call Mr. Wyman he was out of the office, ill, and I talked to Mr. Ammann in his place on that last occasion. I am sure that is correct.

Mr. Moss. That would be when?

Mr. JOHNSON. That was in January 1961.

Mr. Moss. That was in connection with Mr. West's proposal to return to the board?

Mr. JOHNSON. That is right.

Mr. Moss. That will be noted in the transcript.

Mr. GLICK. I will make the proper change.

Mr. Moss. With that the subcommittee will stand adjourned.

INVESTIGATION AND STUDY OF THE FEDERAL HOME LOAN BANK BOARD

(Part 3—Atlanta, Ga.)

THURSDAY, SEPTEMBER 6, 1962

HOUSE OF REPRESENTATIVES,
SPECIAL FEDERAL HOME LOAN
BANK BOARD SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D.C.

The subcommittee met pursuant to notice, in executive session, at 10 a.m., in room 100–B, George Washington Inn, Hon. John E. Moss (chairman of the subcommittee) presiding.

Members present: Congressmen John E. Moss and Chet Holifield.

Present from the subcommittee staff: David Glick, chief counsel; Sidney McClellan, counsel; Harry S. Weidberg, counsel; and Catherine L. Hartke, clerk.

Present from the Federal Home Loan Bank Board: Joseph J. Williams, Jr., member of the Board; Clarence Smith, assistant to the Board; Thomas H. Creighton, Jr., General Counsel; George Murphy, member of the legal staff; John M. Wyman, Director, Division of Supervision; and John M. Broullire, member of the staff of the Division of Supervision.

Mr. Moss. The subcommittee will be in order.

This is an executive session of the Special Subcommittee on the Home Loan Bank Board, and is called to accommodate Mr. Wyman, Chief of the Division of Supervision of the Board, who desires to comment upon the testimony taken in a previous executive session of Mr. Herbert Johnson of Atlanta, Ga.

Mr. Wyman, would you come forward?

(Whereupon, Mr. Wyman was duly sworn.)

FURTHER TESTIMONY OF JOHN M. WYMAN, DIRECTOR, DIVISION OF SUPERVISION, FEDERAL HOME LOAN BANK BOARD; ACCOMPANIED BY THOMAS H. CREIGHTON, JR., GENERAL COUNSEL

Mr. Moss. Will you identify yourself for the record, please?

Mr. WYMAN. I am John M. Wyman, Director, Division of Supervision, Federal Home Loan Bank Board.

Mr. Moss. Mr. Wyman, you have a statement. You may proceed.

Mr. WYMAN. Thank you, sir.

The purpose of this statement is to assist the subcommittee in ascertaining facts relevant to supervisory actions with respect to the First Federal Savings & Loan Association of Atlanta. The statement is

directed to the testimony before the subcommittee by Mr. Herbert Johnson on August 17, 1962.

I. The first comment which I would like to make pertains to Mr. Johnson's testimony, however and wherever it appears in the transcript of the hearing before this subcommittee on August 17, to the effect that I assured him in my conferences with him that the Federal Home Loan Bank Board was considering drastic action against the association; that we discussed what the Board had done in other cases in the past; that he asked me what was necessary in order to remove the cloud of seizure from the association; and that it was understood between Mr. Johnson and me throughout our conversation that the Federal Home Loan Bank Board would shortly take positive action unless the association adopted certain changes in procedure and management.

I categorically deny that I made or implied any such assurance or statement in any conference or discussion which I had with Mr. Johnson; that I made any reference whatever, by implication or otherwise, in any such discussion or conference to the matter of seizure; that I made or implied any statement to Mr. Johnson or to anybody else at any time to the effect that the Federal Home Loan Bank Board was going to take any sort of action whatever in the event the association's board of directors did or did not do any particular thing; and that there was any such understanding, tacit or otherwise, between Mr. Johnson and me or between me and any other representative of the association at any time.

II. The second matter on which I would like to comment is Mr. Johnson's testimony to the effect that at no time was any letter given to the association which reduced to writing our views and recommendations with respect to the appraised value in relation to purchase price of real estate on the security of which the association makes loans.

Mr. Johnson's testimony on that matter is not consistent with the facts. The facts are:

(*a*) On January 14, 1955, Mr. Walter W. McAllister, then Chairman of the Federal Home Loan Bank Board, wrote to Mr. George W. West, Sr., chairman of the board of First Federal of Atlanta, in pertinent part, as follows:

> What our supervisory agent and our Chief Supervisor have recommended to you is, in substance, this:
>
> In your underwriting operation, permanent or "takeout" loans should generally not be made for amounts greater than 80 percent (under present regulations) of the price at which the property is being purchased, in a free, competitive market, upon completion and sale by operative builders, even though the plans-and-specifications appraisal made for construction loan purposes is greater than the value established by such purchase price.
>
> Frankly, George, I think that recommendation is sound and that it should be followed by the First Federal in its mortgage leading operation. True, the association's charter and the regulations authorize loans up to 80 percent of the appraised value of the real estate security; but to take the position that the letter of these provisions gives sanction to loans that exceed 80 percent of the value established by the price paid for the property in a free, competitive market is to destroy the practical sense and substance of the regulation and leave little if anything but an empty shell.
>
> Personally, I feel that, within certain limits and under certain safeguards, many excellent loans could be made on a basis where the purchaser-borrower makes a bona fide downpayment equal to 10 percent of the purchase price—that is to say with savings of his own rather than with borrowed "equity."

As you know, there are meritorious arguments on both sides of this question; just what the final answer is on the proposition to amend the regulations along that line, we are not now prepared to say. Whether the regulations are amended or not, however, our view is that 20- or 25- or even 15-year loans that exceed the maximum authorized percentage of an appraisal which is higher than the price for which the property sells in a free, competitive market are properly subject to supervisory question, and the Board expects that they will be so questioned.

We all know there are exceptions, of course: An estate has to be liquidated, a builder gets into financial difficulties, a drop in the market develops from some strictly local and temporary circumstance—just to illustrate—and an occasional house will be sold below a fair and sound appraisal.

As a matter of general practice, however, we do not believe that the price at which the real estate is being bought on a market that is free, competitive, and undistressed, should be disregarded in your underwriting operations, nor that in relation to such sales price the amount loaned should exceed the maximum percentage the association is authorized by the regulations to lend.

It is our recommendation that your lending practices be revised accordingly.

(*b*) The further fact is that on January 28, 1955, Mr. George W. West, Sr., wrote to Mr. McAllister acknowledging receipt of the McAllister letter of January 14, 1955, expressing disappointment at the position taken by Mr. McAllister and advising him that:

We feel compelled to continue to follow this (association's existing) process until and unless the law is changed.

(*c*) Mr. McAllister's letter of January 14, 1955, to Mr. West states fully and precisely our position with respect to the matter covered by that letter; at no time in any discussion which I had with Mr. Johnson, or with any other representative of the association, or in any communication to the association or any representative thereof, did I take any position or make any recommendation concerning such matter contrary to the substance of the McAllister letter.

The illustrations used by Mr. Johnson in his testimony of a loan on the security of a lot worth $8,000 which was purchased for $1,000 and of a $10,000 lot acquired by gift obviously ignores our expressed recognition of exceptional circumstances and distorts the facts of our position and recommendations with respect to this matter—to an extent and in a manner which produces all of the substance of an additional misstatement of the facts.

(The letters of January 14 and 28, 1955, are contained herein as part of exhibit No. 5 and appear in the appendix on pp. 241 and 243.)

Mr. WYMAN. III. The third matter on which I would like to comment pertains to testimony by Mr. Johnson with respect to his offer to Examiner Tanner to obtain affidavits from borrowers to the effect that there had been no attempt to coerce borrowers in the matter of purchasing building materials or obtaining hazard insurance; and to his further testimony that he discussed that matter with me and that I did not express any willingness to take such affidavits and, further, that I did not take them.

Except for Mr. Johnson's testimony, I have no information as to any discussion he may have had with Examiner Tanner concerning this matter. On March 3, 1958, Mr. Johnson told me that a committee of the association's directors had interrogated some of the association's borrowers and had made a transcript of the questions and answers; that he had sent a copy of the transcript to the supervisory agent at Greensboro. Mr. Johnson made no statement to me about having any affidavits or about an offer to obtain any; there was no occasion, there-

fore, for me to express either a willingness or an unwillingness with respect to that matter, or to accept or refuse to accept affidavits which I now understand were not then in existence.

On March 6, 1958, according to our records—just 3 days after Mr. Johnson first talked with me about the matter—we received a copy of the transcript covering the interrogation of seven borrowers; it came to me as an attachment to a certified copy of an excerpt from the minutes of a meeting of the association's board of directors held on February 24, 1958, to which was also attached a copy of a report of that same date to the board of directors from a committee comprised of four directors who had been appointed by the board of directors, pursuant to a request made in the letter of December 2, 1957, from the supervisory agent to the directors.

(The excerpts from the February 24, 1958, minutes and the related report of the same date are contained herein as part of exhibit No. 18 and appear on p. 81. The related transcript covering the interrogation of borrowers is contained herein as exhibit No. 11 and appears in the appendix on p. 266.)

Mr. WYMAN. Our study of the transcript and other pertinent documents then available to us showed that the association had not made construction loans to one of the seven borrowers named in the transcript; and that, as best we could determine, it had made construction loans to the other six borrowers in the approximate aggregate amount of $12,600,000, or a little more than one-third of all construction loans made by the association, in the 6-year period, 1952 through 1957. Not included in the list of seven borrowers covered by the transcript were three borrowers to whom the association had made construction loans of about $6 million within that same 6-year period; those are the three borrowers who had filed affidavits alleging coercive practice and who had also filed suits against the association alleging usurious charges.

Our study of the said transcript and of the examination report of January 14, 1957 also showed that four of the six borrowers to whom the association had made construction loans were borrowers to whom the association had made refunds and from whom it had obtained releases of all claims such borrowers might otherwise have against the association for reasons underlying the suit against the association by Norwood Realty Co.—this having been done after the Norwood suit was filed but before the court had issued its decree.

As to each of the six borrowers to whom the association made construction loans the transcript carries statements to the effect that in no instance was the borrower required to purchase building materials from the West Lumber Co. and that he was not otherwise coerced in connection with construction financing by the association. According to the transcript, one of the six borrowers estimated that he did not buy more than 60 to 75 percent of his building materials from West Lumber Co.; another stated that he bought materials from that company but gave no estimate as to what amount or percentage; another borrower stated that about 70 percent of his building materials was purchased from West Lumber Co.; another borrower stated that he bought about 50 to 60 percent of his materials from West Lumber Co.; another borrower stated that he was not now in the residential building business but that when he was in that business, he purchased his building materials "for the most part" from West Lumber Co.

but that "there were many things they did not furnish"; and another borrower stated that he usually bought his materials from West Lumber Co.

The information disclosed in the transcript covering interrogation of only six borrowers to whom the association had made a substantial amount of construction loans, and consideration of the fact that certain refunds had been made to four of the six, and of the fact that three borrowers had made affidavits alleging coercion, and of the further fact that, notwithstanding the circumstances, the association failed to produce even one such construction-loan borrower to state that he purchased most of his materials from a source other than West Lumber Co., did not convince us that there was any basis for changing the substance of the comment with respect to this matter in the letter of December 2, 1957, from the supervisory agent to the association's board of directors.

IV. The fourth comment that I would like to make pertains to testimony by Mr. Johnson to the effect that, in his conferences with me, we discussed certain cases in California, Florida, and Wisconsin, and that the First Federal of Atlanta was discussed with those cases in the background; that the idea of a possible violation of some criminal statute was hovering in the air; and that prominent or dominant in my discussions with him was the implication that if Mr. George West, Sr., and Mr. George West, Jr., did not retire from the association the Federal Home Loan Bank Board would either seize the association or take some sort of drastic action.

I categorically deny that I discussed with Mr. Johnson any case in California, Florida, Wisconsin or anywhere else, First Federal of Atlanta excepted. Those cases were, of course, in the background in the sense that they were historically precedent and in the sense that they were matters of common knowledge, as were also certain actions which the Board had taken in some of those cases. Mr. Johnson himself has testified to the effect that he was familiar with them at the time of his conferences with me. It has so long been a hard and fast rule of the Board and of the Division of Supervision that matters of this nature are confidential between the Board and staff and that the affairs of a particular institution are not to be discussed outside the four walls of our own agency, so to speak, and I have abided by that rule, without exception, for so many years that adherence to it has long been an unfailing reflex. I regret that I am put into a position where I have to dignify Mr. Johnson's testimony as to that matter by making any reference whatever to it; in the circumstances, however, it appears that I am left with no proper alternative.

While I then had no way to know what might have been in Mr. Johnson's mind at the time of his conferences with me, other than his representations to me at that time as to the reason for, and purpose of, his visit, I say to this subcommittee that at no such time did I have any thought, or even a suspicion, of a violation of any criminal statute by anyone in any way connected with the association; and that I categorically deny that, in any discussion which I had with Mr. Johnson or with any other official or representative of the association, I made any statement whatever with respect to such matter.

What I have already said as to the rule by which we are governed in discussing the affairs of institutions subject to supervision by the Board is equally and fully applicable to this particular matter and

it is, therefore, by reference made a part of my comment on Mr. Johnson's testimony about my discussion with him of possible violation of some criminal statute. If any such idea was hovering in the air at the time of any of Mr. Johnson's conferences with me it was his idea, not mine.

I categorically deny that in any discussion which I had with Mr. Johnson I made any statement which, explicitly or by implication, threatened, forecast, or even suggested that unless Mr. George West, Sr., and Mr. George West, Jr., retired from the association, the institution would be seized or that the Federal Home Loan Bank Board would take some other drastic action. Any such statement or implication would have been utterly incongruous with the circumstances fixed by his representations to me as to the reason for, and purpose of, his conferences with me. What actually happened, in substance in this:

(1) The letter of December 2, 1957, from the supervisory agent to the association's board of directors, after referring to certain matters, carried the following paragraph:

> It is requested, therefore, that the directors make such independent investigation of these matters as may be necessary to determine the facts and to take such steps as will assure permanent discontinuance of any improper practice in respect to any of these matters.

(2) On December 6, 1957, a letter signed by all of the association's directors advised us that on that date they had appointed a committee consisting of board members "who have no part in the management of the association," for the purpose of investigating matters to which the letter of December 2, 1957, refers; and advising that as soon as such committee has made its investigation it would report to the association's board of directors and that "we will advise you of the action taken."

(3) To the best of my recollection, and insofar as I am able to determine from our records, the next word we received from the association was a telephone call, around or shortly after March 1, 1958, from Mr. Herbert Johnson stating, in brief, that we would like to talk with me on March 3; I have no record of this telephone call, but I am confident that Mr. Johnson did telephone me before he came to my office on March 3, 1958.

(4) Mr. Johnson arrived at my office at about 3:45 p.m., March 3, 1958, and I talked with him for approximately 1½ hours that afternoon. He stated the reason for, and purpose of, his call in the following manner, substantially:

> Upon receipt from us around the end of November 1957, of a letter commenting on the examination of January 14, 1957, six of the association's directors not otherwise connected with the association became particularly concerned with certaain of the association's practices and had appointed a committee to try to work out corrective measures.
>
> Mr. Johnson further advised me that the directors had authorized and requested him to come to Washington and talk with me about their proposals and to find out whether those proposals were, in my judgment, adequate. Mr. Johnson told me that the directors had come to the conclusion that the criticisms that had been made of the association over the last several years were in

many important respects warranted by the facts; that those practices had been too long continued; and that such practices should be eliminated from the operation of the association. In short, Mr. Johnson stated to me, and I accepted his statement in good faith, that the directors had determined to take whatever action was necessary and within their power; and to that he added, with considerable emphasis, a statement to the effect that he was convinced as to the need for such action and that he was going to do all that he could to get the job done.

(5) The principal proposals by the directors' committee, as set out in draft of a document which Mr. Johnson showed me at the conference on March 3, 1958, which document I had not previously seen, were in substance these:

(*a*) Loans not to be made unless the borrower puts up at least 20 percent of the value of the property, in cash or its equivalent (labor or materials).

(*b*) Appraisals not to be made for amounts that exceed the sales price of the property, "except in instances where the appraiser justifies an appraisal in writing."

(*c*) All of the officers of the association who are also directors or officers of the West Lumber Co. or the Home Owners Co., to resign as directors of those companies.

(6) After discussing the matter with Mr. Johnson for approximately 1½ hours on the afternoon of March 3, 1958, without stating to him any conclusion and without making any comment as to whether or not those proposals were adequate, I arranged for Mr. Johnson to return to my office at approximately 10:30 a.m. on March 4, 1958. Present at the March 4, 1958, conference, in addition to Mr. Johnson and me, were Mr. J. M. Broullire and Mr. R. A. Schellhase (now retired) of my staff. After further discussion of the matters with Mr. Johnson I asked him pointedly and explicitly whether or not the association's board of directors had requested him to obtain a frank statement of my views on those proposals. Mr. Johnson assured me that the association's directors wanted just that, and that they had authorized and directed him to discuss the matter with me in order to obtain my views. Therefore, I then told Mr. Johnson that, in my considered judgment, the proposals were not adequate and that, if the directors really desired to make full and permanent correction, Mr. George West, Sr., and Mr. George West, Jr., should resign as directors and officers of the association, and that certain other steps should be taken.

(On March 4, 1958, while the matter was still fresh in my mind, I wrote a memorandum summarizing the substance of my discussions with Mr. Johnson on March 3 and 4; on March 6, I sent a copy of that memorandum to the members of the Board.)

(7) On March 6, 1958, we received from the Board's Supervisory Agent at Greensboro a copy of a file memorandum prepared by him covering a conference which Supervisory Agents John A. Fogarty and Philip J. Mank had with Mr. Herbert Johnson at the offices of the Federal Home Loan Bank of Greensboro on Monday, March 3, 1958, with regard to those proposals. The substance of the Supervisory Agents' views, as stated in that conference memorandum, of

which I had no knowledge when I talked to Mr. Johnson on March 3 and March 4, 1958, is this

(*a*) The board of directors would have to be more specific in outlining construction lending policies and procedures.

(*b*) The board of directors did not take sufficient action to correct the conflict of interest, especially as it applied to Home Owners Co.

(*c*) The association should either discontinue all future dealings with Home Owners Co. or the officers and directors (of the association) who have a financial interest in that company should divest themselves of all such interest.

(8) Also on March 6, 1958, I received a certified copy of excerpt from the minutes of a meeting of the association's board of directors held on February 24, 1958, where the report of the special committee appointed by the board of directors on December 6, 1957, was adopted.

(9) Insofar as I know, the next development was on March 11, 1958, when Mr. Johnson came to my office, at approximately 2 p.m., to discuss with me the adequacy of a modified proposal, which proposal did not include resignations by Mr. George W. West, Sr., and Mr. George W. West, Jr., as directors and officers of the association. Mr. Broullire and Mr. Schellhase of my staff were also present at that conference. I advised Mr. Johnson that I had no different view of the matter than that which I had expressed to him on March 4. Mr. Johnson then asked me what my reaction would be if Mr. George W. West, Sr., were to retire from the association approximately 6 months thereafter and if, following his retirement, Mr. George West, Jr., were retained for a period of 6 months to demonstrate his ability to manage the institution properly. In that connection, Mr. Johnson had stated to me that several of the association's directors had serious doubt as to the ability of Mr. George West, Jr., to manage the association, but that they felt that he had not had sufficient opportunity to show what he could do and that they would like to give him a 6 months' trial. I advised Mr. Johnson that that might be a workable arrangement, and that the responsibility for deciding the matter rested on the board of directors.

(10) At some time between March 11, 1958, and April 11, 1958, Mr. George W. West, Sr., came to talk to me about the matter of his resignation and the continuance of Mr. George W. West, Jr., as a member of the board of directors and as president of the association. In that conference with Mr. West not only did I not make any threats or demands of any sort whatever but, on the contrary, I told Mr. West that the decision was one which he himself and the board of directors would have to make. Mr. West told me that he would be willing to retire from the board of directors but that he did not want any time limit within which he would be expected to do so; I told him that, insofar as I was concerned, that was a matter to be worked out by him and the board of directors. As to Mr. George West, Jr., I told Mr. West that his continuance as a director and as president of the association was a matter for determination by the board of directors.

(11) At about 9 a.m., April 11, 1958, I received a telephone call from Mr. Herbert Johnson. He asked me whether or not there would be any objection if, upon resignation by Mr. George West, Sr., he

should be designated and shown in the association's advertising, published statements, and so forth, as "director emeritus" or with similar honorary title. I advised Mr. Johnson that my immediate reaction was that there would be no objection; but that, to the best of my recollection, the question had never been raised before, and that I would like to have a few minutes to think it over and then call him back. I immediately talked with the Federal Home Loan Bank Board about the inquiry which Mr. Johnson had made and advised the Board that I would see no objection to the proposal. The Board concurred in that view, whereupon I telephoned Mr. Johnson and advised him accordingly.

(12) On April 17, 1958, we received a certified copy, in excerpt form, of the minutes of a meeting of the association's board of directors on April 11, 1958, at which meeting they took certain actions, among which was approval of a letter from Mr. Herbert Johnson to me; that letter was dated April 14, 1958, and was received by me on April 17. In a letter to me dated April 15, 1958, Mr. Johnson refers to the letter of April 14 as having been shown to me prior to its approval by the board of directors. Mr. Johnson did, in fact, leave a draft of a proposed letter with me on March 21, 1958; my recollection is that I discussed the letter with him at that time although I am not now certain. In any event, I read the proposed draft and made only one suggestion: namely, deletion, from the first paragraph on page 2, of the phrase "and then only after reporting to you and receiving your approval." The only differences between the draft which Mr. Johnson left with me on March 21 and the letter of April 14 to me are these: the words "and receiving your approval" were deleted from the first paragraph on page 2 of the draft, presumably pursuant to my suggestion to Mr. Johnson on March 21; and the word "future" was substituted for the word "successful" in the fifth paragraph on page 2, presumably at the suggestion of the association's directors. I did not participate in the drafting of the April 14 letter, and had nothing to do with its preparation beyond what I have just stated. The April 14 letter, as approved by the association's board of directors, stated, among other things, that:

> These decisions have been reached by the board on its own responsibility and are made in good faith and without any reservation so that future operation of the association will comply not only with the rules and regulations of the Federal Home Loan Bank Board but with good business and ethical practices.

Mr. George West, Jr., has already testified before this subcommittee, in response to questioning by Congressman Wallhauser, that the April 14 letter was the directors' letter to us—"No question about that."

(The April 14, 1958, letter is contained herein as part of exhibit No. 19 and appears on p. 96.)

Mr. WYMAN. The whole substance of the conferences and discussions between Mr. Johnson and me is this: At no time did Mr. Johnson represent to me that either he or the association's directors were concerned about the possibility of so-called seizure of the association, or the possibility that some criminal statute may have been violated, or the establishment of safeguards against seizure or other action. His representations to me were that the directors were concerned about certain practices, which were disclosed by reports of examination and which we discussed; that the directors themselves had determined that

such practices should be corrected, fully and permanently; that he was going to do whatever he could to get such practices corrected; and that the directors wanted my honest and candid judgment as to the adequacy of certain proposals which the directors had developed and were considering.

In those circumstances I responded to what had been represented to me by Mr. Johnson to be a request by the board of directors, which representation and request I accepted as having been made in good faith, by telling him what in my honest, candid opinion would be necessary. At no time prior to the hearings before this subcommittee with respect to this association did I have from anyone any indication, nor did I have any reason to suspect, that the association's directors, or anyone else in any way connected with it, were moved by any consideration other than to effect a full and permanent correction of certain practices. It was on that basis and in those terms, and no other, that I discussed the matter with Mr. Johnson and with the Federal Home Loan Bank Board which was fully advised as to the entire matter, not only by me but by Mr. George West, Sr., who on August 11, 1961, testified that, prior to his resignation, he personally discussed the matter with every member of the then Federal Home Loan Bank Board.

V. The fifth comment which I would like to make pertains to Mr. Johnson's testimony to the effect that, in his conferences with me, I gave him no definition or reasoning for describing the association, the Home Owners Co., and the West Lumber Co. as "affiliates."

It is of course true that I gave Mr. Johnson no such reasoning in the sense of an express definition of the term in any statute or regulation for Federal savings and loan associations—for the simple reason that, as both Mr. Johnson and I well knew, neither the statute nor the regulations contained any such definition. But as Mr. Johnson also knew at the time of our conferences, and as the context of his testimony on this particular matter appears to recognize, the burden of our discussion was not directed to semantics, but rather to the substance of relationships and transactions wherein certain directors and principal officers of the association were parties at interest in the Home Owners Co. or the West Lumber Co., or both—in short, to the matter of relationships and transactions which ordinarily lead to a conflict between personal interests and the performance of official duty by persons in a fiduciary position.

In my conferences with Mr. Johnson I used the term "affiliate" for the purpose of brevity only; and his testimony to the effect that I gave him no reasoning describing the three concerns by that term is inconsistent with the following substantive facts, as disclosed by examination reports, the essence of which facts I discussed with Mr. Johnson in my conferences with him:

(*a*) Within the 11-month period covered by the examination of the association as of March 19, 1954, as shown by the report of that examination, the association purchased from the Home Owners Co. 382 first mortgage loans in the approximate amount of $3,700,000; as of February 28, 1954, according to schedule in the examination report of March 19, 1954, directors, officers, and employees of the association together with members of families of some of them and concerns controlled by them, owned the majority of the stock of that company.

The loans so purchased had been made by the Home Owners Co. as "takeouts" of short-term construction loans made by the association. The examiners were unable to determine what benefits were derived by Home Owners Co. from or as a result of these purchases. The examination report does state, however, that the purchase of these loans from Home Owners Co. was concurrent with the making of the "takeout" loans by that company, the association delivering to Home Owners Co. each morning individual checks in amounts sufficient to cover the association's purchase of "takeout" loans so made on the preceding day, thus enabling Home Owners Co. to make and to sell such "takeout" loans without use of its own funds; and that, at the examination date, the association had agreement to purchase an additional 171 loans from Home Owners Co.

(*b*) In his report covering the examination as of March 19, 1954, the examiner stated that out of 1,566 loans made by the association within the 23-month period preceding the date of that examination, hazard insurance covering properties which were security for 1,534 of such loans—98 percent of the total number—was written through Home Owners Co.; that the chairman of the association's board of directors advised the examiner in writing during the course of the examination that borrowers were required to agree as a condition of the loan to permit the association to designate the insurance agency and company; and that the minutes of the directors' meeting of July 18, 1952, included the following entry (which is also the substance of the association's reply to prior supervisory objection) with respect to the placement of hazard insurance:

> It is made clear to the prospective borrowers here that this legal right is incidental to acquiring a loan. Prospective borrowers, therefore, have the choice of going elsewhere if they are dissatisfied.

(*c*) In the report of examination of the association as of July 13, 1955, the examiner reported that within the 16-month period covered by that examination, the association purchased from Home Owners Co. 124 loans aggregating approximately $1,300,000; and that during the same period the association made 26 loans to borrowers, in the aggregate round-figure amount of $89,000, to finance their purchase of houses from West Lumber Co. With respect to these latter transactions the aggregate of the association's first mortgages and the second mortgages held by West Lumber Co. exceeded the association's own appraisal of the underlying security and exceeded the total of the sales prices as indicated by revenue stamps. (West Lumber Co. was then controlled by Mr. George West, Sr., and Mr. George West, Jr.)

(*d*) In their report of examination of the association as of January 13, 1958, which covered operations for 1957 subsequent to January 14 of that year, the examiners showed that within the 12-month period covered by that examination the association made 175 loans, aggregating approximately $1,270,000 to finance purchase of houses from West Lumber Co. and Home Owners Co., which companies in 158 of the 175 instances took second mortgages aggregating approximately $609,000, almost 40 percent of which second mortgages called for balloon payments. The examiner reported that as of January 13, 1958, directors, officers, employees and attorneys of the association owned more than 20 percent of the stock of Home Owners Co., that

percentage being exclusive of any stock which at that date may have been owned by West Lumber Co. and by members of the West family not employed by or directors of the association; and that as of January 13, 1958 the chairman of the board and the president of the association owned 69 percent of the stock of West Lumber Co.

(*e*) In their reports covering examinations of the association as of January 14, 1957, and January 13, 1958, the examiners showed a continuation of the practice of no-equity financing of borrowers and the continued involvement of Home Owners Co. and West Lumber Co in such financing, as illustrated by the following loans:

(1) Loan No. 10836: This loan was made on August 9, 1955, in the original amount of $400,000; by subsequent additional notes and advances it reached $1,480,000 by June 22, 1956. This was a construction loan, the security for which was appraised by the association at about $1,416,000. According to the examiner's report, he was advised by the borrower that at no time subsequent to the granting of the loan did he have an investment of more than $11,500 in this project. On or about November 6, 1956, Home Owners Co. foreclosed a second mortgage and took title to this property, subject to the association's first lien.

(2) Loan No. 11193: This loan was made on December 14, 1955, in the amount of $300,000, to the same borrower to whom loan No. 10836 was made. On December 15, 1955—the day following the granting of this loan—Home Owners Co. took a second mortgage on the property securing this loan and loan No. 10836. The borrower told the examiner that he had no money invested in this project. The borrower defaulted; and in September 1956 the association instituted foreclosure proceedings, and ultimately acquired title to the property.

(3) Loans Nos. 11043 and 11043–B: On September 20, 1955, loan No. 11043 was made in the amount of $100,000, and on August 6, 1956, loan No. 11043–B was made to the same borrower in the amount of $100,000. The examiner stated that the borrower advised him that he he had only $8,000 invested in this project. On or about December 18, 1956, the borrower voluntarily deeded the security property to the West Lumber Co., which, according to the borrower's statement to the examiner, had a second mortgage of $16,600 on the property.

(*f*) In his report covering the examination of the association as of January 14, 1957, the examiner stated that:

> It appears that West Lumber Co. supplies the vast majority of the building materials for construction financed through First Federal. Examiners were informed by several builders that this is a requirement for securing funds from this association.

And:

> In some instances, builders state they are forced to sell properties through Home Owners Co. and that if they try to have other realty agents handle their sales, officers of Home Owners Co. threaten to have construction funds stopped.

Included in the report of that examination are affidavits by three borrowers, pertaining to loans aggregating almost $6 million, in which such borrowers certified that they were either required to purchase building materials from West Lumber Co. in order to obtain financing by the association or were threatened with a stoppage of disbursements if they failed to purchase building materials from that concern; also certifying in two instances that financing would be cut off if the

sale of the houses was not put in the hands of the Home Owners Co., and, in one instance, certifying that construction funds would be cut off unless all of the hazard insurance were placed with the Home Owners Co.

In his report of examination of January 13, 1958, the examiner stated:

> Of the 773 new loans granted (during the period covered by that examination) and still on the books, the underlying security applicable to 687 (89 percent) is protected by hazard insurance written by the Home Owners Co.

(*g*) In his report covering the examination of the association as of January 14, 1957, the examiner stated, in substance, that the association was defendant in a suit brought by a borrower, to whom the association had made construction loans in the aggregate amount of $4,250,000, charging that the association required him to pay interest in excess of the maximum legal rate.

The examiner further states that these loans were made to finance the purchase and development of acreage into 380 lots and the construction of houses thereon; and that the borrower told the examiner that—

> at the time of closing (of the loans) he had $26,000 invested in the development, but that he later sold timber from the land for $18,000, leaving his net investment to be $8,000.

This borrower made an affidavit certifying that he was required to purchase all of the materials for the development of these 380 lots and the construction of houses thereon from the West Lumber Co.; and that he was required to obtain hazard insurance from the Home Owners Co.

(*h*) In his report of examination of the association as of January 14, 1957, the examiner shows that the association then had delinquent loans in the round-figure amount of $3,399,000, equal to 9.5 percent of total loans, all but $13,352 of which were construction loans; that in addition to the foregoing, the association, during the period covered by the examination, acquired by foreclosure or otherwise the security for $963,000 of loans; that one project involving a loan balance of $1,007,000 was taken over by Home Owners Co. through foreclosure of a second mortgage; that another project on which the balance due the association was $105,000 was conveyed to West Lumber Co.; and that at the date of the examination the real estate owned account was $905,561, or 2.2 percent of total assets—which account increased to $2,108,000, or 4.7 percent of total assets, by January 13, 1958.

(*i*) The report of examination of January 13, 1958 included, as an exhibit, a copy of the decree issued on September 4, 1957, in the Norwood case. The decree was predicated on a finding that interest on five of the seven notes involved was usurious. Pertinent to this aspect of the association's operations are the requirement of section 5(f) of the Home Owners' Loan Act, which requires that each Federal savings and loan association be a member of a Federal home loan bank; and the provision of section 5 of the Federal Home Loan Bank Act which was intended to preclude from such bank membership institutions engaged in lending funds at rates which are excessive under the terms of that section.

Mr. Johnson has testified to the effect that he had knowledge of the examination report of January 14, 1957, and of prior examinations;

that he had read and discussed with the association's officials the supervisory letter of December 2, 1957; that he was fully aware of the operation of the association and the interests of the Federal Home Loan Bank Board in that operation; that he was present when any supervisory correspondence was discussed by the association's board of directors; that there were some things to which the supervisory authority called attention that needed to be corrected; that supervisory criticism had seemed to be a little stronger each year, and was especially strong in 1957; and that constantly or repeatedly or at length in his conferences with me the relationships of Home Owners Co. and West Lumber Co. to the association and its operations were discussed, with specific reference to second mortgages, the placing of hazard insurance, and purchase of building materials.

In the light of that testimony and of the fact that I did discuss with Mr. Johnson transactions and relationships wherein certain directors and principal officers of the association were parties at interest in Home Owners Co. or West Lumber Co., or both, Mr. Johnson's testimony to the effect that I gave no reasoning for my abbreviated description of the three concerns as "affiliates" is inconsistent with the substantive facts. Moreover, I told Mr. Johnson what he, as a lawyer, undoubtedly knew already, namely:

(1) The rule, which is well established in the law, is that persons who are in a fiduciary position should not engage in transactions which ordinarily lead to a conflict between personal interests and the performance of official duty; and

(2) The rule is for prevention rather than correction and does not fall merely because every relationship, transaction, and practice which ordinarily leads to a violation of the rule is not specifically and precisely cataloged in a Board regulation.

In that connection, I have had close contact with the Federal home loan bank boards over a period of more than 28 years and have discussed with them many times, both in general terms and in terms of specific institutions, relationships, transactions, and practices which have either produced a violation of that rule or which ordinarily lead to such a violation. I know of no instance in which any Board has taken any position other than this, in substance: Supervisory responsibility includes the duty to try to correct situations which are violative of that rule. Supervisory action with respect to that matter in the case of the Atlanta association was therefore in no sense the result of a personal rule but, rather, of an honest effort to give effect to my understanding of the policy established by the Board in the public interest.

I wish to thank the subcommittee for giving me an opportunity to make this statement.

Mr. Moss. All right, Mr. Wyman.

Mr. Holifield?

Mr. Holifield. No questions at this time.

Mr. Moss. Mr. Wyman, I think it is no secret to you that I have characterized your discharge of your duties as supervisor as being predicated primarily on a sort of an ad hoc—personal ruling—basis. In quite a number of speeches I have been very critical of the fact that the Division of Supervision exercises a tremendous amount of independent judgment, not relying upon rule or regulation for the

basis of the criticism of member institutions. Now you tell us here on the last page that for 28 years you have been in close touch with the Board.

During that 28 years, how many new charters have been issued when the original organizers were persons who would clearly be faced with the type of conflict which you here characterize as improper?

Mr. WYMAN. Well, I couldn't give you the number, of course, Mr. Chairman. I would suppose certainly there have been a great many. A substantial number of associations were organized where there would be on the board of directors someone in the building material business or someone in the abstract business or other types of business which have some relationship, let's say, to the operation of the association.

Mr. MOSS. Has there ever been any recommendation that the Board, by rule, or regulation, prohibit such person, unless they first divest themselves of their other holdings—those holdings which could raise this question of conflict?

Mr. WYMAN. I couldn't answer that question.

Mr. MOSS. Have you made such regulations?

Mr. WYMAN. I have not participated directly in the chartering.

Mr. MOSS. But have you made to the Board a recommendation that they specifically act to prevent these types of persons from becoming directors of new associations, where they have a clear opportunity to clear this up?

Mr. WYMAN. No, I don't think I have made any such recommendation as that.

Mr. MOSS. How does the Board speak on policy? Under the law itself, how does the Board state a policy? The Board is composed of three men. How does it act to express a consensus, to state a policy, giving clear notice to any and all who are interested, that that is now the Board's policy?

Mr. WYMAN. Well, of course, they can do that by regulation, they can do it by policy statement.

Mr. MOSS. How is that statement recorded?

Mr. WYMAN. Well, the issuance of a policy statement by the Board, I would assume, would certainly be a matter of record in the Board's minutes.

Any broad, general statement of policy would be a matter of record. Another way, of course, that policy is developed is by the Board's actions on specific cases.

Mr. MOSS. But these actions are frequently very contradictory in specific cases. If we take a case-by-case approach, not only do we find they are contradictory from the Board itself, but I can well document that they are contradictory from your own shop. This causes me very grave concern—the fact that one institution is regulated far more harshly than another. The thing that causes sharp supervisory comment in one instance brings forth nothing in another instance. I say we can document these—and I assure you, sir, we can document them.

Now if the Board's policymaking leads to that type of contradictory action, if its guidance to you is so informal—and it is informal when it isn't by rule and regulation—that it leads to contradictory actions

by your own shop, how are these people assured of any equality of treatment?

Mr. WYMAN. Well, I of course wouldn't concede, Mr. Chairman, there has been any material inequality of treatment. There are no two cases that are exactly alike, where the circumstances or facts of the case and the actions by the association, its practices, are an exact carbon copy of any other. You don't have it that way.

Mr. MOSS. That would be almost the same fact, if we decided that the enforcement of traffic laws out here on the city street—it is very difficult to find precise carbon copies.

Mr. WYMAN. Well, that is certainly true in this work, because you just don't have a carbon copy set of facts.

Mr. MOSS. Well, I have under study at the moment, after many months of research by the staff of this committee, the question of whether or not I am going to hold an additional series of hearings on a number of other cases where I think this very contradictory policy can be clearly developed on the record of this committee. As I say, this causes me concern. But I still haven't found out how the Board spells out a policy.

Now one time, you recall, I raised a hypothetical question with you concerning myself—if I should suddenly be appointed, and I assured you I had no desire to be, as a member of the Bank Board. Where would I determine the policies? Where would I go to find out what the Board's policies had been? And I think we concluded that you were about the only source I could consult to determine, to familiarize myself with those policies.

Mr. WYMAN. I don't believe that is quite fully answered, Mr. Chairman, if I may say so. I think the Board has a mind of its own.

Mr. MOSS. It changes all of the time, though.

Mr. WYMAN. The Board makes the policy. I don't believe it can be established that I make policy.

Mr. MOSS. Do we have compilation of Board policies any place?

Mr. WYMAN. Well, I don't know in what sense you mean, a catalog or an index——

Mr. MOSS. An indexed policy, file, or source, book, or guideline of any kind. Is there any place I could go to find out what the policies of the Board were on the matter, we will say, of insurance writing in institutions?

Mr. WYMAN. Yes. There is no secret about that. I believe every association, certainly every Federal savings and loan association, has been supplied with the Board's policies with respect to that matter.

Mr. MOSS. When was it adopted?

Mr. WYMAN. Not once but two or three times.

Mr. MOSS. When was the policy adopted?

Mr. WYMAN. Oh, the policy was first adopted by the Board, it will appear in the minutes as some time back in 1937.

Mr. MOSS. What does it say?

Mr. WYMAN. And I don't have that. It is a minute entry, Mr. Chairman. I don't have it.

Mr. MOSS. It is a minute entry.

Mr. WYMAN. But the question came up. Then at some later date, and I cannot give you the dates; I do not have them, but a general letter or memorandum or statement went out to the supervisory agents

of the Board and through them to the associations with respect to that matter and it was to the effect that the directors, the management, had a duty to protect the association's interests.

Mr. Moss. I am talking about who writes insurance.

Mr. WYMAN. I didn't understand you.

Mr. Moss. Does the Board spell out a policy on who can write insurance? Does it specifically state that an association may not write it or that a firm controlled by an officer of an association may not write it?

Mr. WYMAN. Well, I believe the opinion and ruling has been that the Federal Association does not itself have the power to engage in the insurance business.

Mr. Moss. All right. Is there a prohibition against a director of a Federal association writing insurance?

Mr. WYMAN. No, sir.

Mr. Moss. Is there a policy?

Mr. WYMAN. No policy with respect to that matter as such.

Mr. Moss. Yet you regard this as rather a serious example of conflict, where an association, through one of its officers, or an officer of an association, engages in the writing of a substantial portion of the insurance covering loans made by the associations?

Mr. WYMAN. That is only a part of it.

Mr. Moss. Just stick with this part.

Mr. WYMAN. That is only a part of it.

Mr. Moss. This is just the part I want to stick with, because I think it is important. You have a policy on it, don't you, Mr. Wyman?

Mr. WYMAN. Well, my policy on it is no different from that which has been enunciated on several occasions by the Board itself.

Mr. Moss. How enunciated?

Mr. WYMAN. By letter, communication, that went to our supervisory agents, with instructions to advise the associations in their respective Federal home loan bank districts. They all know what it is, there is no secret about it.

Mr. Moss. What is it?

Mr. WYMAN. It is to the effect that subject to the duty of the directors and officers to protect the association's interests, in the matter of adequate hazard insurance, that beyond that the borrowers should have reasonable freedom of choice in the selection of insurance.

Mr. Moss. What is "reasonable freedom"? Has the Board a policy on that?

Mr. WYMAN. Well, the Board has not defined those words.

Mr. Moss. Have you defined them, Mr. Wyman?

Mr. WYMAN. Well, our evaluation of it has been to the effect that a borrower, subject to that duty of the directors and management——

Mr. Moss. We will agree that the directors must see that there is hazard insurance.

Mr. WYMAN. I am trying to answer your question, that the borrower should have the right to choose his own insurance agent provided he doesn't come up with someone who in the considered judgment of the directors of the institution is not a responsible, reliable person or agent.

Mr. Moss. Let's take this question of reasonable choice. If the institution approves a list of 15 agents in a community, would that afford the borrower a reasonable choice?

Mr. WYMAN. It might or it might not.

Mr. Moss. Would a list of three afford him a reasonable choice?

Mr. WYMAN. Well, I would have to give the same answer to that. It would depend on the number of agents in the town, the size of the town, community, and a lot of factors. I can't categorically answer a question like that "Yes" or "No." You can appreciate that, I am sure.

Mr. Moss. But if I am a director of an institution, and I want to be at all times in complete compliance with the policies of the Federal Home Loan Bank Board, what guideline do I have?

Mr. WYMAN. Well, I think the guideline with respect to the matter of insurance was very well stated, I think it is a policy that is known to Federal savings and loan associations and has been known to them for many, many years all over the country.

Mr. Moss. Now, Mr. Wyman, you know and I know that in many, many Federal savings and loan associations you have at best a restricted opportunity for the purchase of insurance. They frequently have lists and you have to take from the list, don't you?

Mr. WYMAN. That is not an uncommon practice.

Mr. Moss. It is not an uncommon practice.

At what point do I get slapped on the wrists, as a manager of an association, for being too restrictive, if there are no guidelines?

Mr. WYMAN. Well, there were evidences here in this case of coercion. The insurance business was only one segment, one part of it. There was evidence here of continuous—Home Owners' Co. Association, West Lumber Co. Association, involving insurance and various kinds of traffic, and we endeavored to look at this matter in context and not in minute particles.

Mr. Moss. Let's take a look at coercion.

Coercive action is something we all frown upon. If I buy a house and I seek a loan and there is one institution able to make the loan, then it is in a position to be very coercive with me, isn't it?

Mr. WYMAN. It would be in a monopolistic position somewhat, let's say.

Mr. Moss. If there were 10 able and willing to make the loan, coercion would be very difficult on the part of any one of them, wouldn't it?

Mr. WYMAN. Well, it would be certainly far more difficult than it would be if you had only one institution.

Mr. Moss. How many institutions do we have in Atlanta?

Mr. WYMAN. I can't answer that question offhand. I would make a quick guess at it as 8 or 10.

Mr. Moss. Federal?

Mr. WYMAN. Plus or minus.

Mr. Moss. Eight or ten Federal?

Mr. WYMAN. I believe they are all Federal.

Mr. Moss. And how many banks that make home loans?

Mr. WYMAN. I can't answer that.

Mr. Moss. How many mortgage bankers representing insurance companies that make home loans? There is almost an unrestricted

competition within Atlanta for the man who wants to borrow money to finance a home, isn't there?

Mr. WYMAN. I think it is pretty well supplied with lending institutions, there is no doubt about that, but I don't know of any other association there that has told borrowers, "You either get your insurance here or go somewhere else and get your loan." I don't know of any other Federal savings and loan in Atlanta which has done that.

Mr. MOSS. All right. Do we have it as an established fact that that happened in this case?

Mr. WYMAN. Well, according to the letter that was written by the officers of the association—and I cannot give the date of this—but it was to the effect that if they were dissatisfied, they could go somewhere else and get their loans. And that was recorded in the minutes of the directors' meeting.

Mr. MOSS. That was in 1952?

Mr. WYMAN. Yes. Now that ——

Mr. MOSS. Supervisory action here was ——

Mr. WYMAN. There was a rather considerable amount of supervisory comment and supervisory recommendation.

Mr. MOSS. Let's take that. In 1952 the Division of Supervision regarded this as an improper practice, an undesirable practice?

Mr. WYMAN. Yes, sir, that is correct.

Mr. MOSS. Has the Division of Supervision requested of the Bank Board and has the Bank Board responded by formulating a policy saying that this undesirable practice must stop not only at First Federal of Atlanta, but in all federally chartered institutions?

Mr. WYMAN. Well, I recommended to the Board, I believe in 1951, that—I would have to get the record on this——

Mr. MOSS. That is all right, you recommended——

Mr. WYMAN. I recommended to the Board that the regulations be amended along lines that would be somewhat comparable to the provisions in the New York Savings Bank statute, with respect to refusing to grant a loan because materials or services, which would include insurance, was not obtained from a particular person or source, and with respect to requiring that it be obtained from a particular person or source. That matter was discussed at one or two meetings of the Federal home loan bank presidents. I am trusting here, Mr. Chairman, to my best recollection at the moment. I cannot give you specific dates. And the net result of it was that the Board determined to re-enunciate the policy by sending a communication, restating the policy which I indicated to you a few minutes ago.

Mr. MOSS. The policy of reasonable opportunity?

Mr. WYMAN. The result was not to produce a regulation.

Mr. MOSS. Then the Board disavowed your policy recommendation? It did not adopt rules or regulations, it disavowed your policy recommendation?

Mr. WYMAN. No, sir, that is not correct.

Mr. MOSS. It is correct.

Mr. WYMAN. No, the Board determined to reenunciate the policy which had been in effect.

Mr. MOSS. But that is no policy. We agree that you can't tell me what a reasonable standard is there.

Mr. WYMAN. I didn't agree with that.

Mr. MOSS. All right, tell me what the reasonable standard is.

Mr. WYMAN. I can't define "reasonable" and I don't believe anybody in this room can define that term. It has to be construed in the light of specific circumstances.

Mr. MOSS. On an individual case basis?

Mr. WYMAN. On any matter you would name.

Mr. MOSS. Now you mentioned a principle of law. If I am going to be charged with violating principles of law, I think one of the oldest principles of law is that I have clear understanding of the hazard I encounter if I don't observe the law. I think that is a principle of law that goes far deeper than the one you enunciate here. I think I have the absolute right to know what the hazard is. And if we can't agree on whether a list of 3 or a list of 15 or a list of 20 is reasonable, and we have to say to each institution that, "You are going to be judged on a very variable standard, the decision of our examiner, for example, his judgment," and you can take 15 examiners and give them the same problem and I will wager you come up with about 15 different answers.

Mr. WYMAN. You can pick out any 15 people you might pick out and ask them what the term "reasonable" means with respect to particular matters and you would probably get 15 different answers.

Mr. MOSS. Let's get away from "reasonable."

The question I asked was whether it was an adequate opportunity for selecting my agent if I consulted a list of 3 or 15 or 20 agents, approved by the institution. And under your standard, that matter can't be determined. It becomes a matter of very transitory judgment.

Mr. WYMAN. Well, the association in 1954—at the time of the examination in 1954—had no such list. That examination, as I stated here, showed that about 98 percent of all of the insurance on properties securing loans made within that 23-month period covered by that examination were placed or written through or by Home Owners Co.

Mr. MOSS. Let's get on to this other matter that troubles you.

Mr. WYMAN. There was not any particular evidence of freedom of choice, reasonable or otherwise.

Mr. MOSS. And there is no particular standard upon which I can base a policy as to what constitutes seasonableness in this instance, and whether or not you agree with me I think the record will show we are in very substantive agreement that there is no standard, that it becomes a matter of judgment of the person who happens to be examining the institution as to whether there has been a reasonable freedom of choice to select an agent. I am perfectly content to stand on the record as it is at the moment in reaching that conclusion. I think the record will amply support me.

Now, let's go to this statement on page 23, the bottom of the page, continuing at the top of page 24, and this is that well-established rule in law. I am not going to challenge your rule in law, but I am going to examine the practice as the Board applies it.

Now, if I am a lumber dealer in a community, and I join with some of my fellow citizens in organizing, for the purpose of securing a Federal charter for a savings and loan association, and I make no

secret of the fact that I am a lumber dealer, and I probably make no secret of the fact that I hope somehow to benefit from my association with these other citizens in securing this charter, and we apply to the Board and the Board grants the charter, and in the granting of the charter it does not say to me, "Mr. Moss, you shall not sell lumber to anyone borrowing from the association once it becomes operative," then does that rule apply to me, Mr. Wyman?

Mr. WYMAN. That is a pretty long question, Mr. Chairman.

Mr. Moss. Think it over. We can have the reporter read it back.

Mr. WYMAN. I am not sure I get the question clearly.

(The reporter read the question.)

Mr. WYMAN. Yes, sir.

Mr. Moss. It does?

Mr. WYMAN. Yes, sir.

Mr. Moss. By what rule or regulation of the Board?

Mr. WYMAN. Not a rule or regulation of the Board. As I understand it, I have been advised by our attorneys, I believe the Board General Counsel testified on that matter before this subcommittee at one of the previous hearings——

Mr. Moss. Unequivocal.

Mr. WYMAN (continuing). Where he went into it with clarity, it seemed to me, and substantially the same as I have here. Certainly my statement of the matter is predicated upon discussions with the General Counsel and members of the legal staff. But the mere fact that there isn't a regulation that precisely and explicitly prescribes every kind of transaction that might sometime or other occur——

Mr. Moss. Can I sell lumber to a borrower?

Mr. WYMAN (continuing). Does not make the rule fall. Certainly you can.

Mr. Moss. How much lumber, and how many borrowers?

Mr. WYMAN. Well——

Mr. Moss. Can I sell to 10 percent of them?

Mr. WYMAN. Well, I would think that would not be—ordinarily, certainly, it would not be.

Mr. Moss. At what point have I developed a conflict of interest?

Mr. WYMAN. But if borrowers make affidavits certifying that they are required——

Mr. Moss. Disgruntled borrowers can make affidavits, can't they, Mr. Wyman?

Mr. WYMAN. If they make affidavits, for example, certifying that they are required to purchase their building materials from a certain source, I don't think it would make any difference whether it was 10 percent or 5 percent or 25 percent. I think the rule would apply.

Mr. Moss. If it is a rule, it applies. Where does it apply, at what point have I violated your rule? At 10 percent——

Mr. WYMAN. I can't answer that question.

Mr. Moss (continuing). Or 50 percent?

Mr. WYMAN. Hypothetically, I can only answer that question in the light of the specific facts, specific transactions, and I cannot answer it in terms of a hypothesis or speculation.

Mr. Moss. Now you have answered it in terms of a hypothesis or speculation, as far as I am concerned, because you have raised it in numerous associations; in numerous associations you have raised this

question and in all of your years of experience, you have had to determine at some point this becomes a matter of concern to you. At some point it does.

Mr. WYMAN. That is always true. It always will be true.

Mr. MOSS. Is it at the same point in all associations?

Mr. WYMAN. I can't possibly ever eliminate judgment from supervision.

Mr. MOSS. Is it at the same point in all associations? Charge a man with violation of a fiduciary relationship with an institution, with a breach of trust, a breaking of faith, with the people of his community, which is a serious charge, at what point is he guilty of that? And is it the same in all associations?

Mr. WYMAN. It would have to be determined in the light of the facts reported to us by the examiners, in each individual case.

Mr. MOSS. Then, Mr. Wyman, it is not the same for all associations.

Mr. WYMAN. Well, the facts and the circumstances are not the same.

Mr. MOSS. Now, the fact of whether I am selling lumber to 10 percent of the borrowers, or 10 percent of the dollar value of the loans taken out, that is a fact. The fact that I am selling lumber to 50 percent or to 60 percent, that is a fact. But it is not a fact, as it relates to supervision. One man could sell it to 30 percent of the borrowers and not be subject to this criticism, and another man might be subject to it for selling to 10 percent. Is that your story?

Mr. WYMAN. Well, if we had, as I said, affidavits from borrowers certifying that they were required to buy building materials or insurance, whatever it might be, from a particular source or particular concern, we certainly would object to it.

Mr. MOSS. All right. Are you going to take the affidavit on its face as being valid?

Mr. WYMAN. Not necessarily so.

Mr. MOSS. Are you going to do it at all, as being valid?

Mr. WYMAN. I couldn't answer that yes or no.

Mr. MOSS. Why can't you? You know, as a Member of Congress——

Mr. WYMAN. I think we would make inquiry.

Mr. MOSS (continuing). I get many complaints and, believe it or not, even in the case of the Home Loan Bank Board, this committee has expended many thousands of dollars to sift through charges, affidavits, if you please. We did not accept them as being valid. And a great many of them were not. Quite a number were, in our judgment. But our investigation to determine validity has been far more exhaustive than yours, far more exhaustive.

What investigation did you make of the three affidavits in this instance?

Mr. WYMAN. Those affidavits were furnished to us as part of the examination report.

Mr. MOSS. You had six affidavits to the contrary.

Mr. WYMAN. One of them—I didn't see any affidavits to the contrary, myself.

Mr. MOSS. You were aware of their existence?

Mr. WYMAN. No, sir, I do not know of it.

Mr. MOSS. You received a transcript of interviews?

Mr. WYMAN. I saw the transcript of interviews.

Mr. Moss. You didn't ask that affidavits be sought, did you? You didn't say, "We have gotten three affidavits here from substantial borrowers of this institution; therefore, you, Mr. Examiner, go out and get affidavits from a dozen of the largest borrowers of this institution and let's find out what the practices are." You took the three affidavits and said these people are violating this very difficult to define rule, because you used them as the basis for charging conflict. You even used them as the basis for arriving at the conclusion that they were affiliates of First Federal, and by no rule of law, reason, or otherwise, can you characterize these as affiliates of this institution. They were not affiliates at all. And I think your counsel would be forced to agree that they were not affiliates.

Mr. WYMAN. Well, I am well aware of that, Mr. Chairman.

Mr. Moss. But you used the term "affiliates".

Mr. WYMAN. I testified on that, as to the sense in which I used the term. I have explained it at length. And I have not used it in any other sense than for purposes of abbreviation. Now, I have made that as clear as I know how to make it in my statement here. That was my concept of it then and now.

Mr. Moss. They are not affiliates, are they?

Mr. WYMAN. Not in the sense of any definition in our regulations or statute, no.

Mr. Moss. Are they by any definition in any dictionary?

Mr. WYMAN. I don't know. We have an operation here where the same guys wear three hats and I don't know whether they are affiliates or not.

Mr. Moss. Do you have rules or regulations that prevent them?

Mr. WYMAN. Over here they are the Home Owners Co. and here the lumber company and here the association.

Mr. Moss. In how many institutions does this occur?

Mr. WYMAN. Comparatively few.

Mr. Moss. Don't tell me that.

Mr. WYMAN. In the savings and loan business, in the Federal savings and loan system, to any such degree as has been in evidence here.

Mr. Moss. If you want to make that statement that in very few associations will you find an officer or a director who has an interest in an insurance company, a title company, a real estate agency, or a lumber company, and you want to leave that on the record, then I am going to have to ask you and the Board to undertake a very exhaustive and I think somewhat costly survey, because that is not a factual statement, and no one knows it better than you.

Mr. WYMAN. I didn't use the word "or" in that statement.

Mr. Moss. It is not a factual statement.

Mr. WYMAN. I didn't use the word "or" in that statement.

Mr. Moss. You will find it in a majority of your institutions.

Mr. WYMAN. What I said was here is an operation where the principals are wearing three hats.

Mr. Moss. All right. I said that occurs in a great many of the institutions under your supervision.

Mr. WYMAN. It occurs in some of them.

Mr. Moss. It occurs in a great many of them.

Mr. WYMAN. I don't know how many, but it occurs in some of them, where some official or director will be in the insurance business,

another in the lumber business. But you seldom find an empire type of situation, let's say.

Mr. Moss. Let me ask you this question: When this man became an organizer of this institution, did he then wear the same hats?

Mr. WYMAN. From the testimony, apparently so.

Mr. Moss. All right. That is the thing that troubles me. You go out and charter them, you are aware of their relationships, of their diversified holdings, and not in any rule or regulation or condition of charter do you say that this is improper. You condone it. And the Board, as a matter of policy, went out actively for many years and encouraged men in these very fields of activity to take the leadership in organizing associations. Now, if there is not a conflict of policy inherent there, then I am very, very stupid. You know they went out and got them to organize the associations.

Mr. WYMAN. Yes, I did some of it myself. I organized a few from the ground up.

Mr. Moss. And you got some lumber dealers and real estate people and insurance men.

Mr. WYMAN. I see no conflict of policy there.

Mr. Moss. I do. Why not?

Mr. WYMAN. It depends on the conduct of the men.

Mr. Moss. Didn't these same men frequently, underwrite the expenses of association and serve without compensation for years while they built it into a healthy institution?

Mr. WYMAN. Well, there was some of that; yes.

Mr. Moss. Quite a bit of it, wasn't there?

Mr. WYMAN. I don't know how much. To some extent.

Mr. Moss. What do you think they intended as their advantage?

Now, surely, if you expected they were totally selfless, you were far more naive than I think you are.

I can't conceive of a succession of boards so naive as to believe that was the case. Now if it is wrong, and you know frequently, Mr. Wyman, on basic policy here you and I aren't as far apart as we appear to be. The difference is that I want these things by law, by rule, by regulation.

With all of your wisdom and good intention, I don't think you are the one who should make such broad judgments applied on such an individual basis, with such fragmentary guidance, making such serious charges against men who, in their communities, have arrived at position of leadership. That is our fundamental difference here.

Now if it is wrong, that these relationships continue, then why isn't there a rule or regulation? Why do you try to enforce a pattern of conduct through supervision which is sanctioned daily through the granting of charters?

Mr. WYMAN. Well, the granting of the charters gives no sanction to conduct.

Mr. Moss. It sanctions relationships.

Mr. WYMAN. Conduct of directors and officers of the association, that produce a violation of the fundamental rule I stated.

Mr. Moss. You can't tell me where the violation occurs. You say it is all right for me to sell lumber and I know by your own actions of supervision that you are aware of fairly substantial insurance activities

in some of these associations, that have not brought forth supervisory comment.

So we must conclude that that is all right, under certain conditions. And you know of the interest of abstract or title companies, and so we must assume that is all right under certain conditions. You can't tell me where it is wrong.

Mr. HOLIFIELD. And escrow companies.

Mr. MOSS. Yes, all of these related activities. You can't tell me where it is wrong. You say you have got to look at the overall picture of institution X, and then you will decide if it is wrong. But I don't want you to decide, because really the law created the Board to decide the policy.

The Congress intended that the Board, by rule or regulation, make these determinations. It empowered the Board to adopt the rules and regulations. It didn't empower you. You are an executor of policy, not a maker of policy. That is all you are. And that disturbs me.

Now then, had any rule or regulation been violated by First Federal of Atlanta?

Mr. WYMAN. That covers a great extended period of time.

Mr. MOSS. Well, during the period of supervisory concern to us here, and encompassed within your testimony, was a rule or regulation violated by the management of First Federal of Atlanta?

Mr. WYMAN. Well, I don't recall that these particular matters concerning which I testified, that there has been any violation of any express regulation.

Mr. MOSS. Let's get that straight, because you are a great one to modify, very carefully, your statements. Rules and regulations are not expressed or implied, they are specific, are they not? You either have a rule or regulation or you don't have one.

Now, on these broad matters of policy, that is a different field. But rules and regulations are pretty exact, aren't they? I am asking you about these types of formal rules and regulations of the Board.

Mr. WYMAN. Well, there are some of these loans to which I would certainly have questions in the light of the interpretation of the regulation as to appraisal and so on, as set out in Mr. McAllister's letter.

Mr. MOSS. That wasn't interpretation of the regulation, it was an express desire on his part that they pursue this activity?

Mr. WYMAN. An express desire on his part that they pursue a sound practice.

Mr. MOSS. He didn't demand they do it and he didn't cite there was a rule or regulation here involved. I am going to be very technical on this. I am talking about rules and regulations, where they were violated. They were not violated by disregarding Mr. McAllister's letter, the fact that he himself took cognizance of them.

Mr. WYMAN. I think that is correct. There have been some violations with respect to some other matters.

Mr. MOSS. What is the procedure, if there is a violation of rule or regulation, for the Bank Board to correct it?

Mr. WYMAN. It is called attention to the management.

Mr. MOSS. No, a provision of the law that applies in the matter of a violation of a rule or regulation. Mr. Creighton, would you inform us what that is?

Mr. CREIGHTON. The Board has broad power, where they violate a rule or regulation, to take action to give them notice of the violation, and then ask for the correction thereof.

Mr. MOSS. Give them notice and an opportunity for a hearing?

Mr. CREIGHTON. You give them a notice for opportunity for correction and if the correction is not made, the Board can go into a hearing.

Mr. MOSS. Now that is specific, and that is statute, not rule or regulation. If a rule or regulation is violated, you give notice. Did you give notice in this case?

Mr. WYMAN. As to the violations that we discovered?

Mr. MOSS. Rules and regulations.

Mr. WYMAN. That is what I am talking about. There was no notice given in the formal sense. It was included in the supervisory letter, it was discussed with the management in a——

Mr. MOSS. Violation of rule and regulation you are talking about?

Mr. WYMAN. That is right.

Mr. MOSS. Where did you cite the violation of the rule or regulation?

Mr. WYMAN. They assured us they would correct it and as far as I know, they did.

Mr. MOSS. Where did they violate a rule or regulation?

Mr. WYMAN. Not in connection with this matter. But in connection with some prior matter, that I believe shows up in the 1954 examination report. I don't have the details of it, Mr. Chairman. It had to do, I believe, with the appraising of real estate at the time it was acquired. There was a requirement in the regulation with respect to that. I would have to look back about this.

Mr. MOSS. The subject of supervisory concern which led up to the removal—we will go into that a little later—of an officer of the association, there was no rule or regulation violated or no notice of such violation given?

Mr. WYMAN. Not at that time that I know of.

Mr. MOSS. Well, in the 1955–56, 1957–58, examination reports, the letters from Supervision here, did not cite the violation of rules or regulations.

Mr. WYMAN. I think that is correct, yes.

Mr. MOSS. All right.

Mr. WYMAN. There is no reference to it in the letter of December 2, 1957, as I recall it, no reference to any violation.

Mr. MOSS. Now, you were given very clear notice in George West, Sr.'s, letter of January 28, 1955, in his response to Mr. McAllister, that "We feel compelled to continue to follow this association's existing process until and unless the law is changed." That was very clear notice.

Mr. WYMAN. That is correct.

Mr. MOSS. Now, at that point I think the Board should have adopted a rule or regulation or it should have left this matter alone. There was no violation. After all, if I am a member of a board of one of these associations, I am entitled to be regulated precisely as my neighbor is regulated, precisely as my competition is regulated. I have every right to that type of regulation. And when I finally have been advised as to what you would like me to do, and you are

without any legal means of compelling me to do it and I say to you, "Mr. Wyman, I am not going to do what you want," here is clear notice I am not going to do what you want and you should either use the power you have at that point to stop my policy, if you have the power, or you should leave me alone. I should not be subjected to continual harassment.

Were the six borrowers, with an aggregate total of $12,600,000, or approximately a third of all construction loans made by the association, ever interviewed by you to determine if they had been coerced into giving their affidavits?

Mr. WYMAN. No, sir. I didn't know they gave any affidavits in the first place. All I knew about was the testimony.

Mr. MOSS. I point out sir, that it seems to me, that the impact of your comment here is to raise grave doubt as to the real validity of these statements by these six borrowers.

Mr. WYMAN. Well, the association made its own selection of borrowers, we didn't. They raised the question with them, we didn't. We knew nothing about it until it was fait accompli.

Mr. MOSS. But you think they selected very carefully for their six, is that right?

Mr. WYMAN. Well, it seems to me they would have been able to obtain a wider spread of borrowers, who were free of circumstances such as those to whom refunds were being made or had been made, to obtain a release of the association from any claims that those borrowers might otherwise have on the ground of usurious charges.

Mr. MOSS. Now, this matter of usurious charges, these were determined under the laws of the State of Georgia, were they not.

Mr. WYMAN. Yes, sir.

Mr. MOSS. You have—rather, as I understand it—rather restrictive laws in Georgia on charges that can be made by a lender.

Mr. WYMAN. I believe it is a contract rate of 8 percent, as I recall it.

Mr. MOSS. The three borrowers who filed suits against them, did all three win their cases?

Mr. WYMAN. A refund was made to one of those borrowers. The only one I know about is Norwood Realty.

Mr. MOSS. Were any other institutions in Georgia sued for this same thing?

Mr. WYMAN. That I don't know.

Mr. MOSS. Was the practice discontinued?

Mr. WYMAN. I have no information to the contrary. I assume it was.

Mr. MOSS. Now the fact that—

> * * * the association failed to produce even one such construction-loan borrower to state that he purchased most of his materials from a source other than West Lumber Co., did not convince us that there was any basis for changing the substance of the comment with respect to this matter in the letter of December 2, 1957—

are you inferring there had they brought forth an affidavit from a borrower making such a statement, that you would have changed the comment?

Mr. WYMAN. No, sir; I am not inferring anything. What page is that on?

Mr. MOSS. Page 7. What was the comment in that 1957 letter? I asked you what the comment was in that letter.

Mr. WYMAN. Well, the comment appears as item 4 of the letter of December 2, 1957 from the supervisory agent to the board of directors. Would you like to have it read into the record, sir?

Mr. MOSS. I would.

Mr. WYMAN (reading):

4. *Coercion of borrowers:* Despite statements and assurances by the association's directors and management furnished in the latter part of 1954, following the March 19, 1954, examination, the subject report contains information furnished by borrowers, some in the form of affidavits, to the effect that persons connected with the association and/or related enterprises (West Lumber Co. and Home Owners Co.) have required, through threat of stoppage of construction loan advances, that they (the borrowers): (*a*) purchase building materials from West Lumber Co., (*b*) obtain hazard insurance from Home Owners Co., (*c*) permit the latter to act as agent in the sale of houses constructed with association financing.

That, I believe, Mr. Chairman is the complete reference to that point in the 1957 letter.

Mr. MOSS. And that was based on the affidavits received from three borrowers, is that correct?

Mr. WYMAN. Well, it was not, I believe, altogether that. I believe our examiner had made a broad statement in his comments in the examination report which I believe was included in my testimony. That is referred to in item f, on page 21 of my statement. The examiner in the report of examination of January 14, 1957, stated that—and I quote it:

It appears that West Lumber Co. supplies the vast majority of the building materials for construction financed through First Federal. Examiners were informed by several builders that this is a requirement for securing funds from this association—

and—

In some instances, builders state they are forced to sell properties through Home Owners Co. and that if they try to have other realty agents handle their sales, officers of Home Owners Co. threaten to have construction funds stopped.

Now, that was a quotation from the examiner's report of January 14, 1957. So it was not only the matter of the three affidavits but the matter of his more inclusive and borader statement.

Mr. MOSS. Well, it is the basis for supervisory action, for a charge.

Mr. WYMAN. That I do not know.

Mr. MOSS. Well, it is the basis for supervisory action, for a charge We have already established that this is not a violation of rule or regulation. Is that correct?

Mr. WYMAN. That of itself; no. I know of no regulation violated.

Mr. MOSS. We have already established there was no effort made then to go out and actually determine from all of the borrowers what the policy was. Three affidavits were supplied you. Were these the three people who had subsequently sued First Federal?

Mr. WYMAN. Yes, sir. Not only that, those three affidavits, but the examiner's statement on the subject.

Mr. MOSS. Well, he doesn't say much more than what that says. And he doesn't in his statement, cite any more extensive documentation than is covered by the statements in the affidavits.

On page 9 of your statement, item No. 1, is the improper practice there referred to the "coercion"?

Mr. WYMAN. Well, coercion would have been an improper practice.

Mr. MOSS. Is that improper by rule or regulation?

Mr. WYMAN. Not by any regulation made by the Federal Home Loan Bank Board.

Mr. MOSS. The fact that there was a substantial amount of insurance written on homes sold, in itself did not constitute an improper practice?

Mr. WYMAN. Well, I wouldn't say that was true in this case.

Mr. MOSS. Well, is it true, generally?

Mr. WYMAN. I wouldn't say that is true in this case. And I wouldn't say that would be true in any substantially similar case.

Mr. MOSS. Any coercion—would it be improper?

Mr. WYMAN. Well, I think it would depend on the facts of the situation.

Mr. MOSS. Well——

Mr. WYMAN. I think I would have to look back before I could answer that question. I wouldn't undertake to answer a question of that sort hypothetically. I couldn't, Mr. Chairman, do it in good faith and in all honesty, I couldn't.

Mr. MOSS. Well, again if I was an officer to keep in good with the Bank Board—how much effort could I make to sell insurance to borrowers from the institution?

Mr. WYMAN. Well, I think you can make all of the effort you want to, as long as it is clear and free and open and borrowers are not subjected to pressures; and they do, in fact, have free choice. I can say that, use those words, but what the reality of the matter is, in a specific situation, I could sit here from now until this time next year and guess at it, and I would be no further that I am now. I have to look at the facts of the particular situation, before I can make any kind of evaluation.

Mr. MOSS. Facts contained in affidavits from three persons who have litigation with the association, facts contained in the statements of six borrowers, substantial borrowers, or the facts independently arrived at by adequate additional sampling of borrowers of the institution?

Mr. WYMAN. Well, I would think that, of course, those would be among the things that could be done to——

Mr. MOSS. Mr. Wyman, there is no evidence in this record or in the others we have had where this charge has been made—of the Bank Board going out and in good faith seeking independently to sample borrowers of an institution to determine the more or less impartial facts, not those who have done a great amount of business, or those who are disgruntled, but just the average of the borrowers. No where do I find you have ever directed that that kind of objective, careful probing to develop the facts upon which a judgment should be based has ever been undertaken by you. You seem quick to accept evidence which to me is valueless. You did it in Clovis, you did it in Alice, you have done it here, and we have other cases where you have also done it. This I find a very serious omission in the procedures employed by you in supervision. It is a harshness, which I think is contrary to and violative of every rule of sound and objective supervision.

On page 17, the second paragraph, where you state that we discussed the substance of relationships.

Now, you have indicated you used the term "affiliate" as an abbreviated type of definition for a relationship which in your opinion is improper. Is that correct? You don't say it here. You told it to me orally a short while ago.

Mr. WYMAN. Well, the substance of relationships and transactions and practices that ordinarily led to a conflict between personal interests and performance of official duties by people who are in a fiduciary position.

Mr. MOSS. Let's discuss the substance of the relationships. I don't know how we can do it without being definitive. But we will try. What is the substance which makes of such a relationship an improper relationship?

Mr. WYMAN. Well, the use by a director of his position as a director to derive personal benefits or gains in ways which could adversely affect the association's best interests, the failure to deal at arm's length, which is a very difficult thing for a person to do; so that is the substance of it.

Mr. MOSS. Let's take a look at that now. And I am going to be hypothetical and I will expect to have your best cooperation in answering my questions, because they are important.

Let say I am president of First Federal of Timbuktu, and I have just been elected to that office and I have an old and well-established building supply firm out here and I have a customer who is a very prominent builder in my community. He builds a lot of houses, develops a lot of land, and I say, "Joe, how come you have never come over and visited us at First Federal of Timbuktu and let us have a little of your business?" Have I violated any relationship?

Mr. WYMAN. Why, of course not.

Mr. MOSS. In other words, it is perfectly all right for me to use my outside connection to try to develop business for the association; but, now if I have a borrower in the association, who is also a big builder and I say to him, "Joe, you know I have a pretty decent building supply firm over here; I would sure appreciate your giving me some of your business." Is that improper?

Mr. WYMAN. I think probably not, but it would depend—I can go along so far, Mr. Chairman, in dealing with a hypothetical situation. I am trying to be as responsive as I know how to be and can be. Probably not. It might depend on factors that don't even occur in your own mind at the moment. I couldn't say.

Mr. MOSS. Let's take a look at some of those factors. Do you think there are very many men who are so naive as to flagrantly say to a borrower "I am going to make this loan to you only if you buy your lumber from me"?

Mr. WYMAN. He probably wouldn't do it exactly that way.

Mr. MOSS. If the man is so desperate to do business with an institution, the mere hint that I might pressure some business would ordinarily suffice. I haven't coerced him; have I?

Mr. WYMAN. Well, probably not. That of itself, if that is all that is involved. It would depend on other factors.

Mr. MOSS. That is all it involves.

Mr. WYMAN. I suppose if the association, however, was making enough loans so that the proceeds of the loans exceeded the cost to the borrower of producing the property and the borrower in turn was buying lumber from this concern——

Mr. MOSS. Just a minute. We are in a field that I know something about and let me tell you I am not persuaded one iota by the recitation from your examiners' reports as to how much cash these borrowers had personally invested in their proposed tract developments, because I would say that you have cited typical and not atypical cases. The great majority of these builders don't invest a lot of their dollars in these developments. And I know there is at least one member of your Board sufficiently familiar with this type of operation to know that I am telling the truth and there is at least another member of this committee sufficiently familiar with it to know I am telling the truth. And I am amazed at you—attempting to supervise these institutions—not sufficiently familiar with the facts of life, in this day and age, not to recognize that I am also telling the truth.

You know, as a matter of fact, that very few of them, whether they are developing a tract or building an apartment house or anything else, have very many of their own dollars in it. And if you are going to use that as a basis for criticism, then you better have a definitive regulation, or you will be able to go into any association at any time and subject it to the same type of criticism.

Now, you know that is the truth. And if you don't know it, then you keep yourself pretty much aloof from the actualities.

Mr. WYMAN. Well, we are not altogether uninformed on this subject, Mr. Chairman. However——

Mr. MOSS. I would have to be uninformed to accept these statements you cite in your testimony here as being very persuasive evidence. You cite them in a manner to convey to me the idea that there was something kind of funny going on here; this man had only $18,000 in this big development. Well, you know very well that is the routine and not the exception. And that part of it should not have been cited as being in point or material.

Mr. WYMAN. It is a pretty thin cushion, I would say; a pretty thin margin.

Mr. MOSS. Do you know very many of them much thicker?

Mr. WYMAN. Yes, there are.

Mr. MOSS. There are a few.

Mr. WYMAN. There are many of them.

Mr. MOSS. Well, I would say I bet I can find as many the other way. Would you want to make a wager on it?

Mr. WYMAN. Generally the business hasn't gone quite that far in the direction of no equity operations.

Mr. MOSS. I have seen some of these boys put together packages where they had none of their money in it and they are recognized as being pretty responsible and able. In fact, it takes a lot of skill to do that. But you know it happens. Not only in First Federal of Atlanta but in First Federals all over the country. Don't you?

Mr. WYMAN. No; I wouldn't go that far, Mr. Chairman.

Mr. MOSS. How far would you go, Mr. Wyman?

Mr. WYMAN. Well, I think——

Mr. Moss. Would you say it is very unusual that they only had this much of their own cash in this?

Mr. WYMAN. We recognize——

Mr. Moss. My question is: Would you say it is unusual that they only have this much in deals of this size?

Mr. WYMAN. Well, I can't answer that out of context of some of the operations of this institution, Mr. Chairman.

Mr. Moss. I am asking you that in context with the general problems of supervision.

Mr. WYMAN. I cannot answer that question out of context with certain phases of the operation of this institution.

Mr. Moss. You will not deny the statement?

Mr. WYMAN. Well, I wouldn't——

Mr. Moss. I am prepared, Mr. Wyman, if you want to challenge some of these things I am stating, I am prepared to give you the assignment of developing for the committee from a selected list of institutions, the actual facts. I think it would be refreshing to you and helpful to us. If you want to deny it, we might give you that opportunity. That is not a threat, that is a promise, because I think this record should be accurate.

Mr. WYMAN. Well, my testimony, or my response on the question wouldn't be affected one way or the other by that, I can assure you. I think, of course, there is a considerable amount of business, this type of business we are talking about, being conducted where there is comparatively small equity on the part of borrowers. We recognize that and it is a matter of concern, frankly, to us. But how far you can go in an absolute equity operation is a matter, it seems to me, anyhow, of very vital concern, or should be of very vital concern, not only to me, but to a lot of other people.

Mr. Moss. How is the best way to express this concern? By rule or regulation or policy letter, notice to the associations, or by having each examiner vested with the right to exercise an independent and, frankly, sir, having looked at some of the examiners, an uninformed judgment in some instances?

Mr. WYMAN. Well——

Mr. Moss. Should we leave it to the examiners? Should we leave the determination as to whether this is sound or foolish to the examiners?

Mr. WYMAN. No; they endeavor to report the facts on the matter, that is, they ascertain them, the facts of the operation.

Mr. Moss. Where do we raise the flag on this?

Mr. WYMAN. We endeavor to analyze them and evaluate the facts as they are reported to us by the examiners, and sometimes reports from the associations themselves, but most always relying largely on the examination report resulting from the visitorial examination by the Board's examiner.

Of course, in the matter of the no-equity operation and the $18,000 figure or the $8,000 figure, whichever it is in the testimony here, we had to evaluate that to some extent in terms of the type of operation being conducted in the association.

Mr. Moss. Was this a safe operation?

Mr. WYMAN. I am not too sure about that. When it came around to the examination in 1957, it doesn't look like it was in a very good position.

Mr. MOSS. How did it compare with other institutions?

Mr. WYMAN. They had far more real estate owned, a higher percentage of delinquent loans.

Mr. MOSS. Real estate owned, is that a sign of unsafe operation?

Mr. WYMAN. That of itself was not so much the cause of concern as the things that were underlying. For example, loans being made in amounts which according to statements furnished, given to the examiner by borrowers, were a hundred percent and even more of the cost to the borrower of producing property which, of course, in a construction mortgage operation, I mean, has to be produced. Now when that is evaluated, and alongside that the evidences of usurious charges, and purchases over requirements, prices, whatever word you want to use, that materials be brought from the principal in the association, who is also the principal in the lumber company—you see the extent to which Home Owners Co., which was also a concern in which the principal was interested, we have the context out of which——

Mr. MOSS. Let's take the usurious charges. You couldn't determine that they were usurious, could you?

Mr. WYMAN. No.

Mr. MOSS. In fact it took an interpretation of Georgia law to make that determination, didn't it?

Mr. WYMAN. Yes.

Mr. MOSS. It was only at that point you concluded they were usurious?

Mr. WYMAN. In this particular case. That would not always be the case, however.

Mr. MOSS. In this case. This was a matter where the charge could have been made to the borrower, in good faith and with the best of intentions and an interpretation of the law could upset it, is that not right?

Mr. WYMAN. It could, yes.

Mr. MOSS. Was there any evidence that there was an intent?

Mr. WYMAN. I thought the court so determined. I don't have that with me, but I thought the court determined that it was the intent to charge the rate and that it was done. Now I don't recall for sure. That is something the attorneys would have to dig up.

Mr. MOSS. I think one of the litigants sued for $200,000 and was awarded $14,000. So there was a difference of opinion there as to the nature of the charges and the amount that was supposed to have been improperly charged.

Mr. WYMAN. Well, the information I have was to the effect that the amount of the usury—the aggregate amount of the usury was $14,910.94.

Mr. MOSS. And the amount in dispute was $200,000? It was a very large borrower. He borrowed about $4 million, $4.6 million. So there we had to interpret the law of the State of Georgia, before it was determined whether there was usury. So this was not until it was a matter of litigation, raised in your supervisory letters, or apparently questioned by your examiners, prior to the filing of the suits.

Mr. WYMAN. Oh, I think that is correct. I think this turns on the question as to whether certain charges in addition to the interest rate as such were in fact interest within the meaning of the Georgia statute.

Mr. MOSS. And those certain charges in other States were customary and not usurious?

Mr. WYMAN. I beg your pardon?

Mr. MOSS. Those certain charges made by First Federal would have, in other States, been perfectly proper.

Mr. WYMAN. Well, that I don't know.

Mr. MOSS. And I suppose they were reasonably competitive in that area at the time, or they wouldn't have gotten the business. You don't get business unless you are competitive.

Mr. WYMAN. That I wouldn't know, I wouldn't be sure about that.

Mr. MOSS. Well, sir, I can tell you that having spent quite a bit of time in business, I have never found anyone anxious to come over and give me a dollar if they got a better deal from my competition.

Mr. WYMAN. Well, if in fact the association is making loans in excess or equal to a hundred percent of the cost of producing the property——

Mr. MOSS. I imagine that has happened before, too.

Mr. WYMAN. It may be, but that doesn't make it sound or prudent.

Mr. MOSS. I didn't say it made it sound; I said it happened before.

Mr. HOLIFIELD. Mr. Chairman, I would like to ask the question: When you loan 80 percent of the appraised value of property, and there comes a slump in the market, as sometimes occurs, and the equity goes down that is the equity from the standpoint of selling price goes down, and the institution has to take over that property, and then resell it at a price lower than its original value at the time the loan was made, how do you prevent that occurring?

Mr. WYMAN. You can't prevent it.

Mr. HOLIFIELD. So it depends on the situation. Now this examination, as I understand, it was in a period of time from 1955 to 1957, and that was a slump—there was a slump in the real estate market at that time, was there not—in many areas of the country? I know there was. We had the depression of 1958 and we had already begun to have the slowness of sales show up in 1956 and 1957, the slowness of sales had begun to show up and resulted in what we called a recession of 1958. So this was just prior to that time, was it not?

Mr. WYMAN. Just shortly, yes.

Mr. HOLIFIELD. It is evident from looking at the examiner's statement here that at this point of time they had a general reserve and undivided profits against net assets of about 7.3 percent and if the appraised loss on your own examiner's report is zero and the indicated loss is zero, and as I go down, I see that the average return on their average rate of loans was 5.3 percent. That is certainly not usurious. And the rates of new loans run from 4.5 percent GI to 8 percent, and I notice a listing of loans there that runs 8 percent, 6 percent, 5.5 percent, 5 percent, 6.5 percent, 4.5 percent, 7 percent, and 7.5 percent.

Now, that was the new loans they were making at that time. But their average rate was 5.3. And their initial service charge was from zero to 1 percent.

Now, in looking at—they were paying a dividend of 3.5 percent, while their net operating income to invested capital was 4.2 percent. So that certainly was a reasonable profit in the institution. They weren't paying an exorbitant rate of dividend, at 3.5, and they certainly weren't earning their net operating income of 4.2 percent—I believe it is—either 2 or 3—it is kind of blurred here—showed the difference between 3.5 and 4.2, I guess it is, or .7 of a percent profit.

So, considering their reservation they had accumulated there, which is above the 5 percent required by statute, their operation doesn't look so bad when you look at the statement, does it?

Mr. WYMAN. Perhaps not. I don't have that document. But listening to the figures you are reading.

Mr. HOLIFIELD. Yes, I am reading the figures off this.

Mr. WYMAN. But getting back to the matter of the economic conditions and the possibilities that this association loans and real estate owned might have been, to some extent a result of that.

Now, strangely, the other associations in Atlanta didn't have that kind of an experience at all.

Mr. HOLIFIELD. Were they in better shape?

Mr. WYMAN. From the standpoint of real estate owned and slow loans, yes, they were in far better shape. Far better shape. There is no comparison, really.

Mr. HOLIFIELD. Were they older institutions, larger?

Mr. WYMAN. No. Some were larger, some smaller. As a matter of fact two of them were smaller, and one of them was—two of them were larger.

Mr. HOLIFIELD. What about the reserve and undivided profit positions?

Mr. WYMAN. Reserve after undivided profits, talking about December 31, 1957, which is the closest I have to it here, there was only one of them less than First Federal of Atlanta. There were five of them all together. There were three of them—two of them where the reserve position was substantially greater, the reserve ratio, and one of them that had exactly the same reserve ratio.

Mr. MOSS. I think it would be helpful to identify the document you are referring to and to supply us a copy of it for the record.

Mr. WYMAN. There is no reason why not.

(The information follows:)

Data re 5 largest Atlanta, Ga., insured associations

	Total assets		Reserves—percent of capital		Operating expense to gross operating income		Percent of net income available for reserves		Real estate owned		E/R date	Slow loans	
	Dec. 31, 1957	Dec. 31, 1961	Dec. 31, 1957	Dec. 31, 1961	Dec. 31, 1957	Dec. 31, 1961	Dec. 31, 1957	Dec. 31, 1961	Dec 31, 1957	Dec. 31, 1961		Amount	Percent of mortgage loans
First Federal Savings & Loan Association	$44,162,500	$60,367,600	7.8	8.2	24.8	29.4	12.8	10	$2,109,252	$69,652	Jan. 14, 1957 Jan. 13, 1958	$3,398,729 295,101	9.5 .8
Atlanta Federal Savings & Loan Association	123,297,300	191,066,500	9.3	9.7	20.7	23.9	16.6	20	3,689	106,258	Mar. 11, 1957 June 2, 1958	567,841 345,789	.6 .3
Fulton Federal Savings & Loan Association	59,926,500	95,253,400	7.8	8.4	22.7	21.4	20.4	22	18,012	0	Sept. 24, 1956 Feb. 10, 1958	1,901,386 792,715	4.1 1.6
Southern Federal Savings & Loan Association	24,255,800	27,753,500	7.3	9.7	21.3	25.6	17.1	15.8	0	0	Sept. 13, 1956 Nov. 27, 1957	126,359 5,676	.6 .03
Standard Federal Savings & Loan Association	28,063,900	40,544,700	11.0	11.3	24.2	27.4	23.5	18.9	0	0	May 3, 1956 Oct. 14, 1957	249,883 867,841	1.2 3.7

Source: Prepared by Division of Supervision, Aug. 15, 1962.

Mr. HOLIFIELD. Most of the associations were the same and one was worse.

Mr. WYMAN. From the standpoint of reserve ratio. From the standpoint of the slow loans, they were in far better shape.

Mr. HOLIFIELD. Percentagewise?

Mr. WYMAN. As a percent of the total mortgage balances. And that was true also as to real estate owned, December 31, 1957, they showed $2,109,000 and the next highest was $18,000 in real estate.

Mr. HOLIFIELD. How about estimated losses? What is the comparison of estimated losses?

Mr. WYMAN. I don't have that, because this is not taken from an examination report.

Mr. HOLIFIELD. Isn't it true over a period of time an institution will be better one year than the next—there is a variableness in their operation?

Mr. WYMAN. That might be, probably moved by economic pressures and circumstances, to some extent.

Mr. MOSS. Now, you mentioned a couple of times this business of the fact that the loans exceeded the appraised value. On page 19 of your statement you say—

> With respect to these latter transactions the aggregate of the association's first mortgages and the second mortgages held by West Lumber Co. exceeded the association's own appraisal of the underlying security——

What difference does that make? We are concerned here with the association's loans as the ratio of appraised value. Is that right?

Mr. WYMAN. It is all indicative, of course, of the no-equity type of financing.

Mr. MOSS. Let me ask you: How do you find this information out? Do you require an institution to secure from the borrower a statement as to secondary financing?

Mr. WYMAN. Our examiners produced that information, and I don't know the specific processes by which they obtain it.

Mr. MOSS. You certainly know whether or not it is a requirement of the Board that this information be made available.

Mr. WYMAN. I presume he obtained it from the association's records, possibly some from public records.

Mr. MOSS. How would you obtain it from public records?

Mr. WYMAN. The second mortgages, he might obtain from public records. I don't know how he obtained it, as a matter of fact.

Mr. MOSS. As a matter of fact, this is the sort of information that is not required to be maintained by an association.

Mr. WYMAN. Well, the regulations provide and require a Federal association shall maintain a complete record of all business transacted by it.

Mr. MOSS. By it?

Mr. WYMAN. Yes.

Mr. MOSS. Well, they don't transact the second, so they are not required to keep a record of it, are they?

Mr. WYMAN. The second-mortgage business?

Mr. MOSS. That's right.

Mr. WYMAN. If the association itself makes the second of course, where it holds the first. Otherwise it would not be required to keep a record.

Mr. Moss. That's right. The association is required to maintain records of all loans made by it, period. It doesn't have to make a record of the second under the present rules and regulations, that are made by other parties.

Mr. WYMAN. That is correct.

Mr. Moss. And I assume you would have had to go to West Lumber Co. to get this information, because I don't know where else you would get it.

Mr. WYMAN. I don't know where the examiner got it, or how.

Mr. Moss. But it is really not pertinent to the association.

Mr. WYMAN. I can throw no light on that matter at all.

Mr. Moss. If it is not pertinent to the association's operation, or you would require it be maintained in the association records. The same thing we had over in Alice. It is a matter of interest to you, but not a matter where you have a right to require it be produced under existing rules and regulations.

Mr. WYMAN. Well, it might be true. It should be required to maintain it.

Mr. Moss. But they are not.

Mr. WYMAN. They are not now, that's right.

Mr. Moss. We will recess at this time and come back at 2:30.

(Whereupon, at 12:45 p.m. the subcommittee recessed until 2:30 p.m., the same day.)

AFTERNOON SESSION

Mr. Moss. The subcommittee will be in order.

Mr. Holifield, do you have any questions?

Mr. HOLIFIELD. No, I have no questions.

Mr. Moss. Mr. Glick?

Mr. GLICK. Mr. Wyman, early in the course of your testimony, this morning, you mentioned that Board policy can be found, aside from the published rules and regulations, in the copies of Board minutes. Are these minutes published and distributed in any form as a regular course of procedure within the Bank Board to the associations under its jurisdiction?

Mr. WYMAN. I don't know that the minutes are distributed to the associations. But any memorandum or statement of the character to which you are referring, as I understand it, itself, I believe, without exception would carry the statement that it has been approved or authorized by the Board. In such instance, I am confident that the Board's minutes will show the action taken by the Board on the matter.

Mr. GLICK. You are talking about—in a specific issue which is presented to the Board in a given case; is that correct, sir?

Mr. WYMAN. Well, that might be in a specific case. It would be applicable also to any general statements of policy that are made by the Board.

Mr. GLICK. Are these then published and distributed to the institutions under the jurisdiction of the Board?

Mr. WYMAN. Well, some of them are included in our Manual of Rules and Regulations as Board rulings. Some of them have not yet been included but have been distributed generally, however, in writing to the associations over the country. The matter of including these in the Manual of Rules and Regulations, where we are dealing

with a matter of general scope and applicability, is something that was inaugurated or reinstituted, I would say, some 2 years ago approximately. Again I am trusting to my best recollection.

We have not yet gotten into that particular form all of the items that perhaps should be included and which will be included as we are able to complete the job.

Mr. GLICK. Do you mean, then, that for a period of time the Board would make policy statements and these were not publicized to the industry?

Mr. WYMAN. Not of general scope and applicability. Those were in some manner, in one manner or another, conveyed to the institutions. For example, I use this merely by way of illustration, the matter of accounting for unearned discounts on loans purchased. The Board took a certain action on that and that was disseminated throughout the country to associations, not only Federal but to insured State associations as well.

Mr. GLICK. This was in the form of a rule or regulation?

Mr. WYMAN. It was in the form of a memorandum, which was approved by our Board. And the examiners throughout the country were also instructed in the same way at the same time in the same manner.

Mr. GLICK. Yes, but you just recently, a few moments ago, said this was started up again about 2 years ago. I then asked you, Should we understand from what you have said the fact that this procedure was once again undertaken, that there had been a period of time when rules and regulations were not being circulated to the industry?

Mr. WYMAN. No, I didn't mean——

Mr. GLICK. Or policy statements.

Mr. WYMAN. I didn't mean to convey that impression at all. In 1949, as I recall it now, we reconstructed and recodified the rules and regulations, both for Federal associations and insurance accounts. Prior to that time there had been included in the Manual of Rules and Regulations—it is a large book, not the little pamphlet—rulings, legal opinions of general scope and applicability made or approved by the Board. Now those pertained to many things which found their way into the regulations at the time they were overhauled and recodified in 1949. Those rulings, to which I refer now, and the legal opinions, had, as I recall it, been published and were published in the Federal Register. When the regulations were overhauled and recodified, by virtue of having incorporated into the regulations many of those things, that was for a period of time discontinued, that is, the publication of those rulings as such in the manual.

Then about 2 years ago, or it may have been 3—I can't be positive about it—2 to 3 years ago I recommended to the Board—I talked, I believe, with our General Counsel about it, and I recommended to the Board that the Board authorize us to reinstitute that section of the Manual of Rules and Regulations which would carry Board rulings, some of which grow out of legal opinions of general scope and applicability, but which are thereupon, after approval by the Board, reduced so as to minimize the size of the record. And the Board authorized that.

Now we have in the manual in a section indexed as "Board Rulings," both for Federal associations and for insured institutions, the rulings

which since the reinauguration of the practice have been so perfected and issued.

Now that program has gone forward; not as fast as it should have, I recognize that, but it has gone forward nevertheless, and is going forward, and it is a very practical and effective and helpful and constructive thing to do, there is no doubt about that. Our Board recognizes that. All of us recognize it, and personally I would like to see it extended as promptly as we can, sensibly, in the interest of giving everybody a clear statement of what the policy or procedure and the Board's position is with respect to these various things.

Mr. HOLIFIELD. Mr. Chairman.

Is there distribution, Mr. Wyman, of these rulings—policy memorandums, I would call them. I don't know whether you call them that or not. Is there distribution to the associations, or are they just compiled at headquarters?

Mr. WYMAN. Well, those that are included in the manual go to every association. We service that manual ourselves, right out of my division, both for the Federal and insured State associations. And they go directly to the associations. I won't go into the mechanics. It is an involved thing.

Mr. HOLIFIELD. You have answered my question. They are distributed.

Mr. WYMAN. Oh, yes.

Now to make myself clear, because I think there may have been some confusion here as to my answer a while ago, Mr. Glick, not all of those statements, policy statements—sometimes they are legal rulings as distinguished from policy as such—not all of them have gone into the manual as yet. But there are a number of them, those that appear to be certainly of greatest importance and urgency, that have been distributed by memorandum form direct to the institutions.

Mr. GLICK. In the past 2 years?

Mr. WYMAN. Yes.

Mr. GLICK. So then you had a lapse of 10 or 11 years from the time of recodification, or was there also distribution in that period of time of broad policy statements which the Board made and which——

Mr. WYMAN. Yes; there was some distribution. I don't have the details on that. But I do know that there was distribution of certain legal rulings by the General Counsel and that was done after approval by the Board from the standpoint of any policy that might be involved in it.

Mr. MOSS. What is the effect, the legal effect of the policy statement by the Board?

Mr. WYMAN. Well, that is a question I think perhaps I should not undertake to answer, Mr. Chairman.

Mr. MOSS. How do you interpret the legal effect of a policy statement of the Board? As the manager of an association, am I bound by it?

Mr. WYMAN. Are you asking me the question?

Mr. MOSS. Yes. It is a decision you have to make in supervision. If I do something that is contrary to a policy statement of the Board, you are going to comment on it?

Mr. WYMAN. Yes, I think I would; certainly.

Mr. Moss. Am I bound by it?

Mr. WYMAN. We would comment on it.

Mr. Moss. Am I bound by it?

Mr. WYMAN. Well, when it comes to a matter of the legal potency of the thing, let's say, I don't think I am in a position to answer that.

Mr. Moss. When you use it as the basis for concluding that it would be desirable to replace a director, as the basis for urging a change in management, do you regard it as something the association is supposed to observe and abide by? That is, this policy statement of the Board?

Mr. WYMAN. I think it would depend on what was involved. I think failure to observe that policy statement, if it produced an unsafe or unsound operation, or if it resulted in practices which ordinarily led to that kind of situation, I would certainly think that the supervisor would be derelict in his duty if he didn't endeavor to have the association mend its ways, assuming that the policy is sound, and try to get the association to abide by the policy.

Mr. Moss. We must assume the policy is sound. The Board is always sound, is it not, Mr. Wyman, always safe and sound in its policies? Can we have any other assumption? You certainly must assume, as a subordinate, that the Board's policies are always safe and sound, without exception.

Now I know you are bound by their policies.

Mr. WYMAN. Well, I don't know I would agree with your comment on that, Mr. Chairman.

Mr. Moss. You wouldn't want to tell me the Board has unsafe and unsound policies, would you?

Mr. WYMAN. No, I would not.

Mr. Moss. I didn't think so.

Mr. WYMAN. I would not do that.

Mr. Moss. Mr. Creighton, what is the legal effect of the Board policy statement?

Mr. CREIGHTON. I think a Board policy statement is, of course, binding upon Mr. Wyman and everybody in the employment of the Board.

Mr. Moss. That is right.

And is it binding on me as officer of an association? Parenthetically, I am not such an officer.

Mr. CREIGHTON. With respect to a Board policy which determined and put in a Board ruling——

Mr. Moss. That is a rule or regulation, we know the effect of that.

Mr. CREIGHTON. With a policy statement, if it is distributed to all associations, and it says this is a policy with respect to this type of operation, which the Board has adopted, and it is publicized and delivered to the associations, I am inclined to think the associations are bound by that policy statement to conform with it.

Mr. Moss. What does the law authorize the Board to do to effectuate its policies?

Mr. CREIGHTON. It authorizes it to issue rules and regulations.

Mr. Moss. Does it authorize it to do anything else to effectuate policy? Administratively it has certain inherent rights to administer policy. But how does it adopt policy? How does it speak on policy?

Mr. CREIGHTON. Ordinarily through a rule and regulation, I would say.

Mr. Moss. Ordinarily? Is there any other way?

Mr. CREIGHTON. It is 5(a) I think.

Mr. MOSS. I have sat in many committees many times when we authorized boards and commissions to make rules and regulations, and I never recall us authorizing them to make policies, rules, and regulations.

Mr. HOLIFIELD. Does the act permit you to send a supervisory letter on policy?

Mr. CREIGHTON. Well, I think the act provides maybe not in specific terms, Mr. Holifield——

Mr. HOLIFIELD. You can have correspondence, I understand that. You can say, for instance, "It is our policy that the Federal Savings and Loan in Southern California shall not charge—shall not pay over 4.6 in dividends."

Mr. CREIGHTON. I don't think an association is bound by that statement.

Mr. HOLIFIELD. That is the point I am getting at. Then your policy becomes advisory, you might say—an advisory opinion of the Board as to how the institutions should be run, the associations should be run. But it does not have any other binding legal effect because I happen to know that out in California some of the institutions are paying 4.7, or even 4.8, while others are paying 4.5. So while the policy might be 4.5 or 4.6, it has no legal effect upon those institutions that want to pay another point.

Mr. CREIGHTON. No, sir, it does not.

Mr. HOLIFIELD. Now, doesn't this kind of put you in a rather ridiculous position? Here is a Government supervisory agency. It has a policy, but that policy can be flouted at will, unless the person is afraid of harassment, of some kind of administrative harassment.

That is about the only power you have, administrative harrassment on this type of policy, isn't it?

Mr. CREIGHTON. It is administrative action, yes. I mean we could try to persuade them that the Board thinks this is a good policy to be followed.

Mr. HOLIFIELD. And you could say it is unsafe and unsound to pay 4.8?

Mr. CREIGHTON. If we say it is unsafe and unsound, then we have the authority to say it is unsafe and unsound.

Mr. HOLIFIELD. But that still is an opinion. You haven't defined "unsafe and unsound" on any procedures. You have the right to say it as an advisory opinion, but you do not have any right that stems from a rule or regulation. Therefore you could not put into process the corrective machinery provided in the act unless it was in a rule or regulation.

Mr. CREIGHTON. Well, Mr. Congressman, I disagree with you in that respect.

Mr. HOLIFIELD. Doesn't the act say if a rule or regulation——

Mr. MOSS. Let me read the act here.

Section 5(a):

> * * * the Board is authorized, under such rules and regulations as it may prescribe, to provide for the organization, incorporation, examination, operation, and regulation of associations to be known as "Federal Savings and Loan Associations," and to issue charters therefore * * *.

It is authorized under the rules and regulations, this statute, and the rules and regulations——

Mr. CREIGHTON. Turn to 5(d)(1).

Mr. MOSS (reading):

The Board shall have power to enforce this section——

And what else?

and rules and regulations made hereunder. In the enforcement of any provision of this section or rules and regulations made hereunder, or any other law or regulation——

Law or regulation—not policy.

and in the administration of conservatorships and receiverships as provided in subsection (d)(2) hereof, the Board is authorized to act in its own name and through its own attorneys.

The Board is authorized to do these things under its rules and regulations.

Mr. CREIGHTON. And violation of any other law——

Mr. MOSS. Any other law. But "law." Policy is not law.

Mr. CREIGHTON. I didn't say it was. But the question of whether or not an unsafe and unsound operation, where they have to be operated in a safe and sound manner——

Mr. MOSS. There is no other law on unsafe and unsound that applies on federally chartered savings and loan except this law.

Mr. CREIGHTON. I disagree. I think the general law with respect to what constitutes unsafe and unsound operations has application here. The common law with respect to fiduciary——

Mr. MOSS. What common law?

Mr. CREIGHTON. I think the general law.

Mr. MOSS. I didn't know there was a common law fiduciary, on Federal activity.

Mr. CREIGHTON. I said I thought the general law with respect to what constitutes safe and sound operations or unsafe and unsound operations are applicable. If we charge a man with unsafe and unsound operations, if the facts show that these operations are——

Mr. MOSS. If you charge him with that under general law, then you cite the general law that he is violating.

Mr. CREIGHTON. I say this is an unsafe and unsound operation, and——

Mr. MOSS. Where is it defined in the general law?

Mr. CREIGHTON. I didn't say it was defined. I say many times you can't define explicitly what constitutes unsafe and unsound operations. It depends on the facts with respect to that situation.

Mr. MOSS. I have gone back with members of the committee, many serving on Banking and Currency Committee for a great many years, and they didn't seem to have the slightest doubt as to what they wrote here.

Now I serve on the Interstate and Foreign Commerce Committee, where we have jurisdiction over practically every regulatory agency excepting this one. We have the Securities and Exchange Commission, the Federal Communications Commission, the Interstate Commerce Commission, Federal Trade Commission, Federal Communications—we have the great mass of regulatory law. We never have intended, when we vest these boards with the authority by rule and regulation, to recognize anything but rule or regulation. We have great respect for government by law; definitively by law. And, hop-

ing to give certain discretionary powers to these boards and commissions, we vest them with the authority to make appropriate rules and regulations. But we intend they make the rules and regulations.

Mr. CREIGHTON. As I understand it, Mr. Chairman, you say in order for us to charge one with unsafe and unsound operations, there has to be a specific regulation or rule saying that this operation will be considered unsafe and unsound.

Mr. MOSS. I am not even making it that narrow. I am saying—when you charge me with a breach of a fiduciary relationship, when you charge me with operating an affiliate, when you charge me with self-dealing, these things are susceptible to rule and regulation, to definition by rule and regulation; and I say nowhere at any time have you so undertaken to define them.

Mr. CREIGHTON. I agree with that, that we haven't tried to define them in our regulations specifically.

Mr. MOSS. You heard our examination this morning?

Mr. CREIGHTON. Yes, sir.

Mr. MOSS. And you know, as I do, when you come to this matter of what constitutes self-dealing or conflict of interest in an officer of an association having insurance written through a business which he controls, all you have now is the judgment of an examiner as to whether that is right or wrong.

Mr. CREIGHTON. Well, I have never maintained, and I didn't understand Mr. Wyman to maintain, that the mere fact that the insurance was written through an agency in which the officers and directors of the association had an interest of itself constituted a conflict of interest.

Mr. MOSS. But he said it might. As I put the question, absent the element of coercion, would it be, and he said it might, I would have to look at the circumstances.

Mr. CREIGHTON. It depends on how you define coercion.

Mr. MOSS. I think coercion is something we can agree on a definition quickly.

Mr. CREIGHTON. I would say if there was a voluntary agreement entered into between you as a borrower, and me as a lender, if as an officer of the association, a lender, if this loan goes through, I will give you the insurance on this, now I think there you come into the possibility of a conflict of interest, and probably an absolute conflict of interest, because I think you put yourself in where you are trying to serve two masters, you are using the association for profit for your benefit, deliberately.

Mr. MOSS. Let's take an example. Prior to coming to Congress, I was a member of the firm of Moss & Moss, in Sacramento, an extremely well known real estate firm. If I was an officer of the association, again I was not, but my presence there, acting to approve a loan, could in itself be coercive.

Mr. CREIGHTON. Your presence what?

Mr. MOSS. Because the borrower could recognize I had a very active interest in wanting to sell houses, and maybe a sort of a clincher to getting his loan, he might say, "John, if you go ahead and give me this money, I will be glad to list the houses with you" and I would say, "Of course that is not necessary, not necessary at all." But he might think it was desirable at least. Is he coerced?

Mr. CREIGHTON. I wouldn't say flatly in all instances that is coercion; no, sir.

Mr. MOSS. But in some instances you would so regard it?

Mr. CREIGHTON. I don't know whether I would or not. I don't know whether I could establish that as coercion or not. I would have to have facts which would establish there was some coercion or some intended, some agreement or arrangement or understanding between the people of that fact.

Mr. MOSS. All right. That has never been established in the case we have here.

Mr. CREIGHTON. I am not discussing this particular case, sir.

Mr. MOSS. I am, though.

Mr. CREIGHTON. I am just talking about what I consider to be a conflict of interest or violation of——

Mr. MOSS. Then you as General Counsel of the Board do not feel it is necessary or desirable to have these matters dealt with by regulation?

Mr. CREIGHTON. I did not say that.

Mr. MOSS. Do you say to the contrary?

Mr. CREIGHTON. No, sir, I say everything it is possible for us to define, which will permit the members to know what the policy is and rules and regulations of the Board are, should be set down in the regulations.

Mr. MOSS. Do you think the greatest substance of such advisory policy should be in rules and regulations or in these less formal policy determinations?

Mr. CREIGHTON. I think they should be in rules and regulations.

Mr. MOSS. Where are they now?

Mr. CREIGHTON. I don't say they were there now, sir.

Mr. MOSS. What have you done as Chief Counsel to bring about the promulgation of definitive rules and regulation?

Mr. CREIGHTON. I have suggested for a good number of years, since shortly after I came with the agency, that there should be a committee appointed for the purpose of going over all our rules and regulations and for the purpose of correcting those, adding to, correlating them, or doing everything that the Board thought was necessary in order that people could properly be informed as to their rights. Now it never got off the ground, it has been done piecemeal, from time to time, until presently they have a committee which has been appointed, two or three committees, which are attempting to do that very thing.

Mr. MOSS. In the Office of the Chief Counsel, do you have any type of a compilation reflecting Board policies?

Mr. CREIGHTON. I do not have the extracts of the minutes, but if the Board issues a policy statement or adopts a rule, I have that; yes, sir.

Mr. MOSS. I know you have the rules and regulations. Remember we just agreed—the mass of supervisory policy is not embodied in the regulations. But you as Chief Counsel have to deal with it and advise on it.

Do you have a compilation of Board policies?

Mr. CREIGHTON. I would have serious doubts I do have, in any particular file, of every policy statement that has been made.

Mr. Moss. Do you know anyone that does have?

Mr. CREIGHTON. Not unless it is in the secretary's office.

Mr. Moss. Have you ever had to consult such a policy position file?

Mr. CREIGHTON. Well, I have made inquiries of whether or not the Board has issued any statement with respect to a policy along a certain line or something of that sort. But I think it is all put in different minute files and it is probably indexed under the subject matter, rather than a general policy.

Of course, there are some policy statements, Mr. Chairman, that are issued in the nature of an interpretation of a rule or regulation, which has been issued.

Mr. Moss. Those are issued by you.

Mr. CREIGHTON. Well, when I am requested to issue them or give an opinion with respect to them. It may be that the Board will itself have someone else prepare a memorandum as to the proper interpretation of this rule and regulation.

Mr. Moss. You mean the Chief Counsel doesn't do the interpreting?

Mr. CREIGHTON. Wait a minute.

And then it probably comes to us for approval and we approve that statement and the interpretation given.

Mr. Moss. Now where are all of these rulings filed?

Are they compiled in any one document or one place?

Mr. CREIGHTON. No; they are filed under a subject, under the particular rule and regulation involved.

Mr. Moss. You are talking about interpreting rules and regulations.

I think we also have to bear in mind here we are dealing with the interpretation of policy.

Mr. CREIGHTON. I don't know I have ever had to interpret any policy statements that have been issued.

Mr. HOLIFIELD. Could I ask a question at this point, Mr. Chairman?

Mr. Moss. Yes.

Mr. HOLIFIELD. There are quite a number of speeches made by members of the Board, the Chairman of the Board, over the years, and even by the staff. Now when Mr. Wyman gets up and makes a speech to a group of associates, say United Savings and Loan League, or when any of the members of the Board get up and make a speech, or when the Chairman makes a speech to any group in the industry, they talk on the matters of concern to the trade.

Now are all of those statements considered policy statements? I will take out the word "all." Is this a means of publicizing policy determinations of the Board or opinions of the individual?

Mr. CREIGHTON. I think they are a means of letting the industry know the thinking of the Board with respect to certain matters of interest to them.

Mr. HOLIFIELD. Now when that information is given to a group, is that a unanimous opinion of the three-man Board, or is it an opinion of one member of that Board?

Mr. CREIGHTON. Well, I can't tell how the Board, what procedure they have with respect to the clearance of all speeches made by individuals.

I think this, Mr. Congressman, I don't think that anybody attempts to police the speeches or addresses made by the individual Board members.

Mr. HOLIFIELD. How about the staff?

Mr. CREIGHTON. The staff, any speech now that any member of the staff makes has to be referred to our information officer for him to see whether or not anything is being said there which was contrary to statements which were made by the Board or members of the Board in any addresses they have made.

Many times a member of the Board, who is going to make a talk, might ask me to go over it and see whether or not he is making any statements there which I feel would be contrary to the legal positions which have been taken.

Mr. HOLIFIELD. You see, we have to be very careful on this point, because if you are not going to run this $80 billion business by rules and regulations, if you are going to run it by policy statements, it is very important as to how those policy statements are made and who makes them and how the information contained in those policy statements is disseminated to the people affected.

Mr. CREIGHTON. I think when you speak of policy statements such as we have been discussing here, whether they are rulings of the Board, they generally result in a resolution of the Board, which the Board passes a resolution and says in that resolution:

> It is hereby determined that the policy with respect to granting of branches shall be passed upon these particular factors in that particular area.

And that then is sent out to the supervisory agent in that particular area and disseminated to all of the members of that particular area.

Now that is the kind of policy statement I think that Mr. Wyman is speaking of and which I have been speaking of. But the standards the Board fixed by rule and regulations with respect to a certain area, for certain things, that is publicized. It is not put in a rule and regulation, maybe, because it is not of general applicability to the Nation as a whole, but only to a particular area.

Mr. GLICK. Mr. Creighton, you said that now these speeches by the staff are reviewed by your information officer. Was this a procedure in the past?

Mr. CREIGHTON. It has been the procedure ever since this Chairman came in. I recommended shortly after I came to the Board and I was making a talk, and I wanted the Board members to read it, they didn't have time to read it, to make some comments on it; we had some discussions at that time as to whether or not any talk made by any member of the staff should not be cleared with the Board or someone designated by the Board, and later on that was adopted, about a year ago.

Mr. GLICK. Prior to this year ago or 2 years ago, when members of the staff, you or Mr. Wyman or anyone else, would get up and make a speech, which would carry with it statements apparently enunciating Board policy, were these subject to prior approval by the Board?

Mr. CREIGHTON. I don't think there is any rule or regulation requiring that; no, sir. I am sure there have been some talks made by members of the staff that the Board did not have knowledge of before they were made.

Mr. McCLELLAN. Mr. Creighton, you made a speech before the annual convention, in 1957, of the U.S. Savings & Loan League. Is that correct?

Mr. CREIGHTON. That is right, sir. I made a speech before a certain committee of that league.

Mr. McCLELLAN. Now one of those statements you made in there is quoted here—I am reading from a memorandum of December 17, 1957, to Norman Strunk, from Horace Russell, re speech of Thomas H. Creighton, at annual convention, 1957, and Mr. Russell comments: "However, he says in the next paragraph, 'One so situated will not be permitted to derive any personal profit or advantage by reason of his position.' "

Now you are talking about fiduciaries there. Mr. Russell says: "This is completely erroneous."

Mr. CREIGHTON. I think from that speech I was quoting from a certain case, which I quoted in my speech, which was in quotes, from a court decision. I think that generally is the rule, that you can't derive profit as such from the operations as an officer or director of the association. Now there are all sorts of shades of this fiduciary relationship and corporate opportunity and all of that, that any general statements that you make, you could probably find an exception to that general statement with respect to the facts in a particular situation, Mr. McClellan.

Mr. McCLELLAN. Well, Mr. Russell takes the position that:

> The whole tenor of this address, and particularly the last quoted words above, are calculated to make the impression that a savings and loan director or officer cannot properly make any profits as a result of his position with the association in connection with its business, and this is not true.

Mr. CREIGHTON. I agree that is not true. He might make a profit from some transactions in which the association was involved, in the sense he might be a lumber dealer and somebody might buy lumber from him out of the proceeds of a loan that was made to the borrower.

That statement is pretty broad, I admit.

Mr. McCLELLAN. Now——

Mr. CREIGHTON. I think you have to take the whole case, the cases I cited as a whole.

Mr. McCLELLAN. Turning to Mr. Wyman's statement, page 23, that rule 1 at the bottom of the page; Mr. Wyman, it says there:

> The rule which is well established in law is that persons who are in a fiduciary position should not engage in transactions which ordinarily lead to a conflict between personal interests and the performance of official duty.

Now if they ordinarily lead to a conflict, why couldn't those that ordinarily lead to a conflict be prohibited by regulation so you would have some certainty here?

Mr. WYMAN. Well, it would seem to me rather ridiculous to write that down into the regulations, although I might be wrong about that, maybe it would not be. But if you are directing a question, if your question means why could we not spell out precisely, explicitly, every sort of a transaction or relationship which could lead to that——

Mr. MOSS. Mr. Wyman, that is not his question.

Mr. WYMAN. Then I wouldn't know how to do it.

Mr. MOSS. That isn't his intent. With you it seems to be that there is nothing defined or that everything must be defined in the most

minute detail. Strangely, there is a middle road. You can even define and not define to exclusion of any other factor, you know. You can broadly define. You can generally define. You can specifically define. You can minutely define.

This question here, taking your statement—those practices which ordinarily lead to conflict. Now therefore you must have had in mind those practices which ordinarily. Now he didn't say always led to conflict. But those which ordinarily. Now those, the question was, why wouldn't it be advisable to define them? He didn't ask you about your language.

Mr. WYMAN. Insofar as they can be identified, and insofar as——

Mr. MOSS. You have identified them, because they ordinarily lead. You have them in mind.

Mr. WYMAN. Insofar as they can be identified and insofar as it is feasible to put them in regulations, I think it ought to be done. I don't think we could ever hope to at any one time cover the entire gamut of possibilities in that area.

Mr. MCCLELLAN. Well now you say that Mr. Johnson, as a lawyer, and I as a lawyer, things that ordinarily lead to conflict of interest, between personal interests and the performance of official duty. My problem here is how do you distinguish between those that ordinarily lead to conflict of interest, as between those and those that have a parallel interest or complementary interest? You allow some of these things to go on and others you don't allow to go on. How do you draw that line?

You have got an open end here, the way this thing is.

Mr. WYMAN. Well, you understand that this is my understanding of the essence of many court decisions over many years of time. This is my understanding from discussions with our attorneys, over General Counsel, and other members of the legal staff, that this is essentially the substance of the law as it has been reflected by court decisions.

Mr. GLICK. Mr. Wyman—excuse me, Mr. Wyman, would you give us some examples of those cases which ordinarily lead to, using your terms, to a conflict between personal interests and the performance of official duty. Can you give us examples of instances where this would be the case?

Mr. WYMAN. I could give you examples. I don't have them here, I don't have them in sufficient detail to outline them, but I could give you examples of them, I could produce them.

Mr. HOLIFIELD. Wait a minute now—no—you are the supervisory examiner. You have made a statement here. I want to know one case, one example, you must have them in your mind, you must have a number of them in your mind, give me one example now of a case which ordinarily leads to a conflict-of-interest situation.

Mr. WYMAN. Well, I believe one of the cases that has gone through the courts is the case in * * *, I think that case is a conflict-of-interest case.

Mr. HOLIFIELD. I don't know about that.

Give me the case. Give me what was involved?

Mr. WYMAN. The case of the * * * Federal Savings & Loan Association of * * *.

Mr. HOLIFIELD. What did they do?

Mr. WYMAN. I cannot recall all of the details of what happened now. One of the things that happened was that the association entered into a contract to lease from a certain corporation for a period of 20 years, I believe—and I am at a loss now for these details—a building to be constructed, which building had not been started at the time, and paid to that corporation the sum of $300,000, as I recall it, as advance rental, which, however, was in substance not an advance rental at all, because it had no way to recapture. Then ultimately the association was about to pay out another $300,000 for the same purpose on the theory by doing so it would be in a position to recapture the first $300,000, and involved in that operation were certain officials and directors of the association, who were parties at interest in the corporation, and it was a very involved case. I can only give you the broadest outlines of it now because I just don't recall all of the details of it.

Mr. Moss. Now, Mr. Wyman——

Mr. WYMAN. But that certainly was one instance.

Mr. Moss. If that is meant to relate to your statement of ordinarily, then we can conclude that ordinarily the entering into an agreement for lease upon which an advance payment is made leads to a conflict of interest. Now the case you have cited is an unusual case, not an ordinary instance. Your term here is those instances which ordinarily lead; ordinarily lead; usually lead.

Looking at the circumstances, you can almost always conclude that the eventual outcome will be a conflict-of-interest case. Now that wasn't the case in * * * . * * * was the exception, not the ordinary run of case. And the question put to you, and I will restate it very carefully, you characterized certain practices as those which ordinarily lead to a conflict of interest. Now, we don't have to discuss case A, B, or C, because the term there is so comprehensive, so well defined, that certain specific practices ordinarily will lead to a conflict of interest, we want those practices which ordinarily, not in the unusual but in the ordinary course of business lead to conflict of interest.

Mr. WYMAN. Well any practices where a director or person in a fiduciary position with the association engages in transactions wherein his position is used to further those transactions. That is the underlying fact of the * * * situation it is the underlying fact of this situation as I understand it.

Mr. Moss. You haven't proved this one here.

Mr. WYMAN. Maybe not. But that is my evaluation of it nevertheless.

Mr. Moss. You haven't an iota of evidence indicating that there was here the circumstances which created a conflict. You have three affidavits from parties who were suing an officer or suing First Federal saying that they were coerced. That is all you have.

Mr. WYMAN. No, that isn't all we have.

Mr. Moss. You have some assumption here that you could make on almost any association but you don't have evidence. I am talking about evidence.

Mr. WYMAN. This statement is not limited merely to the matter of coercion of borrowers. It includes the matter of——

Mr. Moss. I talked to your counsel or board representative here at the lunch hour and we agreed really what you intended to say was the element of coercion was the thing that made the difference. Are you telling me you don't think the element of coercion is the only thing that makes the difference?

Mr. WYMAN. This statement of mine was not, with respect to the operations of that association, was not limited to the matter of coercion or alleged coercion of borrowers.

Mr. Moss. In other words, then we are back where we were this morning, at some magical point the mere fact of having written the insurance, or sold the lumber, or searched the title, constitutes conflict of interest, absent the element of coercion?

Mr. WYMAN. Or lending borrowers more than the cost of the property.

Mr. Moss. They did not do that.

Mr. WYMAN. Well, according to the information——

Mr. Moss. They did not and your information doesn't show that. What your information shows is that the total of mortgages, first and second, exceeded the appraised value. You do not show that the total loan by the association exceeded appraised value. And you have no right, no rule, no regulation, no board policy, that tells you to go out and determine the amount of secondary financing made by a party other than the association.

Mr. WYMAN. According to the information we have, Mr. Chairman, in one instance they loaned as much as 104.4 percent.

Mr. Moss. Of what?

Mr. WYMAN. Of the cost of the property.

Mr. Moss. Cost is not considered. You might want it to be. But you don't have a rule or regulation that says they can't loan more than the cost. They don't have a rule or regulation that says you can't loan more than the cost at the present time, because no builder is going to be fool enough to sell a house at cost, unless the conditions adverse to him force him to. So I don't care what the cost is. I am interested in the appraised value, or if we take your further view, the sales price. But the cost is not relevant.

Mr. WYMAN. Well——

Mr. Moss. And you know it isn't.

Mr. WYMAN. 103 percent of the sale price of the property.

Mr. Moss. Is that wrong?

Mr. WYMAN. We think that is the kind of operation that can lead to difficulty.

Mr. Moss. Who thinks it? Do you have a rule or regulation that says you can't do it?

Mr. WYMAN. One of the sad facts that came to life when the depression hit, was the fact that——

Mr. Moss. Mr. Wyman, you and I are not talking about what should be the policy here. I told you earlier, when we get into that area, we are probably in far more substantive agreement, than we are anyplace else. The Board has the power to effectuate that policy, if the Board wants it, but they haven't chosen to do it. But you have. That is the thing that disturbs me. Because I don't find any place in the law sanction of you as a policymaker. I could run this country a lot better than anyone else, I am dead certain. Thank God they don't let me try.

Mr. HOLIFIELD. Mr. Wyman, I want to comment on this. I want to comment on this principle of selling below cost. In the American system of business, there isn't a merchant that operates that doesn't have to sell some of his items below cost, either through a disinclination on the part of the customer to buy it, or because there is a depression that comes on, or because something else happens beyond his control. I am in business, I am in the clothing business in California, and several times a year I put on a sale and I sell below cost. Now if I sold everything that I have in my business below cost, I would go broke. But some of the things—I may have 500 different items in my store and I may have to sell 25 of them below cost. I try to make a profit on all of them, but I can't always do that. So in the American system of business you have got to sell below cost, on some items, by the very nature of competitive business.

And I frequently have to do that. Now I have to balance off those losses against the profits on the other items which I make and in the end—it is the balance at the end of the year that counts, not whether I sell a shirt that cost me $3 for $2.65, because nobody will buy it, it is a bad color or the style goes out or something like that. But it is the fact that I sell a lot of shirts that I paid $3 for, for $5, and so I absorb that 35 cents I lost, with whatever profit there is in the $2 margin between cost and sales price. So your argument, based on that, if it was a general principle of every house that they loaned on, of course, you would be 100 percent right.

But if it is a matter of absorbing something that happens inadvertently and unplanned, why, your argument falls of its own weight.

Mr. MOSS. I can give you another example. We opened a subdivision and we built a model house and we built it right out of the pages of Life magazine, very modern-type house. But it didn't go in Sacramento. We dressed it up, we had it open, and people came through and admired it, but nobody bought it. We cut the price two or three times, and finally it was such a bargin that I bought it.

Mr. HOLIFIELD. That was a conflict of interest, wasn't it?

Mr. MOSS. But that can happen and does happen. You can have the wrong color scheme, people walk through a house time and again and it doesn't sell, you don't know why. You will have something that, in the opinion of almost everyone on the sales staff is far less of a bargain, and they snap it up. Or a kitchen women just don't cotton to. You don't know what it is. So you are going to have these cases where you distress sale a house, just as you cut the price of the suit of clothes at the end of the season, or automobiles right now, some of these dealers on your criteria are the darndest fools and the most unsound operators, because many of them right now are dumping 1962 models at below cost.

Mr. HOLIFIELD. Mr. Chairman, I would like to get back to these transactions which ordinarily led to a conflict. Isn't it true that there are certain main things that might lead to a conflict of interest that are common practices of the industry? Here is a board of directors and either part of them or all of them own an insurance company over here. Now that could lead to a conflict of interest, couldn't it?

Mr. WYMAN. Yes, it could and has done so.

Mr. HOLIFIELD. Now, the lumber and building material business. If there is a joint participation in the savings and loan business and

the lumber business, that could lead to a conflict of interest, couldn't it?

Mr. WYMAN. Yes, sir.

Mr. HOLIFIELD. Now, there is the escrow business, that could lead to a conflict of interest, couldn't it, because this is extraneous to the stockholders and if they charge escrow fees and make a profit in a separate escrow corporation and the directors are interested in it, and the president is interested in it, that could lead to a conflict of interest, couldn't it?

Mr. WYMAN. It might do so.

Mr. HOLIFIELD. You and I know that directors in every savings and loan, in many savings and loan—I won't use "every," and I won't say "most"—but in many savings and loan institutions, they do have separate outside businesses related to the business of building houses and insuring them and escrowing the sales and things like that? They do do that, sir, the title companies being another one. These are the things that ordinarily would lead to conflict of interest, is that right?

Mr. WYMAN. They are among the relationships.

Mr. HOLIFIED. They are the most prominent. They are the ones you are talking about in this particular case in Atlanta.

Mr. WYMAN. There could be other ways, too.

Mr. HOLIFIELD. Now, if these transactions, that could ordinarily lead to a conflict of interest, exist, and they do, why don't you put a regulation out saying that no director can participate in an escrow company, escrow loans; that no director can participate in an insurance company; in the profits of the insurance companies if they sell insurance to the borrowers; no one can participate in a lumber and building material business if they sell any lumber and building material to a borrower; why don't you put out that kind of regulation?

Mr. WYMAN. I personally think that would be quite an unreasonable regulation, Congressman.

Mr. HOLIFIELD. So do I. I happen to think so, too. So now, then, the weight of your argument here in No. 1, based on the four things I have enumerated, are the transactions which ordinarily lead to a conflict between personal interests and the performance of official duty; isn't that true. Aren't those the four most prominent things with which you have to deal?

Mr. WYMAN. I would say they would be among the four relationships.

Mr. HOLIFIELD. Give me some more now. I am talking about ordinary now, not unique cases, where a corporation officer dips in and takes out $50,000 and goes to Mexico. Or where he forms a corporation and borrows money with the express purpose of not paying it back. That comes under the heading of fraud, in my book. I am talking about ordinary transactions in the course of business.

So give me one more now. I have written down four. I am trying to help you out.

Mr. WYMAN. It could be a person in the real estate brokerage business, for example.

Mr. HOLIFIELD. No. 5, development of real estate.

Mr. WYMAN. And I am not talking about the ordinary broker, who acts merely as an agent.

Mr. HOLIFIELD. You are talking about a man that buys land and he buys it with savings and loan funds and he puts in streets and sidewalks and sewers; he develops that land, and he uses corporation or association money to do that. That is a conflict of interest. Now, don't you have a rule and regulation prohibiting that?

Mr. WYMAN. We can't make a loan directly to such person. We could make it to a corporation, provided no director owned more than 15 percent and all of the directors didn't own more than 25 percent of the stock.

Mr. HOLIFIELD. Now, you are defining what conflict of interest is. If I own 5 percent of a corporation that was developing land, that wouldn't be a conflict of interest. If I owned 10 percent, it wouldn't be a conflict of interest. But if I owned 20 percent, went over the 15 percent level, then it would become a conflict of interest. You have defined that. Every director of a building and loan association knows that becomes conflict of interest when it goes past a certain level. So he knows, and if he transgresses that he properly should be punished by supervisory or any other methods that the law allows for you to punish him by. But you don't have it clearly defined that if a company takes over 10 percent insurance or 15 percent insurance from borrowers, then that director—it then becomes a conflict of interest.

Here is where the danger of supervision and the danger of bureaucracy comes in. You leave an area undefined here, because there is a parallel interest, as Mr. McClellan brought out. And you take any situation which could lead to a conflict of interest and where your judgment says it is a conflict of interest, you call it a conflict of interest, but where your judgment says it is not, you call it not a conflict of interest—but we don't know what goes on in your mind and if you die tonight and somebody takes your place they won't know what went on in your mind and they may have a completely different set of values in evaluating conflict of interest than you have. This is the point we are trying to make.

This is the point. You are a man that has dedicated your life to this particular business. You have had how many—30 years, 20 years?

Mr. WYMAN. Not quite; 28.

Mr. HOLIFIELD. Twenty-eight years. I am not going to condemn you as a man of evil intentions or anything like that, but you are getting to be an old man and I am an old man, and we are going to die some of these days, so we have to leave something for the fellow that comes along who is not as smart as you and I are—not as capable of evaluating the thin line between conflict of interest and allowable parallel interest, and this is the point we are trying to bring out. We are trying to bring it out for the protection of the industry and for the setting up of lines, so the industry can know when it is getting into the conflict-of-interest area. You have done it on some things.

You prohibited the savings and loan from loaning over a certain percent of its money for commercial buildings. And when the savings and loan gets to that limit, it knows full well that it is getting into dangerous ground. But you haven't done it in insurance; you haven't done it in lumber and building materials; you haven't done it in separate escrow business; you haven't done it in the title search business. Now, somewhere you have got to come to a conclusion of

straightening this thing out, because everything you have worked for and striven for may be lost by the guy that takes your place.

He may apply his judgment, his evaluation, completely different from yours, and wreck everything you have done in 28 years. You wouldn't want that to happen, would you?

Mr. WYMAN. Of course not.

If I might make this statement, I would like to do so; you understand of course that I don't make the regulations. I can only do my best to bring forth the best judgment of which I am capable, and it may not be too good, but anyhow, that is the best I can do.

Mr. HOLIFIELD. You said once to me you had suggested regulations and the Board turned you down—and I honored you for saying that, because I thought you were performing your duty as a supervisor in charge, in suggesting that the Board make these rules and regulations. I told Mr. Creighton that I thought it was his duty, as the legal counsel, to guide his Board along the lines of proper rules and regulations, and narrow this never-never land just to as small an area as you could, getting the known rules and regulations just as widely as possible for the benefit of the industry.

Mr. WYMAN. I would just like to make a further statement, if I may. I would like to complete my statement on this thing.

As Mr. Creighton said, sometime ago, a few minutes ago, the present Chairman, the present Board, designated a committee to work on this matter, and that committee has been working; it is working. I suppose, unfortunately, I am a member of that committee——

Mr. HOLIFIELD. I don't think it is unfortunate at all. With your background and knowledge of this business, you ought to be the most valuable member on it, if you will apply yourself to the purpose of it.

Mr. WYMAN. I have done a tremendous lot of work on it and, of course, with all of the other things we have to do, we have to parcel out the time as best we can. Now we are endeavoring to develop regulations, perhaps areas in which there may be now no regulation, where perhaps there can be regulation and should be, where it is feasible and desirable, in the hope we may make some sensible, workable recommendations to the Board.

The matter of conflict of interest is specifically in that group. What we can do—there is no need to speculate about it at the moment, but it is being studied and studied diligently, constructively, and to the ultimate objective that we could have regulations where regulations are feasible, and insofar as feasible.

Certainly I would say this, if I may, speaking for myself personally, nobody I believe would be any happier than I would be if I were continuing on and on in this job. Nobody would be any happier than I would be, I believe, to have regulations insofar as it is feasible. And I think that is true for everybody who is involved. I think it is just as true of the general counsel, just as true of every member of the Board. I think I know what the attitude of our Board is, I hope I do, on this broad matter. Otherwise they wouldn't have appointed a committee and told them to get to work on this thing. And I think that we are going to move in that direction and move solidly. That is my judgment.

Mr. MOSS. Of course, I for one, and I speak now only for myself, the 2 years now I have spent chairing this subcommittee—it might

interest you to know when I agreed to serve as the chairman of this special subcommittee I was assured that I could wrap it up in a week, but I would like to see modification of 5(a) to limit the Board to such policy as is spelled out by rule or regulation.

If the opportunity should arise, as well it might, that would be one of my first proposals. I think it is outrageous that regulation is undertaken on such an informal basis.

Now, for example, you had affidavits in this case and affidavits were secured whether or not you had knowledge of them, by management. Did you determine whether Norwood, for example, was first a customer of West Lumber or first a customer of First Federal?

Mr. WYMAN. No, I did not.

Mr. MOSS. Did you determine whether the other two were first customers of West Lumber or First Federal?

Mr. WYMAN. No, sir; I made no such determination.

Mr. MOSS. You know sometimes the builders get an idea they want to go out and do a little promoting, developing, and they have to shop for their money, they go to all of their old sources, see if they can get help in getting financing, they shop for it. And I think it would be very pertinent to this question of whether coercion actually took place to determine whether they were first the customer of one or the other. That is one thing I find extremely repugnant, the fact that conclusions are drawn from such unreliable evidence, important, significant conclusions in your shop on supervision. It was true in Clovis, God knows it was true.

For instance, the charge that the branch operation was illegal, the subsequent opinion of counsel stating it was not.

Mr. WYMAN. I didn't think so, Mr. Chairman.

Mr. MOSS. Well, I have the opinion.

Mr. CREIGHTON. Mr. Chairman, if I may——

Mr. MOSS. Mr. Creighton, with all deference to you, sir, that was a masterpiece of equivocation, but the only conclusion I could draw—and I submitted it to quite a number of other persons—is that that was not an illegal operation.

Mr. CREIGHTON. That is not what the opinion said.

Mr. MOSS. As I read it, "Legally unobjectionable." Unless you are saying that things which are illegal are legally unobjectionable——

Mr. CREIGHTON. I didn't say that. I think I said in that opinion that I thought these people were, under our rules and regulations, operating a branch. I further said, however, that under the mode of the operation, based upon a question Mr. Glick asked me, that up until this examination in 19— whatever it was, that they did not have any reason to believe that they were in violation of the regulations.

Mr. MOSS. But the opinion concludes with the words that it is your opinion it is legally unobjectionable and that is your statement and it is the statement in light of the clear finding by supervision that it was an illegal operation, which should summarily cease and this will be appropriate to comment on in the report of the committee, of course. Maybe there will never be a final word on it, but at least the conclusion was legally unobjectionable, whatever the rest of it was.

As I say, it was well done. Well done. Now the chairman is faced with the fact that Mr. Holifield has to leave at 4:00 o'clock.

Are you going to be available tomorrow?

Mr. HOLIFIELD. In the morning, yes.

Mr. MOSS. I hoped we could sit until 6 and finish the business of the subcommittee.

Can you return in the morning at 10, Mr. Wyman?

Mr. WYMAN. Well, I had a conference scheduled for tomorrow morning, but I suppose I can shift it to somebody else. I had a conference scheduled for 10 o'clock in the morning that might run for 2 or 3 hours, but I can arrange it so somebody else can take my place.

Mr. MOSS. Do you want to come at 1:30 tomorrow afternoon?

Mr. WYMAN. If it would be suitable to the committee, I think I would prefer to make myself accessible to the committee in the morning.

Mr. MOSS. It would be preferable to us, but we are in a flexible position; we can meet either morning or afternoon and therefore we will accommodate you.

Mr. WYMAN. I will rearrange my plans to let somebody else take my place in the morning and I will be here.

Mr. MOSS. We will start at 10 and at that time Mr. Glick will undertake the discussion of your statement as it relates to Mr. Johnson's statement. We will try to steer clear of these broader questions of supervisory policy.

Mr. GLICK. Mr. Chairman, may I ask two questions of Mr. Wyman?

Mr. MOSS. Yes.

Mr. GLICK. In connection with Mr. Holifield's and Mr. Moss' questions to you in regard to the fiduciary position of an officer or director, would you state that the following could arise from or create a violation of such a principle or relationship: Suppose an association has an officer which it guarantees a certain fixed sum of money as a yearly salary and that in addition thereto it underwrites a certain fixed amount of income from a source collateral to the association's business. For example, the insurance business. An association will guarantee an officer x number of dollars in total and this is to be made up from two different sources, (a) a guaranteed sum from the association, (b) a guaranteed sum from income from his insurance business, and that if the insurance business does not return him that sum "b" the association will make up the difference. Would this be a conflict-of-interest situation?

Mr. WYMAN. I couldn't say necessarily it would be so. It certainly may not be the ideal sort of situation.

Mr. GLICK. Would this be the type of thing supervision would call to the attention of management and ask to correct or make change in?

Mr. WYMAN. Well, unless there was something involved there that would indicate some abuse, I don't think we would.

Mr. HOLIFIELD. Let me interrupt counsel. Did you understand counsel's statement of that case, where a savings and loan association would pay its president, let us say, x amount of dollars and that, if you want to use the word "affiliate," his insurance business, would pay him x amount, and if his insurance business didn't pay him, the savings and loan association would make up the difference for his services as president of the savings and loan? Did you understand him to state the case that way?

Mr. WYMAN. Yes; I understood what he said.

Mr. HOLIFIELD. You say that wouldn't be a conflict of interest?

Mr. WYMAN. I said not necessarily so.

Mr. HOLIFIELD. Under what conditions would it not be?

Mr. WYMAN. There could still be in the operation of that institution a perfectly bona fide freedom of choice on the part of borrowers, for insurance. There could be an operation completely free from coercion of borrowers.

Mr. HOLIFIELD. But here is a case where an association, answerable to you, is going to pay this man part of his salary and a completely separate corporation entity is going to pay him also a salary, a part of this salary for being president, as we understand it.

Now, as long as that goes on, that is one thing. But when this separate corporation, insurance corporation, does not pay him that part of his salary, and then the association assumes that, how can you say that isn't a conflict of interest?

Mr. WYMAN. In other words, the association says we will pay you $125,000 a year and if you don't get an additional $20,000 from this insurance agency, we will—you get only $15,000, we will pay you an additional $10,000, so your sum total will come out the same. That is what he is saying.

Mr. GLICK. Yes.

Mr. WYMAN. Exactly. Now, that could be in an operation that would not carry with it coercion of borrowers.

Mr. HOLIFIELD. We are talking about something else now, we are not talking about coercion.

Mr. MOSS. Hold it a minute. This is crucial to this whole question. Now, you are hinging the determination on the element of coercion. Earlier you have said that wasn't the determining factor. Now here you say it is. Let's look at this.

A typical example of borrowers is, they come in and borrow money and they don't know any insurance agent, and some institutions hand them a list and say, select one; others have them sign a form saying it is all right for the association to place the insurance, they having no preference. And so in every instance where an association is given the discretion to place the insurance, it places it with only one agency and in the course of a year, 60 percent of the borrowers have no preference. So this one agency in town gets 60 percent of the insurance and the president of the association is the beneficiary of the earnings of that agency. And the association has a direct interest in the prosperity of that agency, because if it fails to earn to a certain level, the association has to pick up the tab.

Now, I cannot for the life of me see where that interest, both of the association and of the president, in that one agency, is less in conflict—it may be an agency that gives miserable service to its clients, it may be an agency that really only exists on its insurance written for this institution. I don't see how you can say there is less conflict there than if I, as an officer, at the time I interview the borrower, say "Now we would like to have you designate Mr. Jones for your insurance," I being the Jones agency.

Mr. WYMAN. Well, I don't know, of course, I would have to look at all of the facts involved. But it is the type of situation which, of course, could lead to a conflict, but not necessarily, so, however.

Mr. GLICK. What would you do further, once you have knowledge of this, to determine whether or not a conflict, in fact does exist?

What would the division of supervision recommend? What action would it take?

Mr. WYMAN. I would have to look at all of the facts in the case, Mr. Glick.

Mr. GLICK. Let me put it this way, Mr. Wyman: You have a comment in an examiner's report to the effect that the president of the association is guaranteed $50,000 a year income as president of the association, to be made up as follows: $20,000 from the association, and $30,000 from the profits of an insurance agency owned by said president. And in the event the insurance agency profits do not equal $30,000, the association will make up the difference, so the net amount to the president of the association will be $50,000.

Now, is the reason here that this is not automatically in and of itself a violation of the rules because the association is beneficiary of this, in that the Association is not paying the full $50,000?

Mr. WYMAN. Of course that would be one way to look at it, that the association would be beneficiary to that extent.

Mr. GLICK. Now if you were concerned with the possibility of conflict, and this is certainly an area which lends itself to a great deal of coercion by the association, because it is to their benefit that the insurance agency make such of a profit as possible, what would you, as a director of the Division of Supervision, advise or do to further your inquiry into that possibility?

Mr. WYMAN. Well, I would have to study the entire set of facts, before I could answer that question, Mr. Glick.

Mr. GLICK. I just gave you the facts, Mr. Wyman.

Mr. WYMAN. Well, I would have to look at the whole operation, because it is not only the insurance business, but the lending operation and any other related operations and activities that might be involved in the situation that are required to complete the entire context of the operation. I would want to look at that in those terms before I answer that question.

Mr. GLICK. How does your old settled rule of law—the one that is well established—apply to this situation I have described?

Mr. WYMAN. I would think that is the kind of situation which might well be cataloged as one that would lead to a conflict or might ordinarily lead to a conflict.

Mr. GLICK. Would you request the Division of Examinations to issue instructions to its examiner to go further into the matter to make a determination of some type?

Mr. WYMAN. Well, I think I probably would, if I wasn't sure I had the facts. I think I would probably ask for further examination, further investigation. It would depend on the circumstances.

Mr. GLICK. Again everything depends on the circumstances?

Mr. WYMAN. Yes, and the facts we have, yes.

Mr. GLICK. Would the percentage of insurance written by the agency have any effect upon your determination?

Mr. WYMAN. I think I would be very much concerned if we found an institution with 98 percent, let's say, to illustrate.

Mr. GLICK. Let's say the agency was writing 85 percent of the insurance on properties mortgaged in the association. Would this cause some concern on your part?

Mr. WYMAN. It would be a fairly high percentage, though not unheard of at all.

Mr. GLICK. But with a couple of complaints of coercion; would that give sufficient support to the allegation of coercion to become the subject of supervisory criticism to an association?

Mr. WYMAN. It might be. I think that the affidavits or certifications that the borrowers are coerced, from persons who had been affected by it, I think might have a bearing on it.

Mr. GLICK. What is the value of this affidavit?

Mr. WYMAN. Well, I think it—we have had many complaints over the years—it depends on where it comes from. We have had a great many, over the years. A great many were of competitive origin. I don't mean to say that makes them of no value; I don't mean to imply that, but we have to recognize that. We have had very few instances where borrowers themselves have made affidavits and I think perhaps in a great many of those cases that has been instigated maybe by competitive influences.

Mr. GLICK. Or instigated by one reason or another peculiar to that individual.

Mr. WYMAN. By competing agents, insurance agents.

Mr. GLICK. What is the value of this affidavit?

Mr. WYMAN. What is the value of any affidavit?

Mr. GLICK. Some are required by law. This one is not required by law. Would a letter have the same import, an unsworn-to statement?

Mr. WYMAN. Oh, perhaps so. It would depend—what we see is a cold piece of paper.

Mr. GLICK. And apparently you don't go behind that piece of paper.

Mr. WYMAN. If it is a letter from an honest person, to me it would have just as much value as if it was in the form of an affidavit.

Mr. MOSS. Is he a less honest person or more honest person than the person he is complaining against?

Mr. WYMAN. What I meant was a statement or letter honestly written and not influenced maybe by some competitive force, maybe even for a fee. We can't tell. We get a cold letter.

Mr. MOSS. Like a plaintiff in an action against the person he is complaining of?

Mr. WYMAN. I didn't understand the question.

Mr. MOSS. Like a statement from a plaintiff in an action against or a complainant in an action pending in the courts?

Mr. WYMAN. No, if we got a letter from an individual, any person, who was the purchaser of insurance, he had a loan from an association, and he complained to the effect that he didn't have any right to choose his insurance agent, if we could ascertain what was going on in the association as best we can and if we found there was that sort of thing we would try to get it stopped.

Mr. MOSS. With reluctance, because we have now entered another subject, we are going to have to adjourn the hearings until tomorrow morning at 10, because the rules of the House of Representatives provide that you may not take testimony unless there are at least two members present.

The subcommittee is in adjournment.

(Thereupon, at 4:15 p.m., the subcommittee was adjourned, to reconvene at 10 a.m., Friday, September 7, 1962.)

INVESTIGATION AND STUDY OF THE FEDERAL HOME LOAN BANK BOARD

(Part 3—Atlanta, Ga.)

FRIDAY, SEPTEMBER 7, 1962

HOUSE OF REPRESENTATIVES,
SPECIAL FEDERAL HOME LOAN
BANK BOARD SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D.C.

The subcommittee met pursuant to notice, in executive session at 10:10 a.m., in room 100–B, George Washington Inn, Hon. John E. Moss (chairman of the subcommittee) presiding.

Members present: Representatives John E. Moss and Chet Holifield.

Present from the subcommittee staff: David Glick, chief counsel; Sidney McClellan, counsel; Harry S. Weidberg, counsel; and Catherine L. Hartke, clerk.

Present from the Federal Home Loan Bank Board: Clarence Smith, Assistant to the Board; Thomas H. Creighton, Jr., general counsel; George Murphy, member of the legal staff; John M. Wyman, director, Division of Supervision; and John M. Broullire, member of the staff of the Division of Supervision.

Mr. MOSS. The subcommittee will be in order. Mr. Wyman, will you return to the stand, please. Mr. Glick.

FURTHER TESTIMONY OF JOHN M. WYMAN, DIRECTOR, DIVISION OF SUPERVISION, FEDERAL HOME LOAN BANK BOARD; ACCOMPANIED BY THOMAS H. CREIGHTON, JR., GENERAL COUNSEL

Mr. GLICK. Mr. Wyman, can you tell us whether or not First Federal of Atlanta lent any money to West Lumber Co.?

Mr. WYMAN. I do not recall that they did.

Mr. GLICK. In other words, it would be your impression that they did not?

Mr. WYMAN. My impression is they did not.

Mr. GLICK. Did First Federal of Atlanta lend any money to Home Owners Co.?

Mr. WYMAN. Not to my knowledge. They bought loans from them, but I don't have any recollection that they made loans to them. They bought a great many loans from them.

Mr. GLICK. You commented on their purchase of loans from Home Owners Co. in your prepared statement, did you not?

Mr. WYMAN. That is correct.

Mr. GLICK. Now, can the Board issue a policy which contravenes an existing regulation?

Mr. WYMAN. I could only answer that as a layman. I couldn't answer the legal——

Mr. GLICK. In your opinion, sir.

Mr. WYMAN. My opinion would be that the Board could not or should not issue a policy statement that contravened its own regulations.

Mr. GLICK. Turning to your statement, on page 2, where you make reference to a letter of January 14, 1955, from Mr. McAllister, then Chairman of the Board, to Mr. West, chairman of the board of First Federal—you read this letter into the record yesterday. Would you say this letter recognizes that the association under its charter was authorized to lend up to 80 percent of the appraised value of a property?

Mr. WYMAN. No, sir; that letter recognizes that they are authorized to lend up to 80 percent of the value of the property. That is the language of the regulation pertaining to loans of this type. The words "appraised value," the word "appraised"——

Mr. GLICK. I would like to take issue with you at this moment. If you will turn to that letter, in the third paragraph thereof, the second sentence starts with the word "True," and I quote, "True, the association's charter and the regulations authorize loans up to 80 percent of the appraised value of the real estate security"; is that not the statement in the letter?

Mr. MOSS. Let him get the spot. It is on page 2, the next to the last paragraph.

Mr. WYMAN. Yes, that is the statement in the letter, but that is only part of the sentence. That part of the sentence has to be read in context with the entire sentence.

Mr. GLICK. Let us take this piecemeal, if you will, Mr. Wyman. The regulations at that time allowed for loans up to 80 percent of the appraised value, did they not?

Mr. WYMAN. No, sir. They allowed for loans up to 80 percent of the value. It was the insertion of the word "appraised" in there that underscores one of the differences between the association and the supervisory authorities with respect to the matter. There isn't anything in the regulation pertaining to 80 percent loans that says anything about 80 percent of appraised value. It says 80 percent of value.

Mr. MOSS. While we are looking up the regulation, does it say anything about 80 percent of the value derived from sale?

Mr. WYMAN. No, sir, not with respect to that particular section or portion of the regulations.

Mr. MOSS. What is the normal method of arriving at value on loans? By appraisal?

Mr. WYMAN. The normal method is by appraisal.

Mr. MOSS. All right. So that would be more customarily the value placed; it would be derived from appropriate appraisal procedure.

Mr. WYMAN. That is the way by which they would arrive at such value.

Mr. MOSS. So it is really a matter of semantics as to whether it says appraised or not; it is still inherently an appraised valuation because it is not limited to a value derived from sale.

Mr. WYMAN. No, sir; if I correctly understand you, Mr. Chairman, the thing that, the point involved here derived from the association's practice of appraising properties, newly constructed properties, being offered in a free, competitive, undistressed market, at prices in excess of the price at which they were being offered for sale and purchased.

Mr. Moss. That is a contradiction of a statement made by you yesterday in response to a series of questions by Congressman Holifield as to the character of the market existing in Atlanta in the period 1957–58, when it was agreed that there were a number of factors indicating a degree of distress in the market.

Mr. WYMAN. I don't believe, sir, that I agreed to that.

Mr. Moss. I think you did.

Mr. WYMAN. There may have been some statements on that, but I don't recall that I agreed with that.

Mr. Moss. We will find it and come back to it. Were you at that time in your supervisory policies looking to appraised value or to sale price?

Mr. WYMAN. We were looking to appraised value, but we were also looking to an appraisal which gave consideration to the price at which the properties were being purchased.

Mr. Moss. Were these dishonest appraisals?

Mr. WYMAN. I don't know.

Mr. Moss. Did you endeavor to find out whether they were valid appraisals, inflated appraisals, dishonest appraisals?

Mr. WYMAN. Endeavored to find out in the same way that we endeavored to find out the pertinent facts with respect to appraisals, in every association which is examined by the Board's examiners, by relating the appraisals to the price at which the properties are purchased.

Mr. Moss. How do you pursue this sampling of appraisals—to property in a community, the sale price?

Mr. WYMAN. It's done by reviewing and tabulating loans made within a period of 90 days preceding the date as of which the examination is made.

Mr. Moss. Sir, I would submit that that is a totally inadequate sampling to determine the valuation in relation to appraisals if you are looking at 90 days prior to the date of the examination. You are not even getting a good average normal market for a sufficient period to give you value if you only look at 90 days. If I went out to appraise property where I had to take some samplings on recent transactions and I confined myself to 90 days, I would not be, in my judgment, discharging my responsibility to my client.

Mr. WYMAN. I take it that is a matter of opinion.

Mr. Moss. I will take it a little further. We will direct an inquiry to the American Institute of Appraisers and get their opinion. Mr. Glick, will you undertake to see that a letter is directed to the Secretary of the American Institute of Appraisers. Let us find out, because it is important if that is the way you do it. In the first place, your appraisals are being made by your examiners, you are not undertaking independent evaluation of appraisals, and you are confining it to transactions within a 90-day period, to arrive at a determination as to the adequacy or accuracy of appraisals; you, in my judgment, are totally wrong and we will try to get some expert opinion. Proceed.

Mr. WYMAN. I understand, Mr. Chairman, these are not appraisals by the examiners.

Mr. MOSS. If you challenge an appraisal, the thing you use to challenge it has to be an appraisal.

Mr. WYMAN. It is the relationship between the association——

Mr. MOSS. I say that is not even an adequate basis for relationship. If you did it for a period of a year, you would have a pretty good relationship. For 90 days you do not have. If you have a very temporary lull, you would be reflecting only that lull and nothing of the normal characteristics of the business in the community.

So I say that from any standard it is a totally inadequate base for evaluation. I think that is something the Board ought to be concerned with, if this is such a restricted base, 90 days. I think the Board should see that supervision attempts an evaluation on a more adequate base. After all, inherent in all of this is the requirement of fair treatment of these institutions. It must be achieved.

Mr. WYMAN. If I might make a comment on that, Mr. Chairman, you understand, of course, that our examinations will cover a period of approximately 12 months.

Mr. MOSS. Your evaluation, you told me, was 90 days. What else is covered on other matters of the institution's transactions is not pertinent to the question of your evaluation of appraisals. That is a matter which must be isolated and dealt with separately.

Mr. WYMAN. The sampling of loans, with respect to loans made, is as near as possible to the dates as of which the examination is made so that it would be more current than would be the case if we reached back into preceding months, one of the reasons being that there generally has been consistently an increase in values and prices, sales prices, and it could prove disadvantageous and unfair to the association to reach back into earlier months to test and check those relationships there as distinguished from the more current transactions.

Mr. MOSS. It would be my judgment, sir, that the probability of unfairness would be more likely to arise in the confining of it to a brief 90-day period than would be possible in confining it to a period of 12 months.

Mr. WYMAN. It would be a matter of opinion or judgment as to how far back we should go, whether it should be a 3-month sample or 6-month sample or another period.

Mr. MOSS. That is the thing that disturbs me, that time and again you say, "If you give me the facts of the case" or "It is a matter of opinion" or "It is a matter of judgment."

It is my contention that regulation of an important $80 billion segment of our economy should be dependent upon more than an evaluation or a judgment of an individual. Continue.

Mr. WYMAN. These relationships that I speak of are not matters of opinion. The relationships of sale price to appraisal or of sale price to loan or appraisal to loan are matters of fact taken from the records.

Mr. MOSS. Have you any examiners that are appraisers? I know you have used a few as appraisers, but do you have any that are appraisers?

Mr. WYMAN. No, we do not at this time.

Mr. MOSS. I did not think you did. If I were going to question a man's appraisal of property, I would get an expert to do the job. If

anyone was going to question my judgment on it, I would insist that they have an expert to do the questioning. Mr. Glick.

Mr. GLICK. Mr. Wyman, there was no regulation requiring the loan to be limited to 80 percent of sales price, was there, at that time in 1957 and 1958?

Mr. WYMAN. I believe not with respect to the type of loan we are talking about.

Mr. GLICK. These were generally loans that were considered takeout loans after construction mortgage? Was not this the area of criticism by the Bank Board?

Mr. WYMAN. I can't answer that question. Many of them or some of them no doubt were takeout loans or may have been takeout loans. Some of them may not have been takeout loans.

Mr. GLICK. And the other criticism was where there was secondary financing behind the association's first mortgage. Were not these the two areas of criticism on appraisal practices?

Mr. WYMAN. Not so much the fact that a second mortgage existed or was taken behind the association's first mortgage, not that per se, but the fact that in many instances second mortgages were taken by Home Owners Co. or West Lumber Co.

Mr. GLICK. Or a builder?

Mr. WYMAN. Or in some cases by the builder.

Mr. GLICK. There was no regulation prohibiting such second mortgage financing, was there?

Mr. WYMAN. No, sir.

Mr. GLICK. Is it not a fact that it is only of late that the Board has spelled out that the value be placed on either appraisal or sales price, depending upon which is lower?

Mr. WYMAN. That pertains to loans which are in excess of 80 percent of value. I believe that regulation became effective in 1958 or 1959. I can't be positive about that.

Mr. GLICK. But that was for loans in excess of 90 percent?

Mr. WYMAN. Eighty percent.

Mr. GLICK. Eighty percent. However, there was no setting forth of such a requirement or limitation on loans up to 80 percent, was there?

Mr. WYMAN. No.

Mr. GLICK. Now, the so-called—I assume you call it a policy statement by the Board in this letter from Mr. McAllister, that the selling price should govern—was this a generally pronounced policy of the Board?

Mr. WYMAN. Well, that's been a policy that has been generally followed in supervision of associations.

Mr. GLICK. My question is: Was this a pronounced policy? Was this published?

Mr. WYMAN. I don't believe it was published.

Mr. GLICK. Then in this case the institution, as far back as 1955, was being singled out for a criterion which was not a published criterion and to which other associations might well not have had to adhere to?

Mr. WYMAN. To the best of my knowledge, Mr. Glick, the associations generally adhere to the substance of the policies that are stated here in this letter by Mr. McAllister. We have had very few experiences and very few situations, to the best of my recollection, where this has not been recognized by management.

Mr. GLICK. Mr. Wyman, would not your knowledge depend entirely on what is presented in the examination report?

Mr. WYMAN. Very largely so.

Mr. GLICK. And again this was not a published policy of the Board, so that other institutions might well have been following a policy other than stated here and not have been criticized. Is that not possible?

Mr. WYMAN. It's possible we might not have known about it.

Mr. GLICK. It was on the basis of such letter in 1955 that the criticism of the association's lending policies were formulated in 1957?

Mr. WYMAN. I do not now recall the reference in the 1957 letter to that particular matter. I don't have it. Maybe I have a copy of it. I would say that is correct.

Mr. GLICK. Thank you.

Mr. WEIDBERG. Mr. Wyman, I believe I understood you to say yesterday that examiners have a mission to uncover all of the facts, that they are to make objective examinations; is that correct?

Mr. WYMAN. I don't believe I made that statement. I may have, but I don't recall having made that statement.

Mr. WEIDBERG. What is the function of an examiner?

Mr. WYMAN. Function of the examiner is to endeavor to ascertain the facts, the essential facts, as to the condition of the association, its operations and practices, in order that the soundness or lack of it may be evaluated or in order that it may be determined that it is operating in compliance with applicable statutes and regulations.

Mr. WEIDBERG. They are to uncover all of the facts then?

Mr. WYMAN. That is a very broad term, Mr. Weidberg. When you say they are to uncover all of the facts.

Mr. WEIDBERG. Every fact that is pertinent and germane to a condition, real or alleged, concerning an association is a fact which the examiner should look into. Is that a fair statement?

Mr. WYMAN. Yes, should endeavor to obtain and report the essential facts; yes.

Mr. WEIDBERG. In your statement on page 5 you have indicated roughly that of the construction borrowers in this 6-year period, some half of them had been interrogated either by an examiner or by the attorney for the association. Did the examiner ever discuss this matter with the other 50 percent?

Mr. WYMAN. I don't believe that I made the statement that you have just ascribed or attributed to me.

Mr. WEIDBERG. Mr. Wyman——

Mr. WYMAN. Maybe I——

Mr. WEIDBERG. You have said that. Let me read, starting with the third line from the botton on page 5:

> * * * it had made construction loans to the other six borrowers in the approximate aggregate amount of $12,600,000, or a little more than one-third of all construction loans made by the association, in the 6-year period, 1952 through 1957. Not included in the list of seven borrowers covered by the transcript were three borrowers to whom the association had made construction loans of about $6 million * * *.

The $6 million and the $12.6 million is approximately 50 percent, according to the arithmetic I see here, of the construction loans that were made.

Mr. WYMAN. A little over 50 percent.

Mr. WEIDBERG. Very well. Was any attempt made to interrogate these other 50 percent borrowers as to whether or not they had been coerced—in quotation marks?

Mr. WYMAN. That I do not know. What we have is a statement by the examiner in the examination report of January 14, 1957, from which I have quoted in this statement. If I may have a moment to find it——

Mr. WEIDBERG. Calling your attention——

Mr. WYMAN. Might I look that up?

Mr. WEIDBERG. Sure. At the time you made this, did you have the full examination report before you?

Mr. WYMAN. 1957?

Mr. WEIDBERG. Yes, sir.

Mr. WYMAN. Yes, sir, as far as I know.

Mr. WEIDBERG. Did you have the confidential comments before you?

Mr. WYMAN. That I do not know. I could not answer that.

Mr. WEIDBERG. Would not that normally be part of the folder that was placed before you for examination?

Mr. WYMAN. If there were matters as to which the examiner felt he should be making confidential comments, it would be attached to the examination report.

Mr. WEIDBERG. Under what circumstances would a confidential comment be excluded from a report that was sent to you for examination?

Mr. WYMAN. I believe it would be excluded in any instance where the examiner did not find any matter as to which he felt a confidential comment should be made, in his judgment.

Mr. GLICK. Then if the report contains confidential comments, you would get them normally?

Mr. WYMAN. It would come to us, yes.

Mr. WEIDBERG. Calling your attention to the confidential comments in the examination of January 14, 1957, I quote:

> The examiner believes that every builder is required to buy materials from West Lumber Co. Maybe builders are not told of this requirement in such exact words but it is put across by intimidation of the officers of the association or officers of West Lumber Co.
>
> Attorney Johnson expressed concern over our taking affidavits from builders to the effect of this requirement. He tried to "feel out" the examiner as to the reason for the statements, not knowing, but suspecting, that such statements had been obtained. He stated that several builders had called him pertaining to affidavits that examiners wanted signed. The examiner asked for names of those who called. He gave several. None of those names given were asked anything about any requirements pertaining to their loans. He then asked if the examiner wanted him to obtain affidavits from several builders stating that there was no requirement that materials be purchased from West Lumber Co.
>
> When builders sign affidavits for a draw of construction funds, it is requested that they list balances and names of creditors. With few exceptions, the only statement under this portion of the affidavit is "Balance due West Lumber Co."
>
> Officers and attorneys of the association will not give examiners complete information pertaining to unusual cases. Such information must be obtained from sources outside the association.

Mr. Wyman, when Attorney Johnson offered to obtain affidavits from several builders stating there was no requirement that materials be purchased from the West Lumber Co., was this not a fact that was pertinent to the issue then being examined by the examiner in charge here?

Mr. WYMAN. Well, it might have been.

Mr. WEIDBERG. If it might have been, why did he not accept the invitation to obtain these affidavits?

Mr. WYMAN. I don't know. That I couldn't answer. I had nothing to do with the examination of this association. I had nothing to do with the preparation of the examination report. I had nothing to do with any discussions between Mr. Tanner and Mr. Johnson; I know nothing about those discussions whatsoever, other than what Mr. Johnston testified in this report.

Mr. GLICK. Did you not rely on the three affidavits submitted wherein it was alleged that coercion was used with regard to hazard insurance and building materials?

Mr. WYMAN. They were considered; they were recognized.

Mr. GLICK. In fact, was not this the basis for the allegation of coercion in your supervisory letter?

Mr. WYMAN. That was the basis in part, but not the entire basis.

Mr. GLICK. Did you have other information as to——

Mr. WYMAN. The examiner's statement, which was included in the statement that I read to the subcommittee yesterday, which I would like to repeat again.

Mr. GLICK. No, I don't think that is necessary. In the examiner's report it indicates he failed to get the entire story by refusing to accept affidavits to the contrary, would you not say?

Mr. WYMAN. No, I wouldn't say that. I don't know what the examiner's relationships were. I was not there at the time he made the examination. I do not, as I have stated here, I know nothing about the discussions that Mr. Johnson may have had with Mr. Tanner, or vice versa, beyond what I have stated in this statement.

Mr. GLICK. The confidential comments indicate that other affidavits were proffered to the examiner; is that right?

Mr. WYMAN. That I don't know. I don't have the confidential comments in front of me.

Mr. GLICK. Mr. Weidberg just read them to you. I will reread a sentence:

He—

referring to Mr. Johnson—

then asked if the examiner wanted him to obtain affidavits from several builders stating that there was no requirement that materials be purchased from West Lumber Co.

So there was a proffer and the examiner admits this, would you not say?

Mr. WYMAN. I know what you have just read.

Mr. GLICK. I am reading the examiner's comments.

Mr. WYMAN. The words speak for themselves.

Mr. MOSS. Hand the examination to Mr. Wyman so we can get rid of this "I only know what you just read" business. Let him identify the documant and read it back to you, and we will then know it is part of the examination letter.

Mr. GLICK. Mr. Chairman, this document or the copy here——

Mr. MOSS. I want him to identify it.

Mr. GLICK. Mr. Wyman, the chairman has asked you to identify the document.

Mr. WYMAN. This is confidential information submitted by Examiner Jack R. Tanner as an attachment to the report of examination of January 14, 1957, of the First Federal Savings & Loan Association of Atlanta. I would like to say furthermore——

Mr. GLICK. Excuse me, Mr. Wyman.

Does that contain the sentence I just read indicating the examiner was offered affidavits by Mr. Johnson to illustrate that there was no coercion being employed by the association insofar as building material and hazard insurance might be concerned?

Mr. WYMAN. This contains the statement that Mr. Johnson asked if the examiner wanted him to obtain affidavits from several builders stating there was no requirement that materials be purchased from West Lumber Co.

Mr. MOSS. Mr. Tanner was offered such affidavits, wasn't he, sir?

Mr. WYMAN. (No response.)

Mr. MOSS. The examiner is saying this so he must have been——

Mr. WYMAN. I would assume that Mr. Johnson was offering to obtain affidavits for the examiner if he wanted them.

Mr. MOSS. That assumption would be based on the statement of Mr. Tanner in the confidential section, wouldn't it?

Mr. WYMAN. That is his statement.

I would like to say this, Mr. Chairman. I never read that confidential statement. I never saw it before, as a matter of fact, personally. I never looked at it before.

Mr. WEIDBERG. Mr. Wyman, in your statement in the second paragraph——

Mr. MOSS. Just a moment, please.

Mr. GLICK. Mr. Wyman, you prepared a supervisory letter to the association based on an analysis of a 1957 examination or your Division did, didn't it?

Mr. WYMAN. It was prepared in the Division; yes, sir.

Mr. GLICK. And it was approved by you, wasn't it?

Mr. WYMAN. Yes.

Mr. GLICK. Did it go out over your signature?

Mr. WYMAN. I believe it was transmitted to our supervisory agent by letter, over my signature. I believe that is correct.

Mr. GLICK. And this letter in turn from the supervisory agent to the association really incorporated your letter, didn't it?

Mr. WYMAN. Yes.

Mr. GLICK. Do you hold yourself responsible for the activities of your Division?

Mr. WYMAN. Yes.

Mr. GLICK. We already have every right to assume they had the full examination report before them when they were analyzing it in preparation for the supervisory comments?

Mr. WYMAN. Yes.

Mr. GLICK. Then they had this information in front of them, didn't they?

Mr. WYMAN. I assume they must have had it.

Mr. MOSS. What is the purpose of the confidential section of the examiner's report?

Mr. WYMAN. Well, the purpose is to give the examiner a means by which to call attention to the matters which he feels should be called

to the attention of his superiors and of the supervising authorities. Beyond that which he has been able to establish factually with documentary support.

Mr. Moss. The objective, then, is to provide the means whereby the examiner can communicate informally with those responsible for supervising these institutions?

Mr. WYMAN. Yes, sir.

Mr. Moss. To alert them to things which, while he has every conviction exists, at the moment he has no documentation for; is that correct?

Mr. WYMAN. Or has inadequate documentation.

Mr. Moss. Or has inadequate documentation.

And yet in this instance where you have received three affidavits alleging coercion the confidential section was apparently not read or considered prior to addressing a supervisory letter wherein it was alleged that—what was the allegation there?

Mr. GLICK. I believe this is it.

Mr. Moss (continuing). Where it was alleged that:

> Despite statements and assurances by the association's directors and management furnished in the latter part of 1954 following the March 19, 1954, examination, the subject report contains information furnished by borrowers, some in the form of affidavits, to the effect that persons connected with the association and/or related enterprises (West Lumber Co. and Home Owners Co.) have required, through threat of stoppage of construction loan advances, that they (the borrowers): (a) purchase building materials from West Lumber Co., (b) obtain hazard insurance from the Home Owners Co., (c) permit the latter to act as agent in the sale of houses constructed with association financing.

That is the allegation contained in the supervisory letter. Yet, you as the head of the supervision signed that letter and didn't bother to look at the confidential section of the examination report.

Mr. WYMAN. I did not personally study the examination report. I did not personally study the confidential section or report by the examiner, and furthermore, the letter we sent to the supervisory agent and which he in turn sent to the association, requested them to make their investigation into the facts and to take such action as was necessary and proper to correct any practices.

Mr. Moss. I just wanted to show that you didn't bother to look at the confidential section in this interest.

Mr. GLICK. Wasn't this in fact the basis for your requirement that the board adopt a policy as set forth in their letter of April 14—that the association will not knowingly allow any coercion of any builder by which he may be required to buy any material from any particular company?

Mr. WYMAN. The basis for that was the examiner's statement which was included in my statement to this subcommittee yesterday.

Mr. GLICK. Yes, indeed, and——

Mr. WYMAN. Together with the three affidavits that were attached to the examination report.

Mr. GLICK. Which did not present the entire picture, is that not correct?

Mr. WYMAN. I don't know whether it presented the entire picture or not.

Mr. GLICK. Well, if all the available information on the matter was not submitted by the examiner, would you say he neglected to present the entire picture?

Mr. WYMAN. Well, if there was substantial factual information——

Mr. GLICK. Mr. Wyman, excuse me for interrupting, but I think that question can be answered simply by a "Yes" or "No," and, Mr. Chairman, I ask that he be directed to answer "Yes" or "No."

Mr. MOSS. Well, let's hear his position first.

Mr. GLICK. Can you answer the question "Yes," Mr. Wyman?

Mr. WYMAN. I am not sure that I can. I don't want to answer "Yes" or "No" to something——

Mr. MOSS. Do you want to give a good old college try, Mr. Wyman, and answer it "Yes" or "No"?

Mr. WYMAN. If you will read the question back to me I will be glad to try to do so. Not that I don't want to answer the question. I will be glad to answer it if I can and will be glad to answer "Yes" or "No."

Mr. GLICK. Will the reporter read the question back, please?

The REPORTER. Mr. Glick: Well, if all the available information on the matter was not submitted by the examiner, would you say he neglected to present the entire picture?

Mr. MOSS. Did you hear that?

Mr. WYMAN. Yes; I heard it.

I would have to qualify that.

Mr. GLICK. Will you answer it "Yes" or "No," and then qualify it, please? Or can you?

Mr. WYMAN. I cannot.

Mr. MOSS. Go ahead and answer the question.

Mr. WYMAN. I think if he failed to report any substantial or essential information that then we did not have all the information or facts. That would be the logical conclusion. I can't say if every single fact was not presented that he had failed to make an adequate report. I couldn't go that far.

Mr. GLICK. We are talking about this individual item of concern, the matter of coercion of borrowers by the association.

Now, in this particular case, inasmuch as the examiner indicates that he was offered other affidavits to the contrary of the three that he did submit and that he did not take those affidavits, then in fact did he get all the facts relative to the matter of coercion?

Mr. WYMAN. I do not know whether he got all the facts or whether he didn't. If there were other persons or other borrowers from whom affidavits could have been obtained, and they were not obtained, the examination report to that extent would be lacking, let's say.

Mr. HOLIFIELD. Or incomplete.

Mr. WYMAN. In completeness or in a sense of completeness. Whether those affidavits would have changed what has been presented or not is something I do not know.

Mr. GLICK. Mr. Wyman, did the examiner submit any affidavits that did not indicate coercion?

Mr. WYMAN. To the best of my recollection he did not. I have no knowledge that he did.

Mr. HOLIFIELD. Would you have indicated a company as practicing coercion if you had three affidavits from buiders saying they had been

coerced and three affidavits from other builders saying that they had not been coerced—would you on that type of evidence indict a company as guilty of coercion? If you had three affidavits laying on the table before you that said they did and three that said they did not, how would you make a decision in a case like that?

Mr. WYMAN. I don't know how. You would have three for and three against and it looks like you would come out with a tie.

Mr. HOLIFIELD. You would come out with a tie and you could not make an honest decision on that basis?

Mr. WYMAN. That is right.

Mr. HOLIFIELD. If you had three before you who said they had been coerced and your own examiner had an offer of others saying they were not coerced, were you in effect justified in using that evidence as proof of coercion? The three that you had, when you had others offered which would offset them? Did you in fact make a just decision when you used those three as grounds for coercion without availing yourself of offered affidavits on the other side of the question, which deny coercion?

Mr. WYMAN. Well, I think our conclusion, our appraisal of the situation was correct. I have seen——

Mr. HOLIFIELD. I am not interested in that. I am asking you the question. I asked you the question.

Mr. WYMAN. Well, if we had three on one side and three on the other side or whatever it might have been, if it was an even split, had there been no other factors to be taken into account—there were other factors in this case, incidentally, but if there were no others, then you would have as I say pretty much of a tie and I don't, frankly, know how you would make a decision on that and I presume it would be resolved in favor of the association, I would suppose, in those circumstances.

Mr. HOLIFIELD. That is a fair answer.

Now, let's get to the second question I asked you, that if you had three affidavits before you charging coercion and you had an offer of affidavits equal in number, three or more denying coercion and you did not accept the offer to look at those or to obtain those that denied coercion, would you in effect be making a just decision to only use the three that you had charging coercion? Would that be a just decision?

Mr. WYMAN. Well, I think that first of all——

Mr. HOLIFIELD. I think you can answer that question yes or no, Mr. Wyman.

Mr. WYMAN. I would think in those circumstances there should have been an effort made to obtain the other affidavits. I think that would have been a fair and reasonable thing to do and——

Mr. HOLIFIELD. That is right. And actually, you used that as your dominating factor in charging these people with coercion when you did that, you actually failed to use evidence which was offered to your examiner and which he should have obtained in good faith in order to give you here in Washington a chance to make a fair evaluation and a fair determination. You were in a position of making it a serious charge on partial evidence when other evidence was available, were you not?

Mr. WYMAN. Other evidence, according to this, had been proffered, let's say, or he had offered to obtain it for the examiner.

Mr. HOLIFIELD. But your examiner didn't get it.

Mr. WYMAN. Not to my knowledge, he didn't.

Mr. HOLIFIELD. Therefore, you were in the position of making a serious derogatory charge on the basis of incomplete evidence, were you not? I think you can honestly say yes to that question. You are a man of honor, I am sure of that, and I think you can answer that.

Mr. WYMAN. That is not the only consideration, Mr. Holifield. There were other facts and factors involved in this operation——

Mr. HOLIFIELD. But these are the facts you placed in your record. These are the only facts you have given us which say that coercion—you used these as the evidence of coercion. Now, if there are other facts, what were the other facts of coercion, other than those affidavits?

Mr. WYMAN. Not directly pertaining to and identifying coercion as such.

Mr. HOLIFIELD. That is what we are talking about—coercion—and you used these affidavits as justification for making a finding of coercion. I think you can answer that.

Mr. WYMAN. We relied on the affidavits.

Mr. HOLIFIELD. That is right—and you relied on incomplete evidence, did you not; and other evidence was offered to you which would have made your evidence more complete? You relied on incomplete evidence in making that determination; didn't you?

Mr. WYMAN. Well, we might have had broader coverage.

Mr. HOLIFIELD. I think you can say yes to that.

Mr. WYMAN. We might have had broader coverage or more evidence. I don't know what the evidence would have shown.

Mr. HOLIFIELD. I am not judging as to whether the men who gave the affidavits were honorable men. You didn't go behind the affidavit. I am not judging that. I am saying you made a derogatory charge against an association based on incomplete evidence, when you could have had more complete evidence.

Mr. WYMAN. It was based not only on the affidavits, but upon the statement which the examiner himself made in his examination report which was supplementary to the affidavits themselves.

Mr. HOLIFIELD. What other statement did he make in the examination report which was more important to you or partially as important as the affidavits of coercion? I would consider the affidavits of coercion a very substantial piece of evidence.

Mr. WYMAN. It is supplemental to the affidavits.

Mr. HOLIFIELD. What was it?

Mr. WYMAN. The examiner's statement, which I included in the statement that I read to the committee yesterday. It is quite brief. I would be glad to reread it.

Mr. HOLIFIELD. What part of that statement? Reread it.

Mr. WYMAN. It is on page 21, part (f), beginning at the second line. It says that the examiner stated that—

> It appears that West Lumber Co. supplies the vast majority of the building materials for construction financed through First Federal.

Mr. HOLIFIELD. Yes. All right.

Mr. WYMAN (continuing).

Examiners were informed by several builders that this is a requirement for securing funds from this association.

Mr. HOLIFIELD. Are these the builders who made the affidavit?

Mr. WYMAN. Not to my knowledge.

Mr. HOLIFIELD. But you have no evidence before you except the three affidavits from the builders to this effect, do you?

Mr. WYMAN. Nothing beyond what the examiner states here.

Mr. GLICK. Excuse me. Mr. Holifield, I have a copy of the examination report of 1957 which is the subject of discussion from which Mr. Wyman has just read an excerpt, and I think he read two out of three sentences of a small paragraph relative to this matter and I think the third sentence is equally important.

Mr. HOLIFIELD. Read the whole thing into the record.

Mr. GLICK. The third sentence——

Mr. HOLIFIELD. Read the whole paragraph.

Mr. GLICK (reading):

It appears that West Lumber Co. supplies the vast majority of the building materials for construction financed through First Federal. Examiners were informed by several builders that this is a requirement for securing funds from this association.

Then this is the sentence that was left out by Mr. Wyman:

Exhibits 16-1 through 16-3 were obtained from builders during the examination and pertain to this requirement.

So, in fact, the examiner only submitted affidavits from three sources to substantiate his finding.

Mr. WYMAN. That is correct, but that does not mean that the only builders he talked to were those three.

Mr. GLICK. Do you know how many builders he did speak to?

Mr. WYMAN. No, sir; I do not.

Mr. MOSS. We could conclude the only three he got affidavits from were those three?

Mr. WYMAN. Yes, I would so conclude.

Mr. MOSS. Therefore, he might have been seeking only affidavits in support of a charge of coercion, rather than affidavits denying a charge of coercion?

Mr. WYMAN. Well, I don't believe he would, but that is a question the examiner would have to answer, himself. I would be unable to answer that.

Mr. HOLIFIELD. Well, you go ahead in your statement there and you include additional information——

Mr. MOSS. Let's go a little further here. It says, very interestingly, this matter of coercion becomes a matter of concern in a memorandum of December 13, 1957, from Mr. Ammann to Mr. Bonesteel regarding the examination of First Federal.

The last paragraph says that:

We continue to hear charges of coercive practices such as forcing the association's borrowers to take out insurance and purchase materials and supplies from West-affiliated concerns. Again, we recognize the difficulties the examiner faces in factually supporting—

not factually determining the accuracy of but—

factually supporting such charges, not the least of which is the reluctance of the aggrieved borrower to reduce his complaint to writing. Nonetheless, anything substantive in this direction would be appreciated.

Nothing substantive on the whole question of coercion but in the direction of supporting the charge of coercion.

You gentlemen now will go out and in your next examination you will undertake to develop evidence supporting a charge of coercion. Now, that is not an objective effort to secure information. This is an effort to build a case. Now, is that the role of supervision, is it, to objectively seek all facts, to determine not that you can support a charge of coercion but to determine whether there is coercion and to seek impartially evidence both supporting and denying? But this is a direction from Ammann to Bonesteel. We will put it in the record at this point.

(The document follows:)

FEDERAL HOME LOAN BANK BOARD,
DIVISION OF SUPERVISION,
December 13, 1957.

To: Verne C. Bonesteel, Director, Division of Examinations.
From: A. V. Ammann.
Subject: First Federal Savings & Loan Association of Atlanta, Atlanta, Ga.

This is to supplement our memorandum to you dated November 26, requesting an early examination of this association.

In connection with the second paragraph of such memorandum (concerning suits relating to usurious practices). It is requested that the report include copies of any pleadings (other than those which accompanied the January 14, 1957 examination report) filed in the suit of Norwood versus the association; and copies of all pleadings filed in the suits by Lee Lindsey and Jack Hanes (referred to in the previous report); also copies of pleadings filed in any other suits involving questions of usury that may have been instituted during the examination period.

It is our understanding that no appeal has been taken to the September 4, 1957, decree in the Norwood usury suit and that time for appeal has passed. Since it is our information that the charges by the association (interest and service charge for which no specific service was rendered) on the last five Norwood notes were held to be usurious, the examiner should ascertain, if possible, and report the method of computation by which it was determined that the association's charges exceeded the maximum permitted under Georgia law, and the amount by which such charges exceeded those permitted by law. It would be desirable also (using the Norwood decision as a guide, if that is feasible) that the examiner investigate and report the fact as to any other loans on which it appears that the association's charges were usurious. The examiner's investigation should include specifically the loans to Lee Lindsey and Jack Hanes and the loans to other individuals from whom releases of liability were obtained. Also, any facts with respect to releases from, and voluntary refunds to, borrowers which could be considered as action designed to correct usurious charges should be reported upon and photostatically supported. This will of course include the 12 borrowers mentioned in comment 7–D on page 16M of the last report; presentation of any of these cases should include copies of the releases. It is recognized that the question of what may constitute usurious charges is quite complex. It is suggested in this regard that a discussion with Norwood's counsel may be helpful in view of his familiarity with the recent litigation.

We continue to hear charges of coercive practices such as forcing the association's borrowers to take out insurance and purchase materials and supplies from West-affiliated concerns. Again, we recognize the difficulties the examiner faces in factually supporting such charges, not the least of which is the reluctance of the aggrieved borrower to reduce his complaint to writing. Nonetheless, anything substantive in this direction would be appreciated.

A. V. AMMANN, *Associate Director.*

Mr. Moss. The foregoing directs that you build the case to support a charge of coercion—objectivity out the window.

This is, again, the sort of thing that disturbs me.

In at least three cases we have had with you folks, it seems to be a predetermined position of supervision, and Examination then goes out

to build a case and I know that is not the role intended for you by the Congress and I seriously doubt that it is the role intended for you by the Board.

We have the right to expect more impartial work and you can be just as vigorous in your supervision and achieve proper results without having to become a partisan in dealing with these associations.

Mr. WYMAN. I can't speak for the Congress or the Board but I certainly know it is not part of my intention to secure any such position as that.

Mr. MOSS. Well, you heard the letter read.

Mr. WYMAN. Yes, I heard the letter read.

Mr. MOSS. What does it direct?

Mr. WYMAN. There are other facts that have to be taken into consideration.

Mr. MOSS. Mr. Wyman, there are not other facts that have to be taken into consideration. The letter stands on its own feet. It deals specifically with the charges of coercion and it tells them to go out and build a case for coercion. It says—

> In that direction, support it.

It is like handing down the verdict and saying, "Go out and put together something to support it."

Mr. WYMAN. Well, there are certainly tremendous evidences of coercive practice.

Mr. MOSS. You haven't proven them to this date; have you? Here we are now 5 years later and you may still suspect them but you haven't proven it to this date.

Mr. WYMAN. I think I would be quite naive not to suspect them.

Mr. MOSS. Well, Mr. Wyman, I might say that wherever you had by a Board policy, through the issuance of charters, through organizing directors, in the broad spectrum the entire building field represents, that you would be indeed naive not to expect that it exists. But to expect that it exists in only one association would be naivety of an even more disturbing form to me.

Mr. WYMAN. I think that is a fair statement. I would agree with that. I would agree with that. I think that is a fair statement.

Mr. WEIDBERG. Mr. Wyman, did you examine the affidavit yourself?

Mr. WYMAN. I believe I read the affidavits, yes.

Mr. GLICK. Did you examine the 1950 examination in preparing your statement for the committee?

Mr. WYMAN. Do you mean the 1957 examination?

Mr. GLICK. Yes.

Mr. WYMAN. Did I——

Mr. GLICK. Did you review the examination of the institution as of January 14, 1957, in preparing your written statement before the committee—which you presented to the committee yesterday?

Mr. WYMAN. No, sir.

Mr. GLICK. You did not?

Mr. WYMAN. No, sir.

Mr. GLICK. These quotes came from what source?

Mr. WYMAN. The quotes taken for the purpose of preparing this statement, they were taken from an earlier summation that had been prepared by the staff of my division wherein they endeavored to sum-

marize the essential facts. Part of it was taken from an earlier statement that I had prepared looking toward the possibility that I might be called upon to testify before Mr. Johnson's testimony but which I, of course, didn't use except to draw certain factual statements, including certain quotations. But I did not review the examination report.

Mr. GLICK. Do you accept responsibility for your staff in their field of work?

Mr. WYMAN. Yes.

Mr. GLICK. Then any information they have could be properly imputed to you?

Mr. WYMAN. If it is faithful and honestly given to me; yes.

Mr. GLICK. In your statement on page 5, the second paragraph—in fact this is item 3. In the second paragraph you deal with the matter of affidavits relative to coercion, and so forth, and in the first line you say:

I have no information as to any discussion he—

meaning Mr. Johnson—

may have had with Examiner Tanner concerning this matter.

Is that a correct reading of your statement?

Mr. WYMAN. Yes, sir.

Mr. GLICK. The fact is now there was other information?

Mr. Moss. Let's be fair. Mr. Wyman is testifying here as to knowledge gleaned in the course of discussions with Mr. Johnson. The statement deals with that. While it goes into other areas and incorporates them into the statement the essential question in the statement of Mr. Wyman is whether or not testimony given to this committee by Mr. Johnson reflected the true nature of the discussions between the two of them. And while he may have had in his files other information, it is also, I think, inescapably true that Mr. Johnson could not have had knowledge of what was in the files, nor could he have knowledge of what was in the confidential section of the examiner's report. And while that was available to Mr. Wyman we must deal here only with the question of that which was obtained through the discussions between the two gentlemen.

Mr. GLICK. Mr. Chairman, if you will forgive me, I overlooked reading the preceding phrase of that sentence which is——

Mr. Moss. If it is established that this is incorporated in the discussion between the two then I think the question is proper but standing by itself it isn't.

Mr. GLICK. Well Mr. Wyman states:

Except for Mr. Johnson's testimony, I have no information——

Mr. Moss. That would be inaccurate because he did have the information. Whether or not he had knowledge of it.

Mr. WYMAN. I was not personally aware of that information in the confidential section of the report at the time.

Mr. Moss. I would like to get into the substance if I could of this agreement between Johnson and Wyman as to what actually took place in those discussions.

For instance, in Mr. Johnson's statement (see p. 86).

Mr. Wyman, if you will start with me and follow me as I read the third paragraph—and this is Mr. Johnson's statement:

This was confirmed in my conversation with Mr. Wyman. Mr. Wyman took the position that the First Federal Savings & Loan Association, the West Lumber Co., and the Home Owners Co. were affiliates.

Is that correct?

Mr. WYMAN. I might have used the term affiliates."

Mr. MOSS. I think you conceded yesterday that you did and you used this in the sense of a definition.

Mr. WYMAN. An abbreviation of a relationship that existed.

Mr. MOSS. That portion of the statement you would agree is a correct portion? Or, would you agree it is a correct portion?

Mr. WYMAN. I think I have referred to them as being affiliated, or as affiliates in the sense that I stated in my statement.

Mr. MOSS. The sense here is the sense of the conversation with Johnson. Any subsequent definition of what you meant would not have been made to Johnson at that time. So Johnson is only reporting on his conversation with you. So, is that portion of his statement a correct statement? Is it a reasonably accurate report of the conversation?

This was confirmed in my conversation with Mr. Wyman. Mr. Wyman took the position that the First Federal Savings & Loan Association, the West Lumber Co., and the Home Owners Co. were affiliates.

Mr. WYMAN. I probably used the term in the sense that I stated.

Mr. MOSS. I didn't ask how you used the term. I asked you, if the reporting of the conversation by Johnson in this statement to the committee is a correct report. I don't care how you used the term.

Mr. WYMAN. He probably is correct on that. I——

Mr. MOSS. Let's go a little further:

I discussed with him the various ownership of stock in the Home Owners Co. and the West Lumber Co. Mr. Wyman said that the Board, meaning the Home Loan Bank Board, could not stand by and see the association continue to be operated as it had been operated, that the management of the Federal Savings & Loan Association were acting as trustees for the people who had invested money in the association, that they had to be absolutely above suspicion.

Now, is that a correct report of the conversations you gentlemen had?

Mr. WYMAN. No, sir; I did not say to him that the Federal Home Loan Bank Board was not going to stand by and see the association continue to operate as it had been operated. I did not make that statement to him.

Mr. MOSS. That wasn't the sense of your discussion?

Mr. WYMAN. The sense of my discussion with him was that in summary fashion to refer to various transactions that had occurred—the purchase of loans from Home Owners Co., the evidences we had of coercion, the apparent overlending or overappraisal as shown by the fact that in some instances loans were being made in amounts which enabled buyers to mortgage out and matters also pertaining to practices which had resulted in a large delinquency ratio, a large real estate owned account, and those essential, important aspects of the operation of the association.

Mr. MOSS. Well, is Mr. Johnson's statement just read to you an untruthful statement?

Mr. WYMAN. Yes; it is untruthful, I think, Mr. Chairman, in what he says to the effect that I told him the Federal Home Loan Bank Board was not going to stand by and see the association continue to operate as it had been operated.

Mr. MOSS. Did you express satisfaction with the method of operating up to that point?

Mr. WYMAN. Pardon?

Mr. MOSS. Did you express satisfaction with its operation up to that point?

Mr. WYMAN. No, sir.

Mr. MOSS. Did you express dissatisfaction?

Mr. WYMAN. Yes, sir.

Mr. MOSS. Did you indicate that it was free to go ahead and to continue to operate as it had been operating?

Mr. WYMAN. The best of my recollection is that I told Mr. Johnson there should be some changes made in certain practices and in certain phases of the operation. These discussions all took place, I may say, following Mr. Johnson's very explicit representation to me as to why he was there.

Mr. MOSS. That is all right. I am only interested in this at the moment:

I discussed with him the various ownership of stock in the Home Owners Co. and the West Lumber Co.

Was this discussed?

Mr. WYMAN. It may have been. I don't recall.

Mr. MOSS. Was it discussed, Mr. Wyman? This was an extensive conversation.

Mr. WYMAN. I don't recall.

Mr. MOSS. You characterize his statement as untruthful. Now let's find out where it is untruthful.

Mr. WYMAN. I characterize it as being untruthful in the matter of what I said the Board was going to do.

Mr. MOSS. I asked you if the statement was untrue. Now we want to find out where it is untrue.

Did you discuss the various ownership of stock in the Home Owners Co., West Lumber—these affiliates?

Mr. WYMAN. I don't think I discussed it. He may have discussed it. He may have mentioned to me the amount of stock. I am not positive.

Mr. MOSS. Let us get his statement:

"I discussed with him." "I discussed with him."

Did he? "Him" is "you."

Mr. WYMAN. He may have discussed it. He may have referred to the ownership of the stock.

Mr. MOSS. You take exception to what he says and you must have better recollection than that. It is serious to tell me that a witness has come here and lied to me under oath.

Do you deny that he discussed with you the stock ownership of the various "affiliates"?

Mr. WYMAN. No, I wouldn't deny he discussed it with me.

Mr. MOSS. Then that portion of the statement is not untrue?

Mr. WYMAN. I don't think I made any reference to that in my statement that I presented to this committee.

Mr. Moss. I just wanted to find out what this man told me, whether it is true.

Now you indicate categorically, you deny that you stated, or that a reasonable man could conclude from the discussion—that it was your position that the Home Loan Bank Board could not stand by and see the association continue to be operated as it had been operated?

Mr. WYMAN. I didn't make that statement to him.

Mr. Moss. Did he say that you couldn't stand by?

Mr. WYMAN. No, sir; I did not.

Mr. Moss. Did you say that the association couldn't continue to be operated as it had been operated?

Mr. WYMAN. No, sir; I did not. I told him it shouldn't be.

Mr. Moss. All right, we will change "couldn't" to "shouldn't."

We read it this way:

Mr. Wyman said that the Board "shouldn't" stand by.

Mr. WYMAN. No, sir; I didn't say that.

Mr. Moss. Did you discuss the advisability of it continuing to operate as it had been operating?

Mr. WYMAN. I discussed that with him.

Mr. Moss. All right, then that was discussed.

Did you tell him that the officers and management of the association were acting as trustees for the people and that they had to be absolutely above suspicion?

Mr. WYMAN. I don't recall that I made that statement, although I would not say that I did not make it.

Mr. Moss. No, I wouldn't either, because quite a number of others have reported to us the sense of conversations with you where the same idea was conveyed.

So you wouldn't deny that that was inaccurate?

Mr. WYMAN. No, I wouldn't.

Mr. Moss. I have just gone through the statement with you and you did not deny the sense of the statement. You discussed with him a need for changes in operation, you discussed with him or he discussed with you the various stock ownerships and you did not deny that you had a discussion bearing upon the trustee role of management, so that statement would appear to be true in substance. It is not offered as a direct quote by Mr. Johnson. It is an effort to convey a sense of discussion.

Then he goes on and he says that—

*** * * there must not only be no conflict of interest but nothing which could be construed as conflict of interest. He said that he had discussed this matter with the members of the Board and that certain actions had to be taken.**

Mr. WYMAN. I made no such statement to Mr. Johnson.

Mr. Moss. Did you discuss with him the matter of conflict of interest?

Mr. WYMAN. Yes. I believe I did.

Mr. Moss. Did you state your conviction as to the need for officers and management being completely above any suspicions of conflict of interest?

Mr. WYMAN. I do not recall that I used any such expression as that.

Mr. Moss. Do you deny that you used such an expression?

Mr. WYMAN. I would not deny that I used it. I do not believe that I did.

Mr. Moss. Could you in the course of a conversation under such conditions have made such a statement?

Mr. WYMAN. I could have.

Mr. Moss. Then that is not untrue, is it?

Well, in your memorandum for the record of March 4, 1958, wherein you set out the substance of your conversations with Mr. Johnson, item No. 4 would appear to bear directly upon the portion of his testimony just read.

These actions, as stated to Mr. Johnson, are—

item No. 4—

Assumption and fulfillment by the board of directors of their responsibility and duty to see to it that appraisals and loans made by the association are on a sound basis; that self-dealing is permanently eliminated from the association's operations; that there is no coercion of borrowers in connection with the placing of insurance on properties mortgaged by them to the association, or in the purchase of materials used in the construction of houses financed by the association; and that in these and all other respects to see to it that the association is operated in a sound and proper manner.

Now, isn't that what he said here, that there must not only be no conflict of interest but nothing which could be construed as conflict of interest? Isn't that what he reported? You reported it. You verified it. That is not untrue.

Let us go on to the next statement. "He said that he had discussed this matter with the members of the Board and that certain actions had to be taken." Is that a correct statement?

Mr. WYMAN. I did not say that to Mr. Johnson.

Mr. Moss. Did you discuss the matters with the Board?

Mr. WYMAN. I had discussed the matters with the Board but I did not say to him that certain actions had to be taken.

Mr. Moss. Did you tell him you discussed the matter with the Board?

Mr. WYMAN. I did, yes, sir, but the matter was discussed with the Board after he came in.

Mr. Moss. Did you tell him no action had to be taken?

Mr. WYMAN. I did not tell him action had to be taken or that the Board determined action had to be taken or that the Board was not going to stand by and see it operated as it had been. I did not say that.

Mr. Moss. Can you categorically deny that the substance of these remarks never came up in the conversation?

Mr. WYMAN. I did not make those statements to Mr. Johnson. We did discuss these various things and I did state to him substantially what you have read out of that numbered paragraph 4.

Mr. Moss (reading):

After discussing the matter with Mr. Johnson for approximately one and a half hours yesterday afternoon I arranged to meet with him again this morning at about 10:30, at which meeting Messrs. J. M. Broullire and R. A. Schellhase were also present. At today's meeting I advised Mr. Johnson that since the association's directors had requested my views I felt obliged to express myself in terms of what, in my considered judgment, are the minimum steps necessary to effect a full and permanent correction of the malpractices which have gone on in this association for many years and which we have repeatedly endeavored to get eliminated but without results. These actions, as stated to Mr. Johnson, are: one, resignations by George West, Sr., and George West, Jr., as directors and officers of the association, and their replacement as directors by two responsible business or professional people.

These are the minimum steps necessary, not desirable, but—

necessary to effect a full and permanent correction of the malpractices.

Yet you deny Mr. Johnson's statement. He said that he had discussed this matter with the members of the Board and that certain actions had to be taken.

Would you place these demands without a discussion with the Board?

Mr. WYMAN. I merely answered his question.

Mr. MOSS. I do not care, sir, if you answered his question or not. You have taken a man's statement—made before this committee under oath—and characterized it as an inaccurate or false statement.

Mr. WYMAN. I did not——

Mr. MOSS. It is my business as chairman of this committee to determine whether a witness has come before this committee and perjured himself.

Mr. WYMAN. I did not tell him that I discussed this matter with the Board and that certain actions had to be taken. I told him what I thought was the minimum necessary if the board of directors——

Mr. MOSS. Did you tell him you were speaking for the Board?

Mr. WYMAN. How is that?

Mr. MOSS. Did you tell him you were speaking for the Board?

Mr. WYMAN. No, sir, I did not. I did not say that to him.

Mr. MOSS. Have you the authority to spell out minimum actions which are necessary, including the removal of directors, without sanction by the Board?

Mr. WYMAN. I have the authority to express my best judgment in response to a request that is made of me by representatives of an association for what I think would be adequate.

Mr. MOSS. This is your judgment then and not the Board's judgment?

Mr. WYMAN. It was my judgment at that time because of these things at the time of the discussion on March 3, but this was not stated to him until the following day.

Mr. HOLIFIELD. It does not make any difference what day it was.

Mr. MOSS. Just a moment. (Reading:)

I couldn't get anywhere with them. They made no concession over their demands so I came to Washington and talked to Mr. Wyman, I would say, between 2½ and 3 hours the afternoon of March 3 and a larger part of the next day.

So he is talking about both conversations.

Mr. WYMAN. I talked with the Board about it after the meeting on March 3 and then he came back on March 4 about 10:30 as I recall it in the morning, and we had another conference, of much shorter duration than he indicated in the testimony, and at that time I told him what I thought would be necessary if the directors wanted to correct the situation fully and permanently. I did not tell him that the Board was not going to stand by and see it operated as it had been.

Mr. MOSS. I think a reasonable man could conclude that if you stated that these are the minimum actions necessary to correct malpractices that you were authorized by the Board to convey that information because without that authorization you were without authority.

Mr. HOLIFIELD. Mr. Chairman, in the letter——

Mr. GLICK. This is an excerpt from the supervisory letter acompanying the 1957 examination report to the association.

Mr. HOLIFIELD. You say:

Such transactions are not in the best interest of the association and its shareholders and are inimical to the concepts of fiduciary relationships; therefore, assurance is requested that there will be no further transactions which have either the appearance or fact of a conflict of interest.

Mr. Johnson says:

That there must not only be no conflict of interest but nothing which could be construed as conflict of interest.

And this parallels perfectly what you said in the supervisory letter.

Mr. WYMAN. I wouldn't take any exception to that part of it.

Mr. HOLIFIELD. Then that was true.

Mr. WYMAN. I would not take exception to that part of it.

Mr. HOLIFIELD. The chairman read to you certain requirements in your own letter there and Mr. Johnson said, speaking of you, Mr. Wyman:

He said that he had discussed this matter with the members of the Board and that certain actions had to be taken.

Were not those the actions which the chairman read to you? Weren't those certain actions to be taken?

Mr. WYMAN. Yes.

Mr. HOLIFIELD. That is true, then?

Mr. WYMAN. I discussed the matter with the Board.

Mr. MOSS. Did you inform Mr. Johnson that you had, following your first meeting, discussed the matter with the Board?

Mr. WYMAN. No. Not to my recollection.

Mr. MOSS. In your second meeting with Mr. Johnson, you never told him on the day before you had discussed the matter with the Board?

Mr. WYMAN. To the best of my recollection, I did not.

Mr. MOSS. Your recollection has to be absolute, if you deny it. You have entered a denial that you did. Now you say to the best of your recollection.

Mr. WYMAN. I talked to the members of the Board about it following the conference.

Mr. MOSS. Could you have told him you discussed it with the Board?

Mr. WYMAN. I talked to the Board about it following the conference on the afternoon of March 3.

Mr. MOSS. He is reporting on the conversations covering 2 days.

Mr. WYMAN. That is right. Then he came back.

Mr. MOSS. Is it possible you told him, "I talked to the Board yesterday"?

Mr. WYMAN. Mr. Chairman, I do not believe so. I cannot——

Mr. MOSS. I have his statement under oath. You are under oath. You categorically denied it at first, Mr. Wyman. Now you are saying you do not really know?

Mr. WYMAN. I cannot recollect.

Mr. MOSS. Therefore, we will regard that as a true statement.

Now let us go over to another page (see p. 86).

Mr. Wyman stated that the First Federal was not being operated for the benefit of the public but for the benefit of the West family; that the Wests, having control over the lumber company and he Home Owners Co., made any connection at all very undesirable; they must be completely divorced.

I disagreed with him very vehemently. I told him if there had been abuses in the past that this certainly had not been true for several years. I knew that of my own knowledge.

Is that portion of his statement true?

Mr. WYMAN. I do not recall saying to him, to Mr. Johnson, that the association was not being operated for the benefit of the public. I do not recall making that statement to him or anything having the substance of that statement.

I do not recall that Mr. Johnson disagreed with me vehemently about anything, but conversely, I was impressed by his rather active and vigorous support of what he represented to me to be a decision by the directors to correct these practices, eliminate them fully; and permanently. He was, to me, more vehement in that area than he was in the area to which he is referring here on another page (see p. 86).

As a matter of fact, if there was any vehemence at any time in the conferences, which, incidentally, I thought were on a rather courteous, even though maybe a firm, basis, but if there was any vehemence at any time it was by Mr. Johnson in respect to getting this job done and not otherwise.

Mr. MOSS. Did you feel that the association at that time was being operated for the benefit of the West family?

Mr. WYMAN. Yes; I did feel that way.

Mr. MOSS. Is it possible that that was a part of the conversation with Mr. Johnson?

Mr. WYMAN. It is possible.

Mr. MOSS. Did he tell you that if there had been abuses in the past that this certainly had not been true for several years; that he knew that of his own personal knowledge?

Mr. WYMAN. I do not recall that he made that statement to me.

Mr. MOSS. Your memorandum says:

I told Mr. Johnson that I could not in good conscience suggest to him or agree to any halfway measures to correct the practices that have prevailed in this institution for many years, but felt obliged to give him an honest answer to what I assumed was a sincere request by the directors for my views as to what would constitute a real and dependable solution to the problem with which the directors now appear to be concerned; and that I could therefore do no less than to insist that the causes of the improper practices, as well as the practices themselves, be eliminated.

That conveys to me an impression of a discussion over the measures proposed, where you finally said:

Sir, this is not going to be halfway. It is all the way or nothing.

That is the sense of his statement to the subcommittee. It is the sense of the paragraph in your own statement.

The subcommittee will recess for 10 minutes.

(Short recess taken.)

(Whereupon, at 12 o'clock noon, the subcommittee was recessed to reconvene at 2 p.m., the same day.)

AFTERNOON SESSION

Mr. MOSS. The subcommittee will be in order. Mr. Glick.

Mr. GLICK. Mr Wyman, if you will please open up to page 89 of the printed testimony of Mr. Herbert Johnson, Mr. Johnson is

speaking, the first full statement by Mr. Johnson. I will read it into the record if you do not mind:

I informed Mr. Wyman of my purpose for being there. I informed him of the action of the board and that it looked from the tone of the letters from the superivsory agent and from the tone of their verbal conversations with members of the board that they were seriously considering some drastic action, and my purpose was to see what could be done. Mr. Wyman assured me that they were considering drastic action. We discussed briefly what could be done, what the Board might do, what the Board had done in other cases in the past, and I asked Mr. Wyman what was necessary for the association to do to remove this cloud of a seizure of the association, and we had considerable discusssion about that.

Then I asked the following question:

Mr. Johnson, at this point, if I may, did Mr. Wyman make you understand that he had certain ideas in mind as to what the association should do and, in failure to comply with those ideas, that the association might well be seized?

Mr. Johnson responded as follows:

I would put it a little bit differently. I, from our conversation, got the idea that positive action would be taken in the very immediate future by the Home Loan Bank Board unless the association adopted certain changes in procedure and management. I cannot say that Mr. Wyman positively told me that, but it certainly was understood between us throughout the whole conversation.

Would this statement by Mr. Johnson be correct?

Mr. WYMAN. In substantial part it is incorrect.

Mr. GLICK. Where exactly is it incorrect, sir? Let us start off with the beginning. Did he inform you of his purpose to be there?

Mr. WYMAN. He did inform me of his purpose in being there, namely, to carry out the instructions of his board of directors to discuss with me certain proposals which they had developed following their investigation pursuant to receipt of our letter of December 2, 1957, and to obtain from me my frank opinion as to whether or not those proposals were adequate.

He did not make any statement whatsoever to me to the effect that the members of the Board, Federal Home Loan Bank Board, presumably that's what he refers to, were considering some drastic action and that his purpose in being there was to see what could be done to remove the cloud of seizure from the association.

Mr. GLICK. Did he indicate that the association directors were concerned with what action the Home Loan Bank Board might take against the association because of the supervisory complaints?

Mr. WYMAN. No, sir, that was not part of his conversation with me. His representation to me is what I have just testified a moment ago and what I had set out in my statement yesterday.

Mr. GLICK. Then he brought forward to you certain proposals in behalf of the board of directors of the association?

Mr. WYMAN. Yes, sir; he had three of them, as I recall it.

Mr. GLICK. These you have set forth on page 11 of your statement?

Mr. WYMAN. That is correct.

Mr. GLICK. Are these in essence the response that was contained in the letter of February 24, 1958, from the association to the supervisory agent, which you received on March 6, I believe, according to your statement?

Mr. WYMAN. It was not a letter, as I recall it. It was a report by the special committee of directors appointed by the board of directors, together with the evidence of their consideration of the report by that

committee and its adoption, I believe, rather than in the form of a letter. I don't know that those three points are set out in precisely that form in the report to which you refer.

Mr. GLICK. No. Well, this was the February 24 memorandum, I guess, from that committee which was contained or sent along with copy of minutes and cover letter of February 25 to Mr. Fogarty, forwarded to you; is that correct?

Mr. WYMAN. I believe those three items there represent the substance of the report by that committee.

Mr. GLICK. Then you voiced disapproval that this would be sufficient to meet——

Mr. WYMAN. No, sir, I did not voice disapproval of those items, as such.

Mr. GLICK. That this would be sufficient to meet the supervisory comments?

Mr. WYMAN. He asked whether or not, in my frank opinion, that the board of directors wanted to know my frank and candid opinion as to whether or not in my judgment those were adequate to fully and permanently correct the things which the directors, as represented to me by him, had determined needed to be corrected.

Mr. GLICK. Mr. Wyman, when you speak in your office or in your supervisory capacity, you speak as agent for the Board, do you not?

Mr. WYMAN. Yes, of course.

Mr. GLICK. Fine. Then it was as a result of your statement that these were insufficient—that you came forth with the other proposals, as outlined in your memo of March 4, a copy of which you sent to the Board on March 6; is that correct?

Mr. WYMAN. I don't quite get that question.

Mr. GLICK. Mr. Johnson brought to you principal proposals from the directors as to what they believed would be sufficient action to rectify or correct the matters of supervisory criticism. You have indicated that they were insufficient, in your opinion, and you so informed Mr. Johnson.

Mr. WYMAN. That is correct.

Mr. GLICK. I assume this was on March 3d—from your own statement. The following day you outlined to Mr. Johnson what you believed would be required of the association to meet with your requirements. Is that correct?

Mr. WYMAN. Yes; it was on March 4.

Mr. GLICK. These included the resignations of Messrs. West, Sr. and Jr., resignation of Mrs. Mobley, and some other factors.

Mr. WYMAN. Yes, that is correct.

Mr. GLICK. These, according to your own statement in that memo, were the minimum requirements, were they not?

Mr. WYMAN. Well, minimum or adequate, or whatever description you want to use.

Mr. MOSS. Do not leave it to us as a choice; let us leave it to you as a choice. The question was: Were these your minimum requirements? The answer is "Yes" because you so characterized them.

Mr. WYMAN. Yes.

Mr. MOSS. All right. We do not have to take choices. We have the precise language and the record should reflect it.

Mr. GLICK. In discussing these with Mr. Johnson, was there any indication to him or any questions from him as to what might be expected from the Board in the event that the association failed to adopt these requirements?

Mr. WYMAN. No, sir.

Mr. GLICK. None whatsoever?

Mr. WYMAN. No, sir.

Mr. GLICK. Mr. Johnson merely accepted these and said he would report back to the association?

Mr. WYMAN. I think we have to recognize the circumstances of his visit. He came to me with the representation that the directors had asked him to discuss their proposals with me and ascertain from me whether or not, in my honest and candid opinion, those proposals were adequate. I answered that question for him to the best of my ability.

Mr. MOSS. Let us put this thing in proper context now because that statement on its face conveys an entirely erroneous impression. We have to go back to the fact that there was a supervisory letter written to the directors of the association wherein certain allegations were made by the Division of Supervision and the directors were requested to take certain actions. In conformity with these actions, the directors then instructed their attorney to come for further discussions with the Division of Supervision.

I want the record here to reflect the fact that this was not on the original motion of these directors, that they took up this matter and considered it. This was in response to your supervision that the directors acted.

Mr. WYMAN. That is correct.

Mr. MOSS. Acting because of the allegations contained in the supervisory letters Then their attorney came to discuss with you certain proposals and to determine whether they were adequate proposals, in your judgment, to meet the demands of the Division of Supervision.

You stated quite clearly that they were not adequate, that as a minimum a number of things would have to be done.

Now, are you trying to tell us that there was no discussion with you, as the Chief of Supervision, as to what might happen if the directors, as represented by their counsel, then failed to agree with your so-called minimum demands?

Mr. WYMAN. Yes, sir; I mean to state just exactly that.

Mr. MOSS. Let me say, Mr. Wyman, that to me it is inconceivable—I have gotten to know you fairly well in the past 2 years; we have had these sessions from time to time—it is inconceivable to me that the conversation would overlook such a relevant point.

Mr. WYMAN. It would have been utterly incongruous with the situation.

Mr. MOSS. It would have been utterly incongruous with the situation not to discuss it. It would have been in consonance with the situation to discuss it. Here the attorney representing a board of directors comes up with a proposal as a result of supervisory admonitions or admonishments, and he is informed that this is not adequate, that these are the things that are minimal. They go much beyond what the directors had proposed, very substantially beyond what the directors had proposed.

Having then been presented with this set of demands by you, on behalf of his clients he made no inquiry as to what might happen if they failed to accept these minimum conditions?

Mr. WYMAN. That is correct. That is correct.

Mr. MOSS. It may be correct, Mr. Wyman; it is disputed, of course, by the other party to the conversation.

Mr. WYMAN. Yes, sir; I am aware of that.

Mr. MOSS. It would appear to be disputed by Mr. Broullire's contemporary memorandum. Have you that memorandum? I think it is disputed by your own memorandum.

You emphasize that:

> I told Mr. Johnson that I could not in good conscience suggest to him or agree to any halfway measures to correct the practices * * *

Now, if he was just going to acquiesce so easily in your demands and discuss them not at all beyond that point, to explore possible alternatives, there would have been no need for you to have then emphasized to him that you would take no halfway measures, because halfway measures would not have been discussed.

We must conclude, I think—and reasonably so—that your reference to this type of halfway measure is made because you had to emphasize—I think you said a little earlier that if anyone was vehement, that you were, in making it clear that there would be no halfway measures. So there must have been a two-party discussion here.

Mr. WYMAN. The reference to halfway measures is perhaps an unfortunate term. I could have said "inadequate measures." It was in reference to the proposals which he had brought with him to ascertain from me whether or not, in my opinion, they were adequate. It was a reference to those proposals.

Mr. GLICK. Those had been negated by your own action; you had dismissed them the day before, and this was a new set of proposals being discussed; namely, your proposals.

Mr. WYMAN. The day before I made no comment to him as to whether I thought the proposals were adequate or whether I thought they were inadequate. I think you will find my memorandum of March 4 so states. It was written while the matter was quite fresh in my mind.

Mr. GLICK. That was only after your consultation with the Board itself that you made the decision?

Mr. MOSS. I do not think it is really pertinent as to whether or not you discussed his proposals with him on the 3d or the 4th. You did discuss them and you indicated that they were not adequate and you then proposed—

> minimum steps necessary to effect a full and permanent correction of the malpractices which have gone on in this association for many years * * *. These actions, as stated to Mr. Johnson, are—

and then you enumerate them.

Then in the paragraph where you discuss halfway measures you go on and say that—

> I could therefore do no less than to insist that the causes of the improper practices, as well as the practices themselves, be eliminated.

So this conveys to me the picture of a discussion at which you had to insist, you have to emphasize that there were to be no half-

way measures here. You yourself have characterized your presentation as one vehemently made. In your conversation this morning when I quoted Mr. Johnson as stating that he vehemently disagreed, you stated he was not vehement, that if anyone was, it was you. So it was a warm conversation.

Mr. WYMAN. I do not believe the record will show it that way.

Mr. MOSS. I think the record will.

Mr. WYMAN. I think what I testified was that if there was any vehemence in the discussion, it was by Mr. Johnson in connection with his representations to me that there were conditions in the institution which the directors felt should be corrected and which he felt should be corrected.

Mr. MOSS. We will check the record tomorrow and find out, and if you are correct, we will note it, and if I am incorrect I shall properly apologize to you. But in any event, you did insist. That is admitted to because it is in your own memorandum.

Mr. GLICK. During the course of this discussion of your proposals, was there a discussion of the power of the Board over an association?

Mr. WYMAN. No, sir.

Mr. GLICK. There was no reference made as to what authority the Board had to enforce its requirements on an association for corrective action?

Mr. WYMAN. No, sir; there was not.

Mr. GLICK. Are you saying that there was no reference to any case or any factors other than that of First Federal of Atlanta?

Mr. WYMAN. I had no discussion with Mr. Johnson with respect to any other case.

Mr. GLICK. I did not ask you if there was any discussion. Was there any reference? Could it have been possible that just as a side remark there may have been a reference to another case or what had happened elsewhere?

Mr. WYMAN. I made no reference to any other case. Whether Mr. Johnson made a reference to any other case or not, I cannot be certain, but I made no reference to any other case, I discussed no other case with him other than the First Federal of Atlanta. He has already testified, of course, that he was familiar with those other cases also.

Mr. GLICK. In fact, the * * * situation was a current matter of headlines at that time or just immediately prior thereto a few days; was it not?

Mr. WYMAN. I believe it was approximately that time. I am not certain now as to the date. The other cases were matters of court record and court decisions, and as a lawyer naturally I presume he would have been familiar with them.

Mr. GLICK. And you were,too, sir; were you not?

Mr. WYMAN. Yes.

Mr. GLICK. Mr. Wyman, in your statement on page 8, in the middle of the second paragraph, you said:

> It has so long been a hard and fast rule of the Board and of the Division of Supervision that matters of this nature are confidential between the Board and the staff and that the affairs of a particular institution are not to be discussed outside the four walls of our agency, so to speak, and I have abided by that rule, without exception, for so many years that adherence to it has long been an unfailing reflex.

I wonder if you would explain the phrase, "so to speak."

Mr. WYMAN. The words "so to speak" are there merely to explain, if you will, what I meant by the four walls of the agency, within the walls of the room or within the walls of the agency, nothing else. It had no significance or thought other than that.

Mr. GLICK. Within the walls of the agency and being exclusive to representatives of the association and of the bank board?

Mr. WYMAN. Read that back.

Mr. MOSS. Would this be exclusive to representatives of the association and of the bank board?

Mr. WYMAN. That is what it means to me, sir.

Mr. GLICK. Would there be occasion for you to discuss any of these matters with members of any league?

Mr. WYMAN. No, sir; there would not be any occasion for me to do so.

Mr. GLICK. Would there ever be an occasion or would it be permitted within your own scope of operation, what is normal, for an association to request that you discuss matters of interest to them, supervisory concern, with a member of a league?

Mr. WYMAN. I would have to ask for some clarification of that question.

Mr. MOSS. By league you mean an association of——

Mr. GLICK. Of associations.

Mr. MOSS. Of associations?

Mr. GLICK. Yes, sir.

Mr. WYMAN. Are you referring to a particular institution?

Mr. MOSS. He is referring to any association or organization whose members are representative of the savings and loan industry, such as the U.S. League.

Mr. WYMAN. To discuss what with them, the affairs of a particular association?

Mr. GLICK. Yes, the affairs of a particular association.

Mr. WYMAN. I can't call to mind any such occasion. So far as I am concerned, I don't believe there has been any such occasion as that.

Mr. GLICK. It could happen?

Mr. WYMAN. I don't believe it could, although it is not beyond the realm of possibility, perhaps. It would depend on what the authorization was by our Board. I would like to add this, of course. In cases that have become matters of public record, which have been in court and which may have been decided by courts and are common knowledge to everybody, really are no longer in the confidential status that institutions and their relationships to a supervising agency ordinarily have.

Mr. GLICK. This is when they usually result in court proceeding of some type or some type of action which was made public knowledge through the newspapers; is this the usual case?

Mr. WYMAN. Generally that would be the case, I assume.

Mr. GLICK. Mr. Chairman, I have here a copy of a memorandum which is initialed by Philip J. Mank, supervisory agent in the 4th District of Greensboro, which deals with the conversation with Mr.

John Wyman, of Tuesday, July 22, 1958. Mr. Mank writes, and I quote:

> Mr. Wyman said that * * * called him regarding the * * * situation and in regard to Mr. * * *.

Further down:

> He stated that * * * also reported that there would be some trouble with the First Federal of * * *, and I informed him that we already knew about the situation and that I had sent him a memorandum regarding a conference held in this office with two of the present members of the board of directors.

Would you say, Mr. Wyman, that this memo from Mr. Mank indicates that you had spoken with a member of a league; namely, the * * * League, Mr. * * * being its executive director?

Mr. WYMAN. I don't recall all of the circumstances of that. He called me. I didn't call him. As I recall it——

Mr. GLICK. Did you discuss it with him?

Mr. WYMAN. I am trying to recollect the circumstances. I did not discuss the case with him. I discussed nothing pertaining to the affairs of the institution with him. As I recall it—and I can't be expected to carry all this in my mind—as I recall it, he told me that someone from the * * * Association had talked with him about certain problems and that he was endeavoring to help them with their organizational difficulties, or something to that effect. It was in those very general broad terms that had nothing whatever to do with any discussion by me with Mr. * * * as to the affairs of this institution. Mr. * * * already knew about it.

Mr. GLICK. Mr. Wyman, did not Mr. * * * attend a conference in Greensboro on August 5, 1958, wherein the affairs of * * * Federal Savings & Loan were discussed, which you attended, and I believe Mr. Mank and possibly Mr. Fogarty, when the problems of * * * were fully and openly discussed?

Mr. WYMAN. I don't remember that. I can't remember that.

Mr. GLICK. I would suggest, sir, that you refer to your records. This would make it appear, sir, that you have discussed matters of supervisory concern of a particular association with others than those within the confines of the four walls of the bank board agency, would it not?

Mr. WYMAN. I have not done so, Mr. Glick. On that I will stand. I have so testified under oath and I shall not depart from that testimony.

Mr. GLICK. The proposals which you set forth on March 4 eventually resulted in a letter of April 14, did they not, sir?

Mr. WYMAN. The board of the association ultimately sent to us the letter of April 14.

Mr. GLICK. This is the letter you had seen on March 21, a draft thereof?

Mr. WYMAN. I saw a draft of it on the 21st of March left with me by Mr. Johnson.

Mr. GLICK. This letter was in pursuance to meeting your minimum requirements, was it not?

Mr. WYMAN. Well, it incorporated some of the requirements. Others were not referred to in the letter, as you know.

Mr. GLICK. They were referred to in a side item dealing with the resignations of Mr. West, Senior, and Mrs. Mobley?

Mr. WYMAN. That is correct.

Mr. GLICK. These were at your request; namely, these conditions, these requirements set forth in that letter, and the two resignations were at your request?

Mr. WYMAN. Those actions which were taken by the directors in response to and following the conference or conferences with me by Mr. Johnson——

Mr. GLICK. Wherein you insisted that these were the minimum actions that the association could perform, the minimum things they could do to satisfy your demands.

Mr. WYMAN. That was not the way it was represented to me.

Mr. GLICK. Is not this the way you represented it to the association's representative?

Mr. WYMAN. I told Mr. Johnson that I could not in good faith give him any different answer to the question he had raised than what I gave him.

Mr. GLICK. Were not these your minimum requirements?

Mr. WYMAN. They were.

Mr. GLICK. Then these were at your insistence that they adopt this?

Mr. WYMAN. They were the minimum requirements which, in my judgment, would have to be complied with if the board of directors wanted fully and permanently to correct the difficulties and the problems and the practices which had been the cause of the letter of December 2, 1957, and according to Mr. Johnson's representation the cause of his trip to Washington to talk to me to get my opinion on it.

Mr. GLICK. Mr. Johnson does not contradict that, nor do you contradict Mr. Johnson. He stated that he came to Washington to see what he could do about resolving the difficulties between the association and the Division of Supervision—in essence, this is his testimony. I think you are both in agreement on that. I think there is some conflict as to the origination of the substance of the letter of April 14 and the resignation of Mr. West, Senior, and Mrs. Mobley. I think it is quite clear from your own memorandum of March 6 that these were your requirements, your demands, and your insistence. Would you disagree with that, sir?

Mr. WYMAN. I disagree with it the way it is stated.

Mr. GLICK. What alternatives did the association have——

Mr. MOSS. The disagreement goes to the way you stated the question. Therefore, it indicates Mr. Wyman disagrees with your characterization of this. I think we might as well clear the record and let him go ahead and tell us the portion of your characterization with which he disagrees.

Mr. WYMAN. Well, again, Mr. Johnson made just exactly one representation to me, namely, that the directors of the association felt that there were certain matters that ought to be corrected and that they had developed certain proposals to try to correct them.

Mr. MOSS. That is stipulated.

Mr. WYMAN. He represented further that the directors had requested him to come to Washington and get my honest opinion as to whether those proposals were adequate. I gave him my opinion honestly and frankly, and it included some things that were not included in the three proposals which the directors had themselves developed.

Following that and pursuant to that, the directors and the parties involved at the association ultimately came forth with the letter of April 14 and the resignations which I had said to Mr. Johnson in my opinion were the requirements necessary.

Mr. Moss. Mr. Wyman, counsel made a statement to you and asked if it were correct. You said, no, it was not. I then interrupted to afford you the opportunity of pointing out the error in counsel's statement. I did not do it for the purpose of having you recite that which is already redundantly stated on the record. You disagreed with his statement. Specifically, what did you disagree with in his statement?

Mr. WYMAN. I don't disagree with it except it did not seem to me that it correctly described what actually happened or was indicative——

Mr. Moss. Do you disagree——

Mr. WYMAN (continuing). Or was indicative of what happened.

Mr. Moss. I want to know the specific area of disagreement, what word or words, what phrase did he use that you feel conveys an inaccurate picture?

Mr. WYMAN. I don't recall the words that were used now, Mr. Chairman.

Mr. Moss. Let's have the reporter go back and read counsel's statement to you again.

(The pertinent portion of the record was read by the reporter.)

Mr. Moss. That is correct.

Mr. WYMAN. They were not demands. That was simply a forthright answer to an inquiry of that board of directors as to whether or not in my opinion those proposals would be adequate.

Mr. Moss. That is very interesting. I come to you for advice and you advise me. And then, Mr. Wyman, you go on and you do more than advise me. You say that I can therefore do no less than to insist—than to insist. Were these your requirements? Did you insist on them?

Mr. WYMAN. Well, I told him just that.

Mr. Moss. Well, then you insisted, then, didn't you? Chief of Supervision insisted these were the minimum.

Mr. WYMAN. I told him in my opinion those were the minimum and I could not——

Mr. Moss. How do you insist? Can you insist without actually saying very forthrightly that: "This is the minimum that will be acceptable to me, I will take no less"? Now, that isn't advice, remember. You have gone beyond advice. You don't insist when you give advice.

Now, when I give my youngsters an order, I insist. When they come to me merely to consult me as a parent and I advise them, that is all I do. Or I advise constituents or colleagues. But sometimes in committee I insist, and, when I insist, that is as far as you go with me. You don't move me any more.

You characterize your position as one of insistence, so why do you disagree with counsel's characterization of these as your demands? To insist is to demand. We are not using hearsay here; we are using the words of John Wyman who speaks with great precision, who writes with precision. And a contemporary memorandum in your own words is the source of the conclusion of insistence. Are we wrong to take your words and apply them to this case?

Mr. WYMAN. No, I think the memorandum is correct.

Mr. MOSS. If the memorandum is correct, then counsel's statement is correct.

Mr. WYMAN. I wouldn't tend to write one that was incorrect, not if I knew about it.

Mr. MOSS. I didn't think you would.

Proceed, Mr. Glick.

Mr. GLICK. Mr. Wyman, did you discuss the matters as enumerated in the letter of April 14 from the association to you with Mr. Johnson? Did you discuss the matter of coercion?

Mr. WYMAN. I think we did discuss those matters. I am sure we did. It would have been a normal thing to do.

Mr. GLICK. Did you discuss the matter of loans to builders who might have less than 20 percent invested in the cost of the project?

Mr. WYMAN. We probably did.

Mr. GLICK. Did you discuss the matter of accepting the value of real estate generally as being in excess of the selling price—of not knowingly accepting the value of real estate generally being in excess of the selling price?

Mr. WYMAN. I am confident we did discuss it.

Mr. GLICK. The same would be true as to making loans in excess of 80 percent of the appraisal or selling value, whichever is lower?

Mr. WYMAN. I think that would be true.

Mr. GLICK. Did you discuss the matter of making loans on any property on which West Lumber Co. might have a second mortgage?

Mr. WYMAN. I believe we did to the best of my recollection.

Mr. GLICK. Or where Home Owners Co. might have a second mortgage?

Mr. WYMAN. I think we probably discussed that. I believe we did.

Mr. GLICK. Did you discuss the matter with Mr. Johnson as to the requirement of listing of a house for sale through Home Owners Co.?

Mr. WYMAN. I believe we did.

Mr. GLICK. The matter of carrying insurance through the Home Owners Co.?

Mr. WYMAN. I am sure we discussed that. I am confident we did.

Mr. GLICK. And the other matters set forth in the letter of April 14?

Mr. WYMAN. We may have discussed some of the other matters but I am not sure about that.

These matters to which you have referred were discussed, I am confident. They were discussed. It would have been the normal thing to do in the course of our discussion.

Mr. GLICK. I think you a few moments ago said that the draft of the letter which resulted in the April 14 letter was submitted to you March 21.

Mr. WYMAN. Yes, that is correct.

Mr. GLICK. For your approval.

Mr. WYMAN. I don't know that it was submitted to me for my approval.

Mr. GLICK. Was it submitted to you to see whether or not the statements contained in this letter would meet the requirements of the Division of Supervision insofar as corrective action by the association is concerned?

Mr. WYMAN. No, I don't think it was. It was not so submitted, Mr. Glick.

Mr. GLICK. Do you have any idea why it was submitted, Mr. Wyman?

Mr. WYMAN. It was submitted to me as a draft in order that I might read it and if I had anything to suggest to any of the items that I might be afforded an opportunity to make any suggestion that I had.

Mr. GLICK. In other words, it was basically submitted for your approval before being finalized.

Mr. WYMAN. No, it was not for my approval. I had nothing to do with the putting of this letter together. Nothing whatsoever. These points were all discussed——

Mr. GLICK. Mr. Wyman, excuse me for interrupting, but I am not contending that you dictated the contents of the letter.

Mr. WYMAN. He brought this with him.

Mr. GLICK. I am willing to concede that fact. All I am asking is his purpose in bringing this to you—was for you to go through it and see whether it would meet your requirements for adoption by the association of action to correct the previous practices complained of by the Division of Supervision. Is this in fact the case?

Mr. WYMAN. Well, whether it had been done that way in the affirmative sense or whether it was submitted to me for any objection that I might have to any phase of it, it would add up to the same thing at the bottom of the column.

Mr. GLICK. It sure would, wouldn't it?

Mr. WYMAN. That is correct; of course.

Mr. GLICK. And this is tantamount to approval or disapproval now, isn't it?

Mr. WYMAN. It is about six of one and half a dozen of another.

Mr. GLICK. That is right, and in fact the letter, the first sentence of the second paragraph makes it right clear that the directors of the association are concerned with your requirements of action by the association. Now, doesn't it?

Mr. WYMAN. This was put in at their suggestion again. I did not prepare this letter.

Mr. GLICK. We are not saying that you did, Mr. Wyman.

Mr. WYMAN. And I had nothing to do with its preparation except for the fact that these points here, particularly these enumerated points were discussed at one time or another in our conferences, but beyond that I had nothing to do with the drafting of that letter.

Mr. GLICK. But you did have something to do with its final acceptance by the board of directors and their sending it to you in April, though, didn't you?

Mr. WYMAN. Well, I made one suggestion and I have covered that in my statement——

Mr. GLICK. Yes, indeed, and had you made others I am sure the association would have taken cognizance of them and acted accordingly; do you think so?

Mr. WYMAN. I did not get that question.

Mr. GLICK. Had you made other suggestions, the association would have taken cognizance thereof and acted accordingly; don't you think?

Mr. WYMAN Well, I do not know; that would be a matter of speculation.

Mr. GLICK. I am asking your opinion.

Mr. WYMAN. It would certainly depend upon the nature of the suggestion as to whether it was reasonable or unreasonable and whether it made sense or didn't make sense. I think it would be determined by those things.

Mr. GLICK. Well, now, let's see some of these requirements——

Mr. WYMAN. They might or might not have accepted them.

Mr. GLICK. Let's see some of these requirements, Mr. Wyman. I think the letter speaks for itself and the facts preceding it speak for themselves—the fact that these were basically your requirements. Is there——

Mr. WYMAN. Well, not according to the letter, if I may comment on that. The next to the last paragraph of the letter I think sums up the situation.

Mr. GLICK. They have approved its contents.

Mr. WYMAN. And I did not write that paragraph and I had nothing to do with writing that paragraph. That paragraph was written into that letter by the directors or by the counsel for the association and I was in no way involved in it. I made no suggestion with reference to it. It was their own initiative and where they said:

> This is done on our own responsibility without reservation, in order that the association's operations may comply not only with the rules and regulations but with good business and ethical standards and practices—

I had nothing to do with writing that paragraph into that letter.

Mr. GLICK. Mr. Wyman, did you discuss with Mr. Johnson the manner which supervisory correspondence had previously been responded to by Mr. West in the association?

Mr. WYMAN. I believe we discussed that at one time or another in the conferences. I think we did.

Mr. GLICK. Is there a regulation which would prohibit the association from granting a first mortgage on property—and we are talking about 1957 and 1958—on which Home Owners Co. or West Lumber might take a second mortgage?

Mr. WYMAN. No, sir.

Mr. GLICK. Then this was a Wyman requirement; wasn't it?

Mr. WYMAN. Well, I think that is not the proper way to describe it.

Mr. GLICK. Well, how would you describe it, Mr. Wyman?

Mr. WYMAN. It was a result of discussions as to ways and means to eliminate from the operation of an association the transactions involving relationships that could lead to conflict of interest developed.

Mr. MOSS. Let me take this for a minute.

Mr. Wyman, whether it was a Wyman requirement, a mutually agreed upon condition, a Board policy, or however else we may characterize it, I want to at this point look at the requirement. As a result of extensive examinations by the Division of Examinations, analysis by the Division of Supervision, a clear fact was established that this association obtained a substantial part of its business, an important segment of its business, as a result of business relationships through West Lumber or Home Owners; is that a fact?

Mr. WYMAN. They obtained a substantial amount of loans from Home Owners Co.

Mr. Moss. Is what I said a fact?

Mr. WYMAN. I am not sure——

Mr. Moss. Well, let's be sure. Read it back to him. I want you to be sure. I am tired of your uncertainty. I am trying to be patient with you but I have great difficulty. You convey a picture to me of a very uncertain person and I know that you are not.

Now read it slowly and loudly to the witness.

The REPORTER (reading):

Mr. Moss. Mr. Wyman, whether it was a Wyman requirement, a mutually agreed upon condition, a Board policy, or however else we may characterize it, I want to at this point look at the requirement. As a result of extensive examinations by the Division of Examinations, analysis by the Division of Supervision, a clear fact was established that this association obtained a substantial part of its business, an important segment of its business, as a result of business relationships through West Lumber or Home Owners; is that a fact?

Mr. WYMAN. They obtained a substantial amount of loans from Home Owners.

Mr. Moss. What was its business, obtaining loans?

Mr. WYMAN. Yes.

Mr. Moss. Then it obtained its business.

Why must you equivocate? Why can't you be forthright?

Mr. WYMAN. Well, I am not equivocating, Mr. Chairman.

Mr. Moss. You are equivocating. You are engaging here in the most senseless semantic debate that I have ever encountered.

Mr. WYMAN. Well, I don't know how much it obtained from West Lumber Co. I don't know how substantial that was.

Mr. Moss. You know you have repeatedly charged in your own statement here—and I can go back, page by page, and give it to you, sir, that it got a lot of its business from West Lumber and Home Owners. That is your contention. It is in your examination reports. It is in your letters of supervision. It is the basis for your charge of a self-dealing. It is the whole substance of the hearing.

Is it a fact?

Mr. WYMAN. I think it is a fact they got a substantial amount.

Mr. Moss. Do you know it is a fact?

Mr. WYMAN. Yes, it is a fact.

Mr. Moss. Why must you equivocate, again?

Mr. WYMAN. That they got a substantial amount from Home Owners Co. I don't know how much they got from West Lumber Co.

Mr. Moss. You have charged West Lumber had mortgages on x number of millions of dollars of loans and as a result of these seconds that West Lumber Co. held—and a second is an essential part of the ability of a buyer to pay—that in consequence of holding of these seconds that in many instances there was a total loan value over and beyond the appraisal.

You know what West Lumber Co.'s relationship was. You have given it to us here redundantly. I am tired of your equivocation and your hedging. I want you to be forthright. And I will bring you back and keep you here until you are. I have patience that wears thin.

Now, let's look at what you have done. You have not established either coercion or self-dealing. You have not established violation of law, nor statutory rule or regulation or Board policy but you have spelled out as a minimum condition a demand that an association

deprive itself of an opportunity to exploit a profitable area of business. You have, sir—lacking evidence either of self-dealing or coercion—mischievously treated this association. You denied it business which, if it were conducting it under proper procedures—and you have not proven it was not—business it was entitled to have in the competitive Atlanta market.

By what right, by what rule, by what law?

Let's look at the other side of the coin. You sit there, you are sanctimonious and self-righteous and you judge these people who pass before you on reports that are inadequate; where you bring in your prejudice, your personal convictions, but do you examine the mischief you do to the business institution? Where have you given thought to that? By what single action or evidence have you done it?

This, beyond anything else, illustrates the danger of personal regulation by the most conscientious or self-righteous individual. These people are still building houses, they are still taking out loans; if not with Atlanta with Atlanta's competition. Having made no case, you made a demand. And I think perhaps we will try to find out how much business you deprived this institution of. I think it is pertinent and I think it is something the Board itself, Mr. Smith, must take a look at. This regulation is not to satisfy Mr. Wyman. This regulation is not punitive; it is to bring forth good and sound business practices. This is an arbitrary requirement. No case, no proof, no evidence that would stand up before any tribunal.

Maybe you are right that it exists but with a large staff, not once did you seek to determine the impartial facts. And I think this constitutes a serious indictment of your stewardship as Chief of Supervision.

Mr. Glick, you may proceed.

Mr. GLICK. Mr. Wyman, in the course of your discussions with Mr. Johnson did you discuss or did you indicate that Mr. West was using the association for his own personal gain or for the gain of his other business interests?

Mr. WYMAN. I think we perhaps discussed those relationships which involved, of course, the lumber company second-mortgage business, the insurance business——

Mr. GLICK. The so-called conflicts of interest?

Mr. WYMAN. Yes.

Mr. GLICK. It was discussed whether or not these were violative of any real regulation or law?

Mr. WYMAN. We probably referred to the fact that there is no regulation or statute expressly applicable to Federal associations which governs this matter. We may have discussed that, or we probably did, I can't positively speak to that.

Mr. WEIDBERG. Mr. Wyman, calling your attention to page 8 of your statement, the fourth line from the bottom shows a phrase—

at no such time did I have any thought.

Could you clarify that, what you meant by that?

*** * * at no such time did I have any thought, or even a suspicion, of a violation of any criminal statute by anyone in any way connected with the association; and that I categorically deny that, in any discussion which I had with Mr. Johnson or with any other official or representative of the association, I made any statement whatever with respect to such matter.**

Mr. WYMAN. I don't know how I can clarify it, Mr. Weidberg, except to say at no time in any of the conferences I had with Mr. Johnson did I have any suspicion or did the thought ever enter my mind that there was any violation of criminal statutes or possibility of it. It just didn't enter the picture as far as I was concerned.

Mr. WEIDBERG. Does this phrase "no such time" refer to that, or at any time?

Mr. WYMAN. Well, it refers to the time of our discussions, here. This specifically refers to the time of our discussions.

Mr. WEIDBERG. Had you ever had any suspicion?

Mr. WYMAN. I had no such suspicion. I recall a memorandum sent to our General Counsel, I am fully aware of that, sometime prior to this date, I believe it was, but it was only because there was some reference to the matter and we don't undertake to decide those things in our office. Those matters are referred to our General Counsel because they are of a legal nature and they were referred to him for that purpose. I don't recall now what was the underlying consideration of it.

Mr. WEIDBERG. Mr. Wyman, on October 24, 1952, the General Counsel sent a memorandum to the members of the Board which starts off by saying,

> Mr. Wyman has requested that we advise as to whether or not the Legal Department concludes to refer the subject association's hazard insurance practice to the Department of Justice as a possible violation of Federal statutes.

Some 2 years later, Mr. Wyman, I see a memorandum here dated August 13, 1954, signed by you to Mr. Harrison, then General Counsel, in which you state:

> This matter is hereby referred to the Legal Department for study, and for such further action as may appear to be appropriate, with respect to possible violations of title 18 of the United States Code * * *.

Title 18 is the Criminal Code is it not, Mr. Wyman?

Mr. WYMAN. May I have that question again?

Mr. WEIDBERG. Title 18 is the Criminal Code, is it not?

Mr. WYMAN. Yes, I am aware of that.

Mr. WEIDBERG. Now, when did your suspicions of a violation of the criminal statute by anyone in the association die? You say that you never had any suspicion, and yet on two occasions you have referred your suspicions to the Legal Department with a view toward possible prosecution.

Mr. WYMAN. Well, that has been done in many instances where I had no suspicion there was any violation in fact, but where we felt——

Mr. WEIDBERG. Well, here you said you have no suspicion.

Mr. WYMAN. Where we have facts or information that must be indicative of such a thing as that or a need for a study of it by the legal staff rather than by us, it is referred to the General Counsel. And the mere fact that we refer such a matter as that to the General Counsel for study doesn't mean at all that we ourselves as laymen feel or suspect or believe that there has been a violation, but we don't undertake to pass on that question because it is a legal matter and we don't undertake to pass upon it.

Now, I believe the first one of those that you referred to—I think that that may have been—I would have to check but I think that may have been in the area of antitrust rather than some other form of—some form of title 18 infraction.

Mr. WEIDBERG. The request was couched in terms of a possible violation of Federal statute. There was no qualification here as to antitrust.

Mr. WYMAN. That is customary language. My statement with respect to it still stands. We would proceed in just about that way in any instance. We wouldn't undertake to decide the thing.

Mr. WEIDBERG. If that was customary language, Mr. Wyman, why then did you 2 years later cite specifically possible violations of the Criminal Code?

Mr. WYMAN. Well, the same thing would apply in that case. The same thing would apply.

Mr. WEIDBERG. If it is customary in one case why isn't it customary in the next case?

Mr. WYMAN. It would apply in any case where we have information indicating to us a possibility or a type of situation which we feel should be reviewed by the General Counsel's office, because we make no attempt—we don't determine that question. We make no decision on that question and the mere fact that it is referred to the General Counsel for study doesn't mean that we have any thought or suspicion whatsoever about it.

Mr. WEIDBERG. Do you refer all matters to the General Counsel for study unless there is a suspicion or a thought of a violation that might have occurred?

Mr. WYMAN. We refer the information to the General Counsel's office wherever we have information in examination reports or otherwise, if it might be otherwise, of a nature which would raise a question or which might be of significance to the attorneys in terms of a possible violation. Now, it doesn't mean——

Mr. MOSS. Let's see if we can't tighten this thing down. The question merely goes to whether or not you suspected possible violation, and being a layman and writing requests for reviews or opinions by the counsel's office only on occasion when a set of circumstances arise, it has to create in your mind a suspicion or a thought that this set of circumstances might appear or appears on its face to justify an examination by counsel to see whether or not a violation has occurred. So there is a suspicion. You suspect that something might be wrong, so you seek counsel. Now, you don't seek counsel in every instance, so there has to be something to trigger the action of seeking the counsel's opinion and that is suspicion, however else you characterize it.

How would you characterize it, Mr. Wyman?

Mr. WYMAN. Well, it is a difficult——

Mr. MOSS. You used a term here—I didn't stop you—where we "suspect." Now, to suspect something is to be suspicious of. It is suspicion, isn't it?

Mr. WYMAN. It is a very difficult thing to characterize.

Mr. MOSS. Why must we make it so difficult? The fact is when you have a suspicion of a possible violation you prepare a memorandum.

Mr. WYMAN. It shouldn't be. We don't undertake to decide those things. We have certain facts——

Mr. Moss. You only refer them when you suspect that it might have occurred.

Mr. WYMAN. We have certain facts or information within that area and we don't undertake to decide it.

Mr. Moss. I didn't say you decided it, you suspected it.

Mr. WYMAN. No, the mere fact we sent it down doesn't mean that we suspect that it has been done.

Mr. Moss. Why do you send it down?

Mr. WYMAN We have had numerous instances where we have referred it to our General Counsel for review.

Mr. Moss. What triggers the sending down?

Mr. WYMAN. Well, the import of the information is of such nature that it seems to us to call for at least study by the General Counsel's Office.

Mr. Moss. But there is no suspicion?

Mr. WYMAN. Well, the point about it here is that I had no thought that there was any violation——

Mr. Moss. I think we will indicate that the semantic battle is at a draw.

Mr. WYMAN. I had no thought or suspicion at any time that I was discussing this matter with Mr. Johnson that there was any violation of any criminal statute—it just didn't enter my mind.

Mr. HOLIFIELD. Would it be wrong if you did have a suspicion there was a criminal act? Would there be anything wrong with that?

Mr. WYMAN. No, sir.

Mr. HOLIFIELD. Then why don't you just come out and say there were certain indications here that indicated that there might be criminal action? "We don't say there was or was not but there might be and we refer it to the General Counsel to find out if there was."

Why don't you just say that?

Mr. WYMAN. I assume that is a fair summation of it.

Mr. HOLIFIELD. It took a long time to get to it.

Mr. WYMAN. I had no such thought as that at any time I was discussing this with Mr. Johnson. It just wasn't in the picture at all.

Mr. GLICK. Mr. Wyman, I believe you have stated here in your testimony or in your prepared statement that the use of the word "affiliates" was used loosely, isn't that correct, sir?

Mr. WYMAN. No, sir, it was not. It was used in the interests of brevity only.

Mr. GLICK. In the interest of brevity?

Mr. WYMAN. That is right.

Mr. GLICK. From that are we to assume that it is your opinion that West Lumber Co. was an affiliate of the First Federal Savings & Loan Association of Atlanta?

Mr. WYMAN. Not in terms of any regulatory or statutory definition because there is none.

Mr. GLICK. Was Home Owners Co., in your opinion, an affiliate of First Federal of Atlanta?

Mr. WYMAN. I had the same answer to that. There is no definition of an affiliate in our regulations.

Mr. Moss. You do have from your counsel's office an opinion saying that they were not affiliates?

Mr. WYMAN. The opinion said he was unable to make a determination as to whether or not they were, on the basis of facts and information available.

Mr. MOSS. Let's read the statement.

Mr. WYMAN. It also says he was unable to say they were affiliates on the basis of what he had, but he could not make a final determination.

Mr. WEIDBERG (reading):

The Legal Department has also noted comment h. on pages 16–B to 16–E of the current examination report—

and this is dated May 28, 1954, this memorandum—

and is of the opinion that, on the basis of the statement of facts therein, it would not appear that the Home Owners Co. is an "affiliated institution" within the meaning of Federal Regulation 145.6–5, since the association's three directors who also serve as directors of the company would not constitute a majority of the company's board, consisting of eight members, and the percentage of company's stock owned by the eight directors of the subject association does not amount to a majority of such stock.

This is what was sent to you, Mr. Wyman?

Mr. WYMAN. Yes, sir.

Mr. WEIDBERG. Yes, sir.

Do you believe it?

Mr. WYMAN. I accepted that as being the legal determination of it, yes, sir.

I did not accept it. I did not accept it as being truly and fully descriptive of the actual business relationships that existed.

Mr. WEIDBERG. On August 12, 1954, you sent a memorandum to the members of the Board and I will read the sentence that strikes me—I think it is a significant one—and you say:

Aside from legal technicalities * * *

What are legal technicalities, Mr. Wyman?

Mr. WYMAN. Well, the legal technicality was that the legal opinion says that under that section of the regulations they were unable to define this as an affiliate.

Mr. MOSS. They said they couldn't define it as an affiliate. They said they could not define it.

Mr. WYMAN. They could not define it as an affiliate.

Mr. MOSS. The legal technicality could be the difference between being free and in prison.

Mr. GLICK. Mr. Wyman, you are very much concerned with the possibility of affiliate relationships between an association and other companies in which officers and directors of the association have an interest, are you not?

Mr. WYMAN. Yes; we are very much concerned about this type situation.

Mr. GLICK. Have you attempted to have enacted into rule or regulation by the Board a definition of "affiliates"?

Mr. WYMAN. Yes, I have.

Mr. GLICK. And these have had no results?

Mr. WYMAN. The Board made a recommendation to the Congress——

Mr. GLICK. I am sorry, I can't hear you.

Mr. WYMAN. The Board made the recommendation to the Congress, I believe to the Banking and Currency Committee of the Senate, for legislation with respect to that matter some 5 or 6 years ago. The results have not—I mean the effort has not borne any fruit thus far. But I recommended to the Board regulations to define "affiliates" so we could try to circumscribe and delineate these areas.

Mr. GLICK. Did you just say affiliates have never been defined?

Mr. WYMAN. We have not had them defined in our regulations. They are not defined in our statutes.

Mr. GLICK. Then is it possible to surmise that you have defined "affiliates" within your own frame of reference for interpretation of supervisory action?

Mr. WYMAN. I have not defined affiliates. I have used the term as an abbreviation of a relationship——

Mr. GLICK. We might say "which might lead to difficulty"? Is this generally it? Which might lead——

Mr. WYMAN. Which might lead to conflict of interest on the part of directors and officers.

Mr. GLICK. Are you familiar with the definition of affiliates in the banking laws?

Mr. WYMAN. Not in detail. I know there is a definition there.

Mr. GLICK. And it has been defined, hasn't it?

Mr. WYMAN. It has been defined in the banking statutes.

Mr. GLICK. Have you taken the liberty of calling this to the attention of the Board?

Mr. WYMAN. Well, I believe I referred to the fact that it is defined in the banking statutes. I can't be positive about that because I don't have all those records here. I am testifying on these matters from my recollection.

Mr. MOSS. Well, the fact is they were not affiliates. The fact is that your counsel has told you they were not affiliates. The fact is that it is not legal technicality that prevents them from being affiliates. The fact is that "affiliate" as a term of abbreviation is a very poor choice because "affiliate" conveys a definite meaning. The fact is that "affiliate" continues to be utilized by you because you are yet unconvinced that they are not affiliates, as your own memorandum indicates. Notwithstanding the legal technicalities, as far as you are concerned, if you could—because you do it—if you could legally, you would characterize them as affiliates. Isn't that true?

Mr. WYMAN. I am not convinced on that point at all, Mr. Chairman. I recognize under our regulations they are not affiliates. I realize that.

Mr. MOSS. Why do you continue to so characterize them as affiliates?

Mr. WYMAN. Well, it is just a brief description——

Mr. MOSS. It is an inaccurate characterization, isn't it, sir?

Mr. WYMAN (continuing). Of a business relationship and the traffic among the three concerns and for the lack of a better term, they were referred to briefly as affiliates.

Mr. MOSS. I think we want to wind this up now.

Mr. Wyman, you have had supervisory problems of various types with this association since about 1952; is that correct?

Mr. WYMAN. Well, approximately so. Perhaps a little later than that.

Mr. MOSS. And continuing up to the present time.

Mr. WYMAN. Yes, sir. Continuing until the 1957 examination report, through that and including that.

Mr. MOSS. You have charged this association obliquely and directly as being guilty of self-dealing, some of its officers, or of self-interest in relations with these so-called "affiliates," and affiliates should appear in quotes—conflicts of interest, self-dealing, is that right?

Mr. WYMAN. Well, yes, substantially that is correct. We have been concerned with the self-dealing aspect of it because of the concern which we have that that would lead to a conflict-of-interest relationship where the institution could suffer.

Mr. MOSS. Are you still convinced of the same thing?

Mr. WYMAN. Yes. I have the same conviction about it as I had at the time. Yes, I do.

Mr. MOSS. So we have now a period of 10 years where this association, in supervisory letter after supervisory letter has been subjected to these criticisms. It led to the removal of a man from the board of directors. He has now returned to the board. It led to the resignation of the secretary. It has created some concern within the association and in this 10 years, in dealing with your Board, you have developed not a single rule or regulation to apply against these practices, have you? Have you?

Mr. WYMAN. No. There have been no rules or regulations.

Mr. MOSS. So at the moment this association is not guilty of violation of any rule or regulation of the Federal Home Loan Bank Board.

Mr. WYMAN. I do not know what the last examination report shows, Mr. Chairman.

Mr. MOSS. I assume that you can only speak from the reports which you have acted upon.

Mr. WYMAN. That is right.

Mr. MOSS. And up until the last report upon which you acted you still have these convictions and you still find no evidence of a violation of a rule or regulation. You find no violation of law.

Mr. WYMAN. I think that is substantially correct.

Mr. MOSS. Well, where is it not correct?

Mr. WYMAN. There may have been one or two minor things or relatively minor, if I can use that term.

Mr. MOSS. Such as——

Mr. WYMAN. The failure to appraise real estate upon acquisition or failure to properly defer discounts or something like that.

Mr. MOSS. Now as to supervisory letters, this relationship which is now so worked over and discussed and criticized, the same items, the same items are still items of supervisory concern?

Mr. WYMAN. If the same facts and information were available to me now that were available to me in 1957 I would have the same reaction.

Mr. MOSS. Have you a single fact, a single fact pointing to self-dealing? Have you evidence that self-dealing exists in these 10 years of looking for it? The letter from Ammann to Bonesteel indicates it has been looked for very diligently.

Have you evidence of self-dealing?

Mr. WYMAN. Yes. I think there is evidence of self-dealing, or there was.

Mr. MOSS. Where is it, Mr. Wyman?

Mr. WYMAN. I think the fact that the association was making loans in amounts which enabled borrowers to mortgage out by feeding the second mortgage business into Home——

Mr. MOSS. Did the association handle or control second mortgage business?

Mr. WYMAN. It did not.

Mr. MOSS. It made its loans on first mortgages?

Mr. WYMAN. It did.

Mr. MOSS. On the basis of appraisals?

Mr. WYMAN. It did.

Mr. MOSS. Has it violated any rule or regulation in making those first-mortgage loans?

Mr. GLICK. I do not think he hears you.

Mr. MOSS. No. I think he hears me.

Mr. WYMAN. I do not that any rule or regulation was violated.

Mr. MOSS. You have a rule and regulation now on valuation for those in excess of 80 percent, have you not?

Mr. WYMAN. Perhaps they could make some of those loans now up to 90 percent under the present regulation.

Mr. MOSS. But you have no evidence of a violation of a rule or regulation——

Mr. WYMAN (continuing). Which could not have been made then.

Mr. MOSS. What evidence do you have that it has violated any enforcible policy, rule, or regulation? I do not know how you enforce these policies, but what evidence do you have?

Mr. WYMAN. I would not know. I would not know how you could take an association to court on policy.

Mr. MOSS. I do not, either. I do not even know how you can give them an administrative hearing on a policy.

Mr. HOLIFIELD. But I do know how you can enforce policy. You can enforce it by the threat of seizure or seizure, and this is what you have used.

Mr. WYMAN. Not in this case nor in any other that I know of.

Mr. HOLIFIELD. In other cases you have used it where rules were not broken; you have used the threat of seizure or seizure to enforce policy.

Mr. WYMAN. I have not threatened to seize any institution. I have never told any board of directors of any institution or any representative of any institution that they were going to be seized unless and until the Board had specifically authorized me to advise the directors to that effect.

Mr. HOLIFIELD. All right. Here is a case right here, April 22, 1958, from Mr. Ammann, in which he says:

> In the event we should be unable to obtain such resignation or removal of Messrs. ——— and ———, and to obtain action responsive to the other requests, it is my recommendation that the Board promptly appoint a supervisory representative in charge to take possession of and to safeguard the association pending a reorganization of the board of directors and management or such other disposition as the Board may find appropriate.

Mr. WYMAN. That was merely a recommendation or memorandum from a member of the staff to the Board.

Mr. HOLIFIELD. That is right.

Mr. WYMAN. That was not a threat issued to any association.

Mr. HOLIFIELD. But if the association members were cognizant that this kind of a recommendation was going to be made to the Board, it

would bring pressure upon them to effectuate something which could be in the nature of policy.

Mr. Moss. Let us go back to this. Do you not think that if you are going to recommend to your Board that you seize an association for failing to respond to your demands, that, in all fairness, in even the most elemental of justice, that you should inform the directors of that association of the drastic action proposed to be taken? Don't you think they should be entitled to some consideration, to some hearing, to some legal process?

Mr. WYMAN. I think so. Yes. I think that is correct.

Mr. Moss. Isn't it unconscionable to deal less than frankly with them, and shouldn't we, by appropriate law, require that you deal in that fashion? But in the case of First Federal, you had no rules or regulations that you can cite; the practices going on you have not proven. I am talking of proof. I am not talking of an affidavit from a disgruntled borrower or an affidavit on the other side from a satisfied and happy borrower. You have no proof. You have no evidence.

Mr. WYMAN. Coercion of one borrower would be wrong.

Mr. Moss. You have to prove they coerced it.

Mr. WYMAN. One man's affidavit might be——

Mr. Moss. That is not proof.

Mr. WYMAN. One of the three might be good. Maybe one might not be bad.

Mr. HOLIFIELD. Maybe all three were bad.

Mr. WYMAN. That is right.

Mr. HOLIFIELD. That is why you cannot rest upon an affidavit because affidavits have been known to have been made by perjurers and this is without expressing any judgment on these three; but, if you are going to take drastic action against a financial institution in a community, certainly you owe to that financial institution a moral obligation, if not a legal obligation, to go behind such a thing as an affidavit and ascertain if this is, in effect, a true statement or if it is a perjured statement. You did not do that. You accepted it on its face value because it fell in with your plan of enforcement of policy, not based on rule or regulation.

Mr. Moss. Well, now then, what are you going to do with First Federal of Atlanta? You have 10 years now of charges backed up against them. They are unresolved. They deny your charges and you continue to reiterate them. You have no proof and I suppose that whatever they have supplied you it has been to their advantage. What are you going to do with them?

Mr. WYMAN. Mr. Chairman, I did not reiterate any charges. I was merely testifying as to the 1957 and prior examinations and as to the conferences with Mr. Johnson in 1958.

Mr. Moss. What is the latest examination on this institution?

Mr. WYMAN. I do not know what the current one is.

Mr. Moss. What is the latest examination on this institution?

Mr. WYMAN. I do not recall. I think it was within the last few months but I could not give you the exact date.

Mr. Moss. When will supervisory comment be prepared and forwarded to the institution?

Mr. WYMAN. That I do not know. I do not know the status of the analysis and study of the report in that division.

Mr. Moss. Will you let me know, and if that goes out prior to January 3, 1963, and this Congress only sits until then and has authority only until then, I want copies supplied to me because I am very interested in what you are going to do. I am interested because I want to see if this thing goes on interminably, unresolved, the Board failing to adopt the rules and regulations to correct or to disallow practices which you feel are improper, or your finally accepting the fact that maybe your policy, not being sanctioned by formal Board action, is one which should no longer be adhered to. I want to know what you are going to do.

We will formalize this request to you with a letter and if it occurs after the 3d of January—I have every confidence that I shall be back—I can at that time renew the request; but I think just as an example of what Board procedures and supervision really are, we are going to follow this, see just how it is handled, what disposition is made of it. I think it is again unconscionable that matters unresolved and unresolvable continue to constitute the basis for harassing. You know I can be the biggest scoundrel on earth, but if there is no law against what I do, I am entitled not to be subjected to harassment.

If my conduct is so notorious that it should be corrected, there are appropriate legal means of correcting it or requiring its correction, but I do not think any of us have the right just to go on and on endlessly citing the same old packet when there is really nothing we can do about it.

Are there any further questions?

Mr. HOLIFIELD. I would like to bring one more case into this record on this matter of intimidation by harassment. That is what it amounts to.

Mr. Moss. I suggest you hold that until we set up the further series. I want to give them notice so they are prepared to discuss the cases.

Mr. HOLIFIELD. I withdraw my request.

Mr. Moss. You can expect notification at this time as to cases we expect to discuss.

Mr. GLICK. I have a question of Mr. Creighton, if I may, sir.

Yesterday, as appears an page 151 of the printed hearing, you made reference to the fact that the Board could establish a policy based upon particular facts and applicable to a particular area.

Mr. CREIGHTON. I said that the Board by resolution had in instances where they were laying down the conditions under which they would approve an application for a branch, had laid down the conditions that must exist before they would approve a branch operation in that particular area, namely, that they might say that if there was another facility within a certain distance from where this branch wanted to be established or if there were so many branches in an area to be served by this facility that had less than so many thousands of population or something of that sort——

Mr. GLICK. Is this the only area in which the Board can lay down a policy limited in area? When I say "the only area," that is to say, a branch application.

Mr. CREIGHTON. That is the only area in which I know that they had dealt with specifically other than on a national basis. It was that type situation. That is the only thing that I had knowledge of. If

I said in that record the other day, and I do not think I did, but if I left the impression the Board, by announcing a policy it will be the policy of the Board that this should be the way that association operates, if I left the impression that I said, or left the impression that such a statement had the effect of a rule or regulation of law, I want to correct it here because I did not mean that.

Mr. Moss. The thing we were interested in, after the hearing on yesterday I asked counsel how in the world the Board could adopt a rule or regulation or a policy of limited applicability.

Mr. HOLIFIELD. I think it could.

Mr. Moss. I do not. I think laws ought to be generally applicable throughout the area of its jurisdiction.

Mr. CREIGHTON. But you think this, Mr. Chairman, that there are certain conditions that exist, maybe in a certain city or certain area, whereby they are saturated; and in order to keep these people from filing applications for branches and things of that sort, they let the institutions know that we believe—now I will say this, I do not think that will keep them, I do not think that can bar anybody from filing an application for a branch.

Mr. Moss. The granting of branch applications or the approval of applications for branches is in the same category as the approval of applications for charter. It is within the discretion of the Board.

Mr. CREIGHTON. No question about that.

Mr. Moss. To grant or withhold.

Mr. CREIGHTON. That is right.

Mr. Moss. They can give advance notice of the criteria they would use to guide them.

Mr. CREIGHTON. That is all it is.

Mr. Moss. But in the adoption of rules and regulations for the regulation of this industry, I think they must be generally applicable.

Mr. CREIGHTON. All of them are. I agree with you. I agree with your statement.

Mr. Moss. Well, Mr. Wyman, the committee has no further requirement for your services and you are now dismissed, exused or——

Mr. WYMAN. Thank you.

Mr. GLICK. Mr. Chairman, we would like to request permission to insert such documents as have been referred to into the record.

Mr. Moss. There is no objection to that procedure.

Mr. GLICK. And with the permission of the Chair, to delete from the record the specific names of individuals and associations which have been referred to during the course of testimony by way of example.

Mr. Moss. That, of course—there is no objection to that.

Mr. HOLIFIELD. No.

Mr. Moss. That will be done, then.

The committee is now adjourned.

(Whereupon, at 3:50 p.m., the subcommittee adjourned.)

APPENDIX

EXHIBIT NO. 1.—LETTER FROM HON. WILLIAM L. DAWSON, CHAIRMAN, HOUSE GOVERNMENT OPERATIONS COMMITTEE, TO ALBERT J. ROBERTSON, JUNE 2, 1960, APPEARS ON PAGE 3

EXHIBIT NO. 2.—LETTER FROM HON. WILLIAM L. DAWSON, CHAIRMAN, HOUSE GOVERNMENT OPERATIONS COMMITTEE, TO HON. JOHN E. MOSS, MARCH 7, 1961, APPEARS ON PAGE 3

EXHIBIT NO. 3.—LETTER FROM HON. WILLIAM L. DAWSON, CHAIRMAN, HOUSE GOVERNMENT OPERATIONS COMMITTEE, TO HON. JOHN E. MOSS, JUNE 8, 1961, APPEARS ON PAGE 4

EXHIBIT NO. 4.—LETTER FROM HON. JOHN E. MOSS, CHAIRMAN, SPECIAL HOME LOAN BANK BOARD SUBCOMMITTEE, TO JOSEPH P. MCMURRAY, AUGUST 4, 1961, APPEARS ON PAGE 4

EXHIBIT NO. 5.—CORRESPONDENCE BETWEEN THE FEDERAL HOME LOAN BANK BOARD, WASHINGTON, D.C., AND FIRST FEDERAL SAVINGS & LOAN ASSOCIATION OF ATLANTA, ATLANTA, GA., AND OTHER MATERIAL RELATIVE TO THE EXAMINATION AND AUDIT OF THE ASSOCIATION AS OF MARCH 19, 1954

HOME LOAN BANK BOARD,
OFFICE OF SUPERVISORY AGENT,
Greensboro, N. C., August 16, 1954.

BOARD OF DIRECTORS,
First Federal Savings & Loan Association,
Atlanta, Ga.

GENTLEMEN: We enclose Report of Examination and Audit of your association made as of March 19, 1954, by the Examining Division of the Home Loan Bank Board. We regret the delay in sending you this report. However, it was necessary for us to submit several legal questions involved in the report to the Legal Department of the Home Loan Bank Board, and we have only recently secured rulings or answers to those questions.

We request that you review the entire report carefully, giving especial consideration to the following comments:

1. Violation of section 145, 6–7 of the regulations

The examiner, in Comment 1-f, page 16-B, of the report lists loans representing 24.5 percent of the assets of the association which are subject to the regulatory 15 percent of assets limitations. A similar violation existed at the date of the previous examination. At that time, in your reply to the supervisory letter, you stated that in your opinion the association was complying with the regulation in that undisbursed funds held in "Loans in Process" could be applied to reduce the loan balances and thereby reduce the percentage of the loans coming within the limitation to less than 15 percent of the assets of the association.

This matter has been reviewed by the Legal Department of the Home Loan Bank Board; they advise that the regulation does not provide for such application of undisbursed loan funds. Therefore, we request that you arrange to reduce these loans to an amount not in excess of 15 percent of the association's assets; and when this has been accomplished, that you confine loans of this

type to the limitations of the regulation. Please advise us when the dollar amount of such loans outstanding has been brought into conformity with the regulatory provisions.

2. Miscellaneous violation of regulations

Comment 2 by the examiner states that the association has capitalized accrued but uncollected interest as a part of its real estate owned. Section 145.19 of the Rules and Regulations for the Federal Savings and Loan System prohibits such capitalization; we, therefore, request that the $563.98 of uncollected interest, reported by the examiner as being now included in your "Real Estate Owned Account," be charged out.

Section 145.19 of the Regulations requires the association to appraise each parcel of real estate at the time of acquisition and to keep a signed copy of such appraisal in its records. According to the examination report, the association has not complied with this requirement; we request your assurance that in the future this will be done.

The last paragraph of Comment 4 by the examiner states that there is no designation at your East Point office as to the location of the principal office. Section 163.27 of the Insurance Regulations provides that when an insured institution is operating a branch office or offices outside of the municipality in which its principal office is located, all advertising of, or by, any such branch office shall clearly state the locaton of the principal office. We request that the association comply with this provision of the regulation.

3. Purchase of loans from Home Owners Company

Comment 1–h of the examination report discloses that since April 22, 1953, the association has purchased 382 loans, totaling $3,702,913.35 from the Home Owners Company.

Please advise us whether the association's directors *directly or indirectly own or control* either a majority of the stock of the Home Owners Company or more than 50 percent of the stock voted for the election of the company's directors, or other persons exercising functions similar to those of directors, at the last election, or whether the association's directors control in any manner the election of a majority of the directors of Home Owners Company or of other persons exercising functions similar to those of directors. In this connection, it is noted that Mr. George W. West, Sr., is chairman of the board of the Home Owners Company and of the association's board of directors; that the West Lumber Company and certain members of the West family (other than the two who serve on the association's board of directors) are stockholders in the Home Owners Company; and that half of the directors of the Home Owners Company are members of the West family.

4. Construction loan practices and procedures

Since more than 25 percent of your institution's loan portfolio is concentrated in construction loans to a relatively few borrowers, and because your association has outstanding commitments of $1,387,500 for additional construction loans, the examiner's comments concerning your construction loan procedures are pertinent; we request that you study all of these comments and that your particular attention be given to the following matters:

(*a*) The report shows that your procedures lack several of the important safeguards usually required in connection with construction lending. Apparently no construction loan agreement is used, and the borrower is not required to deposit the difference between the amount of the association's loan and the estimated cost of construction. The specific loans outlined in the report show that, in some cases, the loan proceeds represent not only the entire cost of acquiring and improving the land and constructing the dwellings but also the loan closing costs. In these cases it appears that the borrower invests none of his money. In other instances, the association apparently permits the builder to use the loan proceeds and, if they are insufficient, then calls on him for the funds necessary to complete construction. Under either plan the association appears to have the full speculative building risk, and the builder or developer to have none.

(*b*) It also appears that disbursement checks are made payable to the borrower and that no releases of mechanics' liens or materialmens' liens are secured.

(*c*) Inspections are made by appraiser Shaw who approves all disbursements. However, the examiner states that he was unable to determine the

degree of completion, the cost of construction, or the borrower's investment from the files of the association. From information the examiner obtained outside of the association's records, it appears that in at least one instance all that was required of the borrower was to locate land on which to build and to secure his building supplies from a specified dealer. This builder stated that none of his funds were used and that the loan proceeds were sufficient to cover all costs of acquiring and developing the land and constructing the houses.

(*d*) Comment 2–f, page 16–Q, of the report states that the association lent Roy Carlton $240,000 to build eighteen dwellings. The credit report in the file shows that Mr. Carlton's net worth was a maximum of $6,000, and his annual income as $4,160. It is evident that Mr. Carlton relied on the loan proceeds to pay all costs in acquiring the land and completing the houses thereon. When the loan proceeds proved insufficient, the association had to acquire the property.

We strongly recommend that you review your construction loan practices and procedures and make such changes therein as will assure that:

(*a*) The association has in its possession at all times funds to complete construction, or that such control be established and maintained over the borrower's own funds as is necessary to avoid such occurrences as are described above in the case of the Roy Carlton loan;

(*b*) Receipted bills or releases of liens are obtained as assurance that loan proceeds are being used to complete the security property;

(*c*) Inspection reports be completed and made a part of the association's record, showing progress of construction as a basis for disbursements.

5. Appraisal and lending policy

Information presented in the report on specific loans emphasizes the need for a careful study and, in our judgment, revision of the association's appraisal and lending study. A summary of four of these loans is:

Loan No.	Amount of loan	Percentage of loan to—		
		Certificate of reasonable value or selling price	Cost	Association's appraisal
9215	$454,000	83.7	94.2	76.3
9428	168,000	86.0	95.2	80.0
8540 [1]	161,043	84.1	99.4	82.7
6948	1,175,000	103.2	104.4	85.5
Total	1,958,043			

[1] Original loans, $290,200 or 88.5 percent of association's appraisal.

In two of the cases cited above, the association appears to have violated the regulations in that the amount of the loans exceeds 80 percent of its appraisal. In connection with the other loans cited, the association should have known, either from the Certificates of Reasonable Value issued by the Veterans' Administration or from sales advertisements, the asking prices for houses. In the case of the eleven permanent loans originating from construction loan No. 9428, the association's appraisals were $5,000 or $5,100 per property, whereas actual selling prices of the properties were $4,650 each. Purchasers of the properties received a $4,000 loan from your association and a second mortgage of $650 from the Home Owners Company; thus these sales were financed 100 percent, the borrower having no equity whatsoever.

In many instances, the association's appraisal is substantially in excess of the sale price, as witness loans Nos. 9215, 9599, 9428, and 8540, and 6948, where the aggregate of the association's appraisal was $2,584,000, in round figures, as compared to an aggregate sale price (or certificate of reasonable value) of $2,268,-100. It further appears from the examination report that the association engages quite extensively in making loans to borrowers who have no equity in the property at the time the loan is made. Since the supreme responsibility of a savings and loan association entrusted with the handling of other people's money is to operate on a safe and sound basis, there must be careful evaluation of both appraisal and lending practices. With respect to the former, we recognize that

there can be differences between sale price and appraised value, but the excess of appraisal over sale price in a volume such as exists here is highly inconsistent with recognized appraisal principles. Purely aside from the appraisal phase, the lending practice clearly violates the demands of sound operation. Not only are loans made to borrowers having no equity, as indicated above, but the lending activities completely ignore the well recognized principle that the loan percentage should be based upon appraisal value or sale price, whichever is less. As a practical matter, the regulatory restriction upon the percentage of value that the association may lend on the security of real estate is made rather empty and meaningless by a practice that does not give effect to this principle.

6. Hazard insurance practices

Under this heading, the examiner states that of 1,566 loans checked (all of which were made during the period covered by the examination) it was found that hazard insurance was placed through the Home Owners Company in 1,534 instances. It is obvious, and admitted by the chairman of the association's board of directors, that borrowers have no freedom of choice in the matter of selecting hazard insurance companies and agencies. This is contrary to the longstanding, announced policy of the Home Loan Bank Board, which is that borrowers should have reasonable freedom of choice as to this matter; we again request that your policies—be revised so that borrowers shall have reasonable freedom of choice in the placing, renewal, and extension of insurance covering properties mortgaged by them to the association.

7. Requirement as to purchase of building materials

Under the heading "Construction Loan Procedures," your attention is called to the report by the examiner, which will be found on page 16–F, to the effect that a builder was required to purchase all building materials from the West Lumber Company as a condition for construction financing by the association.

"We shall appreciate it if you will advise us specifically and fully as to what, if any, conditions or requirements are imposed on borrowers with respect to the purchase of materials used in the construction of homes financed by the association; also, the particular types of circumstances under which any such conditions or requirements are made."

After you have considered the report of examination, and this letter and have taken such action as is required, please send us two certified copies of excerpts from your minutes setting forth the action taken on each point discussed.

Yours very truly,

J. M. SINK, Jr.,
Supervisory Agent.

EXCERPTS FROM THE REPORT OF EXAMINATION AND AUDIT OF THE ASSOCIATION

e. Loans subject to comment previous report—collection policy

The two loans listed as subject to comment in the previous examination report have since been foreclosed.

The Association's senior loan officer, Ellis Kirk, is in charge of collections. Reminder notices are mailed, but the principal procedure is by personal contact, telephone and letters. The VA procedure is followed on GI loans. When collection procedures have been exhausted by the Association, the loan is placed in the hands of the attorney for collection or foreclosure.

f. 15 percent of assets limitation

	Unpaid balance Mar. 19, 1954	Loans in process Mar. 19, 1954
Loans on other than homes	$194,207.42	$505.00
Loans on homes over $20,000	84,824.53	0
Straight loans	7,994,522.54	4,815,694.88
Total	8,273,554.49	4,816,199.88

NOTE.—The unpaid principal balance shown above comprises 24.5 percent of the Association's assets.

g. Multiple borrowers and loan concentrations

Borrower	Number of units	Number of loans	Original amount	Unpaid balance Mar. 19, 1954	Percent to total mortgage loan balance
Baylis, E. A	77	5	$341,000	$260,475.00	0.85
Booth, G. E	31	2	183,800	59,643.37	.19
Bulce, J. M	65	1	454,000	295,700.00	.96
Christian, J. L	10	2	75,000	32,500.00	.11
Doss, K. E	19	3	54,550	53,865.56	.18
Fett, F. G., Jr	51	3	596,500	554,569.52	1.81
Fett, R. L. & B. J	20	6	159,400	157,789.53	.51
Hanes, J. A	20	2	160,000	160,000.00	.52
Hanes, W. C	195	3	1,332,000	846,747.50	2.76
Harrington, D. S	11	2	104,500	83,500.00	.27
Leamon, C. A., & Smith	20	2	222,000	92,817.00	.30
Lindsey, Lee	203	2	942,400	890,866.21	2.90
Long, J. W	72	1	637,500	200,500.00	.65
Manly, Mrs. D. C	48	7	261,700	261,394.33	.85
Moore, R. S	8	2	32,000	23,500.00	.08
Norwood Realty Co	384	3	3,529,236	3,407,626.85	11.11
Smith, W. H	116	3	283,500	180,000.26	.59
Whitley, G. W	82	5	678,736	371,205.48	1.21
Total	1,432	54	10,047,822	7,932,700.61	25.85

h. Loans purchased—Home Owners Company

The President of Home Owners Company furnished the examiner certified copies of the company's officers, directors, stockholders, and financial statement, a transcript of which is shown below:

Officers

Name	Office	Amount of shares
Herbert J. West	President	$4,420
Ivan M. Jenkins	Vice President	2,160
William J. Hogan III	Vice President	990
A. F. Stewart	Vice President-Treasurer	0
Essie Cain	Vice President-Secretary	1,000
Wilma Stovall	Assistant Secretary	0
		$8,570

Directors

Name	*Amount of shares*
Essie Cain	$1,000.00
Harold H. Jenkins	1,650.00
Ivan M. Jenkins	2,160.00
Mrs. Marilu Mobley [1]	2,500.00
Charles B. West	1,000.00
George W. West, Jr.[1]	1,000.00
George W. West, Sr.[1] (Chairman of the Board)	14,540.00
Herbert J. West	4,420.00
Total	28,270.00

[1] Also officers and directors of First Federal Savings and Loan Association of Atlanta.

Stockholders of record, Feb. 28, 1954

Name	Percent to total	Amount of shares
J. N. Bailey		$30
Essie Cain		1,000
A. K. Derrick		30
H. R. Derrick		30
T. Hugh Freeman		10
E. W. Gottenstrater [1]	1.6	1,140
T. O. Hathcock [1]	3.2	2,280
Dr. Thomas J. Hicks		1,000
William J. Hogan III		990
H. H. Jenkins		1,650
I. M. Jenkins		2,160
Herbert Johnson [2]	3.3	2,340
Mary Lee Jones [3]	1.4	1,000
Dana Dyer Jordan		3,000
Gunnelle Lowe		3,590
Estate of Alline Ballard Marshall		5,750
Douglas W. Matthews		5,010
Dr. Hal C. Miller [1]	3.2	2,280
Marilu Mobley [1]	3.5	2,500
Josephine Murdock		1,000
A. Walton Nall		220
E. Ralph Paris [1]	3.2	2,280
Mildred G. Pendergrass [3]	1.4	1,000
Mrs. Emmett L. Quinn		3,280
Mrs. J. G. Ray		80
Mrs. Forrest Lovelace Roberts		510
Gene Roberts		170
Joe L. Roberts		220
Joseph S. Shaw [1]	3.5	2,500
Charles B. West		1,000
Mrs. George W. West		680
George W. West, Sr. [1]	20.4	14,540
George W. West, Jr. [1]	1.4	1,000
H. J. West, Jr.		4,420
West Lumber Co.		2,560
Total	46.1	71,250

[1] Director of First Federal Savings and Loan Association of Atlanta.
[2] Attorney for First Federal Savings and Loan Association of Atlanta.
[3] Employee of First Federal Savings and Loan Association of Atlanta.

Financial statement, Feb. 26, 1954

ASSETS

Cash on hand and in banks	$25,270.80
Accounts Receivable	32,194.80
Mortgage Loans	239,019.41
Guaranty Fund Certificates and Stocks	14,000.00
Real Estate	4,366.70
Furniture and Fixtures	8,353.32
Other Assets	5,599.51
Total	328,804.54

LIABILITIES

Capital Stock	71,250.00
Surplus	153,057.33
Escrow Account	5,656.18
Unearned Income on Installment Accounts	48,791.33
Reserve for Taxes	40,448.41
Premiums and Commissions Payable	5,845.03
Other Liabilities	3,756.26
Total	328,804.54

Since the last examination, April 22, 1953, the following loans have been purchased from the Home Owners Company:

Number of loans	Unpaid balance	Rate of discount	Amount of discount
		Percent	
104	$920,575.87	8.0	$73,754.96
7	94,019.10	6.0	5,653.92
48	432,558.45	2.0	8,691.04
223	2,255,759.93	par	0
Total (382 loans)	3,702,913.35		88,099.92

All of the loans purchased above were G.I. loans and those purchased at a discount were at the rate of 4½ percent. As will be noted, the amount of discount is slightly in excess of that based on the unpaid balance due to payments being received subsequent to time of computations.

Practically all of the loans purchased originate in the following manner. The Association finances the short term construction loans. Permanent financing is made through Home Owners Company who acts as agents for the builder/seller. As permanent loans are closed they are sold to the association. A check of the loan files indicates that the sales commission charged the seller approximates four and five-tenths percent and the initital service charge to the G. I. borrower is one percent.

A list of the loans closed by Home Owners Company is furnished the Association each day. The Association writes individual checks on each loan which must be delivered by the following morning. The loans purchased are approved by the board of directors as loans originating through the Association.

* * * * * * *

* * * land, grading, subdividing, installing sewers, gutters, paving, and construction of the dwellings. Checks are made payable to the borrower; no affidavits or releases from mechanics or materialmen are taken.

The Board of Directors authorizes two appraisers to inspect properties. The original appraisal of construction loan properties is signed by two appraisers, but on the frequent additional advances the appraisal is only signed by Mr. Shaw. The examiner was informed that only Mr. Shaw makes the appraisals on all additional loans.

Inspections are made regularly by appraiser Shaw who approves all disbursements. The borrowers usually request advances each Friday or every other week. The Association uses an inspection report form which has columns headed with date, wants, balance, approved for, date, by. It is impossible to tell from the loan files as to what stages of completion the dwellings are. It was necessary for the examiner to make physical inspections of some properties to verify information supplied by appraiser Shaw as to estimated stages of completion.

Since the files were so incomplete as to construction agreements, inspections and stages of completion, costs of construction and etc., the examiner attempted to secure additional information from the builders with respect to methods of disbursement, construction costs, whether or not he put any monies in the developments and if so at what stages. Only one cooperated fully and he asked that he not be named. He advised that the only obligation on his part was to find suitable land to build on, which would then be inspected by Mr. West, Sr. No funds of his own were ever required to be put into the construction. He further advised that he had been in the construction business for many years and knew of no other financial institution in Atlanta where the borrower did not have to put any of his own money into the project—advised that this was true of builders other than himself. As to the agreements required between himself and the Association, this builder advised there were only two; first, that the net sales prices would be applied against his indebtedness to the Association with any equity left after the loan was repaid to be his profit, and second, that all building materials would be purchased from the West Lumber Company.

Another borrower advised that the Association advances their funds first and he puts his in last if needed. The same procedure was used here by applying the net sales prices of properties against his indebtedness and what is left to be sold after the loan is paid off will represent his profit. Still another builder added a statement, "Know of no other lending institution with as liberal lending terms."

Permanent loan applications rarely show the amount the applicant is paying for the property. President West advised that the Association was not interested in such purchase prices and did not inquire as to what they were. In response to the questionnaire with respect to prevailing sales prices for single-family dwellings in various price ranges as compared with prices of one year ago, Pres. West replied "Opinion is only a guess as we are concerned with appraised values, not sales prices." As to the percentage changes requested he replied that they were "unknown."

Detailed information was obtained with respect to several construction loans which is submitted as follows:

Re loan No. 9215, J. M. Buice

This loan was made 6–16–53 in the original amount of $454,000.00 and due in 6 months from date. The loan settlement sheet shows the following:

Closing costs	$14,755.00
Purchase of land	32,000.00
Held for completion	407,245.00
Total loan	454,000.00

The purpose of this loan was to purchase land, clear, grade, subdivide and develop into 65 lots improved with dwellings. The property was appraised for $595,000.00 based upon completion. Cost of construction was apparently not sought by the Association.

The property to be developed was described by 2 plats. One of which 21 dwellings valued at $224,700.00 (10,700 each) of which $22,050 was * * *

* * * * * * *

(5) "GENTLEMEN: I will thank you to return to the Home Owners Company the new fire and extended coverage insurance policy on my house at 1492 LaVista Road for cancellation, which policy you procured from the Home Owners Company without my authorization.

"You no doubt have received by now from the C. Fred Brown Insurance Agency the new policy covering this property. As long as I am paying for the insurance I reserve the right to purchase it where I wish."

Association's reply:

"In the loan deed contract we have with Mr. W. H. Smith, he gave us the right to designate agency and company in the matter of fire insurance, and this we did at the time the loan was closed.

"We presume you have assumed this contract or bought the property subject to same; therefore, we are returning to you policy sent to us by Mr. C. F. Brown, Agent."

(6) The following is a transcription from the code of Georgia Annotated:

"Book 17.

"Title 56. Insurance.

"Title 57. Interest and Usury.

"Chapter 56–4A. UNFAIR TRADE PRACTICES.

"56.404a. Unfair methods of competition and unfair or deceptive acts or practices defined.—The following are hereby defined as unfair methods of competition and unfair and deceptive acts or practices in the business of insurance:

"(10) Requiring or imposing as a condition to the sale of real or personal property or to the financing of the same, or as a condition to the granting of or an extension of a loan which is to be secured by the title to or a lien of any kind on real or personal property, or to the performance of any other act in connection with such sale, financing, or lending whether such person thus acts for himself or for anyone else, whatever, that the insurance or any renewal thereof to be issued on said property as collateral to said sale or loan, shall be written through any particular insurance company or agent; Provided, that this section shall not apply to a policy purchased by the seller, financier, or lender from his or its own funds and is not charged to the purchaser or borrower in the sale price of the property or the amount of the loan or required to be paid for out of his personal funds: Provided, further, that such seller, financier, or lender may disapprove for reasons affecting solvency or other sensible and sufficient reasons, the insurance company selected by the buyer or borrower." (Acts 1950, pp. 326, 327.)

2. REAL ESTATE OWNED

The Association carries delinquent interest as part of the capitalized cost of real estate owned. Of the total capitalized value of the 36 properties shown as acquired in this report totalling $404,284.79, $4,393.23 of this was uncollected interest. Included in the book value of real estate owned as shown in the current report is $536.18 of uncollected interest. No adjustments were made for purposes of this report.

The Association does not reappraise properties upon acquisition through foreclosure.

(a) In re 243 Oak Drive, College Park, Georgia

The Association's original loan, dated 7-16-51 was for $4,100.00 and was secured by property appraised for $6,000.00, 6-5-51, (land $500.00—improvements $5,500.00). The Association obtained title to the property through foreclosure proceedings 1-16-53 at which time they showed a total capitalized value of $4,151.71. The property was sold to one of the Association's contractors, E. A, Baylis, 1-29-53 through financing of a $5,000.00 loan by the Association. Mr. Baylis paid $4,560.85 for the property which resulted in a profit of $409.14 to the Association. The Association's 2nd appraisal dated 1-29-53 was for $7,500.00 (land $1,000.00—improvements $6,500.00). As far as can be determined by the appraisal reports no improvements have been made in the property since the original appraisal.

(b) In re lots 4 & 6, A. D. & Sidney Srochi property, Druid Hills Road North

The Association's original loan was dated 5-8-52 in the original amount of $57,000.00, with balance due 6 months from date. The underlying security was 5 lots, which the association appraised for $73,500.00 after improvements. All of the properties had been completed and released from the Association's security deed with the exception of one vacant lot and a completed residence as of May 14, 1953, at which time the unpaid balance of the loan was $14,702.39. The Association advises that Mr. Johnson could not sell the house and so after due notice, the Association foreclosed on the already past due loan. The Association took title to the property through foreclosure proceedings 7-10-53, at which time they were carrying it at a capitalized value $15,044.04. August 10, 1953, the Association deeded the property back to Mr. Johnson for their capitalized value. Mr. Johnson paid foreclosure costs of $410.00 and $40.00 inspection costs directly to the Association's attorney, Johnson, and appraiser, Shaw, respectively.

Mr. Sam Johnson originally purchased the property from W. H. Smith, contractor. At time of the Association's loan closing, $12,000.00 was disbursed to defray the cost of the land.

Payoff by Mr. Sam Johnson was accomplished by his sale of the property to his son-in-law, Mr. Wooten, who financed a loan through Southern Federal Savings and Loan Association.

(c) In re 269 Willow Street, College Park, Georgia

The Association closed the loan 1-26-53 in the name of W. C. Hosch for $4,000.00 based on an appraisal of $5,000.00. Home Owners Company took a 2nd mortgage for $500.00. The Association obtained title to the property through foreclosure proceedings 7-7-53 and deeded the property to Home Owners Company 10-29-53 for their total capitalized value of $4,204.79. On November 20, 1953, the Association again financed a loan on this property in the name of Sallie and Jimmie B. Mallory in the original amount of $4,000.00 and again based on an appraised value of $5,000.00. Home Owners Company, the sellers, again took a 2nd mortgage on the property.

The Association secured title to the property a second time through foreclosure proceedings March 4, 1954, at which time the capitalized value was $4,240.14 and which balance is shown as Real Estate Owned for purposes of this report.

The Association is now in the process of transferring title to Home Owners Company, holders of second mortgage.

(d) In re 418 Pine Street, College Park, Georgia

The Association granted the original loan of $4,000.00 9-26-52 to Gordon B. Mills, Jr., at which time Home Owners Company granted a 2nd mortgage of $500.00. The Association's appraisal was $5,000.00. Foreclosure proceedings were completed August 4, 1953, at which time the Association had a total capitalized investment in the property of $4,102.48. On August 28, 1953, check for $4,102.48 was received from Home Owners Company in consideration of a Warranty Deed to the property from First Federal. Also on August 28, 1953,

the Association financed a permanent loan to Richard C. McWilliams in the original amount of $4,500.00. Home Owners Company took a 2nd mortgage of $1,000.00 at time of loan closing which completed the financing of the total purchase price of $5,000.00. The Association's new appraisal dated 8-26-53 was for $6,000.00.

This property was purchased originally from E. A. Baylis, contractor, for $4,650.00.

(e) In re 533 Pine Street, College Park, Georgia

The Association granted the original loan 12-13-52 to Nellie H. Crawford in the amount of $4,000.00 based on an appraisal of $5,100.00, at which time Home Owners Company granted a 2nd mortgage of $500.00. Foreclosure proceedings were completed by First Federal 10-6-53, at which time the Association had a total capitalized investment in the property of $4,047.90. On October 7, 1953, check for $4,047.90 was received from Home Owners Company in consideration of a Warranty Deed to the property from First Federal. Also on October 7, 1953, the Association financed a permanent loan to Hershal E. Richardson in the original amount of $4,000.00. Home Owners Company took a 2nd mortgage of $1,200.00 at time of loan closing, which completed the financing of the purchase price of $5,200.00. The Association's new appraisal, dated 9-14-53, was again $5,100.00

(NOTE.—Warranty Deed from First Federal Savings & Loan Association of Atlanta to Home Owners Company, dated October 7, 1953, recorded in Deed Book 105, page 300, Clayton County Records. Warranty Deed from Home Owners Company to Hershal E. Richardson, dated October 7, 1953, recorded in Deed Book 105, page 299, Clayton County Records.)

(f) In re N/S Sheridan Road—Roy Carlton

The Association's original loan was dated 6-16-52 in the original amount of $240,000.00 and due in six months. The Association's appraisal dated 5-30-52 based on plans and specifications to build dwellings on the 18 vacant lots was $324,000.00.

The following is transcribed from the credit report in the borrower's file.

"Married, yes; Age 26; Net Worth $5-6M; Income $4,160 annually.

"Employment: Roy Carlton is self-employed in the construction business as a contractor, and does general building and repair. He employs two construction men. He has been in this business for three years and has good prospects for the future. Wife is not employed. Subject builds one house at a time."

Method of Loan Disbursements: The sales contract showed that the total cost of the land was $15,500.00 which amount was disbursed therefor at time of loan closing.

As of 1-29-54 Mr. Carlton conveyed his interest in the property to the Association by means of a Warranty Deed due to the fact that he was unable to meet the principal and interest payments on his indebtedness. The Association's appraiser, Shaw, and Carlton estimated that $2,000.00 additional money would be needed by the Association if they were to dispose of the property without loss. Mr. Carlton agreed to pay this amount, a portion of which was to be applied against his delinquent interest, rather than have the property foreclosed and impair his credit standing.

At the time of conveyance, the Association's loan balance was $108,417.68 which was secured by 11 lots, 5 of which were improved with almost completed dwellings. The Association completed the houses at a total net cost of $2,206.81. (This figure reflects meter and insurance refunds.)

One of the lots has been sold for $3,000.00 and 4 of the dwellings have been sold at an average sales price of $18,962.00. The book value remaining is $34,229.99 which is secured by the one completed dwelling and 5 vacant lots. The Association's appraiser estimates that the properties will be disposed of as follows:

Anticipated sales price of lots (5)	$15,000.00
Asking price for dwelling	19,500.00
Meter refunds still to be applied	1,531.01
Total receipts	36,031.01
Association's indebtedness	34,229.99
Estimated profit	1,801.02

(NOTE.—These properties had been placed in the hands of Gross Realty for sale and to whom commissions totalling $2,455.50 have been paid on the above sales. The commissions are based on 5 percent for first $10,000.00 and 3 percent on the excess.)

3. COMMISSIONS PAID FOR SAVINGS

The following are excerpts from an agreement between First Federal and John A. Donnelly & Company, of West Haven, Connecticut. Original contract was dated 7-31-53 and amended 3-12-54 by increasing the number of banks from 10M to 25M.

You are hereby authorized to conduct a personal survey campaign in behalf of this Institution to secure direct prospect leads for the sale of the services of this Institution and to secure new share savings accounts for us according to our plan of operation through the sale of coin banks, the style of which has been mutually agreed upon between us, in our city and surrounding territory, under the following terms and conditions, to wit:

(1) You are authorized to secure a maximum of 25,000 new savings enrollments through the sale of our banks, collecting from each customer thus secured the sum of $1.00 for the sale of said bank with the agreement that should this customer open a share savings account in our Institution, we will, one year from the date of the purchase of the bank, repurchase the bank for the price paid, if this customer shall have a saved balance on his account of at least $36.00 one year after the date of his purchase of the bank.

(2) On the sale of the bank either in the field or at the Institution, you are to receive during the time you or your sales people are engaged in active field solicitation the $1.00 obtained from the sale of the bank.

(3) We agree to pay you 43¢ on each of the 3,000 Zell Banks we now have on hand or a total of $1,290.00 the day you start Active Solicitation for us in the field at Atlanta. The starting date for Solicitation is not to be later than October 1, 1953.

(4) We agree to purchase from Zell Products Corporation 7,000 Combination Buckingham Calameter-Picture Banks at $2.00 each, a purchase order for these banks is attached hereto and becomes part of this agreement. (Since increased to 25M.)

(5) For the services which you will render under this authorization we agree to pay you $1.00 for each account opened in our Institution, by bank purchasers or by persons previously solicited by you, and you will retain the sum of $1.00 collected by you or your solicitors in the placing of each bank. We will remit to you on the tenth of each month the amount to which you may be entitled under the provisions of this authorization.

New agreement entered into October 19, 1953, whereby the Association agreed to pay Mr. Donnelly ½ of 1% for new money brought in and the same for prospects given the Association which results in new money being deposited within 6 months of date of receipt of prospects.

As of the examination date, total commissions of $1,961.94 have been paid based on the following performance:

3,069 Zell banks, at 43¢	$1,319.67
$7,053.60 new savings at ½ of 1%	35.27
339 banks sold and 252 accounts opened	591.00
Total due	1,945.94
Overpayment to Donnelly	11.00
Total Paid	$1,956.94

4. BRANCH OFFICE OPERATIONS

The Association has two employees in their East Point Branch office, Mrs. Mamie King, the managing officer and Mrs. Louise Mann, clerk. Both act as tellers and sign checks. As of the examination date the branch was servicing 956 savings and investment accounts and 377 loan accounts. All subsidiary ledgers are kept at the branch office and are posted by its employees. (Payment slips and duplicate disbursement vouchers are transmitted to the main office daily where they are analyzed and posted.) A separate general ledger is not maintained for the branch; its transactions are consolidated with those of the main office in a daily cash book and posted to the general ledger monthly. The branch does, however, maintain a memorandum cash receipts and disbursements record and a control of the subsidiary accounts.

Mortgage loan applications are taken at the branch office but are closed through the main office. Share loans are approved by the branch office.

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At the end of each month, Mrs. Jones, Association's comptroller, makes a general audit of the current month's operations by checking the cash, cash receipts and disbursements records, and by running tapes of the subsidiary ledger accounts. The bank statements are sent directly to the main office where they are reconciled by Mrs. Jones.

The name appearing on the door of the branch office reads First Federal Savings and Loan Association of Atlanta with no designation to its being a branch office.

SEPTEMBER 10, 1954.

Mr. J. M. SINK, Jr.,
Supervisory Agent, Home Loan Bank Board,
Greensboro, N. C.

DEAR MR. SINK: We have reviewed your report of examination and audit of this association made as of March 19, 1954, by the Examining Division of the Home Loan Bank Board, and we desire to make the following observations, comments, and reply.

Paragraph No. 1. "Violation of Section 145.6–7 of the Regulations." The facts as shown by our records and as indicated on page 16–B of the report of examination are that we have $194,207.42 in loans on other than homes and $84,824.53 on home loans which exceed $20,000.00. This is a very nominal percentage of our loan portfolio. All of our other loans are home loans. The $7,994,522.54 as stated on said page are secured by blanket mortgages as indicated, but the note specifies the amount of the loan in each case against each home and no one of them exceeds $20,000.00.

Our records show that the total amount disbursed on these loans is 10.44% of our assets at the time of this audit and the association has reserved the right in a separate contract to terminate advances on any one of these loans at any time, and those contracts are and were in the files. In other words, we are not committed to advance on non home loans plus these blanket mortgages which we contend our loans in excess of the 10.44% indicate as advanced by our records at the time of the audit.

Furthermore, we submit that our method of making blanket mortgages on subdivision projects is right. It is more economical for us and for our customers. It is more convenient for all concerned. It gets the same result in the final analysis and enables us to do business when otherwise we could not.

Paragraph No. 2. "Miscellaneous Violation of Regulations." Your question is an objection to our accrual of interest in a capitalized value of foreclosed property as specified in Section 145.19 of the regulations. Most of this is accrued interest on veterans' guaranteed loans for which we have the obligation of the United States to pay. However, we agree either to charge this item off or to create a special reserve in the amount of it which will comply with the regulations. The sum involved in the report is $563.98.

Your next question is that of the name of the association on our East Point Branch and its advertising. The full name of the Association—First Federal Savings and Loan Association of Atlanta—is the name on our East Point Branch which in our opinion is in compliance with the regulation. Our East Point Branch as such does no advertising. If you have any further questions about this, please notify us.

Paragraph No. 3. "Purchase of Loans from Home Owners Company." The question is with respect to the Home Owners Company. This company is a Georgia business corporation owned by various parties and the names of all of its stockholders and officers are quoted in the report, which information we understand was furnished to you by it. It is not an affiliate and not affiliated with this association. From the information furnished on your report, which we have checked, it is certainly not an affiliated institution under any definition. Your report shows a list of their stockholders, directors, and officers and indicates which of them are employees, directors, officers or attorney of this association. The directors of this association, directly or indirectly, own or control 26.5 percent of the stock of the Home Owners Company.

Paragraph No. 4. "Construction Loan Practices and Procedures." We believe that the examiner is not well acquainted with the Georgia law on this question. It is our custom to take a Warranty Deed to Secure Debt before improvements are initiated. Such a deed under Georgia law is prior to any kind of liens or claims. You discuss the question of the borrower depositing money with us. We prefer not to assume responsibility for the borrower's money. You com-

ment on our practice of making our checks payable to our borrowers and not requiring releases. We believe our practice to be better under Georgia law than the one suggested. You comment on our inspections and disbursements and the fact that in some cases no cash is required of the borrower. In this connection, our inspections are made by Messrs. J. S. Shaw, George W. West, and George W. West, Jr., and our Chief Appraiser, Mr. Joseph S. Shaw, maintains records of such inspections. This system has been satisfactory to us and, to date, has prevented any losses. Our loans are made with regard to the value of existing property and the estimated value of property to be improved and in no case have our loans exceeded the authorized loans of such values.

We made loans to Roy Carlton, whose name the examiner picked up as "Ray Carlton," which were entirely satisfactory to us. He undertook one project which was too big for him and we found it necessary to discontinue advances and exercise our right to credit undisbursed funds and stop the job and we did so in time and at the proper time. He conveyed the property to us without expense; paid $2,000.00 in cash to protect us against loss, and we took no loss. Such situations are inevitable in construction lending, and this represents a very small portion of ours.

You recommend that we require cash deposits but we object to this system. You recommend that we take receipted bills or releases. We prefer to rely upon our recorded Warranty Deed to Secure Debt but we do take evidence of payment of bills and releases in all cases which appear to be proper. We have never suffered any loss in this connection. You recommend that inspection reports be in our records. Inspections are made before disbursements are made and such inspection reports are in our loan files when the disbursements are made.

Paragraph No. 5. "Appraisal and Lending Policy." You question our appraisal and loan policy and point out a few loans where the loan exceeded either cost or sale price. We reply that our appraisals are made at the initiation of the loan. It is normal to expect that a small percentage of appraisals would slightly exceed the lower of cost or sale price. Our appraisal and loan policy is of long standing and, in our opinion, is proper. The percentage of appraisals which exceed the lower of cost or sale price is normal and is no more than is to be expected in any honest appraisal system.

Paragraph No. 6. "Hazard Insurance Practices." The law and regulation requires us to have hazard insurance for the full protection of the association. Long experience has satisfied us that there is a substantial saving in operating expense to have substantially all hazard insurance with one reliable agency which has a record of satisfactory service and settlement. Also, we prefer to deal through such agency with a limited number of responsible and satisfactory companies. In the past where in our opinion there was a legitimate reason for the borrower carrying insurance elsewhere, we have accepted such insurance if written by a satisfactory company through a satisfactory agent. However, in view of the agitation of this question, we are making a very careful restudy of this question. We call attention to the fact that our practice, however, is not in violation of any law or any regulation. We are not aware of any Board policy being binding upon us which is beyond the law and the regulation. We know that our past practice is consistent with the practice of lenders generally throughout the United States including the savings and loan business.

Paragraph No. 7. "Requirement as to Purchase of Building Materials." No person is authorized to require any borrower from this association to buy any building materials from any particular source.

Yours very truly,

First Federal Savings and Loan Association of Atlanta, by George W. West, Sr., Chairman of the Board; George W. West, Jr., President; Joseph S. Shaw, Vice President; Marilu Mobley, Vice President; E. W. Gottenstrater, Director; Hal C. Miller, Director; T. O. Hathcock, Director; E. Ralph Paris, Director; Thomas J. Hicks, Jr., Director.

September 29, 1954

Mr. J. M. Sink, Jr.
Supervisory Agent
Home Loan Bank Board
Federal Home Loan Bank Building
Greensboro, North Carolina

Dear Mr. Sink:

This confirms the appearance of you, Mr. Wyman, and Mr. Fogarty yesterday in our office for the purpose of discussing further the report of examination and audit of this association made as of March 19, 1954 and our Board's reply thereto dated September 10, 1954 and the understandings I have reached with the three of you about our operation.

(1) Violation of Section 145.6-7. Hereafter in construction lending we will make a three year loan with no payment required on the principal for the first year and equal installments payable for the following two years, which loan you agree will be a permanent loan and not carried as "loans in process" thus removing them from the 15% limitation.

(2) Violation of Section 163.27 "Insurance." We will have printed on the door of our East Point Branch or front window "Main Office, First Federal Building, Atlanta" or "Home Office, First Federal Building, Atlanta" as you have directed.

(3) Purchases of loans from Home Owners Company. You have agreed that a statement from me to the effect that no officer or employee of this association controls the management of the Home Owners Company is sufficient to convince you that they are not an affiliate. I make that statement and it includes myself. I could have explained, too, a rather positive proof that the president of Home Owners Company not too many months ago discharged a vice-president whom, as a matter of fact, I did not employ several years ago nor was I consulted in the matter of his employment, and by the same sign he was discharged without any conference with me of any kind or character and it was several days after he left the employ of the Home Owners Company before I found out that he was no longer a vice-president or an employee. As a matter of fact, I thought he was a pretty good man. This statement which I make here was requested by Mr. Wyman and permits a continuation of purchase of loans from the Home Owners Company.

(5) Appraisal and lending policy. I promised a detailed report on loans F-9215, F-9428, F-8540, and F-6948.

Loan F-9215, J. M. Buice, more completely enumerated on your report page 16 F. I have known Mr. Buice for some ten years and have done business with him. He has been a very successful, hard working individual operating in the $7,000.00 to $10,000.00 house class. Every transaction we have had with him has been without a misunderstanding. He was discounting GI loans before we would consent to such procedure and requested us to buy some although we refused. Later we found that this procedure seemed to be common and we decided we might as well make some money through the same process, although his final loans and sales are made by a real estate dealer connection he has which is operated by a Mr. Cox.

This property is in the City of Forest Park, a residential suburb of high class, medium priced homes. It is an incorporated town, having water, gas, and electricity and generally a level terrain. It is located along the Central of Georgia Railroad and beyond the question of objectional distance from the airport and right at the Army General Depot and Repair Unit employing many people. It is a desirable location for home owners. These houses are only a few blocks from the center of this community and the lots are level. We have financed houses for him adjacent to them as well as in other parts of Forest Park. We advised him as to the kind of house we thought he should build and later advised him again that he should build a lower cost house which he did. Mr. Buice filed with us plans and specifications, and for the statement to be made that cost of construction was apparently not sought by the association is ridiculous. We think we know what cost is and we applied our own yardstick and then confirmed what we thought with what the builder thought for verification purposes. The purchase of the land in which we participated was $32,000.00 as an advance to him. He had subdivided this property to show a total of sixty-five lots plus a considerable tract of land which was not subdivided. He opened his first street and constructed brick dwellings the same as he had previously built north of this property and traveled cautiously and carefully until they were sold and financed. He could have sold all these houses and paid us off and the only reason he did not build more at the time was because he was not satisfied that he could acquire GI financing, which financing had been withdrawn in the main throughout the country at the time. In the closing cost item of $14,755.00 in the examiner's report is a 2½% commission charge permitted under government law in conjunction with what will later be a 5% interest charge which to us is all an interest charge and deducted as a commission on account of the law existing at that time. The borrower immediately started to pay interest on this sum.

In paragraph 2 on page 16 G, last sentence, the statement indicates that we have loans outstanding representing 89.6% which may be true with reference to the exact completed dwellings as indicated but it must be noted that in addition to the completed dwellings, we had as collateral forty-four lots plus the undivided tract. In this same paragraph a notation is made that one lot was not to be improved and that Loans in Process was not credited with these undisbursed funds. A notation is in our file, none the less, and was in our file when the examiners were here, giving this information and inasmuch as lots are more than plentiful, one vacant lot one way or the other or an arrangement for credit providing he would build, seems immaterial to us. We did have a mortgage on it and it had not been quit-claimed.

In paragraph three, page 16 G, a notation is made that Buice sold to Snider one of these houses for $10,150.00 appraised by us at $10,250.00 which in the construction loan appraisal was appraised for $10,700.00. The construction loan figure is an average figure, whereas this particular house could have been slightly below, which it was, or above depending upon the final individual appraisal. In the matter of GI loans we are willing and with authority of the Home Loan Bank Board, to accept appraisals which are Certificates of Reasonable Value of the Veterans Administration. They vary at times considerably from our own both high and low. They are not the government's fee appraiser value for the ultimate value is arrived at by a committee which is their present system. Even so, I believe all these figures are reasonably close and one or two simple things like kitchen cabinets or certain fixtures could have been left out of the Snider house and the figures arrived at. These appraisals are in our files and they speak for themselves. The final Snider appraisal differs from the original estimates on all the houses, as could have been seen, with a lot 65 feet wide instead of 70 feet and with open stoops instead of a covered porch making the difference between an individual appraisal and an average appraisal. The contractor could have been willing to sell for less on a conventinnal loan which we made on this house to Snider because we could close the loan within an hour and he would not suffer a discount. This is a 5½% fifteen year, $7,000.00 loan on a $10,250.00 valuation which is a 70% loan and is our loan No. F-9651.

It has been our policy and at one time the policy of the Home Loan Bank Board in Washington or Commissioner that our appraisers should have nothing to do with selling prices and that if management knew selling prices, they should not give the information to the appraiser. Through this entire comment and criticism, we seem to be charged with the responsibility of using the selling price as value and it is stated by the supervisor that selling price or cost, whichever is less, represents value contrary to all appraisal rules to my knowledge. It is noted here that in the analysis the examiners say was supplied by the builder that the builder figures his house cost at $8300.00 less $700.00 discount that he will pay someone for making the GI loan. He might as well deduct interest, taxes, and real estate commission for if his cost is $8300.00 per house and he has to pay $700.00 to sell a GI loan, then the house has cost him $9,000.00 and the lot, according to his figures, has cost him $1,000.00. Then instead of the house costing him $8600.00 as the examiners have attempted to show, the house has cost Mr. Buice $10,000.00. So instead of the figure and the extension at the right being $180,600.00, the figure will be $210,000.00.

The examiner then reports as (b.) the estimated cost on tract of 44 dwellings, and there again he takes the price of each house at $6500.00 plus lot cost of $875.00, whereas the lots are identical with the other lots and within a few feet of them almost, and deducted $525.00 as GI discount on mortgage and multiplied by 44 dwellings. The figure should read $6500.00 plus $1,000 for the lot, plus $525.00 added cost for discounting GI loan and, therefore, would read $8,025.00 per house time 44 which, instead of being $301,400.00 as reported, would be $353,180.00. When added together the total cost will be $563,180.00 against our

reported loan of $454,000.00 which indicates that our loan percentage to construction cost as reported by the builder, instead of being 94.2%, will be 80.51%. A 70 foot totally improved city lot, including natural gas, is valued very low at $1,000.00. Some of these lots are as wide as 102 feet -- some 94 feet, some 75 feet, and three of them only 65 feet. They could just as well have been valued at $1500.00 and still been cheap, again proving that our effort to aid the builder in his initial acquisition of land gives him lots at less than half price. The percentage figure by the examiners of loans to selling price is inaccurate because they have not taken into consideration land remainders. At this minute the status of this loan is as follows: paid in full September 22, 1954 with balance due at that time of $35,335.00. Our record shows he had 12 houses and lots with CRVs at $7700.00 each (frame) or $92,400.00 plus a vacant level lot 285.5 x 425 x 221 x 505 feet which could easily be valued at $5,000 or total value of $97,400.00. The maximum amount advanced on this total loan, or as we choose to call it, arrangement for credit, was less than half of the quoted association's loan of $454,000.00.

Certainly we had no reason to worry about Mr. Buice during the entire course of this construction which had our careful attention as have all others. Obviously, we are not making loans on contractors' costs. We are making loans on appraised value which would be some competent appraiser's opinion of the future usefulness of the property.

Loan F-9428, E. A. Baylis, more completely enumerated on pag 16 N. The loan closing costs include a 2½% Commission to us incidental to the law which limited construction loans to 5-2½% which to us is interest rate and so he starts out paying interest on interest. We participated in the cost of land to the extent of $16,800.00 which could have been his exact cost, which advance permitted him to purchase these 42 lots, if at this price, for $400.00 each. They are 50 x 134 feet. I take issue with the examiner's statement in next to the last paragraph "the properties are of extremely cheap construction." The properties speak for themselves and are constructed like any other house and according to the City Building Code of Atlanta. The examiner could have added that the liberal use of wood panel on the interior makes them very attractive and that they have two closets and cabinets.

In the last paragraph you indicate that because they are in the vicinity of the airport, they are undesirable. They are not just off the runways or in the direct glide path of any runway or traffic pattern at the airport and, as a matter of fact, we have had considerable discussions in appraisal circles and notwithstanding the Veterans Administration's orders once concerning airport penalties, we understand they have been removed. My own observation is that this airport area, located between the three suburban incorporated areas of College Park, East Point, and Hapeville, has a very high rating as far as people's choice is concerned and, as the examiner has said, "the seller appears to sell."

Continuation of this loan on page 16 I. Of course I do not know what construction cost the builder-owner supplied the examiner, but the report reads "avarage cost of construction as supplied by borrower, $4200.00 each time 42 dwellings equals $186,400.00" If this is as stated, the examiner has failed to add the cost of the lot plus the cost of selling and, therefore, I would disregard the percentage figures except for our appraised value. If Mr. Baylis' costs could have been as low as indicated, I am confident that no single builder or one building two or three houses and acquiring lots inside a municipality, could possibly have constructed as cheaply and remembering, too, that Mr. Baylis has sufficient finance to pay cash and discount his bills which, if he as a contractor would owe an average of $10.000 per month and pay on the usual Atlanta terms with a discount of 2% proxime, sometimes more, would equal 2% on $10,000.00 per month for twelve months in the year or 24% discount.

In conclusion, the loan has been paid off, and the houses have been financed as indicated, and out of some two or three hundred such houses as I have been reporting on, our foreclosures have been surprisingly low. We consider a delinquent loan a loan that is unpaid for over thirty days, whereas if I understand your rule and it has not been changed, the same is over ninety days. As a proof that we are good collectors, out of millions of dollars worth of loans and thousands of loans that we possess, I submit here to you the report which is made to our Board each month on loans that in our entire portpolio are delinquent more than thirty days.

Loan F-8540, O. E. Booth, Sr., more completely enumerated on page 16 I. Mr. O. E. Booth has been known to me for probably twenty years. He is a hard working, honest, not too well educated man, and at one time twenty years ago, a carpenter who has been building houses for ten or fifteen years. He builds a good house and in this case, he was talked into building too expensive a house by someone other than ourselves, traveling on the belief that he could get a greater appraised value if they were brick veneer, etc. He had previously constructed a number of houses on Horace Street about two blocks from this loan which I believe we happened to finance and he traded with some real estate dealer for selling and obtaining GI loans at a discount, which GI loans were from six months to a year forthcoming. We were paid in full without anything unusual happening and he did maintain our interest charges promptly.

A man named Hogg, since deceased, a Civil Engineer, came to me with these so-called thirty-two lots which had been subdivided and, largely from memory, I believe Hogg offered them at $600.00 each agreeing to pay and deposit with DeKalb County $300.00 each of this money for the installation of curb and paving, the water, electricity and gas being ultimately free to the developer. I referred to Mr. Hogg to Mr. Booth. They made a trade with themselves which was not through a real estate dealer. I certainly received no commission nor did anyone else receive any funds that I know of between the two of them for this trade. As the streets were improved and the job progressed, someone told me of a very deep lot facing another street that paralleled this property where the

man who owned the lot was willing to sell for, and from memory, $1800.00 off the back of his lot which would give Mr. Booth nine or more additional very good lots. I advised Mr. Booth to buy them and he did, again paying no commission to anyone and thus acquiring lots that can and have been valued in final form by the Veterans Administration at $1575.00 each. I cannot see how they would have cost Mr. Booth more than $750.00 and if Mr. Booth had pursued the Veterans Administration as others do, he could have doubtless had their valuation raised to $1800.00. These houses were appraised low by the Veterans Administration. Mr. Booth handled his own affairs as far as we were concerned. Due to whatever delays or inefficient operation or miscellaneous causes you might ascribe, all of the houses have been sold. They were financed elsewhere, he undoubtedly paying the prevailing discounts on the real estate commissions and at the moment he is in voluntary bankruptcy owing us nothing. I believe he is not capable of carrying on more than two or three houses at a time although I believe still that he is a hard working fellow but knows very little about handling finances.

Loan F-6948, W. H. Smith, more completely enumerated on page 16 I. I have known W. H. Smith for twenty or twenty-five years. He has built hundreds of houses here and elsewhere. He is a competent man, meets his obligations on time and within the last ten years, has probably built a thousand houses or $10,000,000.00 worth.

This comment continues on the top of page 16 J and indicates that loans were approved to 85.5% of appraised value. I have investigated the file and in the approval of March 5, 1951 for an additional advance of $150,000.00 it is very clear that Mr. Shaw intended and did approve an addition of $450,000.00 in appraised value as every other additional advance on the same forms indicates. Mr. Shaw has no recollection of telling the examiners otherwise as indicated. The loan was made for ten days simply to have it expire at exactly the same time as the first loan, i.e., March 15, 1951. Between these two dates, all the streets in the subdivision had been paved, curb and sewers laid, gas mains, water, and electricity and all services stubbed into the property line, and less than a year later when the third loan was approved, namely April 1, 1952, the records will show that Mr. Smith only owed a balance of $64,000 on the first loan which was arranged for $250,000.00. So the total appraised value should be raised from the records to $1,625,000.00 and if it is comparable to the original loans arranged, which due to reduction from houses being sold and paid out, I doubt. Nevertheless, the loans to appraised value will show 73% instead of 85.5%. The records will show that the Veterans Administration withdrew their appraisals and reinstated them and changed them up and down from time to time and their entire operation was based on their complaints received in Hapeville and they were dealing with penalties against Mr. Smith on Hilltop.

Mr. Smith built and we financed in the City of Hapeville about five years ago 109 houses, then in the $7,000.00 class, in 109 days. Through no fault of his own, he had severe criticism from, so far as we know, not more than

10% of these purchasers. These houses were sold in the early stages of the GI loan program and we made the loans on all of them. There was never a complaint, written or verbal, on this Hapeville project that came to this office that I did not personally inspect the premises within two days and check the list of complaints. Some one borrower had apparently listed twelve or fourteen complaints and ninety per cent of the other complainers had simply copied his list. None was justified except a complaint about septic tanks. When Mr. Smith started this work in Hapeville, he endeavored to have the City of Hapeville supply him with sewerage which they claimed at the time could not be done and was only to be obtained in the most remote future. Mr. Smith then inquired of the City building authorities who the most competent and approved septic tank builder could be and they named a man by the name of Cox. Mr. Smith accepted his price and the septic tanks were installed. All of us in the construction business are well aware that there is quite a revision throughout this country to be made in the septic tank capacity and performance question as washing machines and detergents have been added to the family operation. I observed less than a dozen septic tanks out of the 109 houses that were on property from people complaining. They had been running over. These people, without exception, had washing machines on the back porch and one or more children and were washing clothes daily including didies. The capacity of the tanks were taxed beyond capacity. Most of these complaints were made about a year after these properties had been constructed and some of these people complained that they could not find Mr. Smith although he was living on the same street with them and his name in the telephone book. He had a crew of workmen many times go over these properties and adjust windows, doors, and the like. At that time the Veterans Administration in this Atlanta office was adopting the principle and practice of coddling every veteran who complained and writing all persons involved in any way in the transaction, taking for granted everything the veteran compalined about as being true which aided and abetted the general complainers.

In the midst of all this, the City of Hapeville gave these 109 owners notice that they were digging up the asphalt paved streets which Mr. Smith had paid for and going to install sewer and each one of them would of necessity bear the expense of re-connecting their houses for disposal purposes. This of course aggravated the owners and certainly Mr. Smith had no obligation.

The Veterans Administration pressured him from every direction. In the meanwhile, he was building other houses. This Hilltop subdivision had been started. They then exercised a right which Congress gave them to blacklist a builder. They first tried all sorts of pressure schemes, one of which that this Hilltop subdivision was within the glide path of the Atlanta Naval Air station. These houses had been constructed and half of these houses sold and financed before they raised this question. The Atlanta office contended that this entire matter was in Washington together with his files and that Hilltop could not proceed until this question was satisfied. I was in Wa shington at the time and appeared in Mr. Smith's behalf before the Assistant to the Chief Appraiser, Mr. Jack Webber, in Mr. Hopkins' absence. He telephoned the Atlanta office in my presence only to find that this was

a phony, his file was not in Washington, and that their complaint seemed then to be drainage. The Veterans Administration had no rules or regulations when Hilltop was approved by both them and the County of DeKalb Building Department and Commissioner, which drainage was approved by DeKalb County and installed partly by DeKalb County at Mr. Smith's expense as well as curb and paving and sewers. This was before the day of discounting GI loans. The Atlanta office, apparently operating under their authority, decided they would no longer trade with Mr. Smith under any consideration anywhere, and regardless of the reason, I suggested that if Mr. Smith deeded the remainder of these houses to the Home Owners Company and the Home Owners Company guaranteed to the Veterans Administration that the drainage would be installed as approved by them and the houses would be reconditioned, which at that time had been standing for many months, the Veterans Administration would be dealing with a new owner with this definite proposal and that the Home Owners Company would "nickel plate them, if need be" to which the Veterans Administration agreed, the agreement being a verbal one principally and with their Mr. Taylor who is no longer with them to my knowledge. Mr. Smith has never been delinquent with interest but we did propose in consideration of our taking these GI loans to only purchase them at a discount basis of 98%, to which Mr. Smith also agreed. Mr. Smith did agree and did reimburse the Home Owners Company monthly for every repair. He has never failed to pay interest on due date on any loan I have ever known of throughout the years including this one.

These houses were visited more than one time from house to house by Veterans Administration representatives, Home Owners Company representatives, and ourselves. They were brought up to such state of perfection as to receive final inspection on each and every one. The county and the Veterans Administration agreed upon a change in the drainage of the subdivision. The county estimate for making the change was something over $10,000.00 which Mr. Smith gave his personal check for, and all of this happening some three years after the subdivision started, and before the VA had a rule or regulation concerning drainage on such tracts. We have never worried for one minute but what this loan would be paid. At certain stages it could have been called excessive or not. It is one of those things that happens in the normal conduct of construction lending and cannot be avoided. Mr. Smith is still in high regard as far as I am concerned and I see no reason to go into detail except to say that all the houses have been sold as far as we are concerned and we have been paid in full, principal and interest, and Mr. Smith has long since paid all construction loans of every kind we have had with him and promptly as far as our demands were concerned. I think he was thoroughly mistreated by the Veterans Administration and so expressed myself to Mr. Burt King in Washington and others. It would be interesting to submit one of these houses for appraisal with three bed rooms, tile bath, hardwood floors, all city improvements including city water, two gas floor furnaces, one with thermostat, twenty-year composition shingle roof, lots probably 65 or 70 x 150 feet or more located half a mile this side of houses selling, and with VA appraisals no larger or better, for from $11,000.00 to $15,000.00 and the examiner's report shows that these CRVs were for $8500.00.

(6) Hazard insurance practices. As explained yesterday apparently to your satisfaction, after much study of this hazard insurance practice question, we have come up with what we believe is a satisfactory solution. We do not intend at this time to change our contract as I explained yesterday wherein we reserve the right to designate agency and company in the matter of all insurance, and then the question arises as to how will we give a prospective borrower or borrower or his assigns a reasonable choice in the matter of agency and company. In actual practice, we are installing five forms and using them which you say you do not care to review. The first one is a check sheet containing the names of thirteen agents authorized to do business in Georgia, some of them well known to us and some not, and without their knowledge or consent. No. 9 on the list is the Home Owners Company. Opposite each agent's name we have listed two companies whom we know they represent. This form is used in conjunction with the four other forms when the occasion arises. On this form we are asking our prospective customer or customer to select an agency and company. He then signs his name. Form No. 2 is a letter to the insurance agency in which he authorizes them to write a policy and agrees to pay the premium, which form we send to the agency. Form No. 3 is used when a present customer desires to select another agency and company. Form No. 4 is for a person to sign who has purchased property either subject to or with the assumption of our loan. No. 5 is a form for the purchaser to give us information on himself and notice that he understands what he is assuming.

(7) Requirement as to purchase of building materials. In addition to the Board's letter, Mr. Wyman wanted me to say to you, and I will, that no person working for us, including myself, is authorized to require that building materials be purchased from West Lumber Company as a condition for construction financing by this association, and nobody has done it to my knowledge.

I believe these matters herein enumerated are complete and sufficient and constitute our understanding and if you do not agree, please let me know at your earliest convenience.

Yours very truly,

George W. West, Sr.
Chairman of the Board

GWW:mp

HOME LOAN BANK BOARD

Office of

SUPERVISORY AGENT

Federal Home Loan Bank Building

Greensboro, North Carolina

October 4, 1954

Mr. George W. West, Sr.
Chairman of the Board
First Federal Savings & Loan Association
46 Pryor Street, N. E.
Atlanta, Georgia

Dear Mr. West:

Thank you very much for your letter of September 29 which concerns matters discussed with you in Atlanta on September 28 and in our supervisory letter dated September 10.

Sincerely yours,

J.M. Sink, Jr.
Supervisory Agent

HOME LOAN BANK BOARD

Office of

Supervisory Agent

Federal Home Loan Bank Building

Greensboro, North Carolina

November 4, 1954

Mr. George W. West, Sr.
Chairman of the Board
First Federal Savings & Loan Association
46 Pryor Street, N. E.
Atlanta, Georgia

Dear Mr. West:

Re: Our Letter dated August 16, 1954

We are enclosing a letter received from Mr. John M. Wyman, Chief Supervisor, concerning the association's response to our supervisory letter of August 16, 1954.

This letter is self-explanatory and should be presented to your directors at their next meeting. Their actions in regard to it should be recorded in the minutes of the meeting, and two certified copies of excerpts from these minutes should be sent us.

Sincerely yours,

J. M. Sink, Jr.
Supervisory Agent

Enclosure

HOME LOAN BANK BOARD
WASHINGTON

November 1, 1954

J. M. Sink, Jr., Supervisory Agent
Home Loan Bank Board
Federal Home Loan Bank of Greensboro
Greensboro, North Carolina

First FS&LA of Atlanta
Atlanta, Georgia

Dear Moyer:

On the basis of the rather extended conference that you, Mr. Fogarty and I had with Mr. George West, Sr. and the association's attorney, Mr. Herbert Johnson, at the association's office on September 28, 1954, and the supplemental letter that we have since received from Mr. West, it seems to us that, in the numerical sense, most of the supervisory criticisms growing out of the last examination have been disposed of in a reasonably satisfactory manner.

Confirming my discussion of the matter with you last week over the telephone, however, there is one important matter concerning which the association's response to your letter of August 16, 1954 to the association's board of directors is not satisfactory. I refer to appraisal and lending practices.

When appraisals are made on the basis of plans and specifications prior to construction, it is of course recognized that they may vary from ultimate actual costs and sale prices. However, from the examination report and a re-reading of the association's several letters one gets the impression that appraisals supporting loans to finance construction developments are the association's estimates of cost on a single-house basis (presumably including builder's profit) without regard to sales prices. If this is so, it would help to explain the excess of appraisal over sales prices, but it would also leave serious question as to the prudence of the association's lending policies in that, barring distress sales, properties built for the market are worth no more than what purchasers pay for them. In order to clarify this matter, we request an answer from the association to the following questions as to properties built for the market with construction financed by the association:

1. Do the association's appraisals for construction loan purposes also make a determination or estimate of, or does the association know at the time it makes or completes such appraisals, the prices at which the properties are to be sold, or at which they should or will sell?

2. If the prices at which the completed properties are to be sold, or the prices at which such properties should or will sell, are less than the association's appraisals, are those prices used as the basis for setting the top limit on the association's loan for construction purposes? If not, on what basis does the association set such top limit?

When the association finances the purchase of a property it is of course recognized that the appraisal may vary from the actual purchase price, particularly when the appraiser does not know the purchase price. However, that does not explain why theassociation, in its underwriting operation, disregards the purchase price when it is lower than the appraisal. For example, under loan 9428 an appraised value of $5,000 was assigned for construction purposes and loans of $4,000, or 80%, were made. Upon completion of construction, the association made $4,000 loans (supported by appraisals of $5,000 and $5,100) to finance purchases at $4,650, which loans were 86% of purchase price.

Since these properties had been sold and their worth in a competitive market thereby established at the time these permanent loans were made, the association should have based those loans to purchasers on the prices paid by them for the respective properties, by requiring a sufficient down payment by the purchaser to bring the loan into a legitimate relationship to the current market value of the property, or by requiring the builder to use a portion of his profit in a manner that would have accomplished the same result.

Repeating the substance of your reference to this matter in your letter of August 16, 1954 to the association's board of directors, the lending activity just described clearly ignores the well-recognized principle that the loan percentage should be based on appraised value or sale price, whichever is less. As a practical matter, the regulatory restriction on percentage of value that the association may lend on the security of real estate is made empty and meaningless by a practice that does not give effect to this principle. We must insist that the association's lending practice be revised accordingly and you should so advise the association's board of directors.

Sincerely yours

John M. Wyman
Chief Supervisor

JMW/lf

November 12, 1954

Mr. J. M. Sink, Jr.
Supervisory Agent
Home Loan Bank Board
Federal Home Loan Bank Building
Greensboro, North Carolina

Dear Mr. Sink:

In answer to your letter of November 4 addressed to Mr. West, Sr., Chairman of the Board of this Association, I am enclosing herewith original and one copy of the action taken by our Board of Directors in answer to the Chief Supervisor's letter to you of November 1, 1954.

Yours very truly,

George W. West, Jr.
President

GWW:mp

The Chairman read to the Board Mr. Sink's letter of November 4, 1954 and in turn a copy of Chief Supervisor John S. Wyman's letter of November 1, 1954 addressed to Mr. Sink and the Board understands that the request is for the Board's reply to be included in and through these minutes.

Dr. Miller recommended the adoption of the following resolution:

"Whereas the association makes commitments from plans, specifications and lot value by a visit to the lot and a determination of value of the house, and

Whereas this may or may not be the selling price at the time the property is sold by the owner, nor can these commitments be withdrawn or reduced if and when the house is constructed and sold at a selling price which is lower than our appraised value, and

Whereas in some instances we know contemplated selling prices and sometimes we do not-expected prices are one thing and actual another--and

Whereas once the association makes a commitment, which of necessity must be made before the work starts, it cannot change its committed price and the association's top limit is made on 80% of the association's appraisal, and

Whereas the Board understands that under loan #9428 that commitments were made before construction commenced on above stated basis and the reason the contractor owner constructed these houses was his reliance on his ability to obtain $4,000.00 loans, and we believe the values on these properties were sound regardless of selling price; certainly there was no way to withdraw commitments provided we had known the selling price to be less than $5,000.00, and

Whereas the Chief Supervisor's instructions are contrary to Charter provisions and we expect to operate under Charter provisions,

Therefore, be it resolved that this association arrives at appraisals on the basis of charter provisions and therefore operates within the law. The Chief Supervisor is attempting to instruct us according to the last paragraph of his letter addressed to Mr. Sink under date of November 1, 1954 contrary to the law, regulation, and rules, therefore, and to the effect that we must use as value "....appraised value or selling price whichever is less," in every case--all contrary to our understanding of recognized rules of appraising here and throughout the country.

Therefore, we hereby instruct the Chairman or the President to go to Washington to see the Chairman of the Home Loan Bank Board and submit the Chief Supervisor's letter and determine if such instructions could possibly be true and report back to this Board."

Adoption seconded by Dr. Hicks. Resolution unanimously adopted.

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I certify that this is a true and correct copy of excerpt from minutes of meeting of the Board of Directors of First Federal Savings and Loan Association of Atlanta held on November 5, 1954.

_____
Secretary

HOME LOAN BANK BOARD

Housing and Home Finance Agency

Washington 25, D. C.

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101 Indiana Avenue, N. W.

January 14, 1955

George W. West, Sr., Chairman of the Board
First Federal Savings and Loan
Association of Atlanta
Atlanta, Georgia

Dear George:

The principal reason I have not made an earlier reply to your letter of December 16, 1954 is that I had hoped to be in position to say something conclusive about the proposal we have been considering to increase the authorized loan-to-appraisal percentages and the repayment period for certain types of loans. Since it now appears that this will not materialize for some little time, I shall not further postpone an answer to your letter.

What our Supervisory Agent and our Chief Supervisor have recommended to you is, in substance, this:

> In your underwriting operation, permanent or "take-out" loans should generally not be made for amounts greater than 80% (under present regulations) of the price at which the property is being purchased, in a free, competitive market, upon completion and sale by operative builders, even though the plans-and-specifications appraisal made for construction loan purposes is greater than the value established by such purchase price.

Frankly, George, I think that recommendation is sound and that it should be followed by the First Federal in its mortgage lending operation. True, the association's charter and the regulations authorize loans up to 80% of the appraised value of the real estate security; but to take the position that the letter of these provisions gives sanction to loans that exceed 80% of the value established by the price paid for the property in a free, competitive market is to destroy the practical sense and substance of the regulation and leave little if anything but an empty shell.

Personally, I feel that, within certain limits and under certain safeguards, many excellent loans could be made on a basis where the purchaser-borrower makes a bona fide down payment equal to 10% of the purchase price--that is to say with savings of his own rather than with borrowed "equity".

As you know, there are meritorious arguments on both sides of this question; just what the final answer is on the proposition to amend the regulations along that line we are not now prepared to say. Whether the regulations are amended or not, however, our view is that 20- or 25- or even 15-year loans that exceed the maximum authorized percentage of an appraisal which is higher than the price for which the property sells in a free, competitive market are properly subject to supervisory question, and the Board expects that they will be so questioned.

We all know there are exceptions, of course: An estate has to be liquidated, a builder gets into financial difficulties, a drop in the market develops from some strictly local and temporary circumstance--just to illustrate--and an occasional house will be sold below a fair and sound appraisal. As a matter of general practice, however, we do not believe that the price at which the real estate is being bought on a market that is free, competitive, and undistressed, should be disregarded in your underwriting operations, nor that in relation to such sales price the amount loaned should exceed the maximum percentage the association is authorized by the regulations to lend.

It is our recommendation that your lending practices be revised accordingly.

Sincerely yours

(signed) Walter
Walter W. McAllister
Chairman

COPY

FIRST FEDERAL SAVINGS AND LOAN ASSOCIATION
ATLANTA

January 28, 1955

Mr. Walter W. McAllister, Chairman
Home Loan Bank Board
101 Indiana Avenue, N. W.
Washington 25, D. C.

Dear Walter: In re: Supervision - First Federal of Atlanta

We are, of course, disappointed upon receipt of your letter of January 14, 1955, in further reference to the above matter. We are very much pleased that the position you have taken is a recommendation and not an order.

It seems to us that the legal requirements in this matter are clear. We are required to appraise property for loans as specified in the regulations and are authorized to make loans up to a specified percentage of such appraisal. We feel compelled to continue to follow this process until and unless the law is changed.

We believe that we have as good appraisers and make as good and reliable appraisals as anybody, and we know that our appraisers are better than those of many others in the mortgage market.

Of course, our appraisers give consideration to cost and sale prices as well as to market value and other elements, and they will continue to do so. If the Board or anybody else wants to attack the qualification of our appraisers or the validity of their appraisals, we are ready to meet that issue at any time. We think it is very unfortunate for you, without making a direct attack on either, to engage in criticisms and inuendoes and undertake to discredit by the methods which have been used in this matter.

It seems to us that this situation is a good illustration of the trouble that examiners and supervisors will find themsleves in if you adopt as law the substance of your recommendation. It will be discovered, after the commitments are made and even after loans are closed and paid out by the lenders or by the examiners, or by both, that cost or certain sale prices were less than proper appraisal. It would follow that such loans would be illegal loans. And officers and directors are liable per se for negligence in making illegal loans. Again, we call attention to the fact that neither cost nor sales price are within the control of the lenders. The lender has no adequate and certain means of knowing what cost and sale prices are. If you were to change the law to make the recommendation you have made a requirement, we submit that you would be undertaking for your examiners and supervisors an

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enormous amount of detail and that supervised institutions would find themselves with illegal loans discovered months after the loans were made, when nothing could be done about them. Furthermore, as you indicate in your letter, there are many situations where cost or sale price does not represent true value, and the property ought to be appraised for its value and loans made accordingly.

The appraisal of real estate is an old and honorable business or profession and is very well developed. It does give consideration to cost and sale prices, but it undertakes to arrive at value. We do not believe that it is practicable to administer a regulated home mortgage loan program such as ours on any other basis.

Your letter of January 14 and this reply will be submitted to our Board of Directors at their next meeting and I will ask them to approve the contents of my reply.

Yours very truly,

George W. West, Sr.
Chairman of the Board

GWW:mp

EXHIBIT NO. 6.—CORRESPONDENCE BETWEEN THE FEDERAL HOME LOAN BANK BOARD, WASHINGTON, D.C., AND FIRST FEDERAL SAVINGS & LOAN ASSOCIATION OF ATLANTA, ATLANTA, GA., AND OTHER MATERIAL RELATIVE TO THE EXAMINATION AND AUDIT OF THE ASSOCIATION AS OF APRIL 22, 1952

HOME LOAN BANK BOARD,
OFFICE OF SUPERVISORY AGENT,
Greensboro, N.C., June 5, 1952.

BOARD OF DIRECTORS,
First Federal Savings & Loan Association of Atlanta,
Atlanta, Ga.

GENTLEMEN: We are pleased to enclose, for your attention and consideration, Report of Examination and Audit made by Examiner Sloan as of close of business April 22, 1952. This report will, we feel sure, prove beneficial and serve as a basis for review of your past operations and future policies.

Since the date of the previous examination, October 16, 1950, net assets have increased $4,526,681, or 26.5 percent; mortgage loans $3,917,214, or 23.4 percent; and share capital $5,216,909, or 34.0 percent. During the same period $374,220, or 32.8 percent of your net operating income, was transferred to reserves, which now amount to 6.3 percent of net assets or 6.8 percent of share capital.

We note that at the date of this examination, loans subject to Section 145.6–7 of the Rules and Regulations for the Federal Savings and Loan System amount to $4,866,202, or 20.1 percent of total assets. We request that you arrange to reduce these loans to an amount not in excess of 15 percent of the association's assets and, when this has been accomplished, confine loans of this type to the limitations of the above-mentioned regulation. Please advise us when the dollar amount of such loans outstanding has been brought into conformity with the regulatory provisions.

We invite your attention to the Examiner's comments on pages 16B and 16C of the report relative to hazard insurance coverage. In this connection, we enclose copy of our General Letter 1951–13 transmitting the Home Loan Bank Board's policy position in this matter. We would appreciate your advices in this connection.

According to information on pages 16A and 16B of the report, the association has purchased $3,811,500 of GI loans from the Home Owners Company, of which Emmet L. Quinn, one of the association's directors, is Executive Vice President. It is also reported that three other of the association's directors and officers are connected with the selling corporation, which gives rise to questions as to the legality of this operation in view of the provisions of Section 145.6–5 of the Rules and Regulations for the Federal Savings and Loan System. In order that the matter may be more fully considered, we shall appreciate being advised as to the amount of the outstanding capital stock of the Home Owners Company and the amount of such stock that is owned or controlled by any director, officer or employee of the association, or by any person or firm regularly serving the association in the capacity of attorney at law. We should also like to have the names of the directors and officers of this corporation, with appropriate indication in those instances where one person serves both as a director and as an officer.

It is a generally accepted concept that the purpose in making construction loans is to secure the permanent financing. In view of the capable lending organization in your association, we are interested in being advised of the purpose in permitting these loans to be channeled through the Home Owners Company, thus depriving your association of the substantial fee income derived from the loans, especially since your association has already processed the loans through the construction period up to their permanent status.

On Schedule 5 of the report the Examiner points out that dual control is not maintained over the $1,000,000 in negotiable securities. As recommended in the Accounting Guide, and in accordance with policies established by the Supervisory Authorities, we recommend that dual control be established by means of an appropriate resolution of your Board and that such resolution designate the parties to jointly exercise the control.

We request that a record of action taken at your Board meeting pertaining to this letter and report be set forth in the minutes of that meeting and that two certified copies of the same be furnished this office.

Sincerely yours,

J. M. CROSON, *Supervisory Agent.*

HOME LOAN BANK BOARD,
OFFICE OF SUPERVISORY AGENT,
Greensboro, N.C., December 5, 1951.

To all Federal savings and loan associations in the fourth district.

CONTROL BY FEDERAL ASSOCIATIONS OVER PLACING OF HAZARD INSURANCE

Several complaints have recently been received by the Home Loan Bank Board from insurance brokers or agencies to the effect that certain Federal savings and loan associations exercise such control over the placing, extension, or renewal of hazard insurance on real estate security for their mortgage investments as in effect to deny to borrowers freedom of choice and to coerce them into placing their insurance through particular brokers, agencies, or companies. Some of these complaints have come to the Home Loan Bank Board direct, others have been made to the Anti-Trust Division of the Department of Justice and have reached the Home Loan Bank Board through that channel.

(The term "hazard insurance" covers all types of insurance required by an association in connection with a mortgage loan.)

This matter has been discussed by representatives of the Home Loan Bank Board with representatives of the Department of Justice, who have informally expressed the view that to require the borrower to place insurance with a particular agent or company might be a violation of antitrust laws. It has also been considered at length by the Home Loan Bank Board, to determine what, if any, action should be taken by way of regulation, modification or restatement of present supervisory policy, or otherwise.

We are confident most, if not all, Federal associations know, it has long been the Home Loan Bank Board's view that the board of directors of each Federal savings and loan association has not only the right but a duty to establish and to maintain such requirements over hazard insurance as in the fair and considered judgment of such directors are necessary to protect the association's interests. Subject to this limitation, the Home Loan Bank Board feels that those who borrow from Federal savings and loan associations on real estate security should have reasonable freedom of choice in the placing of hazard insurance on their property. This policy was formally enunciated by the Federal Home Loan Bank Board June 15, 1937, and it has been the basis for supervisory action in the comparatively few specific instances that have come to their attention where it appeared that associations were engaging in coercive or monopolistic practices.

After careful restudy of the matter, the Home Loan Bank Board feels that this longstanding policy is sound; that each Supervisory Agent should advise the Federal associations in his District as to the Home Loan Bank Board's consideration and views concerning the matter, pointing out also the antitrust contingencies, and that complaints as to the practices of particular Federal associations should have supervisory attention in terms of such policy, as heretofore.

Since the soundness of the principle embraced in the Board's policy is recognized in the present practices of Federal associations generally, we are confident we can rely on your cooperation in its maintenance in your association.

Very truly yours,

JOS W. HOLT, *Supervisory Agent.*

EXCERPTS FROM THE REPORT OF EXAMINATION AND AUDIT OF THE ASSOCIATION

1. FIRST MORTGAGE LOANS

a. Loan portfolio

The association's loan portfolio consists of:

Loans	Number	Percent	Amount
Loans partially guaranteed by VA	1,433	4	$9,590,470.72
FHA loans	6	5	5,008.49
Conventional direct reduction loans	1	4	11,632.33
Do	1	3½	2,618.86
Do	45	4½	212,039.49
Do	448	5	2,466,340.75
Do	445	5½	1,785,239.70
Do	683	6	1,764,308.11
Do	30	6½	77,732.81
Do	10	7	16,706.10
Total			6,336,618.15
Noninstallment loans (construction)	51	5	3,481,081.60
Do	11	8	1,270,418.77
Total			4,751,500.37
Advances for taxes, insurance, etc	(47)	7	2,296.03
Total			20,685,893.76
Average rate	3,164	4.81	

b. Method of handling taxes and insurance

Borrowers are not required to pay 1/12 of the estimated annual expense of taxes and insurance with each monthly payment. State and County tax records are checked each year, and any taxes unpaid on properties securing association loans are paid by the association. These advances are set up in a "Tax and insurance advances" account and repayment is required in lump sum or in installments sufficient to retire the indebtedness in a reasonable time. Interest is charged on the unpaid balance of the advance each month. Mrs. Mobley, Vice President, stated that all taxes on properties securing association loans have been paid through the year 1951.

c. Lending operations

First mortgage loans granted since the date of the previous examination are summarized as follows:

Loans	Number	Percent	Amount
Loans partially guaranteed by VA	375	4	$3,935,587.50
Conventional direct reduction loans	3	4½	40,000.00
Do	98	5	981,053.66
Do	117	5½	725,789.69
Do	212	6	846,988.00
Do	20	6½	68,000.00
Do	5	7	13,075.00
Total			2,674,906.35
Additional loans	7		21,050.00
Noninstallment loans (construction)	51	5	3,590,050.00
Do	9	8	1,259,000.00
Total			4,849,050.00
Loans made and still on books	897		11,480,593.85
Loans made and repaid	69		2,629,550.00
Total loans granted	966		14,110,143.85

d. Purchase of loans

In the period reviewed for this report the association purchased 372 G.I. loans in the amount of $3,811,500.00 from the Home Owners Company. The loans were purchased at par and endorsed as follows:

"For value received, Home Owners Company hereby sells, assigns, transfers and conveys, without recourse, to First Federal Savings and Loan Association of Atlanta its successors, and assigns, all its rights, title and interest in the foregoing loan deed, the debt secured thereby and the real estate conveyed therein, together with all rights, powers and privileges mentioned therein.

"In witness whereof, Home Owners Company has affixed its name and seal this — day of ——— 195–.

HOME OWNERS COMPANY,
By ----------
By ----------

Two of the following three officers endorsed all papers; Emmett L. Quinn, Executive Vice President, Wm. J. Hogan, Vice President; and Essie Cain, Assistant Secretary. Mr. Quinn is a Director of the First Federal Savings and Loan Association of Atlanta.

It was reported to the examiner that the following officers and/or directors of the First Federal Savings and Loan Association are also officers and/or directors of the Home Owners Company—Mr. George W. West, Mr. Emmett L. Quinn, Mrs. Marilu Mobley, Mr. George W. West, Jr.

The First Federal Association of Atlanta originally made construction loans to contractors on these loans. The Home Owners Company then financed G.I. loans as the properties were completed for which it charged the seller a fee of 1%. The date of the loan closing by the Home Owners Company and the purchase of the loan by the association was the same. One check is written daily by the association for the unpaid balance of the loans purchased that day. The amount of the purchase represents the original amount of the loan.

The minutes of Directors Meetings show these loans approved as loans made, they are not listed as purchase of loans.

e. Concentrated lending

The loan portfolio contains loans to borrowers who have six or more loans, or blanket loans of more than six units, as follows:

Borrower	Number loans	Number units	Original amount	Balance Apr. 22, 1952
E.A. Baylis	2	130	$616,000	$591,030.90
C. E. Booth, Sr	2	33	251,600	234,360.93
J. M. Buice	1	6	36,000	36,000.00
Roy Carlton	3	24	155,400	155,400.00
B. J. Fett	6	12	80,500	68,677.21
Fred G. Fett	4	12	74,200	51,045.08
D. S. Harrington	2	13	122,500	113,500.00
S. L. Holcombe, Inc	1	32	236,200	206,560.60
Sam D. Johnson	1	15	34,000	13,784.89
J. W. Long	2	76	657,500	657,500.00
Mrs. D. C. Manley	5	52	326,250	326,243.03
R. S. Moore	2	30	120,000	120,000.00
C. A. Leaman	1	16	144,000	144,000.00
W. H. Smith	7	488	1,609,250	1,286,019.03
George W. Whitley	5	79	626,600	625,491.00
Total	55	1,018	5,090,000	4,629,612.71

The unpaid balance of the above loans is 23.5% of the total unpaid balance of mortgage loans as of April 22, 1952.

f. Collection policy

Mortgage loan collections are handled by Mr. John H. Gilbert, Assistant Treasurer. A notice of payment due is mailed to borrowers around the 15th of the month. Mr. Gilbert prepares and keeps a list of payments due and contacts borrowers by telephone until the account is brought up to date or until satisfactory arrangement has been made to take care of the delinquency. The account is turned over to the Attorney for collection when the payments are 60 days in arrears. Some exceptions are made in turning the account over to the Attorney, but these are few. If the Attorney is unable to secure results, foreclosure proceedings are instigated.

The performance of loans listed as subject to comment in the report October 16, 1950, was checked and disposition noted as follows:

Disposition	Number	Balance, Oct. 16, 1950	Balance, Apr. 22, 1952
The loans assumed by other parties, current	2	$16,569	$15,004
Payments current	2	7,522	6,705
Total	4	24,091	21,709

2. HAZARD INSURANCE COVERAGE OF ASSOCIATION LOANS

The association's application for loan contains the following: "The undersigned agrees to sign the Association's usual loan papers, including note and security deed. If for any reason the loan is not consummated, the undersigned agrees to pay the actual reasonable expenses including cost of appraisal, cost of survey, attorney's fees for investigating title and preparing the necessary papers, cost of credit report, and inspection fee. The undersigned also agrees to furnish reasonable adequate insurance against fire and extended coverage through an agent in a company designated by the lender."

Insurance coverage on all but 15 of the 897 loans closed during the period reviewed for this report was placed through the Home Owners Company. The majority of policies placed through Home Owners Company were with Home Owners Mutual Insurance Company, Chicago, Ill. Home Owners Company as agents placed 98.3 percent of the policies written while other agents placed 1.7 percent of the policies written on loans closed during the examination period and on the books of the association April 22, 1952.

3. BRANCH OFFICE

The association's branch office in East Point, Georgia, was opened for business July 16, 1951, with Mrs. Mamie King, Assistant Secretary in charge. Subsidiary ledgers for mortgage loans, savings and investment accounts are kept in the branch office. Daily receipts are deposited in the branch's account in the Bank of Fulton County, East Point, Georgia. Mrs. King is authorized to sign checks and handles repurchases and similar disbursements at the branch office. The bank account is reconciled each month by Mrs. Mary Lee Jones, Treasurer and the record of the reconciliation is kept in the main office.

Daily receipts and disbursements are called in to the main office each day and posted to a subsidiary cash book. The receipts and disbursements are totaled at the end of the month and posted in one total to the general cash book. A separate set of general books is not kept for the branch office. Mrs. Jones advised that she goes to the branch office the last of each month and checks the records for the month, the tapes of subsidiary ledgers are run by Mrs. Jones or by branch office personnel and the tapes kept in the branch office.

As of the examination date the branch office was servicing 118 mortgage loans with an unpaid balance of $531,405.80; 319 savings accounts totaling $240,528.83; and 8 investment accounts totaling $24,300.00. All of the mortgage loans originated in and were transferred from the main office. Since the branch opened 239 new savings accounts have been opened there.

4. GENERAL

The management sent out a letter to a list of preferred real estate agents offering a 1 percent commission on loans placed with the association. The Association has paid commissions for the three six months operating periods and the current period covered by this report in the following amounts:

Dec. 31, 1950	$335
June 30, 1951	502
Dec. 31, 1951	1,095
Current	760

The commission paid was debited to the Service Charge account along with other loan expenses and was not adjusted to expense for this report. The commissions were paid at the rate of 1 percent on loans bearing interest at 5 percent or more and at the rate of ½ of 1 percent for loans with interest rates of less than 5 percent.

15 percent of asset limitation

Loans other than homes	$38,348.91
Noninstallment construction loans	4,751,500.37
Loans over $20,000 on homes	62,183.95
Real estate owned	14,169.02
Total	4,866,202.25

The total of loans included in the above summary is 20.1 percent of total assets. The two properties included in real estate owned are to be deeded to the Veterans' Administration and will reduce the percentage 0.1 percent.

Investments—Schedule No. 5

Description	Par value	Rate (percent)	Maturity	Actual cost	Book value	Market value	Loss or gain	Interest accrued (if carried as an asset)	Comments
Stock F.H.L. Bank, of Greensboro, N.C.	$400,000			$400,000.00	$400,000.00				Registered stock.
U.S. Government obligations:									
U.S. savings bonds, series G.	500,000	2½	Nov. 1, 1954, to Jan. 1, 1963.	500,000.00	500,000.00				Registered bonds.
U.S. Treasury bonds, 1972-67.	1,000,000	2½	Dec. 15, 1972	996,765.63	996,765.63				Coupon bonds.
Total Government obligations.	1,500,000			1,496,765.63	1,496,765.63				
Total	1,900,000			1,896,765.63	1,896,765.63				

NOTE.—All of the above securities are held in a safe-deposit box in the association vault. The key to this box is in Mrs. Mobley's possession and dual control is not exercised over the $1,000,000 in negotiable securities.

JULY 11, 1952.

HOME LOAN BANK BOARD,
Office of Supervisory Agent,
Greensboro, N.C.
(Attention Mr. J. M. Croson, Supervisory Agent).

GENTLEMEN: We acknowledge receipt of your Examination and Audit as transmitted to us under your date line of June 6, 1952 and received by us in the morning's mail of June 9, 1952. We have discussed this report in its entirety and reply with as much degree of sequence as possible to the questions raised.

It has been our policy in making construction loans to create the least cost possible on the owner-builder; therefore, we have attempted to deal with them on a blanket basis regarding their total plans to build a number of houses in a subdivision. In the main, their buildings are in all stages of progress up to buildings that are completed and being permanently financed. It has been our policy to do business with a few builders whose ability is well-known to us and who are less expensive to deal with than individuals in the novice class or many contractors, builders, or owners whose ability and responsibility is either unknown to us or not easily determined.

This is close to the peak period and many of these houses are being placed on the market and they are being permanently financed every day, so within the next few months, these loans will decline. A substantial number of these houses are to be GI loans and many of them have been prior appraised.

According to Vice President Mobley and Treasurer Jones, your audit is incorrect as indicated in paragraph 1. e. entitled "Concentrated Lending." The column showing "original amount" is $426,000 excessive and the column showing "balance 4-22-52" is more than $227,000 excessive. In all construction loans, our borrowers give us a written right to credit any escrowed or undisbursed funds at any time at our option on the original loan. It is a fact that the actual funds disbursed at the time of your audit in relationship to our total loan volume was 14.41%; therefore, we do not consider that we have violated Section 145.6-7 of the rules and regulations.

It has been the policy of this association since its inception to reserve the right to designate agency and company in the matter of hazard insurance. It is made clear to prospective borrowers here that this legal right is incidental to acquiring a loan. Prospective borrowers, therefore, have the choice of going elsewhere if they are dissatisfied. Even though the insurance premium is paid for by the borrower, we believe such rights can be delegated when understood and transferred.

This Board calls attention to the fact that surveyors, title attorneys, title insurance appraisers, and other services required incidental to acquiring a loan are paid for by the borrower but the choice of who performs those services is one which the lender controls. Almost all the complaints we have ever had on this question originated not with our borrowers themselves but with someone who had purchased a property and assumed or bought subject to our contract. Our applications state our position clearly as indicated in your report and at that time the applicant has spent no money. Our security deeds again relate our position and our rights and they are all on record in the county, of the property. Once in a while we find some aggressive or ambitious insurance agent who attempts to dissatisfy our borrower and, in the case of veterans, we believe more than 98% have invested no cash money in acquiring the property; therefore, we consider our interest superior indeed to theirs.

It is also a well-known fact, not only for our own preservation but for that of endorsing agencies as well as people, that the obligation rests squarely on us to see that the property is insured at all times and that the policies issued are in good standing. Atlanta is a very competitive town in the insurance field for under the classification "Insurance" in the telephone book we count 518 listings. Some of these are general agents; some are actual companies, but in the main they are agents. All of these agents of any size or standing are in the loan business, and for the larger ones, they have always had insurance and other funds at a lower rate and for a longer term of years and with higher appraisals than we could afford.

We are not in the insurance business and never expect to be. None the less, these insurance people are our competitors in the loan field and do consistently take business away from us. It is common knowledge in Atlanta that insurance agents expect loan people to collect their premiums and remit without their using ordinary business practice to attempt collection themselves. If the assured

does not remit, notice is received by registered mail that the policy is withdrawn and cancelled. We receive such notices once in awhile, and after the ten days expire, we order a policy written and usually within another two or three days we get a notice that the cancelled policy is in full force and effect. This has caused us any amount of trouble and time and expense. It is true that many of these agents do not know the difference between a mortgagee and mortgagor, and in order to correct or change policies, we frequently are required to go through two or three offices and to a general agent.

We have had experience in years gone by in settling losses through some agents and through some companies, and for the benefit of not only ourselves but the assured, our borrower, and for some of these companies and agents who have mistreated our borrowers in the matter of adjustments and caused hardships through the loss of time and recovery, we will not permit their policies in our files. Some of them have made remarks about this association in years gone by that have caused us to act the same way toward them.

We have had a $50,000 lawsuit pending against us by an Atlanta agency who represents an Atlanta company, which suit your examiners usually inquire about and report about and which has never come to trial. A member of this agency firm is a director in a competitive association in town. They are apparently unwilling to try the case in which they claim slander, etc., because we would not accept their policies. They thoroughly mistreated one of our borrowers and a record of this case has been long since known to your department.

It has been common practice in settling fire damages among most of these companies to refer the loss report to a professional adjustment agency, whereupon the agent who has lived off the premium, washes his hands in the matter and the professional adjuster attempts to confuse the terms of the policy and to settle for as little as possible unless collusion existed between such adjusters and contractors who expected to divide part of the spoils as has been reported to this Board where we have seen cases and believed that such collusion existed.

This Board can report more than one case where people have commended this association when they have paid no attention to cancellation notices and we exercised our right and did insure the property and losses occurred and these borrowers would not have collected any insurance except for our diligence.

We have many reasons to deal principally with the Home Owners Company. They represent more than one company. This Board does not direct them in the placing of their insurance. They are easy to contact. They are our tenants, and they inspect losses promptly and make, we believe, liberal settlements.

There is another matter in the interest of a borrower long known to this Board and that is the simplicity and saving to the home owner in the matter of carrying insurance with one agency and company rather than giving it in thousand dollar or similar multiples to eight or ten friends in the insurance business and as many different companies. We have experienced loss adjustments in the matter of scattering small coverage and we are satisfied beyond a question that our interest is likewise involved. We believe the right which we require is a legal right in a free country. It is not unusual. As a matter of fact, we find many insurance companies over a long period of years making loans in this community and requiring the insurance in their own companies.

In the matter of the small agents with no loan connection, we have from time to time offered then loan connections in exchange for which we would name their agency and company.

We do have evidence beyond a question that fire insurance agents, themselves, prepare most of the letters of complaint that we have had, and they are not numerous, and as we have said before, they are in the main from people to whom we did not lend money.

To such insurance companies as ever entrusted their investment funds to us, we have endeavored to patronize not only for our business but also with such business as we could influence from friends or customers. We believe this is good practice and not uncommon.

Certainly the president of this association as well as some of the others interested did promote this association in the early days for ten years or more on a free basis receiving no compensation, yet having much responsibility. The same was done in the matter of the Home Owners Company. Inasmuch as some of us have tried to make both companies successful and grow, we have good reasons to patronize them but at the same time acclaim and declare that they are not affiliated. It might be well to record the fact that this association owns no stock in or has no financial interest whatever in the Home Owners Company and cer-

tainly the Home Owners Company has no shares, either savings or investment, in this association.

We do not regard the Home Owners Company as an affiliated institution, and in order that you might have the information, and doubtless more than you require, we have prevailed on them to give us—

1. A financial statement.
2. A list of their stockholders.
3. A list of their officers and directors.

They are in the insurance, loan, and real estate business. They rent two locations from us in our office building and pay regular prices for such spaces. They have never occupied quarters jointly with us. They have been in business since 1925; whereas, the First Federal has been in business since 1924.

We are advised that they have on their payroll approximately ten people plus from six to ten commissioned salesmen. They have supplied us with a record which indicates that they have made 901 GI loans through May 30, 1952, amounting to $8,576,017. This audit indicates the amount which we have purchased, and we are advised by them that the difference they either own or have sold to the Federal National Mortgage Association, Prudential Insurance Company, or others. They advise us further that they are in the business of servicing some $4,186,000 worth of loans.

Notwithstanding the fact that a transfer of these loans might be signed by director or officer of this association, we are not violating the provisions of Section 145.605 of the rules and regulations. We have purchased these loans at par, whereas for a part of the time at least an agency of the "government" has been offering similar loans above par.

We are unable to reconcile the statement made in third from the last paragraph in your transmittal letter and do not believe that the statement that we can earn substantial fee income from these loans is true as we are very clearly on notice that if we make the construction loan on a piece of property, such loan cannot exceed the well-known terms of 5—2½. It is reported, as this letter is being dictated, that the Veterans' Administration has an order which is intended to modify this situation. Even so, and it is our understanding that the Home Owners Co. makes a legal service charge of some sort amounting to $100, we believe they earn the money because they do all the leg work, make all the contacts with the Veterans' Administration, get the appraising done, inspections made, and the burden of credit and character report investigation is on the Veterans' Administration with them as lenders and we have some degree of insulation as the purchaser of a mortgage from a legal standpoint which we would not have as the original maker. We regard the matter of choice between the operation of "the capable lending organization" of ours to make original loans or to decide to purchase loans to be the business of this association and not the business of the Supervisory Agent.

Even though "the substantial fee income derived" from making G.I. loans might be ours, if it is only $100 per loan and we can find somebody else to do all the work, we might still believe in making purchases rather than processing loans.

Let it be said that for many years we preferred to remain out of the construction loan business and that in our opinion the present dividend rates prevailing in this community could not be paid except out of high rate earnings such as construction loans afford and this has been true always.

In further reply, let us say that the construction loan financing is to an owner-builder and that the GI loans (and we purchase only GI loans) while on the same properties, are not to the same people. The construction loans are obviously not loans guaranteed by the "government." We might add, too, that through the process of "government" endorsement on GI loans to the ultimate end, the guaranty is 100 percent. We expect to carry about half of our loan portfolio, if possible, in GI loans as a hedge against a market that might decline. The record will show that we made the first one in this state and we have had considerable experience with them.

Our own auditors report for our fiscal year and calendar year of 1951 loans in arrears more than thirty days amounted to two one-hundredths of one per cent of the total direct reduction loans outstanding, and when our Board met on Friday, June 6, at its regular meeting, delinquencies on the same basis out of all the loans in our portfolio were two by number and both GI's.

In your general comment, we call attention to the fact that real estate owned is property that the Veterans' Administration will pay us for in due time with the exception of two vacant pieces of property which we acquired long since

which have practically no value, one a small triangle with probably disputed title and another piece of bottom land returned for taxes with our own assessment for a total of $130 and accepted by the tax authorities.

As far as the custody of government bonds is concerned, we think we have dual control. Vice President Mobley has a master key to our own deposit box in our vault and Treasurer Jones has the other key. If you prefer that the box key be handled by the President, we should be glad to relieve Treasurer Jones of this responsibility and have our President handle the key. Otherwise, if it is only a matter of having an appropriate resolution incidental to the existing dual controls, we will see that one is entered in the minutes at this meeting substantially along the lines of present handling.

We hand you herewith as requested two certified copies, and this entire communication is made a part of the minutes of this association and all of the directors present are hereby signing this letter.

Yours very truly,

FIRST FEDERAL SAVINGS AND LOAN ASSOCIATION OF ATLANTA,
By George W. West, President; Joseph S. Shaw, Vice-Pres.; Marilu Mobley, Vice-President; George H. Dyer, Director; E. W. Gottenstrater, Director; T. O. Hathcock, Director; Thomas J. Hicks, Jr., Director; Hal C. Miller, Director; E. Ralph Paris, Director.

Stockholders of record May 31, 1952

Name	*Amount of shares*	*Name*	*Amount of shares*
J. N. Bailey	30	A. Walton Hall	220
Essie Cain	1,000	E. Ralph Paris [1]	2,280
A. K. Derrick	30	Mrs. Mildred G. Pendergrass [1]	1,000
H. R. Derrick	30	W. J. Pyron, Jr	500
George N. Dyer [1]	3,000	Emmett L. Quinn [1]	2,280
T. Hugh Freeman	10	Mrs. Emmett L. Quinn	1,000
E. W. Gottenstrater [1]	1,140	Mrs. J. C. Ray	80
T. O. Hathcock [1]	2,280	Gene Roberts	170
Home Owners Company	1,990	Joe L. Roberts	220
H. H. Jenkins	1,650	Mrs. Forrest Lovelace Roberts	510
I. M. Jenkins	1,660	Joseph S. Shaw [1]	2,500
Herbert Johndon [2]	2,340	Charles B. West	1,000
Mrs. Mary Lee Jones [1]	1,000	George W. West [1]	14,540
Gunnelle Lowe	3,590	Mrs. George W. West	680
Estate of Mrs. Alline B. Marshall	5,750	George W. West, Jr. [1]	1,000
Douglas W. Matthews	1,590	H. J. West, Jr	1,230
Dr. Hal C. Miller [1]	2,280	Estate of Mrs. H. J. West, Sr	3,190
Mrs. Marilu Mobley [1]	2,500	Mrs. S. J. West	3,420
Miss Josephine Murdoch	1,000	West Lumber Company	2,560
		Total (38)	71,250

[1] Officer, director, or employee of First Federal Savings & Loan Association.
[2] Attorney for First Federal Savings & Loan Association.

OFFICERS

George W. West,[1] President
Emmett L. Quinn,[1] Exec. Vice President
William J. Hogan, 3rd, Vice President
Mrs. Marilu Mobley,[1] Secretary
Essie Gain, Asst. Secretary
Ivan M. Jenkins, Treasurer

DIRECTORS

Essie Cain
Harold H. Jenkins
Ivan M. Jenkins
Mrs. Marilu Mobley [1]
Emmett L. Quinn [1]
Charles B. West
George W. West, Jr.[1]
George W. West [1]
Herbert J. West [1]

[1] Officers or Directors of First Federal Savings & Loan Association.

HOME LOAN BANK BOARD,
OFFICE OF SUPERVISORY AGENT,
Greensboro, N.C., July 24, 1952.

Mr. GEORGE W. WEST,
President, First Federal Savings & Loan Association,
Atlanta, Ga.

DEAR MR. WEST: We acknowledge, with thanks, letter of 11 July as well as two certified copies of the action taken by your Board of Directors on 18 July with reference to the report of examination and transmittal letter.

We appreciate the cooperation of your Board and the thoroughness of the reply to our supervisory letter.

We are forwarding a copy of your letter to the Chief Supervisor's office for their review.

Sincerely yours,

J. M. CROSON, *Supervisory Agent.*

EXHIBIT NO. 7.—INSURANCE CHECK SHEET AND LIST OF 14 INSURANCE AGENTS IN ATLANTA, GA.

(3)

FIRST FEDERAL SAVINGS AND LOAN ASSOCIATION OF ATLANTA:

It is my desire to assume personal responsibility for the placement and renewal of an insurance policy, satisfactory to you, insuring the property identified below against loss by fire and other hazards, required under the terms of my Warranty Deed to Secure a Debt, and for the direct payment of the 5 year insurance premiums on all said policies. You are authorized to accept such insurance policy for the account of the undersigned from the Agent and Insurance Company as listed on Form #1 attached, which policy will adequately insure you as first mortgagee.

I hereby fully release you from all liability for any loss resulting from any lapses, errors, omissions or delays in the writing or delivery of such policy. This does not modify the terms of said Warranty Deed to Secure a Debt.

During the term of the loan, if any required renewal policy to be furnished by me or my Agent aforesaid is not in your hands properly written and satisfactory to you, with a receipted 5 year premium bill attached, thirty days before its proper renewal date, you are authorized to place the required insurance and to charge the loan expense account with the premium paid.

In the event of any damage to the property I agree to notify you of the damage within twenty-four (24) hours after the loss. I further agree to make no settlement for any loss under the policy without your prior approval.

_____

DATE_____

LOAN NO._____

PROPERTY ADDRESS_____

_____

(1)

1.	(__) Adams-Cates Company	-(__) Hartford Fire Insurance Co. Hartford, Connecticut
		-(__) National Union Fire Insurance Company Pittsburg, Pennsylvania
2.	(__) C. G. Aycock Realty Co.	-(__) Philadelphia Fire & Marine Insurance Company Philadelphia, Pennsylvania
		-(__) Buffalo Insurance Company Buffalo, New York
3.	(__) James M. Baker	-(__) St. Paul Fire & Marine Insurance Company St. Paul, MInnesota
		-(__) Sterling Fire Insurance Co. Cobleskill, New York
4.	(__) Cole, Sanford, & Whitmire	-(__) National Union Fire Insurance Company Pittsburg, Pennsylvania
		-(__) Pacific National Fire Insurance Company San Francisco, California
5.	(__) Dargan-Whittington & Conner, Incorporated	-(--) Hartford Fire Insurance Co.
		-(__) The Home Insurance Company New York, New York
6.	(__) Dilbeck-Dominey Insurance Agency	-(__) Georgia Casualty & Surety Co. Atlanta, Georgia
		-(__) Pacific National Fire Insurance Company
7.	(__) DuBose-Egleston	-(__) Hartford Fire Insurance Co.
		-(__) General Accident Fire & Life Assurance Corp., Ltd. Perth, Scotland and Philadelphia, Pennsylvania
8.	(__) Harrell and Company	-(__) General Insurance Company of America -- Seattle, Washington
		-(__) Northwestern Fire & Marine Insurance Company Minneapolis, Minnesota
9.	(__) Home Owners Company	-(__) Northern Insurance Company of New York --New York, N.Y.
		-(__) Georgia Casualty & Surety Co. Atlanta, Georgia
		-(__) Continental Casualty Company Chicago, Illinois
10.	(__) Ben T. Huiet & Son	-(__) Progressive Fire Insurance Company --Atlanta, Ga.
		-(__) Illinois Fire Insurance Co. Chicago, Illinois
11.	(__) Lipscomb-Ellis Company	-(__) Southern General Ins. Co. Atlanta, Georgia
		-(__) New England Insurance Co. Springfield, Massachusetts
12.	(__) A. G. Smith Insurance Agency	-(__) Pacific National Fire Insurance Company
		-(__) Firemans Insurance Company of Newark, New Jersey Newark, New Jersey
13.	(__) Weyman and Company	-(__) Empire State Insurance Co. Watertown, New York
		-(__) Pacific National Fire Insurance Company
14.	(__) Draper-Owens	-(__) Philadelphia Fire and Marine Insurance Company

I select the insurance agency and company checked above and authorize them to furnish you with a five year hazard insurance policy on my property.

Date_____ _____

EXHIBIT NO. 8.—LETTER FROM ALBERT J. ROBERTSON, CHAIRMAN, FEDERAL HOME LOAN BANK BOARD, TO GEORGE W. WEST, SEPTEMBER 9, 1960

FEDERAL HOME LOAN BANK BOARD,
Washington, D.C., September 9, 1960.

Mr. GEORGE W. WEST,
West Lumber Co.,
Atlanta, Ga.

DEAR MR. WEST: Receipt is acknowledged of your letters of August 18 and 22, 1960, on the letterhead of West Lumber Company, with which you enclosed a copy of your letters of August 8 and 11, on the letterhead of George W. West, attorney at law, the first addressed to Mr. John M. Wyman, and the second to Messrs. Verne C. Bonesteel and John M. Wyman.

The subject of your letter of August 8, it seems to us, must be considered in the context of the relevant facts as disclosed by reports of examination of the association's records and operations over the last several years and by information supplied by its officials. Those facts in brief are:

During the period covered by the March 19, 1954, examination the association purchased from Home Owners Company 382 loans totaling more than $3.7 million which loans that company had made as "takeouts" of short-term construction loans made by the association. Of 1,566 loans made or acquired during that period, the security for 1,534—or 98 percent—was covered by hazard insurance written by or through Home Owners Company. In reply to supervisory objection in 1952 to the apparently monopolistic hazard insurance practice, the directors' minutes of July 18, 1952, state, "It has been the policy of this association since its inception to reserve the right to designate agency and company in the matter of hazard insurance. It is made clear to prospective borrowers here that this legal right is incidental to acquiring a loan. Prospective borrowers, therefore, have the choice of going elsewhere if they are dissatisfied." According to a written statement furnished the examiner in 1954 by Herbert J. West, President of Home Owners Company, a majority of that company's stock was owned or controlled by association directors, officers, employees, members of the families of some of them and concerns controlled by them.

During the period covered by the July 13, 1955, examination, 124 loans totaling approximately $1.3 million were purchased by the association from Home Owners Company, and 26 loans were made by the association to borrowers to finance their purchases of houses from West Lumber Company, which company took second mortgages; the amounts of the second mortgages plus the amounts of the first mortgages aggregated more than the association's appraisals and the sales prices, resulting in no equity on the part of 25 borrowers and an equity of $10 on the part of 1. A majority of the stock of West Lumber Company was then and, insofar as we are informed, still is owned by George W. West and George W. West, Jr., who were then chairman and president, respectively, of the association.

During the approximate 2½ year period covered by the January 14, 1957, and January 13, 1958, examinations, 174 loans totaling approximately $1.3 million were made by the association to borrowers to finance their purchases of houses from West Lumber Company and Home Owners Company, which companies in 157 instances took second mortgages aggregating approximately $612,800. Of those second mortgages, 60 called for balloon payments ranging from $200 to $2,650 at the end of their term, which term was from 8 to 10 years in the case of West Lumber Company and from 5 to 20 years in the case of of Home Owners Company. During the latter examination the association's president informed the examiner that George W. West and George W. West, Jr., owned 69 percent of the stock of West Lumber Company and that association directors, officers, and employees owned more than 20 percent of the stock of Home Owners Company; but by letter dated February 11, 1958, you refused to divulge to the examiner information from which he could determine the percentage of Home Owners Company stock held by the families of association directors, officers, employees, and attorneys and by concerns owned or controlled by them.

In the January 14, 1957, report, the examiners reported that they were informed by several builders that it was a requirement that builders purchase building materials from the West Lumber Company in order to obtain financing by the association. The January 13, 1958, examination report disclosed that of

the 773 new loans made since the preceding examination date, and still outstanding, the security for 687—89 percent—was covered by hazard insurance written by or through Home Owners Company. Included in the report of January 14, 1957, are affidavits by three borrowers pertaining to loans aggregating almost $6 million, in which such borrowers certified that they were either required to purchase building materials from West Lumber Company in order to obtain financing by the association or were threatened with stoppage of loan disbursements if they failed to purchase building materials from that concern; and certifying in two instances that they were threatened with a cutoff of financing unless sales of their houses were placed in the hands of Home Owners Company, and in one instance certifying that the cutoff of construction funds was threatened unless all of the hazard insurance were placed with Home Owners Company.

"During the period covered by the January 14, 1957, examination, the association foreclosed $963,000 of loans. One project, involving an association loan balance of $1 million, was taken over by Home Owners Company through foreclosure of its second mortgage. The security for another loan with a balance of $105,000 was conveyed to West Lumber Company. At the examination date, the association had delinquent loans of almost $3.4 million—practically all for construction—equal to 9.5 percent of total loans, and its real estate owned account was $900,000, equal to 2.2 percent of net assets. At January 13, 1958, real estate owned by the association had increased to $2,108,000 or 4.8 percent of net assets."

The record shows that throughout the periods covered by those reports these matters were brought to the attention of the board of directors both by copies of the examination reports and by letters of supervisory comment, including the letter of December 2, 1957, to which you refer. The close identity of managerial interests and control as between the association and the other concerns named, and the meaning and implications of the facts and practices described, as well as the context of that and earlier supervisory letters, would seem to leave no need to explain the thought intended to be conveyed in that letter by using the word "affiliated" in quotation marks. We can only speculate as to why, after more than 2½ years during which neither you nor any other director of the association raised any question or objection to us, to the Director of the Division of Supervision, or to the Board's Supervisory Agent about the intended meaning or use of that word in that letter, you would now elect to make an issue of it.

Your letter of August 11, 1960, apparently refers to the report of examination of the association as of January 22, 1960. The contents of that report are a matter between the association's board of directors and this Board. According to information now available to us, you were not then and are not now a director or officer, and we have received no indication from the association that you are authorized to act for it.

Sincerely,

ALBERT J. ROBERTSON, *Chairman.*

EXHIBIT NO. 9.—LETTER FROM GEORGE W. WEST, ATLANTA, GA., TO ALBERT J. ROBERTSON, SEPTEMBER 21, 1960

SEPTEMBER 21, 1960.

Mr. ALBERT J. ROBERTSON,
Chairman, Federal Home Loan Bank Board,
Washington, D.C.

DEAR MR. ROBERTSON: I have your letter of September 9.

I notice you referring to the letterheads I happened to have used and I can assure you that they are not phony, as the West Lumber Company has been used since the year 1892, the year I was born, and the attorney at law stationery was printed so long ago that I cannot remember when Atlanta had a Vernon telephone exchange, and I notice from the certificate on my wall that I was admitted to practice in the United States Supreme Court in April 1954.

It seems to me that if you had believed I was disqualified to discuss the business of the First Federal of Atlanta with you, as indicated in the last paragraph of your letter, that you might as well saved yourself the other 2½ pages.

I explained to you on July 29 in the outside office of Mr. Dixon late one afternoon that I had called on Mr. Wyman and reminded him that he had thrown me out of the First Federal some 2 years and 4 months before, and

that after giving him a week to study the question, I had returned that very day to have him reinstate me in the First Federal, as far as he could legally do so, and I reminded him and told you that he had taken away from me some things he could not replace: One, a member of the First Federal Board, and two, the Chairman of the Board. I further told you that I had reached an agreement with him that I was going to return to the First Federal and if irregularities were being imposed by examiners and supervisors, I was going to bring the information back to him.

I further told you that I intended to complain about the way I was treated by him and with your knowledge, and in restoring me to whatever ejection from the premises meant, I would feel free to move around the First Federal as I had since the day it was established until he threw me out. It is well to call to your attention that my agreement with Mr. Wyman 2 years and 4 months ago was that I retain the title of "Chairman of the Board, Retired."

There is no use for me to assume that the various figures you have quoted in your letter are correct, because I have found that both the examining division and the supervisory division have made errors. For the first time, to my knowledge, they have both apologized for figures they erroneously made in the First Federal's last report, for which there was no excuse.

When I called on you some 2 years ago to advise you of Mr. Wyman's action against me, I discussed the insurance question with you and told you that every mortgagee that I had represented had a clause giving the mortgagee a right to name agency and company in the matter of insurance, and you agreed that you thought this was necessary and advisable. When examiners charged coercion on the part of the First Federal about the matter of insurance, they were certainly reminded that in the application for a loan, which was the initial contact made by the prospective borrower, that the First Federal would have this clause in their security deed.

All the loans referred to in your letter are GI loans and, therefore, the holder of any one of them could not lose any money and for those, First Federal purchased from the Home Owners Company. The First Federal had nothing to do with the insurance and it can be assumed that the Home Owners Company placed the insurance with some of the companies they represent, which has been a custom with loan brokers since the day I can remember, and certainly these purchases were made at par.

This time is from 2 to 5 years later than all of those loans referred to in your letter and the record at the First Federal has been examined and audited more than once. These facts will disclose the First Federal never lost any money on any of these transactions and, to the contrary, made all the money they ever intended to make under the contracts on both principal and interest. These are broad statements and, if you find anything to the contrary, I should like to hear from you.

There is nothing unlawful or contrary to your rules or regulations about the transactions to which you refer and they are all covered in utmost detail in the First Federal's records, and yours, without any attempt on the part of anybody to cover up facts.

In the Johnson-Wyman agreement entered into at the time I was expelled, there is a paragraph which reads as follows: "The person who takes applications for loans will tell all prospective borrowers that fire and extended coverage insurance is required and ask if they have any preference as to agency. If the borrower names a choice, his choice will be accepted; if not, the Home Owners Company will be suggested. The borrower can accept or refuse this suggestion. The borrower or any subsequent purchaser shall have the right to change insurance on any anniversary date of the policy." All of this we had been doing at the First Federal for several years, which you refer to as "the apparently monopolistic hazard insurance practice."

In the early part of Chairman McAllister's administration, First Federal thought they could best stop this complaining about insurance by preparing a check sheet, which copy certainly had the approval of the FHLBB, and which copy I drew up, myself, and there must be one in your examiner's file. This check sheet contained some 15 or more agencies in Atlanta with two or more insurance companies each, with a blank line at the bottom for customer's choice, and the First Federal's files must be full of them.

Loans are closed in the First Federal's offices by First Federal's fee attorneys, and certainly they will say that they have handled this customer's choice question as per your Board's policy which, so far as I know, is certainly not

regulation and which abridges the right to contract in this State. If these people have no choice, the Home Owners Company has been indicated. In the main, they are purchasers never having insurance on real estate before and they seldom have a company to name.

I have handled insurance for 50 years and talk to some insurance agent every day somewhere, and I know that it is to the advantage for dozens of reasons to have all this insurance, if possible, with one agency and with one company that makes prompt adjustments, and with the full knowledge of the mortgagee's interest.

It is well to remember when we discuss millions of dollars worth of construction loans that construction loans are nothing but arrangements for credit, and seldom is this total sum of money ever advanced. Certainly if these companies, or other companies, had mortgages behind at the First Federal at any time, they had a perfect right to foreclose.

Many of these construction loans referred to could have been extended after due date for another 6 months or a year, and I presume the examiners would have reported them as current.

I do not think that Herbert J. West, President of Home Owners Company, had any business being called on for a statement by your examiners. He is a full-grown man almost as old as you. He is the President of that company and it is not an affiliate of the First Federal, and never has been. At one time it furnished a list of its stockholders, and then he decided that if he was to be an affiliate he could best prove he was not by furnishing nothing. One of your examiners, however, went into his office when he was out and convinced some young lady that he had a right to audit his books, and he returned to find one of your examiners copying the records of the Home Owners Company.

I explained to your examiner, Tanner, more than once that he had a perfectly legal right to ask any officer or employee of the First Federal how much stock they owned in any corporation, but certainly they had no right to insist that either West Lumber Company or Home Owners Company give them any information of any kind. Whatever transactions have transpired between these companies has been honest, honorable, and legal. Certainly, neither one of them has ever borrowed any money from the First Federal, nor have they assumed any liability for what others might have borrowed.

You will find in your records back as far as 1954 where the First Federal complained every time about the accusation that it was affiliated with anyone else, and there is a provision in your regulations, if it has not been removed, for affiliates, and certainly the First Federal never intended to register under that provision as they were certain that they were not affiliated with the other two companies mentioned.

It is no secret for many years that I have owned the controlling stock in the West Lumber Company, and if I had not been thus interested in 1924 when I started the First Federal I would probably not have been interested in the savings and loan business. I think my impartial interest since that time speaks for itself.

At the time I talked to you in your office more than 2 years ago, I raised this affiliate question and complained bitterly and stated to you I thought it was probably the cause of 50 percent of this supervisory criticism, to which you did not ask a question.

Many of us have been complaining since the first time these companies were charged as being affiliates, of the untruth of that charge, and without the application of any rule or law. We have made an issue of it without success from the start, which must have been 10 years ago or more.

The only reason I saw for quoting in the supervisory letter the word "affiliated" would be that the writer of the letter was unwilling to undertake the responsibility for the direct statement and certainly he was quoting someone in your organization and not ours. Both Wyman and Bonesteel know good and well that I have complained many times to each of them about affiliation and without success.

Your attention was called to the same supervisory letter of December 2, 1957, at the bottom of page 1 and you refer to this $105,000 loan in your letter (Harold K. Clark) and the examiners and supervisors, for no good reason at all, make a statement to the Board of Directors of the First Federal that they conveyed this property to the West Lumber Company. This is not so and all of that is in the records. I went to the DeKalb County records this morning to verify this fact and found, as I had thought, that the loan was first made to Clark by the First Federal and after more than a year with Clark not paying off the West Lumber Company, a security deed was taken for the exact sum he owed, and less than a month later, he decided to give up and he conveyed the property to the West Lumber Company subject to the balance due the First Federal. This balance to the First Federal was paid off in time and the security deed Clark gave them marked satisfied.

There is nothing wrong with this transaction. First Federal made all the money they intended to make and West Coast Lumber Company, as second mortgagee, was compelled to work out this transaction to collect their own money, which they have been doing for years with many different mortgages.

You already have the facts of all those situations to which you now refer. They are not mysterious. They have occurred in the normal operation of a mortgage business and foreclosures bring forth all sorts of charges, none of which have been proven, and without any loss, and to the contrary, a profit to the First Federal.

If you intend to impose such things as indicated in your letter, I think they should be written into the laws and regulations and there will be no question whether or not I could own stock in a lumber company that it might get the proceeds of a loan, or whether or not some insurance agency could have as a stockholder an employee, and whether or not more than two employees of an association can serve as Board members, and dozens of other similar questions, all of which now appear to be covered by conversation, "policies," and instances, many of which appear to be recorded in section 3 of the Greensboro manual.

I am certain that the examiners would listen at any time, and did listen by the hour, to one or two borrowers whom we had to resort to law to enforce our contract. Most of these hazard insurance complainers have come from people who were not our original borrowers, and they never knew the terms of the contract they either assumed or bought subject to.

In one instance I have in mind, your supervisors were telling one of these third or fourth parties about his rights as a borrower, and admitted keeping the correspondence from us so as to help build his case up against the First Federal.

I shall be ready at the proper time to defend the First Federal's actions as being legal, and you cannot do the same for your operation.

Yours truly,

GEORGE W. WEST.

EXHIBIT NO. 10.—MINUTES OF MEETING OF BOARD OF DIRECTORS OF FIRST FEDERAL SAVINGS AND LOAN ASSOCIATION OF ATLANTA, ATLANTA, GA., HELD AT THE OFFICE OF THE ASSOCIATION ON FRIDAY, APRIL 11, 1958, AT 2 P.M.

Mr. George W. West, Sr., Chairman of the Board, presided and all members of the Board were present. (Present were: Messrs. George W. West, Sr., George W. West, Jr., E. W. Gottenstrater, Hal C. Miller, T. O. Hathcock, E. Ralph Paris, Thomas J. Hicks, Jr., A. G. Hendley, Mrs. Marilu Mobley; and by invitation, Mr. Herbert Johnson, attorney for the association.)

Minutes of the Board meeting of March 7, 1958 were read and approved.

A copy of the financial statement and statement of receipts and disbursements was given to each Director, reviewed by the Chairman, discussed and approved. Mr. West also reported that thirty-five loans were closed during March for a total of $299,305.00.

Judge Hathcock submitted 135 closed loan files which had been inspected by the Loan Review Committee and moved the approval of these loans by the Board. Motion seconded by Mr. Hendley and carried and the following loans were approved: F-12469, 12491, 12494, 12494, 12499, 12500, 12501, 12502, 12504, 12514, 12515, 12516, 12519, 12520, 12521, 12523, 12524, 12526, 12529, 12532, 12537, 12492, 12540, 12544, 12547, 12548, 12553, 12554, 12556, 12557, 12558, 12560, 12561, 12497, 12562, 12568, 12571, 12572, 12574, 12578, 12579, 12580, 12581, 12582, 12524, 12583, 12584, 12621, 12622, 12623, 12624, 12625, 12627, 12627, 12628, 12629, 12570, 12630, 12631, 12632, 12633, 12634, 12636, 12638, 12639, 12641, 12642, 12643, 12635, 12644, 12645, 12646, 12647, 12648, 12649, 12585, 12586, 12587, 12588, 12589, 12590, 12592, 12593, 12594, 12595, 12596, 12600, 12602, 12603, 12604, 12607, 12608, 12609, 12610, 12611, 12612, 12613, 12614, 12615, 12616, 12617, 12618, 12619, 12620, 12650, 12651, 12652, 12653, 12654, 12655, 12656, 12659, 12660, 12661, 12663, 12664, 12665, 12666, 12667, 126668, 12669, 12670, 12671, 12674, 12675, 12676, 12676, 12678, 12679, 12680, 12686, 12688, 12689, 12693, 12595, 12601.

The Collection Committee report, given by Mr. Gottenstrater, reflected only nine loans more than thirty days past due, six of which were GI loans; however, three had been paid up to date since the first of the month. Three of the loans were in the Legal Department being advertised for sale.

In reporting on real estate owned by the association, Mr. Paris stated that five houses had been sold during March and that no real estate was acquired through foreclosure the first Tuesday in April.

Dr. Hicks reported for the Public Relations Committee that Mr. West, Jr., Mrs. Mobley, and Mr. Random were to participate in the Fifth Annual Atlanta Thrift Forum to be held on April 18; that advertising was continuing about the same but on a reduced basis.

Mr. West, Jr. stated that he was pleased to announce that the property in East Point, which was approved by the Board for purchase for a sum not to exceed $30,000.00, had been purchased for $28,000.00 with a lease to the seller for $150.00 per month for two years with a right to cancel.

The next order of business was Mr. Johnson's report on his conference with Mr. John Wyman in Washington, After giving his report, Mr. Johnson read a letter he had prepared for his own signature confirming the agreement with Mr. Wyman. After discussion of the matter, motion was made by Judge Hathcock that the Board approve the letter. Motion seconded and carried.

Mr. West, Sr. stated that he had before him the resignation of Mrs. Marilu Mobley as a Director of the association effective immediately. In discussing the matter, the Directors were very complimentary of Mrs. Mobley's service to the association and expressed their regret that she had tendered her resignation. Motion was made by Mr. Paris that Mrs. Mobley's resignation as a Director of the Association be accepted with regrets. Motion seconded and carried.

Mr. George West, Sr. stated that he had reached the age of retirement and that he wished to retire and sever all connections with the association. He stated that he was devoting a lot of his time to other work and was unable to give the time to the association that it deserved. He also stated that this would not come as a surprise to members of the Board as he had discussed it with most of them individually.

Judge Hathcock stated that the loss of Mr. West's services would be strongly felt by the association; that in 1924 Mr. West was one of the founders of First Mutual Savings Assodiation which in 1934 became the First Federal Savings and Loan Association of Atlanta; that Mr. West had done a great deal to promote savings and loan associations throughout the nation, especially throughout the southeast, and had served as President of the United States Savings and Loan League. Judge Hathcock suggested that the Board give a rising vote of thanks to Mr. West for his past services and all members of the Board rose.

Judge Hathcock said further that he thought Mr. West's wishes should be respected; however, in view of his past service, that he thought Mr. West should be elected Honorary Chairman of the Board.

Mr. West stated that it was his desire to sever all connections with the Association and that he intended to do so; however, if the Board wishes, he would accept the title of Honorary Chairman of the Board but only if it were exclusively an honorary title and carried with it no duties, obligations, or authority connected with the association or any activiity connected with the association or any right to office or desk space.

Mr. Gottenstrater moved that the Board approve the retirmenent of Mr. George West, Sr. as of April 15, 1958 and accept with regrets his resignation from the Board of Directors and from the Executive Committee; also that he be elected Honorary Chairman of the Board under the conditions he had stated. This motion seconded and unanimously adopted.

Mr. George West, Jr. submitted his resignation as a member of the Executive Committee. Motion was made by Mr. Hendley that his resignation be accepted. Motion seconded and carried.

Mr. Gottenstrater moved that Dr. Hicks be elected a member of the Executive Committee and that Judge Hathcock be elected Chairman of that committee. Motion seconded and unanimously adopted.

There being no further business to come before the Board, motion to adjourn was made by Mr. Paris. Motion seconded and carried and the meeting adjourned at 5:00 P. M.

EXHIBIT NO. 11.—TRANSCRIPT OF INQUIRY BY A SPECIAL COMMITTEE OF THE BOARD OF DIRECTORS OF FIRST FEDERAL SAVINGS & LOAN ASSOCIATION OF ATLANTA, ATLANTA, GA., JANUARY 22, 1958, INTO QUESTION OF COERCION OF ITS BORROWERS.

January 22, 1958

(E. R. HAWKINS)

Question: "Mr. Hawkins, the Supervisory Agent for the Federal Home Loan Bank has reported to the Board of Directors that some borrowers from First Federal have been told that they were required to purchase building materials from West Lumber Company. Has anyone connected with First Federal Savings and Loan Association or West Lumber Company ever made that statement to you?"

Answer: "No"

Question: "You do make your construction loans from First Federal, don't you?"

Answer: "Right"

Question: "Howlong have you been making them?"

Answer: "A little over two years."

Question: "Approximately how many loans have you made and for what amount?"

Answer: "It revolves. It goes as high as around $300,000.00 at one time and fluctuates from that to a considerably lower figure."

Question: "Has anyone ever told you that in order to obtain a construction loan from First Federal that it would be necessary for you to purchase building materials from West Lumber Company?"

Answer: "No"

Question: "Prior to the time you have been making construction loans with First Federal, has anyone ever told you it would be necessary for you to obtain your hazard insurance, such as fire, extended coverage, etc., from Home Owners Company?"

Answer: "No, not that I had to do it."

Question: "Has anyone ever told you that it would be necessary, to obtain construction financing from First Federal, that the Home Owners Company would have to act as agent in the sale of your houses?"

Answer: "No. They do not".

Question: "Does Home Owners Company act as your agent?"

Answer: "No. They did for a short time but I found it more advantageous to sell my own houses."

Question: "After you ceased using Home Owners Company, was there any question asked?"

Answer: "I explained the question to Home Owners Company and they agreed that it was the only thing I should do. As far as materials are concerned, I do not and have not at any time bought in excess of 60% to 75% of my materials from West Lumber Company because I can buy a good many things more advantageously elsewhere and unless they can meet prices, I do not buy from them."

January 22, 1958

(D. S. HARRINGTON)

Question: "What is your name?"

Answer: "D. S. Harrington".

Question: "Have you been making construction loans with First Federal Savings and Loan Association of Atlanta?"

Answer: "Yes"

Question: "How long?"

Answer: "Well, not continuous but I have been making construction loans for about ten years. It would not be continuous".

Question: "Approximately how many have you made?"

Answer: "About 150 or 200".

Question: "Could you give us an idea of the total volume, approximately, in dollars?"

Answer: "I would say about $2,000,000.00. My auditor could tell you more than I can. Our construction loans now are naturally higher than they were ten years ago.

Question: "The Board of Directors of First Federal has received a letter from the Supervisory Agent of the Federal Home Loan Bank at Greensboro and, among other things, that letter states that some of the borrowers from First Federal have reported that they were required to do certain things. This committee wishes to ask you a few questions and we know you will answer them honestly. Has anyone ever told you that in order to obtain a construction loan from First Federal that it would be necessary for you to purchase your building materials from West Lumber Company?"

Answer: "No"

Question: "Has anyone ever threatened to stop advances on construction loans by saying if you did not buy building materials from West Lumber Company that advances would be stopped?"

Answer: "No, sir. I never did buy all my materials from West Lumber Company. I do buy from West Lumber Company, but I bought more from West Lumber Company when I was not being financed by First Federal. I have been buying materials from West Lumber Company for about ten years and most of that time I have not been financing with First Federal. I am one that did not leave West Lumber Company when I left First Federal".

Question: "Has anyone ever told you that to obtain construction loans from First Federal, it would be necessary for you to place your hazard insurance, such as fire, extended coverage, etc., through Home Owners Company?"

Answer: "No"

Question: "Has anyone ever told you that the First Federal would not make construction loan advances if you did not place your fire insurance through Home Owners Company?"

Answer: "No"

Question: "Have you ever been told that the First Federal would not make you a construction loan unless the Home Owners Company was permitted to act as your sole agent in the sale of houses you were building?"

Answer: "No. Home Owners Company has never sold many of my houses. They sold some just recently, but most of the time when I have financed with First Federal, up to last year, I never used Home Owners at all; just on one subdivision. In most of my subdivisions, I never used Home Owners. That never came up with me. When I finance with First Federal, I do not consider West Lumber Company as a part of First Federal and I have financed, as I say, sometimes with First Federal and sometimes without First Federal, but all the time, I buy my materials from West Lumber Company because I want to and not because I have to and at no time in my ten years I have been building have I ever bought all my materials from West Lumber Company. That is optional with me and I never have had any questions asked by them except that they have solicited my business along with other building material people."

January 22, 1958

(J. M. BUICE)

Question: "All of these gentlemen are members of the Board of Directors of the First Federal. They have been appointed by the Board as a special committee to make investigation of certain facts. The Supervisory Agent of the Federal Home Loan Bank of Greensboro, which is the Board that supervises the First Federal of Atlanta along with others in the southeast, has written a letter to the Board to the effect that persons connected with the association and/or related enterprises, West Lumber Company and Home Owners Company, have required through threat of stoppage of loan advances, that they do certain things and we would like to get your answer to a few questions involving this. First, what is your name?"

Answer: "J. M. Buice".

Question: "Do you do construction loan financing through First Federal?"

Answer: "Yes"

Question: "How long have you been making loans through First Federal?"

Answer: "Eight or ten years".

Question: "Do you know how much that would amount to in dollar volume?"

Answer: "Not right off hand. It would be many hundreds of thousands of dollars. It would be a couple of hundred thousand this year. It would be well in excess of a million dollars".

Question: "Have you ever been informed by anyone connected with First Federal or West Lumber Company that you could not make a construction loan through First Federal and/or that First Federal would not advance you money on your construction loan if you did not purchase your building materials from West Lumber Company?"

Answer: "No, sir".

Question: "Has anyone connected with First Federal or Home Owners Company ever told you that to obtain a construction loan from First Federal or to obtain an advance on your construction loan, it would be necessary to place your hazard insurance, such as fire, extended coverage, etc., with Home Owners Company?"

Answer: "No"

Question: "Has anyone connected with First Federal or Home Owners Company ever told you that to obtain a construction loan from First Federal or to obtain an advance on construction loans that the Home Owners Company would have to act as your agent in the sale of houses you built?"

Answer: "No. Home Owners Company has never sold a house for me. A. B. Cox Realty Company has been my agent for about ten years.

Question: "Do you purchase all of your building material from West Lumber Company?"

Answer: "No"

Question: "Approximately what per centage do you purchase from West Lumber Company?"

Answer: ""Well, now for instance, West Lumber Company cannot get you blocks; they can get bricks. I buy about 70% from them".

Question: "Has your experience with First Federal been satisfactory?"

Answer: "Yes, it has".

Question: "Has anyone connected with First Federal or West Lumber Company ever put any pressure on you to require you to buy building materials from West Lumber Company?"

Answer: "No"

Question: "In your opinion is West Lumber Company one of the leading building material suppliers in the city?"

Answer: "Yes. That is why I like to deal with them. They give good service and they are dependable and stand behind their products".

January 22, 1958

(RICHARD F. DOETSCH)

Question: "What is your name?"

Answer: "Richard F. Doetsch"

Question: "What business are you engaged in?"

Answer: "Building and selling of houses".

Question: "In connection with your building and selling of houses, have you secured construction loans from time to time from First Federal?"

Answer: "We did obtain one. We obtained a construction loan about eight or nine years ago".

Question: "Generally, in your business how do you operate?"

Answer: "We build houses and get permanent loans without financing from First Federal as far as construction is concerned".

Question: "After you have done that, then you borrow money on the constructed houses from First Federal, generally?"

Answer: "Yes. I do not make any construction loans".

Question: "In connection with your building of these houses, has anyone connected with First Federal or West Lumber Company ever suggested to you that in order to get these loans that you get from First Federal that you would have to buy your building materials from West Lumber Company?"

Answer: "No"

Question: "What portion of your materials do you get from West Lumber Company?"

Answer: "I would say probably we get an average of maybe 75% or 80% of our building materials from them".

Question: "Has there been any pressure placed on you to secure these materials from West Lumber Company other than solicitation?"

Answer: "No, sir. The only solicitation we have had has been by salesmen from West Lumber Company".

Question: "Has anyone connected with any of these companies mentioned ever suggested to you that in order for you to get these loans that you would have to take out insurance with Home Owners Company exclusively?"

Answer: "No, sir".

Question: "Has anyone suggested to you that in order to secure these loans that you had to get the Home Owners Company to act as your agent in selling houses?"

Answer: "Home Owners Company has never sold a house for me since I have been building".

Question: "Being in the home construction business and a big purchaser of building materials and supplies, do you regard West Lumber Company as one of the leading building material suppliers in the city?"

Answer: "Not only leading but we probably get the best service from them, probably more than any other supplier".

Question: "Would you give us an estimate of the number of homes you have built since you have been doing business with West Lumber Company?"

Answer: "I would say probably four or five hundred and the average cost would be about $10,000.00 each".

Question: "Do you feel that Home Owners Company and West Lumber Company are the same?"

Answer: "No. I know they are not."

Question: "Have you had any indication in your dealings with them that there was a tie-in relationship between them and First Federal?"

Answer: "No because at various times somebody from Home Owners Company might say 'let me sell a house for you' and maybe before the Chairman of the Board I will say to him that I could not afford to do any business with him. Home Owners has solicited my business but I have never done any business with them. They are a good company. I have all my personal insurance with them because I like the service they render. On every second mortgage I take on a house, I require the people to take insurance from Home Owners Company because when we do have a fire or any loss, we can get an adjustment right then and there and it makes it a lot easier from a bookkeeping standpoint for me to have all the people I have loans with to have insurance with Home Owners Company. Service with them cannot be beat because I can make an adjustment with them just like that".

Question: "As a builder, you are of the opinion that it is to the advantage of any builder to concentrate his insurance as nearly as he can with one company?"

Answer: "Yes. I have it in the contract that I can dictate where they place the insurance."

Question: "Isn't that a practice of practically all builders?"

Answer: "In my opinion, if they do not do it, they are making a mistake".

Question: "The reason you picked Home Owners Company and West Lumber Company in connection with building of houses and placing insurance is because they give you service?"

Answer: "Yes. Very good service."

January 22, 1958

(FRED G. FETT, JR.)

Question: "What is your name?"

Answer: "Fred G. Fett, Jr."

Question: "What is your address?"

Answer: "3120 Maple Drive, N. E., Atlanta, Ga."

Question: "What positions have you held with the building interests of the city of Atlanta with regard to the construction business?"

Answer: "Well, I have held many positions in Home Builders Associatinn. I have served several years on the Board of Directors, and recently as President of the Home Builders Association of Atlanta. I am also a national director this year of Home Builders Association".

Question: "Have you just retired from Home Builders Association?"

Answer: "I was President in 1956".

Question: "Do you do your construction financing through First Federal?"

Answer: "Yes"

Question: "How long have you been doing that?"

Answer: "A little over nine years".

Question: "Could you tell this committee how much in dollar volume your construction financing has amounted to?"

Answer: "Close to five or six million".

Question: "This committee is investigating some charges that have been made and we would appreciate your help in answering a few questions. Has anyone connected with First Federal or West Lumber Company ever told you that First Federal would not make you a construction loan unless you purchased your building materials from West Lumber Company?"

Answer: "No"

Question: "Has anyone connected with either of these two companies ever threatened to stop your construction loan advances if you did not buy your building materials from West Lumber Company?"

Answer: "No"

Question: "Do you do business with West Lumber Company?"

Answer: "Yes"

Question: "Do you buy all of your building materials from them?"

Answer: "No"

Question: "Could you tell us what percentage you buy from them?"

Answer: "We have purchased materials from many different sources. We are finishing up one job now where many of the items, such as heating equipment and sliding doors, we have purchased elsewhere. I would say about 60-40 or 50-50."

Question: "Why do you buy from West Lumber Company?"

Answer: "That goes a long way back to when I first started building some nine and a half years ago. We were a young corporation out of Detroit that came down here operating as International Sectional Homes. At that time we had planned to start a prefabricating operation here in Atlanta and one of the managers of the corporation had ordered materials actually prematurely before he should have and before we set up operations here in this city so, consequently, we had thirty thousand feet of fir lumber delivered from the west coast to Atlanta. We had a very difficult time trying to get that operation started and we found it would be very hard to do so. We had the lumber here and the only decision we could come to was to build houses and use the lumber. Ours being a young corporation and an out-of-town corporation, I think I contacted practically every mortgage company or lender in the city of Atlanta. I cannot remember now just exactly who it was but someone told me to see Mr. George West, Sr. I came in and talked to Mr. West and told him the situation and the lumber on hand and that we would like to build houses with this material. So at that time he consented to go ahead and deal with us. We built the houses (three of them) and after completing these homes, I decided I liked Atlanta pretty well and wanted to stay here. I sold my stock in the corporation and went into the building business. To me, that was a favor granted and something that you do not forget. Since that, I have been dealing with them on a material basis and financing with First Federal ever since".

Question: "Is the West Lumber Company competitive in prices with other building supply companies?"

Answer: "Yes. We would not be dealing with them if they were not. On some items we buy, we buy elsewhere if they are not competitive. Their service cannot be beat. We sometimes try other lines and switch back to West Lumber Company because service is something that is money in our pocket and that is something to be taken into consideration".

Question: "Has anyone connected with First Federal or Home Owners Company ever told you at any time that you could not obtain advances on construction loans from First Federal unless Home Owners Company handled your hazard insurance?"

Answer: "No. In fact, many of our policies are not held by Home Owners".

Question: "Has anyone connected with First Federal or Home Owners Company ever told you that the First Federal would not advance money for construction financing unless the Home Owners Company was going to act as agent in the sale of houses?"

Answer: "No. Home Owners Company has never sold houses for me. I have my own sales program and organization and always have had. We do all our sales and merchandizing".

Question: "Has there ever been any reason for you to form an opinion that First Federal had any tie-ins with West Lumber Company and Home Owners Company that would cause you to have to do business with all of them if you secured a loan with First Federal?"

Answer: "No. I would not say that that opinion is formed".

Question: "What position in the building material sales category do you think West Lumber Company holds in this area as to their size?"

Answer: "I classify them as one of the top three. At the time there was Campbell, Williams, and West. I would consider them one of the leading three".

January 22, 1958

(O. L. TURNER)

Question: "Would you please give us your name?"

Answer: "O. L. Turner"

Question: "What do you do?"

Answer: "Well, I am a builder and developer".

Question: "Do you do business as an individual or company?"

Answer: "As an individual".

Question: "How long have you been in the building business?"

Answer: "Approximately four years".

Question: "Do you do construction financing with First Federal of Atlanta?"

Answer: "I do"

Question: "How long have you been obtaining your loans from First Federal?"

Answer: "Approximately three and half years."

Question: "Could you tell this committee approximately how much in dollar volume that has amounted to?"

Answer: "$1,058,000.00".

Question: "This committee wants you to answer some questions because there have been reports made to the Federal Home Loan Bank of Greensboro, which is the Home Loan Bank Board that supervises this particular federal savings and loan association, to the effect that persons connected with First Federal and West Lumber Company and Home Owners Company have required certain things. I would like to ask you if anyone connected with First Federal or West Lumber Company has ever told you that in order to obtain financing through First Federal, it was necessary for you to purchase your building materials from West Lumber Company?"

Answer: "No"

Question: "Do you purchase building material from West Lumber Company?"

Answer: "Yes"

Question: "All of them?"

Answer: "Pertaining to the supplies that West Lumber Company handles, I usually buy from them. They do not handle all I use."

Question: "Why do you purchase from West Lumber Company?"

Answer: "Due to the fact that (1) the service I receive and (2) in the price structure I could not find too much difference in the various prices that were given to me".

Question: "Is West Lumber Company competitive?"

Answer: "Yes. They might be some higher on a few things but I get good service and the difference in price is offset by the service".

Question: "You have referred twice to the service of West Lumber Company. Do you think they give you excellent service?"

Answer: "I do"

Question: "Has anyone connected with First Federal ever put any pressure on you to buy building materials from West Lumber Company?"

Answer: "They never have".

Question: "Has anyone connected with First Federal or HHome Owners Company ever told you that in order to obtain an advance on construction loans, that it would be necessary for you to purchase your hazard insurance from Home Owners Company?"

Answer: "They never have."

Question: "Has anyone connected with First Federal or Home Owners Company ever told you that in order to obtain advances on constructions loans, that Home Owners Company would have to act as your agent in the sale of houses?"

Answer: "No"

Question: "Does Home Owners Company act as your agent?"

Answer: "They have. I have been satisfied with their operation. I could not handle my own sales because I am relatively new in the house building business and I found that they did right by me and I have kept doing business with them."

Question: "Do they give you good service?"

Answer: Yes. We all sit down and talk and I try to produce the sale of a house; they advertise and put a salesman out there and sell the house".

Question: "Do you consider it to your advantage to deal with one company rather than several?"

Answer: "I believe the fewer involved, the better. If anything comes up, we have only one organization that we can go to. I would not consider having more than one sales organization working at one time".

Question: "Do you feel that any other builder would feel the same?"

Answer: "Talking from the standpoint of myself, I have been more or less successful with this operation and I think that should stand for itself. I have seen so many others that have dealt with agents here and there and they are not in the business any more so there must be some advantage in it."

Question: "Do you have any exclusive contract with Home Owners Company?"

Answer: "Here this last year they did come out and ask for an exclusive and it expires this month. It ran for a year at a time. At the expiration of that contract, I will be free to do business with anyone. Before that time, they never had a contract. They got a new sales manager".

Question: "When they asked for that exclusive sales contract was there any reference made to your advances from First Federal?"

Answer: "No"

Question: "Is it customary for other companies to ask for an exclusive sales contract or do you know?"

Answer: "Yes. They ask for an exclusive whenever any sales organization comes out and wants to sell your house. It depends on the amount of time an individual wants to give them. I believe they run from ninety days to six months on a single unit. They asked for a year so I said 'go ahead'. They spent their money on signs, advertising, etc."

Question: "Your agreement to that one-year contract with Home Owners Company had no bearing on your loan program with First Federal, did it?"

Answer: "None whatever with me."

January 22, 1958

(ELLIS M. CREEL)

Question: "As you probably know, the First Federal Savings and Loan Association of Atlanta is supervised by the Federal Home Loan Bank of Greensboro and the Supervisory Agent for the Federal Home Loan Bank states that they have received some information that persons connected with First Federal and West Lumber Company and Home Owners Company have stated that they could not get construction loan advances unless they bought building materials from West Lumber Company and obtained insurance from Home Owners Company and permitted Home Owners Company to act as agent in the sale of houses. This is the committee appointed by the Board of Directors of First Federal to investigate those matters and see if there is any truth in them. We would appreciate your answering these questions. What is your name?"

Answer: "Ellis M. Creel".

Question: "Have you been in the residential building business in the Atlanta vicinity?"

Answer: "Yes"

Question: "How long have you been in that business?"

Answer: "Since November, 1954".

Question: "Are you in that business now?"

Answer: "No"

Question: "Did you make any construction loans with First Federal?"

Answer: "Yes"

Question: "How many?"

Answer: "We made a construction loan for 92 houses and a construction loan for 237 acres in Doraville, DeKalb County, Georgia on what is known as Oakcliff subdivision. The 92 houses in Gordon Heights subdivision".

Question: "Did anyone connected with First Federal or with West Lumber Company ever tell you that to obtain a loan from First Federal or to obtain advances on your loan that you would have to buy building materials from West Lumber Company?"

Answer: "No"

Question: "Did anyone connected with First Federal or Home Owners Company ever tell you that in order to obtain advances on a loan that you would have to put your hazard insurance with Home Owners Company?"

Answer: "No. Let me make a statement to further clarify that. Their method of operation is the very same as any other sales agency in that they offer many services, one of which is assisting in insurance but as far as saying that we would have to place insurance with them on the houses that we borrowed money for construction loan purposes, no such statement was ever made; no such inference or intimation was ever made. When a new house was started, I called Mrs. Cantrell and told her we were starting another group of houses and to have them covered with insurance."

Question: "Mrs. Cantrell that you refer to, is she the one who worked for me?"

Answer: "She worked for the attorneys".

Question: "You told her that you had started a house and wanted builder's risk insurance and she would see that it was placed?"

Answer: "Yes. Just as we did with South Side Atlanta Bank and others. This is a service--you can use it or you can do it yourself".

Question: "It was a requirement of First Federal that all construction be covered by fire and extended coverage insurance on what is known as builder's risk?"

Answer: "Yes. It would save the builder steps in administration to have someone to do this for you by telephone?"

Question: "Did anyone connected with First Federal or Home Owners Company ever tell you that to obtain advances on a construction loan from First Federal it was necessary that the Home Owners Company act as agents to sell your houses?"

Answer: "No"

Question: "Mr. Creel, do you do business with First Federal Savings and Loan Association now?"

Answer: "I do not at the present time".

Question: "What happened to Gordon Heights?"

Answer: "We became over-extended there on the cost of the entire construction program as a result of bad weather and slow sales. We were unable to live up to our commitments to First Federal and they had to foreclose to protect their investment. I believe Home Owners foreclosed."

Question: "What about Oakcliff?"

Answer: "I believe First Federal foreclosed on that".

Question: "You do not have anything to do with either of these now?"

Answer: "No"

Question: "There is no reason why you should feel especially close to First Federal?"

Answer: "No. Aside from any feeling I might have had, I merely stated the truth. I could not let my feelings enter into any statement that I might make?"

Question: "Did you buy your building materials from West Lumber Company?"

Answer: "For the most part, we bought them from West Lumber Company. There were many things they did not furnish but whenever we could get them, we did to save us from spending time and money to go from place to place to get started and be assured of having material and so that we could schedule our work. We bought whatever we could because we could depend on them. The service was excellent".

Question: "Do you mean that you bought from West Lumber Company because it was to your advantage?"

Answer: "It was dependable. You could depend on them. You would not get a house dried-in and have to wait on sheet rock."

EXHIBIT NO. 12.—TRANSCRIPT OF MEETING OF SPECIAL COMMITTEE OF THE BOARD OF DIRECTORS OF FIRST FEDERAL SAVINGS & LOAN ASSOCIATION OF ATLANTA, ATLANTA, GA., JANUARY 29, 1958

FIFTH MEETING OF SPECIAL COMMITTEE

January 29, 1958

Present were: E. W. Gottenstrater, Chairman
Thomas J. Hicks, Jr.
T. O. Hathcock
Herbert Johnson
Henry Hatcher (substituting for Mr. Johnson during last half)
Jack Tanner, Examiner
W. A. Vaughn, Examiner
(Mildred Pendergrass, acting as secretary).

Mr. GOTTENSTRATER. We are a special committee appointed by the Board of Directors to give them certain recommendations in connection with the letter from Mr. Fogarty of December 2, 1957, with which I think you are probably familiar. Mr. Tanner, we have made special investigations of all of the officers of the various companies and all the builders and such other people as we see in order to gather information and now we would like to know further if you can help us out in pointing out just what you would like to have the First Federal do in order to come within your ideas. We can take them one at a time and you can tell us where in the Rules and Regulations that the point may be specifically covered. First of all is construction lending. As far as we can tell, in the near future and probably for quite a while to come, we are not going to do any more construction lending because of many reasons, one of which is that the various cities and counties are now stopping putting in streets and sewers, etc., and when you buy the raw land, you do not get an increase in value. Before this time, they furnished certain improvements; they graded the streets and put in streets and sewers at a relatively small price. Some counties did some things and some did others. They would make certain improvements whenever you assured them that you were going to build a certain number of houses. They would assure you that you would get certain improvements such as water, gas, etc. Some of the counties have ceased doing that now and you have the expense of improving yourself. Mr. Tanner, can you give us any help on that as a recommendation?

Mr. TANNER. Your statement that you are going to discontinue making construction loans seems to cover the point.

Mr. GOTTENSTRATER. Your suggestion then is that we would state that for the immediate future or some time to come we are not going to make any further construction loans? We do not want to go on record that we will never make them again.

Mr. TANNER. Let me tell you my position in this. The Examining Division is entirely separate from the Bank Board. I do not make the criticisms—they make the criticisms.

Mr. GOTTENSTRATER. You furnish the ground for the criticisms, though.

Mr. TANNER. Yes. When you asked me if this will clear up supervision's criticism, I cannot give the approval or say that that will do it. It is up to them to state it themselves and accept what you say as adequate or inadequate.

Mr. GOTTENSTRATER. We are going to get rid of the property we own as soon as possible in a manner most successful to the association. Some we are going to finish; sell some; maybe have to build on some. The overall situation will net a profit.

Mr. TANNER. I have not finished this current examination, but we will report how those loans are being financed and on quite a few of them there is no downpayment. In fact, you are advertising nondownpayment on a great many of them. In some instances, they are not even paying service charges or loan closing costs. Mr. West, Jr., says you can sell a house for practically anything as long as the monthly payments are not too high.

Judge HATHCOCK. We have property that we have taken under foreclosure proceedings and we are anxious to get rid of it as soon as possible. If a man comes along and sees one of these houses he wants to buy and his credit rating is good and he signs a contract agreeing to purchase it, we simply sell him that property and when he has paid sufficient on it to reach the place where this association can loan the money on it, we convert it to a loan instead of purchase.

He has purchased and all we have to do to get the property back if we had to (he would usually release it if he sees he cannot pay for it) would be to take it back and sell it again. We would simply make a loan if we found someone with cash, or he could pay us off and get a loan elsewhere.

Mr. TANNER. You can make a loan up to the value of the property under your present rules. As a salvage operation, you are not limited to 80 percent.

Judge HATHCOCK. We are not really making a loan; we are selling on time. Under Georgia law, it is better to sell and take a loan deed because you can handle more quickly that way. I have been in the business since 1905. The practice here is if we get a small payment down and do not think it would come strictly under our terms for making loans, we sell it and let him pay on it unfil he has paid down to 80 percent.

Mr. TANNER. That is not the way your are handling it.

Dr. HICKS. Is what we are doing, what you had in mind?

Mr. TANNER. As far as selling the property, yes. Your method of bookkeeping of handling is correct.

Judge HATHCOCK. Could you give us a reference to the part in the regulations where we could find the authority to sell at full price without downpayment when we own the property?

Mr. TANNER. Yes. I will look it up for you.

(NOTE.—Mr. Tanner asked Mr. Vaughan to look up the regulation and he did. but Mr. Tanner did not give Judge Hathcock the reference.)

Mr. GOTTENSTRATER. The next is appraisal practices and secondary financing. I do not think we are going to have to talk about appraisal practices much as, seemingly, there is this violation that these gentlemen feel that the appraisal price shall never exceed the selling price. There are many arguments for it and against it, but I think that is a question of us making a recommendation as to what we feel should be followed.

Judge HATHCOCK. How in the world are appraisers to find out or know what a fellow might sell a certain piece of property for?

Mr. TANNER. In fact, it is best not to.

Mr. GOTTENSTRATER. How can we avoid it?

Mr. TANNER. Of course, you won't let him see the application. You will get a separate form for appraisal which is not a part of the application and he will not see the application. It has been the policy, and we have always asked the question: "How in your opinion do prevailing sales prices for single-family dwellings in the following classifications compare with prices of one year ago?" and up until this examination, one year ago, Mr. West, Jr., told us he was not interested in sales prices.

Mr. GOTTENSTRATER. Where should the sales price be compared? At a later time and by whom?

Mr. TANNER. At a later time.

Mr. GOTTENSTRATER. Should we automatically cut down appraisals to selling prices if they are over?

Mr. TANNER. There will be exceptions to the rules, where they are buying from relatives, etc., but generally speaking, the better policy of the Loan Committee is to make the loan on the basis of the selling price or the lower of the two. The selling price will be on the application for a loan.

Mr. GOTTENSTRATER. The 80 percent should not be more than the selling price? There is no regulation, is that right? That is just your interpretation?

Mr. TANNER. That is right. The report shows that it is prevalent.

Mr. GOTTENSTRATER. The overall picture, according to your own records, shows that the perecntage of loans to purchase price is 79.9 percent. That is according to your own figures.

Mr. TANNER. On this schedule, the total appraisals is $806,000 and total purchase price is $781,000. My point was that the appraisals are higher than the purchase price.

Mr. GOTTENSTRATER. The appraisal is a matter of opinion that it is worth a certain amount.

Mr. TANNER. Your appraiser's opinion seems to be generally higher than the purchase price. Maybe he is a little liberal in his appraisals.

Judge HATHCOCK. If the party is selling the house generally at a lower price than the appraisers are appraising, then we ought to check up on it.

Mr. GOTTENSTRATER. I do not want my appraiser to be guided by any fear that he is above or below the purchase price.

Mr. TANNER. He should not even know it.

Mr. GOTTENSTRATER. If he is appraising over, that is his honest opinion. I do not think there is too much criticism to be made about our appraisals. If, on the other hand, we have made a practice of lending 80 percent on appraised value instead of cost price, then it should be criticized and corrected.

Mr. TANNER. If you knew that somebody out of your office was buying a piece of property for, say $10,000, and you have some person go out and appraise the property and he comes back with an appraisal of $12,000 and you want to lend him 50 percent out of your personal funds, which appraisal would you accept?

Mr. GOTTENSTRATER. I would not accept the $12,000 because he did not pay that. You do not want us to lend more than 80 percent of the purchase price?

Mr. TANNER. I will say that is the generally accepted rule—the lower of the two. If your appraiser does not think it is worth what it is being sold for, you would not want to lend it to him. The main point in this schedule is to show that the appraisals have been running over the purchase price consistently. There is nothing in the regulation that says anything about 80 percent of sales price but it is the generally accepted principle.

Mr. GOTTENSTRATER. Why don't you get it into the regulations; you are assuming that that is the way it ought to be?

Mr. TANNER. I said it is generally accepted by other financial institutions.

Mr. GOTTENSTRATER. You mean other savings and loan associations? Can you name us a couple of cases? Does everybody follow that rule?

Mr. TANNER. Generally, that is the accepted practice. This institution is an exception.

Mr. GOTTENSTRATER. What I am trying to do is eliminate criticism.

Mr. TANNER. Apparently your criticism is because of the fact that your appraisals consistently run over the selling price. If they were more or less even or slightly under conservative appraisals, there would not be any criticism.

Mr. GOTTENSTRATER. In connection with secondary financing, as I understand it, there are two that you call secondary financing on construction loans.

Mr. TANNER. Mr. Gottenstrater, this report did not contain all of the examples of secondary financing. The objection to it is that these people have very little equity in that property.

Mr. GOTTENSTRATER. You think it is our duty to see that they have an equity.

Mr. TANNER. Yes. You are making the loan and they should have some equity in the property. Even FHA won't make it unless they have some equity.

Mr. GOTTENSTRATER. We do not stand to lose on Hawkins because we can go to him for payment. We think these are very good loans.

Mr. TANNER. Hawkins, in case of a recession, can let all these go back and live off his other income.

Judge HATHCOCK. Isn't it a fact that Hawkins has his profit in the houses and that is additional security? He is an additional guarantor for our loan and this is to our advantage. Our loan is better secured than if he did not have the second mortgage.

Mr. TANNER. It is not better secured than if the homeowner had an equity it in.

Judge HATHCOCK. He could not have his house unless Hawkins had stepped in and helped.

Mr. TANNER. Let me give you this example. I was in a town examining an association and talked to a man—let's call him Mr. Clark. He had about $200 down in a house and the builder had the second mortgage. It was a nice house. We got to talking about the house and how nice it would be to put up a trellis. He said "if it was my house, I would do a lot of things to it." I said, what do you mean; it is your house. He said "you know what I mean—I am going to move off and leave it when I get transferred."

Judge HATHCOCK. We benefit in these cases because Hawkins could take the property and resell it.

Mr. TANNER. How can he keep on doing that?

Judge HATHCOCK. He has his own money in the property.

Mr. JOHNSON. You cannot tell how much of a second mortgage is interest. Most of them include interest until the date paid. They are not like our notes. They normally include it. Hawkins says his include interest.

Mr. TANNER. It is awfully difficult for us to get information out of this association.

Judge HATHCOCK. We think we are fortunate to have a man like Hawkins practically guaranteeing our loans because we think he is substantial. If they fall down, he will pay the note. We are in the business of trying to get people to be homeowners and we want to help. Mr. Hawkins is willing to build a house and put his profits and additional money in these houses.

Mr. TANNER. What are these houses worth? What can you get out and actually sell these houses for with a reasonable downpayment?

Mr. GOTTENSTRATER. You cannot sell them because you have to sell to a man in that category of living. They do not have any money. They keep up their payments but they do not have any cash.

Mr. TANNER. The house you are advertising on the bulletin board in the lobby—how much can you sell that house for on a reasonable downpayment? You are asking no downpayment. What are these houses worth with reasonable downpayment? What will they sell for with reasonable downpayment?

Mr. JOHNSON. I do not know.

Mr. TANNER. I have four extra men on this job to get secondary financing on West Lumber Company and Home Owners Company. We are going to have that problem again because we do not know how much is interest and how much is principal. George, Jr., said there was no way to tell from the files at First Federal. They own the company and they would see that they got the interest out of it.

Mr. JOHNSON. Who owns the insurance company?

Mr. TANNER. Home Owners Company has the second mortgage and also owns the insurance company. The insurance policy should show the second mortgagee.

Mr. GOTTENSTRATER. Next is conflict of interest. West Lumber Company and Home Owners Company took over some construction loans in order to protect their interest. That, of course, won't happen again unless we do some more construction financing. One is cleared up which got us all of our money back and interest. That was J. J. O'Connor. We are now closing out Gordon Heights. That particular thing cannot happen now—only at some future time. Do you have any suggestions or anything in connection with that?

Mr. TANNER. It is my understanding that you say it is not going to happen in the immediate future again.

Mr. GOTTENSTRATER. That is right. I cannot say what is going to be done in the next few years. It is being done by other savings and loan associations.

Mr. TANNER. You mean where an officer of a company has taken title to property? I do not know of any other. I believe they want to know has the practice been prohibited.

Mr. GOTTENSTRATER. I think so. They have a right at any time to protect their own interest. They can foreclose.

Mr. TANNER. I believe one of their objections to these particular loans was the fact that West Lumber Company and Home Owners Company had a second mortgage on it.

Mr. GOTTENSTRATER. Do they object to second mortgages by these particular companies?

Mr. TANNER. They particularly object to second mortgages of any related company. The objection is that speculative builders should be free and clear—they should not have a second mortgage. West Lumber Company took a second mortgage on Harold K. Clarke loan. From a sound construction lending policy, it is speculative and there would be an objection whether anybody took a second. The builder should have something in it. The loans were bad because you had to take title to them. It is a generally accepted principle in savings and loan financing that the owner should have a reasonable downpayment or equity in the property.

Mr. GOTTENSTRATER. What is a reasonable downpayment?

Mr. TANNER. There is quite an agitation. It has been suggested by Representative Raines and his committee to prohibit a second mortgage to be taken on property they finance.

Mr. GOTTENSTRATER. As soon as you insist on downpayment, we will have money downstairs we cannot put out. We will have to refuse money. We have a million dollars to put out each month, approximately—maybe more.

Mr. TANNER. The Bank Board wants you to put it out wisely on good loans. You are investing the public's money.

Mr. GOTTENSTRATER. Next is coercion of borrowers. We presume that you got all of your information in connection with coercion from Norwood—Norwood or other developers. We went to work and said maybe he might be right; so

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we called in the following builders. We called in E. R. Hawkins and quizzed him very carefully. We called in D. S. Harrington and quizzed him very carefully. We called in J. M. Buice, Richard F. Doetsch, Fred G. Fett, Jr., O. L. Turner, and Ellis M. Creel and quizzed each one carefully. All their answers to the questions were approximately the same.

We called in all the officers of these various companies that you stated and quizzed them. We quizzed all the officers of First Federal and in no case has any one of them stated that they said anything to anybody with the exception that salesmen would call on these people just like the salesmen of any other company. There are three big building material supply houses in the city of Atlanta. The reason all of these builders do business with West Lumber Company is because of their service. If a little material dealer takes an order at a lesser price, he has to go all over the city to get up materials and it takes a long time for him to get the material to a job. There is not much space for handling materials around a job. These gentlemen have stated they would rather pay a little more to get this service. They buy from 50 to 70 percent from West Lumber Company and the rest they buy from various people. We know that the affidavit made by Norwood is fictitious. In connection with that item, we are going to bring forth to their attention the result of all of these quizzes we made. You did not tell us the names of the men who made these statements. If we had known their names, we would have called them in. What do you think would be your reaction to that particular thing if you were in our spot at the minute?

Mr. TANNER. I have nothing to say on that. I am not saying that the people told the truth and I am not saying that they lied—I just let the affidavits speak for themselves. Do you still have the clause in your construction contract that you can stop the loan at any time?

(Mr. Johnson had to leave at this time and Mr. Hatcher took his place in the meeting.)

Mr. HATCHER. Yes.

Mr. TANNER. You had a usury suit and in that one Norwood contends that you continuously threatened to stop advancing funds unless he did certain things. As long as that contract was going according to plans and specifications, you would be obligated to make a three million dollar loan if you did not have that clause. Your acquisition of real estate has come from construction loans. Practically every one of these loans have been criticized for some reason in the examination. Practically every loan was criticized when it was first made or shortly thereafter. You have not changed your policy and continue to make similar loans. It is not spelled out in your contract that you have to have a good reason to close out a construction loan. Norwood says he quit paying interest because First Federal raised the release figure. There should be an agreement in writing and in that way you won't have accusations and suits. Everything was wrong with the Norwood loan from the beginning and this is typical of all the others. The reports and supervisory letters have been asking you to tighten them up. This and others are results of not tightening up. You can check the last report. From the beginning you finance the purchase price of the land—in some instances it was the total price—then you start disbursing funds as the work progresses. In your construction loan agreement, there is the loop hole. You do not retain cost estimates—what the builder says it is going to cost him. Generally, cost estimates are not retained. The statement Mr. West signed was that they are taken but not retained. They should be retained. You should have a construction loan agreement where there is no dispute between the two parties. There are quite a few recommended forms. The land should be clear and free of all liens and he should own at least the land. What you are doing is 100 percent speculative financing. They say so in the supervisory letter. They have no equity in the property—only their time. That is why they are in real estate owned. The association is taking all the risk. If that was good lending, the Board would approve a provision whereby the association could go out and buy raw land and build on it. The builders had no equity is the reason you have so much real estate on hand.

Judge HATHCOCK. We have gone over with the officers of the company this property of Creel and Hughes and if we are permitted to handle the transactions, we feel there will be no loss to the association. We do not think there is any loss to be had in any of these transactions. It is my opinion the association will not lose.

Mr. TANNER. I hope you do not have any loss. You are merely taking it out of one asset and putting it in another and they are paying so much a month on it. You still have the asset and you may make a profit off of some. You continue to make that type loan and that is why they are criticizing. They are coming out of developments that West Lumber Company and Home Owners had. You have continued on those that you started by making additional loans on them.

Mr. HATCHER. We are doing the very opposite of our discretionary right. We are lending them more. We took another note so he could finish the subdivision.

Mr. TANNER. It is possible to have avoided Norwood and other troubles. Norwood is not the only one that is talking. We did not have a complaint from Mr. Norwood in 1954.

Mr. HATCHER. Let me summarize. First is the fact that the entire purchase price is advanced. The next question is the fact that we reserve the right to terminate the advance at any time.

Mr. TANNER. That would avoid any dispute over it.

Mr. GOTTENSTRATER. I want to bring to your attention that I have approved and thought the internal control system in and am surprised to find it is not in with the exception of the last item where all of our employees use these accounts. We do not have alphabetical accounts and we feel it is much safer for inactive savings accounts to not be under the control of two people. The more they are under the control of, the less chance there is.

Mr. TANNER. That is the biggest thing we have objection to. I can only say that we recommend that they do be put under this control. Practically every shortage we have ever had involved these dormant accounts. A certain account might have been in for ten years with no transaction. It may be up to $5,000 and if he has not been in in ten years, he may not be in in ten years more. A teller may take it, draw a check, and close the account.

Mr. GOTTENSTRATER. We will see that this is done. Do you wish to make any further remarks?

Mr. TANNER. No.

Judge HATHCOCK. We have been unable to find any coercision and if there has been any favoritism, it has been in favor of First Federal in every instance.

Mr. TANNER. I am not saying there is any favoritism. You have suits against you saying there is favoritism. There is Norwood and Etheridge and Vanneman. You have three suits against you concerning Home Owners. We have quoted letters from people and statements from people in previous reports stating that they were coerced. What percentage do you think Home Owners would get without coercion?

Dr. HICKS. Probably 75 to 90 percent.

Judge HATHCOCK. I would say about 75 percent. Some people buying homes do not know anything about insurance. A large number would not object to the insurance.

Mr. TANNER. All we can rely on is complaints. We have had complaints that there is coercion on insurance.

Mr. HATCHER. We have no contractual relation with anybody but the borrower. Under Georgia law, if we made a contract with a borrower and entered into a separate contract with a purchaser of his house, we would release the borrower. We do not want to, under any circumstances, ever be in the position of a contractual relation.

Mr. TANNER. I do not see how you can get any such request if they are not the borrower. You require the mortgagor to select the agent and not the person who owns the property subsequently. You can set your standards on insurance companies. You have complaints fro ma lot of people and we hear complaints on the streets in talking to people we know in asking question about financing here, etc. They complain to us. They may not reduce it to writing but they complain.

Judge HATHCOCK. You had better write us a letter to that effect. It would be a release of the original borrower under Georgia law.

Mr. TANNER. You are spending a lot of money on advertising to build goodwill. You could have a standard form letter like "it is hereby agreed that anybody purchasing this property would have the right to name the insurance agent." We get a great many complaints against this institution and those who complain sure do talk.

Mr. GOTTENSTRATER. We would like to have copies of the affidavits given you by borrowers.

EXHIBIT NO. 13.—MINUTES OF SPECIAL MEETING OF BOARD OF DIRECTORS OF FIRST FEDERAL SAVINGS & LOAN ASSOCIATION OF ATLANTA, ATLANTA, GA., HELD AT THE OFFICE OF THE ASSOCIATION, WEDNESDAY, JUNE 17, 1958, AT 10 A.M.

(The attached minutes will be found as a part of the answer to the supervisory letter accompanying the association's 1958 examination. A copy is submitted separately in order to emphasize the activity of personal appearances and forcible persuasion by supervisors on the Association's Board of Directors.)

Mr. George W. West, Jr., presided and the following directors were present: Messrs. George W. West, Jr., E. W. Gottenstrater, T. O. Hathcock, Thomas J. Hicks, Jr., and A. G. Hendley. Also present by invitation were Mr. John A. Fogarty, President of the Federal Home Loan Bank of Greensboro, Mr. Philip J. Mank, Supervisory Agent, and Mr. Herbert Johnson, attorney for the association.

Motion was made by Mr. Hendley that Mr. Parks and Dr. Miller be excused from the meeting on account of their absence from the city. Motion seconded and carried.

Mr. West stated that the purpose of this special meeting was to afford the directors an opportunity to meet Mr. Fogarty and Mr. Mank and to discuss with them the report of the 1958 examination and audit of the Federal Home Loan Bank Board. He then called on Mr. Fogarty for anything he had to say to the Board.

Mr. Fogarty expressed his appreciation for the opportunity of meeting the directors and stated that he thought it would be well to discuss the recent examination and audit. He stated that Mr. Mank had with him the letter written by the Board of Directors on June 6, 1958, and asked Mr. Mank to comment on this. Mr. Mank stated that in his letter to the Board dated May 23, 1958, he had requested that the directors adopt a resolution regarding self-dealing transactions. There was some discussion regarding the adoption of such a resolution in view of the fact that a director or officer might have a slight interest in a large corporation which could have an interest in the real estate securing a loan. Mr. Fogarty expressed his opinion that an exception should be made in such a case. The suggested resolution was revised and motion made by Dr. Hicks that it be adopted in the following form:

"Be it resolved that the association make no loan on the security of real estate in which any director, officer, employee or attorney of the association has a direct or indirect interest or has had for the past twelve months, or to a purchaser from any corporation in which any such person has an interest in excess of 2 percent, except as expressly permitted by the regulations, or as necessary to salvage the association's investment in real estate in Meadowcliff Subdivision."

The next matter discussed by Mr. Mank was regarding agreements whereby "affiliates" receive the balance of real estate owned after the association recovers its investment cost and interest. Mr. Mank stated it was not the intention of the Federal Home Loan Bank Board to disturb any agreement made by the association, but that the Board of Directors should adopt a resolution limiting the amount conveyed to a second mortgagee to the amount of the second mortgage and that such conveyance be deferred until the association's first mortgages on the properties on an overall basis are reduced so as not to be in excess of 80 percent of value as appraised at date of acquisition. After discussion, motion was made by Dr. Hicks that the following resolution be adopted:

"*Be it resolved,* That agreements with second mortgage holders be limited to the value of their second mortgages and that any conveyance of property be deferred until the date when the association's first mortgages on the properties on an overall basis are reduced so as not to exceed 80 percent of value as appraised on date of conveyance." Motion seconded by Judge Hathcock and the resolution unanimously adopted.

Mr. Mank discussed purchases from "affiliates" and called attention to the fact that his letter requested that the association adopt a resolution regarding future purchases. Mr. West pointed out that the association had obtained bids for building materials used in houses built by the association and that these bids were in the files. The following resolution was submitted by Mr. Gottenstrater and unanimously adopted:

"*Be it resolved,* That the purchase of materials for completing construction on real estate owned by the association be made on the basis of competitive bids, except when very small amounts of materials are involved."

In regard to the matter of liquidity, Mr. Mank stated that it was his understanding that the association is now maintaining daily records to prevent liquidity from falling below 6 percent. The president replied that this was being done.

Mr. West asked Mr. Mank if he did not have a copy of the internal control procedure the association is now using on dormant accounts and also if the procedure was satisfactory. Mr. Mank replied in the affirmative but stated that recommendations for changes would probably be made from time to time as improved methods are devised.

Mr. Fogarty reviewed the record of loans made by the association during the year covered by the examination and stated that the number of homes financed with 100 percent or more financing (including second mortgages) was excessive and that these loans would require very careful supervision during the next few years. He referred to these loans as "marginal" and stressed the fact that a great deal of effective management would be necessary in order to get the association's loan portfolio down from this marginal condition. Mr. Fogarty recommended that the association endeavor to build up its reserves more than it would ordinarily do and watch these marginal loans more carefully than other loans. He suggested that these borrowers might be encouraged to prepay their loans; also that the association might explore the possibility of selling some of the loans.

Mr. West called attention to the fact that interest was probably included in the amount of the second mortgages as reported by the examiners which made the second mortgages appear much larger than they really were.

Mr. Fogarty discussed the matter of real estate owned and stated that the association had been going beyond the normal operation of an association in building on vacant property. It was his recommendation that the association realize whatever profit it could on the land instead of building on it.

The question of dividend rate was discussed and Mr. Fogarty remarked that he realized the association was committed to pay a dividend at the rate of 4 percent per annum for the first six months of 1958 but that the rate should be reduced as soon as possible.

Mr. Fogarty expressed his opinion that the association had been depending too much on construction loans for its income and that its lending program should be rounded out.

The next order of business was a report by Mr. Hendley of the special committee to submit names for possible directors. Mr. Hendley read character, credit, and financial reports of the four men whose names were submitted at the last meeting, namely, Messrs. Peter J. Stelling, Fred B. Moore, L. L. Austin, and Herman W. Lay. All of these reports were favorable. After discussion of these gentleman and the number to be elected at this time, motion was made by Mr. Gottenstrater that the Board elect three of these four named to serve until the next annual meeting of the members and that voting be by secret ballot. Motion seconded by Dr. Hicks and votes were cast. A tally of votes by the secretary showed that Messrs. Peter J. Stelling, Fred B. Moore, and Herman W. Lay were elected and Mr. Hendley was asked to notify each of them and invite them to attend the next meeting of the Board.

Inasmuch as there was no further business to be transacted, motion was made by Mr. Gottenstrater that the meeting adjourn. Motion seconded and carried.

I certify that the above is a true and correct copy of the minutes of special meeting of Board of Directors of First Federal Savings and Loan Association of Atlanta held at the office of the association on Wednesday, June 17, 1958, at 10 a.m.

LUDIE CORNWELL,
Secretary, First Federal Savings and Loan Association of Atlanta.

EXHIBIT NO. 14.—CORRESPONDENCE BETWEEN THE FEDERAL HOME LOAN BANK BOARD, WASHINGTON, D.C., AND FIRST FEDERAL SAVINGS & LOAN ASSOCIATION OF ATLANTA, ATLANTA, GA., AND OTHER MATERIAL RELATIVE TO THE EXAMINATION AND AUDIT OF THE ASSOCIATION AS OF JANUARY 22, 1960

FEDERAL HOME LOAN BANK BOARD,
OFFICE OF SUPERVISORY AGENT,
Greensboro, N.C., April 13, 1960.

BOARD OF DIRECTORS,
First Federal Savings and Loan Association of Atlanta,
Atlanta, Ga.

GENTLEMAN: We enclose the report of examination and audit of your association made as of January 22, 1960, by the Division of Examinations of the Federal Home Loan Bank Board. We request that you carefully review the entire report.

It is noted that the association has continued to grant loans to borrowers with little or no equity in the loan security. The 51 loans, listed on page 19 of the report show that the total amount of mortgage indebtedness exceeds both the purchase price and the value assigned by the association's appraisers. We believe that you will wish to review your policies in this regard so that in the future each borrower will have a sufficient equity in the mortgage security to assure his continuing interest in the integrity of his obligation. Please advise us of the changes that you make.

Please review the examiner's comments regarding the association's construction loan procedure (Comments 1–d and 1–e). It is our opinion that your operating policy on construction loans should be reviewed periodically to determine that the best possible protection is afforded to both the borrower and to the association at all times. We recommend for your consideration items 1, 2, 3, 6, and 8 which if strengthened would materially improve your construction loan procedure. Please advise us of any change which will be made.

Loan No. 13344 granted for the purpose of developing acreage into lots for residential usage does not in many respects comply with the regulations governing this type lending. Please inform us that this loan now fully complies with Section 545.6–14 of the Federal Regulation or that it has been removed without loss from the assets of the association.

We are confident that your review of the practice of paying a bonus to directors who are not full-time salaried employees will lead you to the same conclusions as ours, that for directors to vote themselves a portion of the profits realized from funds entrusted to them is subject to misinterpretation and should not be done. We are equally confident that you will inform us that this practice will be discontinued.

After you have considered the report and this letter and have taken such action as is required, please send us two certified copies of excerpts from your minutes setting forth the action taken on each point discussed. All correspondence referring to the supervisory letter should be submitted in duplicate also.

Sincerely yours,

PHILIP J. MANK,
Supervisory Agent.

EXCERPTS FROM THE REPORT OF EXAMINATION AND AUDIT OF THE ASSOCIATION

SCHEDULE 1.—*"Rollover" loans from the association blanket construction loans—E. R. Hawkins and W. R. Bates, III, builders*

Loan No.	Date of loan	Original amount	Appraisal		2d mortgage [1]	Total mortgages	Purchase price	Percentage of purchase price financed	Percent of appraisal financed
			Date	Amount					
13265	Feb. 11, 1959	$6,600	Feb. 5, 1959	$8,500	$2,555	$9,155	$8,450	108.3	107.7
13264	do	6,600	do	8,500	2,555	9,155	8,450	108.3	107.7
13309	Mar. 3, 1959	6,600	Feb. 26, 1959	8,500	2,555	9,155	8,450	108.3	107.7
13310	do	6,600	do	8,500	2,555	9,155	8,450	106.3	107.7
13311	do	6,600	do	8,500	2,555	9,155	8,450	108.3	107.7
13312	do	6,600	do	8,500	2,555	9,155	8,450	108.3	107.7
13313	do	6,600	do	8,500	2,555	9,155	8,450	108.3	107.7
13314	do	6,600	do	8,500	2,555	9,155	8,450	108.3	107.7
13357	Apr. 2, 1959	6,600	Mar. 26, 1959	8,500	2,555	9,155	8,450	108.3	107.7
13358	do	6,600	do	8,500	2,555	9,155	8,450	100.3	107.7
13386	Apr. 16, 1959	6,600	Apr. 9, 1959	8,500	2,555	9,155	8,450	108.3	107.7
13400	Apr. 23, 1959	6,600	Apr. 16, 1959	8,500	2,555	9,155	8,450	108.3	107.7
13401	do	6,600	do	8,500	2,555	9,155	8,450	108.3	107.7
13418	May 1, 1959	6,600	Apr. 9, 1959	8,500	2,555	9,155	8,450	108.3	107.7
13450	May 22, 1959	6,600	May 14, 1959	8,500	2,555	9,155	8,450	108.3	107.7
13451	do	6,600	do	8,500	2,555	9,155	8,450	106.3	107.7
13470	June 3, 1959	6,600	May 25, 1959	8,500	2,555	9,155	8,450	108.3	107.7
13471	do	6,600	do	8,500	2,555	9,155	8,450	108.3	107.7
13472	do	6,600	do	8,500	2,555	9,155	8,450	108.3	107.7
13497	June 24, 1959	6,600	June 18, 1959	8,500	2,555	9,155	8,450	108.3	107.7
13319	July 9, 1959	6,600	July 2, 1959	8,500	2,555	9,155	8,450	108.3	107.7
13520	do	6,600	do	8,500	2,555	9,155	8,450	108.3	107.7
13535	July 17, 1959	6,600	July 9, 1959	8,500	2,555	9,155	8,450	108.3	107.7
13536	do	6,600	July 2, 1959	8,500	2,555	9,155	8,450	108.3	107.7
13538	July 22, 1959	6,600	July 16, 1959	8,500	2,555	9,155	8,450	108.3	107.7
13539	do	6,600	July 10, 1959	8,500	2,555	9,155	8,450	108.3	107.7
13562	July 31, 1959	6,600	July 23, 1959	8,500	2,555	9,155	8,450	108.3	107.7
13564	Aug. 3, 1959	6,600	July 28, 1959	8,500	2,555	9,155	8,450	108.3	107.7

See footnotes at end of table, p. 294.

SCHEDULE 1.—*"Rollover" loans from the association blanket construction loans—E. R. Hawkins and W. R. Bates, III, builders*—Continued

Loan No.	Date of loan	Original amount	Appraisal		2d mortgage [1]	Total mortgages	Purchase price	Percentage of purchase price financed	Percent of appraisal financed
			Date	Amount					
13578	Aug. 14, 1959	$6,800	Aug. 6, 1959	$9,300	$2,805	$9,605	$9,000	106.7	103.3
13579	do	6,600	do	8,500	2,555	9,155	8,450	108.3	107.7
13580	do	6,600	do	8,500	2,555	9,155	8,450	108.3	107.7
13581	do	6,600	July 30, 1959	8,500	2,555	9,155	8,450	108.3	107.7
13605	Aug. 28, 1959	6,600	Aug. 20, 1959	8,500	2,555	9,155	8,450	108.3	107.7
13613	Sept. 4, 1959	6,600	Aug. 26, 1959	8,500	2,555	9,155	8,450	108.3	107.7
13614	do	6,600	do	8,500	2,555	9,155	8,450	108.3	107.7
13643	Sept. 25, 1959	6,600	Sept. 17, 1959	8,500	2,555	9,155	8,450	108.3	107.7
13650	Oct. 2, 1959	6,600	Sept. 24, 1959	8,500	2,555	9,155	8,450	108.3	107.7
13663	Oct. 16, 1959	6,600	Oct. 8, 1959	8,500	2,555	9,155	8,450	108.3	107.7
13664	do	6,600	do	8,500	2,555	9,155	8,450	108.3	107.7
13672	Oct. 23, 1959	6,600	Oct. 15, 1959	8,500	2,555	9,155	8,450	108.3	107.7
13673	do	6,600	do	8,500	2,555	9,155	8,450	108.3	107.7
13678	Oct. 30, 1959	6,600	Oct. 22, 1959	8,500	2,555	9,155	8,450	108.3	107.7
13706	Nov. 27, 1959	6,600	Nov. 19, 1959	8,500	2,555	9,155	8,450	108.3	107.7
13718	Dec. 2, 1959	6,600	Nov. 25, 1959	8,500	2,555	9,155	8,450	108.3	107.7
13719	do	6,600	do	8,500	2,555	9,155	8,450	108.3	107.7
13731	Dec. 11, 1959	6,600	Dec. 3, 1959	8,500	2,555	9,155	8,450	108.3	107.7
13732	do	6,600	do	8,500	2,555	9,155	8,450	108.3	107.7
13738	Dec. 18, 1959	6,600	Dec. 11, 1959	8,500	2,555	9,155	8,450	108.3	107.7
13739	do	6,600	do	8,500	2,555	9,155	8,450	108.3	107.7
13742	Dec. 31, 1959	6,600	Dec. 17, 1959	8,500	2,555	9,155	8,450	108.3	107.7
13757	Jan. 22, 1960	6,600	Jan. 14, 1960	8,500	2,555	9,155	8,450	108.3	107.7
(51 loans)		336,800		434,300	130,555	467,555	431,500	108.3	107.7

[1] Principal only.

NOTE.—All association loans were written for a term of 18 years and to bear interest at an annual rate of 6.5 percent, all secondary financing for a term of 10 years with annual interest at 8 percent. The loans were closed in name of Bates or Hawkins and assumed by purchaser on same dates. The 2d mortgages were either Bates or Hawkins. The 2d mortgages are dated the same day as the 1st mortgages.

FURTHER EXCERPTS FROM THE REPORT OF EXAMINATION AND AUDIT OF THE ASSOCIATION

c. Commission for loans

Since the last report, $9,776.50 was disbursed as commissions for 52 loans totaling $985,150.00. The commissions were paid at a rate of 1 percent except for one commission for $75 at a rate of ½ of 1 percent. No commissions have been paid since June 3, 1959.

d. Construction loan policies and procedures

When the construction loan policies and procedures were discussed with President West, he requested that loan officers, the appraiser, and Attorney Johnson be present. A review of the policies and procedures revealed:

(1) Cost breakdown estimates usually are not obtained from the builder. Only for 5 of the 28 larger speculative loans were cost estimates obtained. President West stated that the estimates were obtained and suggested to the examiner that he ask Appraiser Heckman to furnish them. Heckman agreed that the estimates usually are not obtained.

The cost of undeveloped lots and acreage is not obtained even though a space for it is on the application form.

In 1958 the board of directors stated to the supervisory agent that the association would not knowingly make any construction loans where the builder does not have an investment in the property of at least 20 percent of the cost. Without cost estimates it is impossible to determine if this policy is always followed.

Attorney Johnson stated that the 20 percent investment of the builder did not mean that he had to invest his own funds but that the 20 percent could be in the form of second mortgages. The association does not determine the source of the builders' 20 percent investment. In fact the dollar amount of the 20 percent cannot usually be determined from the records of the association.

Subsequent comments show that some builders have no equity in the properties.

(2) The extent and terms of secondary financing is not determined.

(3) Construction loan agreements are not obtained.

It appears that the association relies primarily on the following paragraph of the loan settlement sheet in order to control disbursements:

"We agree that the sum listed as being held for construction and inspections by the association shall be paid out only after inspection and approval by a representative of the association. The First Federal, in its discretion, may use the proceeds of this loan to pay any bills for labor, materials, taxes and assessments on the property securing this loan or to reduce the principal of the note."

It was noted that the association can cancel the loan at its discretion. During the previous examinations builders stated that this provision was held as a threat over them in order to force them to buy materials and insurance from certain firms.

There is no agreed upon payout schedule.

(4) A dated and signed photograph which has been sworn to or a no-work affidavit are not obtained after filing the mortgage. An initialed report dated prior to the filing of the mortgage is made by the appraiser.

(5) Borrowers are not required to deposit with the association the difference between cost and loan proceeds.

(6) A signed agreement stating the amount required to be paid for individual lots to be released from blanket mortgages is not obtained.

In the Norwood usury suit, Norwood contended that one of the basic problems he encountered was that the association frequently raised the release amounts.

Below the appraisal report, which is on the back of the application form, is a penciled notation, made by association personnel, that states a release figure.

(7) Completion bonds are not required.

(8) Borrowers are not required to invest their funds first. For instance, if 20 percent of the improvements are complete, then 20 percent of the loan is disbursed. It is impossible, without cost estimates, to determine if the association has on hand sufficient funds from the loan proceeds to complete construction.

(9) Disbursements are not made directly to subcontractors.
(10) Paid bills are not required.
(11) Releases of liens are not obtained from subcontractors and materialmen when each phase of the work is completed.

Attorney Johnson stated that due to the State lien law it was not necessary to comply with items 9, 10 and 11 in order to protect the association's mortgage.

e. Examples of construction loans

On July 24, 1959 loan No. 13549 for $264,000 was made to J. W. Long (one of the major borrowers) to build 30 dwellings appraised for:

Dwellings (30×$9,500)	$285,000
Land (30×$1,500)	45,000
Total (30×$11,000)	330,000

As part of the purchase price of the lots from Pelfrey, Long gave a $20,000 mortgage to Canady. The purchase money mortgage was subordinated to the association's and it is due in 2 years. Lots may be released for $666.67 each.

Long furnished cost estimates as follows:

	Plan No. 1	Plan No. 2
Total	$11,028.50	$10,688.36
Initial cost of lot (memo)	(1,300.00)	(1,300.00)
Less:		
Loan commitment fees	110.00	100.00
Interest on construction loans	370.00	350.00
Loan brokerage	325.00	300.00
Revenue stamps	12.50	12.20
Tax proration	20.00	20.00
Sales commissions	600.00	575.00
Total	1,437.50	1,357.20
Total cost of dwellings	9,591.00	9,331.16

Summary

(7×$9,591.00)	$67,137.00
(23×$9,331.16)	214,616.68
Total	281,753.68
Total financing:	
First mortgage	264,000.00
Less loan cost (attorney fee $1,390.00)	1,548.50
Net 1st mortgage	262,451.50
2d mortgage	20,000.00
Total	282,451.50
Less total cost	281,753.68
Excess loan over cost	697.82
Rations:	*Percent*
Total 1st mortgage to total cost	93.7
Net 1st mortgage to total cost	93.1
Total mortgages to total cost	100.8

While discussing this loan with the examiner, President West stated:

1. "We are not concerned with the cost. We make our loan on 80 percent of the appraised value in accordance with the regulations. There is no regulation saying you have to base your loan on 80 percent of cost."

2. "We do not care whether Long has any equity in the property or not. We know that somebody, maybe at least 20 people, has at least 20 percent equity based on the appraised value."

On November 12, 1959, Loan No. 13961 for $78,000 was made to Jennison and Angevine to construct 10 dwellings on 10 lots. The appraised value was:

Land	$22,500
Dwellings	88,500
Total	111,000

The cost estimates submitted by the mortgagor were summarized as:

Estimated cost of improvements	$84,830
Cost of land	16,000
Total	100,830

Amount financed:	
2d mortgage for land	$13,000
1st mortgage	78,000
3d mortgage to prefab company	14,000
Total	105,000
Less total cost of dwellings	100,830
Excess financing over cost	4,170

Appraiser Beckman stated that there were no other costs involved in developing the lots as sewers, curbing, etc., were already in when the mortgagors purchased them.

f. Directors' interest in loans made

Attention is directed to the answers to questions 5a and 5b of the manager's questionnaire which was signed by President West.

On January 15, 1960, loan No. 13751 for $100,000 was made to Contemporary Homes, Inc. (Fred Fett, Jr., president, is one of the major borrowers of the association.) President West approved the loan prior to approval by the executive committee or board of directors. The corporate minutes do not show that President West revealed his interest in the lots. The purpose of the loan was to construct 10 dwellings on 10 lots appraised as follows:

Dwellings	$111,500
Lots	20,000
Total	131,500

There were no cost estimates obtained from the mortgagor.

Only loan costs totaling $638.25 had been disbursed as of the examination date. Seven of the ten lots were purchased from West Lumber Company in which President West owns 13.47 percent of the total outstanding stock.

The loan application was dated December 16, 1959. The deed to the mortgagor was dated December 13, 1959, but it was not filed for record until January 18, 1960, the date of recording the association's mortgage. Revenue stamps of $13.75 indicate a sales price of $12,500.

The other three lots were purchased by the mortgagor from Oliver G. Rainwater, then and now a salesman for West Lumber Company. The deed to the mortgagor was dated January 15, 1960, and it was filed for record on January 18, 1960, along with the other deed and the association's mortgage. Stamps of $5.75 on the deed indicate a sales price of $5,225 for the three lots.

There were no recorded second mortgages from the mortgagor to the sellers of the lots. Appraiser Hackman stated that the lots were fully developed as to sewers, paving, curbing, etc., when they were purchased. Although stamps on the deeds indicate a purchase price totaling $17,725 they were appraised for $20,000.

It is a policy of the association not to ask the purchase price of the lots or acreage.

g. Development loan

On January 8, 1960, loan No. 13244 for $48,300 was made to Fett Land Company (Incorporated), Fred Fett, Jr., President. Fett also signed the note as an individual. The principal balance is due on or before January 7. 1961. In-

terest at 8 percent is payable monthly. The note provided that the indebtedness was $1,050 on each of 46 lots.

Fett is a builder-developer who has borrowed frequently from the association. Purpose of the loan was to develop 17 acres into 46 residential lots.

The only appraisal report pertaining to this loan was dated December 17, 1959. This report stated that the valuation of the lots was $80,500 (46×$1,750).

The basis of valuation was:

Cost of land (46×$630)	$28,980
Cost of development (46×$700)	32,200
Total cost (46×$1,330)	61,180
Add: Estimated profit (46×$420)	19,320
Total appraised value	80,500

The appraisal report contained the following note: "Estimated cost to develop [sic] 46 lots from 17 acres to include sewer, water, gas, elec., drainage, curb, and paving, to run appro. $700 per lot. This added with a par lot cost of $630+ will equal $1,330 leaving an estimated profit of $420 each. However the profit will probable [sic] be higher do [sic] to bids and amt. to be done."

There was no breakdown of the $32,200 development cost obtained.

Upon closing the loan on January 8, 1960, the following disbursements were made:

Attorney fee	$312.50
Approval of construction plans and inspection of 46 lots at $5 each (income to the association)	230.00
Recording charges	4.50
No-work inspection	5.00
Total loan cost	552.00
Northside Investment Company ("money advanced for survey") (survey dated June 1, 1959, in file)	1,235.00
Life Insurance Company of Georgia ("60 percent of cost of land")	17,400.00
Total disbursement	19,187.00
60 percent of cost of land	17,400.00
Overdisbursement	1,787.00

As of the examination date no other disbursements had been made.

(1) The security instrument does not require development to be commenced not more than nine months after date and does not provide that the loan be in default in the event development has not commenced on or before the expiration of nine months.

(2) The mortgagor stated on the regular application form that the land was purchased for $29,000. No certificate was obtained from the mortgagor stating the cost of the land.

(3) The applicant corporation did not furnish a statement showing the name and addresses of each and every person who has an interest in or is an officer in the corporation and the nature and extent of the interest of each.

* * * * * * *

The case has come onto the calendar several times for trial on our renewed demurrers, but the attorney for the plaintiff does not seem anxious to push the case and has had it removed from the calendar in each instance.

Dan Austin, Jr., v. First Federal Savings and Loan Association of Atlanta, George W. West, John M. Sena, and Dick Doetsch

This suit seeks damages in the amount of $20,000 for alleged flooding of the plaintiff's property caused by grading of the property of the Association. When the petition was initially heard, the Court sustained our general demurrers on behalf of both the Association and Mr. West.

Following the sustaining of our general demurrers the plaintiff amended within the time allowed and we have renewed our demurrers. Whether our renewed demurrers are sustained or overruled, we do not contemplate any loss in this suit.

Dan Austin, Jr., v. *First Federal Savings and Loan Association of Atlanta, John M. Sena, George W. West, and Mar-Lee Builders, Inc.*

The general demurrer of First Federal in this case was sustained by the Court and this litigation is now terminated.

All other litigation in which First Federal is a party is litigation in which First Federal is a nominal party only due to the fact that it holds money claimed by one or more parties or it holds a deed to secure debt covering property sought to be condemned by a governmental body.

7. BONUS TO DIRECTORS

On December 10, 1959, the board of directors approved a 1-percent bonus to directors and employees. The bonus to directors totaled $506.33 for amounts varying from $7.79 to $123.64.

8. INTERNAL CONTROL

A review of the association's system of internal control revealed the following:

a. A permanent record of cash balanced at the end of each working day is not made by each teller.

b. Approximately 50 savings passbooks are held at the main office and 25 savings passbooks are held at the Sandy Springs Branch Office. These passbooks are available to tellers.

c. Dual control of mail receipts is not maintained.

d. The person posting the general ledger has a $450 working fund used for miscellaneous cash disbursements.

MAY 11, 1960.

Mr. PHILIP J. MANK,
Supervisory Agent, Federal Home Loan Bank Board,
Greensboro, N.C.

DEAR MR. MANK: We are enclosing two certified copies of excerpts from minutes of meeting of Board of Directors of this Association held on May 5, 1960.

Yours very truly,

MILDRED PENDERGRASS, *Vice President.*

"The President stated that he had received from the Federal Home Loan Bank Board the report of examination and audit made as of the close of business January 22, 1960, and a letter dated April 13, 1960, from Mr. Philip J. Mank, Supervisory Agent, addressed to the Board of Directors. The letter was read to the Board and each paragraph discussed. Motion was made by Mr. Moore that a special committee be appointed to study the Supervisory Agent's letter and examination and audit and report to the Board at the next meeting, the special committee to be composed of Messrs. A. G. Hendley, E. W. Gottenstrater, Fred B. Moore, and Dr. Thomas J. Hicks, Jr. Motion seconded and carried."

I, Ludie Cornwell, Secretary and Treasurer of First Federal Savings and Loan Association of Atlanta, certify that the above is a true and correct copy of excerpt from the minutes of meeting of Board of Directors of the Association held on May 5, 1960.

LUDIE CORNWELL,
Secretary and Treasurer,
First Federal Savings and Loan Association of Atlanta.

MAY 11, 1960.

REPORT OF MEETING OF SPECIAL COMMITTEE OF THE BOARD OF DIRECTORS OF FIRST FEDERAL SAVINGS AND LOAN ASSOCIATION OF ATLANTA, HELD AT THE OFFICE OF THE ASSOCIATION, ON WEDNESDAY, JUNE 1, 1960, AT 2:30 P.M.

All members were present; namely, Messrs. A. G. Hendley, E. W. Gottenstrater, Fred B. Moore, and Dr. Thomas J. Hicks. Due to his attendance at a funeral, Mr. Moore arrived late. By invitation, the following also attended this Meeting: Messrs. George W. West, Jr., Harold Random, Maurice Heckman, and the Association's General Counsel, Mr. Herbert Johnson.

Mr. West stated that, in the absence of Mrs. Pendergrass, he had asked his secretary, Mrs. Travis, to act as secretary to the Committee, and that she had with her the 1960 audit file, and certain other material which he had prepared, in order to put the items covered in the Supervisory Letter before each member of the Committee. He further stated that this material included comments prepared by the Loan Officer, Mr. Random, and certain forms which were now in use, which Mr. Heckman, our Chief Appraiser, had designed, and all of this was reviewed, and approved by, the General Counsel. He suggested that the Committee might like to elect a Chairman, whereupon, on motion made by Mr. Hendley, seconded by Dr. Hicks, and carried, Mr. Gottenstrater was elected.

The Chairman reread to the Committee the Supervisory Letter, which accompanied the examination of January 22, 1960. He then suggested that the Committee take up each paragraph separately, as each one seemed to relate to a different subject.

The first Supervisory matter, contained in the second paragraph, "* * * loans to borrowers with little or no equity in the loan security.", is contained in the second paragraph, on page 17, First Mortgage Loans, under section b., "Secondary Financing". Each member of the Committee was furnished a copy of this. Mr. West stated that this is not a loan that was made since the last examination, stating, further, that this same loan had been continuing for three and one-half years. The borrower is not the individual ultimate owner, but the builder-developer, whose name is Mr. Hawkins, or his son-in-law, Mr. Bates. After some discussion by the Committee, it was agreed that this criticism was not a valid one, possibly due to a misunderstanding of the examiners, and Mr. Johnson was asked to write a suitable answer to this.

The Chairman next read to the Committee paragraph three, and pointed out to them that they had copies before them of the report, which discussed this matter, and, also, the answers, as Mr. West had stated earlier. Mr. West, along with Mr. Random and Mr. Heckman, explained each paragraph to the Committee, and their action that was taken within twenty-four hours after the examiners left the Association in January. He further explained to the Committee that the Loan Officer, Appraiser, the Operations Officer, and the General Counsel, along with him, had spent several hours with the Chief Examiner and one of his assistants the night before they left, going over each of these items, and reminded the Committee that he had reported at the February Board Meeting to the entire Board of Directors this fact, and showed them the forms which were being used. Mr. Johnson stated that he believed this would satisfy their criticism of the general items, and that, actually, all that it accomplished was bringing together on one form several items which the Association had in its construction loan files, in different places.

After a great deal of discussion of each of these subparagraphs, the following recommendations were approved by the Committee, and it is recommended that they be incorporated in answer to the Supervisory Letter:

2.d.(1) A detailed cost breakdown is now obtained covering each construction loan on a special form used by the Association.

The cost of undeveloped lots and acreage is now obtained in every case. This information is contained in a "Construction Loan Agreement."

The Association requires a builder to have a 20-percent investment in the property but does not attempt to control the exact nature of the investment.

2.d.(2) The Association feels that it should not control the nature or extent of secondary financing on the part of the builder and that his investment could be in various forms other than cash.

2.d.(3) The Association has now consolidated all information requested from builder into one "construction loan agreement", and this is being used for every construction loan.

A payout schedule is now included in the "Construction Loan Agreement".

2.d.(6) A signed agreement covering the amount required for release of individual lots is now included as part of our "Construction Loan Agreement".

2.d.(8) We are now showing in clearer detail on the back of our drawsheet, figures to indicate at all times the amount of the borrower's investment. The Board of Directors does not feel it should adopt a policy of always requiring our borrowers to invest their funds first. The Association complies with the Board's regulations by lending no more than 80 percent of the value of the property at any particular time.

The next item was identified by the Chairman as 2.e.1, entitled, "Examples of Construction Loans". This was explained by Mr. Heckman, and, after a detailed discussion, the following answer to this was recommended:

We have discussed these comments with our appraisers. They state that certain items which your examiners deducted from the cost estimate are proper matters to be computed in costs. These are: interest on construction loans, revenue stamps, tax proration and sales commissions. We are inclined to agree with them. However, in this particular case Mr. Long did not include on his cost estimate any items for overhead or supervision. Since he devotes his full time to supervision and since he has other expenses such as warehouse charges, truck and automobile operation, use of casual labor, a fair charge for this would be 15 percent, which would make the cost estimate about the same as his original computation.

The Chairman then read paragraph four of the Letter, which referred to the development loan #13244, made to Fred G. Fett. Mr. Johnson and Mr. West stated to the Committee that this was the first loan of its kind made under the new regulation for lot development, that this was a mistake, which was remedied immediately after it was brought to the Association's attention by the examiners, and it was no loss from the assets of the Association. The Committee generally agreed that this statement should be incorporated in the answer to the Supervisory Letter.

The next paragraph referred to "* * * paying a bonus to directors who are not full-time salaried employees * * *". After discussing this matter, it was the consensus of the Committee that the answer to this question should be "that the Board be advised that the Association will abide by their decision, but it does not agree with the Board's authority to render same".

Mr. West explained that there are two matters in the examination, which are not commented on in the Supervisory Letter, and he would like for this Committee to be aware of them. One is a reference to his ownership in the West Lumber Company, as referred to in the examiner's comment on a construction loan, made to Contemporary Homes, Inc., who is Fred G. Fett, wherein he purchased some lots from the West Lumber Company. The examiners stated: "The corporate minutes do not show that President West revealed his interest in the lots." He further stated that he had reported this to the Executive Committee at the time, and that Mr. Johnson had said he saw no reason why this loan should not be made. Mr. Gottenstrater and Mr. Hendley stated that they remembered this to be the case.

The other item was the comment on Internal Control, which Mr. West read to the Committee, and stated that all of these were now being complied with, except Item Number c, which the Association intended to put into effect when it receives its microfilming equipment.

After a general discussion of the report, the Committee asked President West and the General Counsel, Mr. Johnson to prepare a letter for presentation to the Board of Directors at their next meeting, incorporating this Committee's findings and suggested answers.

There being no further business to come before the Meeting, the Meeting was adjourned.

E. W. GOTTENSTRATER,
Chairman of Committee.
KATHLEEN M. TRAVIS,
Secretary to Committee.

CONSTRUCTION LOAN AGREEMENT

The following Construction Loan Agreement is entered into this date _____ between First Federal Savings and Loan Association of Atlanta, hereinafter called the Association, and _____ hereinafter called the (borrower) and all statements made in this application are made to induce the Association to make a loan.

1. The (borrower) agrees that work on houses and lots will be performed according to the plans, specifications and cost estimate submitted with this application and any alterations or changes must be approved by the undersigned parties.

2. It is estimated the cost of construction will be $_____ per lot, $_____ per house.

3. It is agreed no work will be started or materials delivered on the subject property until notified by the Association.

4. Construction will be completed on or before _____.

5. A representative of the Association may enter the premises to make inspections at any time until this loan is paid.

6. Funds are to be disbursed to the borrower, or his authorized representative according to a prearranged schedule or as indicated on the Construction Loan Inspection Sheet furnished by the Association, and only after approval by the Association.

7. The Association reserves the right to withhold any or all funds until work has been approved by the Association.

8. Where this agreement covers more than one lot the amount agreed upon for release by Quit Claim Deed shall be $_____ per lot and improvements.

The above does not alter, change or modify any of the other agreements contained in the various instruments pertaining to this loan.

By _____

FIRST FEDERAL SAVINGS AND LOAN
ASSOCIATION OF ATLANTA

By _____

I hereby certify that the cost of the land or lots in connection with this construction loan is _____.

I certify that at the time of the first advance I will have $_____ invested in the property.

By _____
(Borrower)

Construction Loan Agreement
FF-LAdm 508

FIRST FEDERAL SAVINGS AND LOAN ASSOCIATION OF ATLANTA

COST ESTIMATE

LOT PREPARATION	1. Plans	$
	2. Surveys	
	3. Permits and Water Tap	
	4. Clearing	
	5. Hauling	
	6. Preparing Job Site (Includes Batter Boards)	
	7. Excavating	
	8. Rough Grading	
	9.	
	10.	
HOUSE CONST.	11. Foundation and Footing	
	12. Chimneys and Fireplace	
	13. Brick and Laying	
	14. Cement Work	
	15. Iron Work	
	16. Wrought Iron and Rails	
	17. Framing Material	
	18. Millwork (Windows, Doors, Stairs, Cabinets)	
	19. Carpenter Labor (Framing)	
	20. Carpenter Labor (Finish)	
	21. Common Labor	
	22. Plumbing	
	23.	
	24.	
	25. Sewer Connection or Septic Tanks (Labor & Materials)	
	26. Drain Tiles	
	27. Electric Wiring	
	28. Electric Fixtures	
	29. Sheet Metal	
	30. Heating and/or Air Conditioning	
	31. Painting Exterior	
	32. Roofing Material and Labor	
	33. Lath and Plaster or Sheet Rock (Materials & Labor; Complete)	
	34. Rough Hardware	
	35. Finish Hardware	
	36. Insulation	
	37. Weather Stripping	
	38. Floors	
	39. Ceramic Tile Walls and Floors	
	40. Floor Finishing	
	41. Special Kitchen Appliances	
	42. Grading and Landscaping	
	43. Driveways and Walks	
	44. Sales Tax	
	45. Supervision and Overhead	
	46. Pay Roll Taxes	
	47. Insurance and Real Estate Taxes	
	48. Interest on Loans	
	49. Lot Cost	
	50.	
	51.	
	52.	
	53.	
	54.	
	55.	
	TOTAL	

Checked By: _____ Submitted By: _____

Cost Estimate
FF-LAdm 514

CONSTRUCTION LOAN INSPECTION SHEET
NOTE: THIS FORM MUST BE COMPLETED

LOAN NO._____

Builder_____ Location_____

Res. Phone_____ Office Phone_____ Week Ending_____

Request $_____ Loan Per House $_____ Total Loan $_____
*Needs Next Week $_____ Needs in 2 Wks. $_____

The association agrees to advance during construction the following percentages of the principal loan amount less the required equity of the borrower in each house in the amount of $_____.

House Nos.	Lot Nos.	Block Nos.	Street	Lots 1/2 to 100% Improved	Foundation & Sub Floor 10%-equity	Roof & Shingles Gen. Exterior Doors, Windows In 35%-equity	Plumbing, Wiring & Heating, Ext. Brk. or Siding 50%-equity	Plastered or Sheetrock Fin. 65%-eq.	Floor & Trim Work 75%-eq.	Tile, Fixtures, Cabinets & Appl. 90%-eq.	Completed & Landscaped-Drive & Walks 100%-eq.	Remarks (For Lenders Use)

*Your Estimate
FF - L Adm. 510

FIRST FEDERAL SAVINGS & LOAN ASSOCIATION OF ATLANTA

SAMPLE No. 1

EXCERPT FROM THE MINUTES OF THE FIRST FEDERAL BOARD MEETING ON MARCH 7, 1960

The President reported that he and the loan officer, appraiser, Vice President Kirk, and Mr. Johnson, the Association's General Counsel, had met with Mr. Tanner, Chief Examiner, immediately after the last Board meeting and Mr. Tanner stated some of the construction loans made by the Association were in excess of 80 percent of cost of construction. We have not received a report of the examination and audit as yet. As a result of this conference, forms have been developed to consolidate information in the construction loan files for the Federal Home Loan Bank examiners which should reduce the cost of examining time.

JUNE 17, 1960.

Mr. PHILIP J. MANK,
Supervisory Agent, Federal Home Loan Bank Board,
Greensboro, N.C.

DEAR MR. MANK: Enclosed please find an original and one copy of our Board's answer to your Supervisory Letter of April 13, 1960, which accompanied the January 22 examination and audit. Also enclosed are two certified copies of excerpts from the minutes of the meeting of our Board of Directors, held on June 16, 1960, confirming this action.

Yours truly,

GEORGE W. WEST, Jr.

"After a thorough discussion of the Special Committee's report, and the proposed draft of their letter, answering Mr. Mank's supervisory Letter of April 13, 1960, it was moved by Mr. Stelling, seconded by Mr. MacDougall, and carried, that the report be accepted, and that the suggested letter be adopted, and signed by each Director, and forwarded by the President to Mr. Mank, Supervisory Agent, as the Board's reply to the April 13, 1960, Supervisory Letter and January 22 audit and examination, that a copy of this letter be made a part of these minutes."

I, Ludie Cornwell, Secretary of First Federal Savings and Loan Association of Atlanta, certify that the above is a true and correct copy of excerpts from minutes of meeting of the Board of Directors held on June 16, 1960.

LUDIE CORNWELL, *Secretary.*

FIRST FEDERAL SAVINGS AND LOAN ASSOCIATION,
Atlanta, June 16, 1960.

Mr. PHILIP J. MANK,
Supervisory Agent, Federal Home Loan Bank Board,
Greensboro, N.C.

DEAR MR. MANK: We have received through the President of the Association your Supervisory Letter of April 13, 1960, with its enclosed report of examination and audit for the First Federal Savings and Loan Association of Atlanta made as of January 22, 1960. We have appointed a Special Committee of the Board, who has reported to us in great detail, and the following is a result of our study and action.

Comment 2.b., which refers to fifty-one (51) loans, listed on page 19 of the report, we believe is due to some misunderstanding. Our borrowers are Mr. S. R. Hawkins and Mr. William R. Bates. Both of them have substantial equities in the loan securities. Both are substantial men, well able to meet their obligations as they mature. The Association has done business with them for a period of years and our relationship has been entirely satisfactory.

Mr. Hawkins and Mr. Bates sell these houses for a downpayment of $100. The purchasers assume the first mortgage and give the seller a second mortgage. Both builders state that they are completely satisfied with their method of doing business and we know of no reason why we should tell them that they should change their method of operation.

The Association has made loans totaling more than thirty-five million dollars which were guaranteed by the Veterans' Administration. The borrower in most cases did not have one cent of his own money invested in the property. The

Congress of the United States thought that this type of loan was proper and the history of the VA loan program has proved them to be right. We agree with them.

There is not too much distinction between these loans and the Bates and Hawkins loans. In one case the guarantor is a subsidiary of the United States government. In the other case the borrower is an individual who sells to the home owner. We believe that private enterprise should have the same right to act that a government subsidiary does. In both cases homebuilding is encouraged and people are able to own homes who would not otherwise be able to do so.

Frankly, this Board is at a loss to understand the basis of the criticism. Is the Association being criticized for making sound loans which are amply secured and in compliance with every regulation of the Home Loan Bank Board, or is it being criticized for allowing its borrowers to sell their property on terms which they consider satisfactory?

Comment 2.d. First Mortgage Loans, Construction Loan Policies and Procedures:

d.1. A detailed cost breakdown is now obtained covering each construction loan on a special form used by the Association.

The cost of undeveloped lots and acreage is now obtained in every case. This information is contained in a "Construction Loan Agreement."

The Association requires a builder to have a 20-percent investment in the property but does not attempt to control the exact nature of the investment.

d.2. The Association feels that it should not control the nature or extent of secondary financing on the part of the builder and that his investment could be in various forms other than cash.

d.3. The Association has now consolidated all information requested from builder into one "Construction Loan Agreement," and this is being used for every construction loan.

A payout schedule is now included in the "Construction Loan Agreement."

d.6. A signed agreement covering the amount required for release of individual lots is now included as part of our "Construction Loan Agreement."

d.8. We are now showing in clearer detail, on the back of our drawsheet, figures to indicate at all times the amount of the borrower's investment. We do not feel we should adopt a policy of always requiring our borrowers to invest their funds first. The Association complies with the Board's regulations by lending no more than 80 percent of the value of the property at any particular time.

Each of the above construction loan procedures was put into effect immediately after they were brought to the attention of our President by the Chief Examiner.

Comment 2.e. First Mortgage Loans (Examples of Construction Loans): We have discussed these comments with our appraisers. They state that certain items which your examiners deducted from the cost estimate are proper matters to be computed in costs. These are: interest on construction loans, revenue stamps, tax proration, and sales commissions. We are inclined to agree with them. However, in this particular case Mr. Long did not include on his cost estimate any items for overhead or supervision. Since he devotes his full time to supervision and since he has other expenses such as warehouse charges, truck and automobile operation, use of casual labor, a fair charge for this would be 15 percent, which would make the cost estimate about the same as his original computation.

Comment 2.q. First Mortgage Loans (Development Loan): Our investigation reflects that his was the first loan under the provision of the new regulation, and that this was corrected to comply when brought to the attention of the Associaion by your examiners, without loss from the assets of the Association.

Comment 7. Bonus to Directors: Since you are of the opinion that we should discontinue paying bonuses to Directors, we will abide by your wishes.

Thanks for your prompt reporting on this examination and audit to us. Our officers tell us that your examination team was most pleasant to work with, and very helpful.

Yours very truly,

George W. West, Jr., President; Herman W. Lay, Director; W. Lee Burge, Director; Robert L. MacDougall, Director; E. W. Gottenstrater, Director; Fred B. Moore, Director; T. O. Hathcock, Director: E. Ralph Paris, Director; Albert G. Hendley, Director; Peter J. Stelling, Director; Thomas J. Hicks, Jr., Director.

FEDERAL HOME LOAN BANK BOARD,
OFFICE OF SUPERVISORY AGENT,
Greensboro, N.C., July 5, 1960.

Mr. GEORGE W. WEST, Jr.,
President, First Federal Savings and Loan Association of Atlanta, Altanta, Ga.

DEAR MR. WEST: Thank you for your letter of June 16, 1960, in answer to our supervisory letter dated April 13, 1960.

The information contained on page 19 of the examination report shows that on 51 loans there was a mortgage indebtedness of $467,355 on property which was appraised for $434,300 and which was purchased for a total of $431,500. This resulted in a mortgage indebtedness on the 51 properties of approximately $36,000 more than the purchase price of the properties, and in each case the borrower had a minus equity in the house which he purchased.

The basis of our criticism is that sound lending policies dictate that the borrower should have sufficient equity in the mortgage security to assure his continuing interest in the integrity of his obligation. We can see no basis of comparison of this type of lending with FHA-insured or VA-guaranteed loans as in both cases the borrower must have some equity and secondary financing is prohibited. We suggest that your directors give more consideration to this type of lending and not rely upon the interest of the speculative builders who hold the second mortgage to protect the interest of the association or to protect the borrowing member from possible loss of his home.

Sincerely yours,

PHILIP J. MANK, *Supervisory Agent.*

JOHNSON, HATCHER & MEYERSON,
Atlanta, Ga., July 8, 1960.

Mr. PHILIP J. MANK,
Supervisory Agent, Federal Home Loan Bank Board,
Greensboro, N.C.

DEAR MR. MANK: In the absence of Mr. Johnson from the office for an extended vacation, Mr. George West, Jr., of First Federal Savings and Loan Association of Atlanta, has requested that we reply to your letter of July 5, commenting on the letter of the Board of Directors of June 16 in answer to the supervisory letter of April 13, 1960.

The letter was this date read in a meeting of the Directors and on motion referred to the Executive Committee for study, report, and reply.

In the meantime, a question arises in our mind as to whether your office is clear on who is our borrower. This question arises both from the examination report and supervisory letter and from your recent letter in which you state "the borrower had a minus equity in the house which he purchased" and further state that the Association should "not rely upon the interest of the speculative builders who hold the second mortgage to protect the interest of the association or to protect the borrowing member from possible loss of his home."

Is your office aware of the fact that "the speculative builders" and the "borrowing member" are in each case one and the same party? Is your office aware of the fact that the "speculative builder" (Mr. Bates or Mr. Hawkins), who held at least a 20-percent equity in the property at the time we closed the loan, is our "borrowing member" and that the Association is not a party to the subsequent sale giving rise to the second mortgage?

If there is misunderstanding as to the identity of the borrower, this clarification, we trust, will resolve the criticism.

We were in Washington on this past Tuesday, July 5, and had a very helpful discussion with Mr. Mondell concerning the employees' pension plan, in the light of which a further study is being undertaken. A revised plan will be submitted at a later date.

Very truly yours,

JOHNSON, HATCHER, MEYERSON & IRVIN.

FEDERAL HOME LOAN BANK BOARD
OFFICE OF
SUPERVISORY AGENT
FEDERAL HOME LOAN BANK BUILDING
GREENSBORO, NORTH CAROLINA

July 13, 1960

Mr. George W. West, Jr., President
First Federal Savings and Loan Association
46 Pryor Street, N. E.
Atlanta 3, Georgia

Dear Mr. West:

Reference is made to a letter dated July 8, 1960, from Mr. Henry Mr. Hatcher, Jr., which was in reference to our letter of July 5, 1960.

We are well aware of the identity of the borrower, and the clarification provided by Mr. Hatcher's letter does not resolve the criticism contained in our letter of July 5. In order that there will be no misunderstanding, we shall be glad to restate the last paragraph of our letter.

The basis of our criticism is that sound lending policies dictate that the person to whom the association must look to make the monthly payments on the mortgage should have sufficient equity in the property which is the security for the mortgage to assure his continuing interest in the integrity of the obligation which he has assumed. We can see no basis of comparison of this type lending with FHA insured or VA guaranteed loans, as in both cases the borrower must have some equity, and secondary financing is prohibited. We suggest that your directors give more consideration to its policy of permitting this type of lending as indicated on page 19 of the report of examination and audit as of close of business January 22, 1960, and not rely on the interest of the speculative builder who has conveyed title to the property subject to the first mortgage and who holds the second mortgage to protect the interest of the association or to protect the purchaser of the property from possible loss of his home.

We request that the contents of this letter as well as our letter of July 5 be presented to your board of directors at their next meeting and that we be advised of their action.

Sincerely yours,

Philip J. Mank
Supervisory Agent

JULY 15, 1960.

Mr. PHILIP J. MANK,
Supervisory Agent,
Federal Home Loan Bank Board,
Greensboro, N.C.

DEAR MR. MANK: I should like to make a few remarks in reference to the criticism of the association's lending policies as found on pages 18 and 19 of the January 22, 1960, examination report, under the heading secondary financing, as further discussed in your July 5 letter to me, our attorney's answer to it to you, and your July 13 letter to me, commenting on his remarks and restating what you had said earlier.

Your July 5 letter to me was presented to our board of directors, and, as our attorney, Mr. Hatcher, mentioned in his July 8 letter, was referred to the committee for consideration. Your letter to me of July 13 will be both referred to this committee and read to our board of directors. I make the following remarks, in order to secure information for this committee and our board, and in order to resolve this criticism to the satisfaction of the Office of the Supervisory Agent of FHLBB.

I have gone back and reviewed previous examinations, and, from the information which you had in them and in this report, I believe I can understand that, if I were in your position, and had only this information, I might arrive at the same conclusion. As someone else said recently, I am not a lawyer either, and possibly then you and I may be able to lend some additional interpretation to this. However, this entire subject is surrounded by the mortgagee/mortgagor relationship in Georgia, as is operative under Georgia law, as well as the meaning of several very specific words, and to whom or what they relate; such as, "assumed," "sufficient equity," "borrower or borrowing member," etc.

Any assuming that may be, has been, or will be done, on a mortgage loan, without the lender being a party to it, does not relieve the signer of the security deed and the note. I can say that we are never a party to any assumptions, and therefore, have and will always pursue for payment the signer of the note, and always have and will foreclose on to gain title to the collateral the signer of the security deed. It then, therefore, seems to me that the signer of the note and the security deed is the borrower, and has not, or cannot, be replaced. If this is a reasonable construction, it then means that the signer of the note and the security deed has a twenty-percent equity, because, by Federal regulation, pursuant to Federal law, the Association cannot, and does not, make more than the maximum of an eighty-percent loan.

To pursue another line of thinking, we cannot require anything from anyone other than the signer of the note and the security deed, and, if we should require anything that would change the terms of the note or the security deed, our legal advisors state that this would release the signer of the note and the security deed.

The several other basic points which you have restated, which were included in our Board of Directors' answer to the Supervisory Letter, which accompanied the January 22, 1960, Examination; such as, FHA-insured or VA-guaranteed loans, their relation to equity and secondary financing, as well as a clarification of the source and accuracy of some of the figures contained on page 19 of the report, I am asking our Attorney, Mr. Hatcher, to discuss with you in another letter.

I should like to hear from you on my remarks, and, if this raises any questions, please ask.

Kindest regards.

Yours truly,

GEORGE W. WEST, Jr.

JOHNSON, HATCHER & MEYERSON,
Atlanta, Ga., July 26, 1960.

Re: First Federal Savings and Loan Association of Atlanta.

Mr. PHILIP J. MANK,
Supervisory Agent, Federal Home Loan Bank Board,
Greensboro, N.C.

DEAR MR. MANK: Subsequent to our letter to you of July 8, 1960, we have undertaken the verification of the report of your examiners of January 22, 1960, concerning secondary financing afforded by our borrowers, Hawkins and Bates, to their purchasers of their property in Liberty Heights Subdivision. The As-

sociation's lending policy in view of this secondary financing is criticized in pages 18 and 19 of this report.

On those pages your examiners have reported to you concerning 51 loans made to Messrs. Hawkins and Bates that the amount of the secondary loan in each case is $2,555. We are unable to determine where such erroneous information could have been acquired by your examiners. Upon inquiry to Messrs. Hawkins and Bates, we have determined that the amount of the secondary financing has not exceeded $2,055, except the one or two houses with basements which sold for $200 more than the other houses.

We have further checked the security deeds given to Messrs. Hawkins and Bates, recorded in the records of Gwinnett County, and verified this information as to the amount of secondary financing. From the schedule of secondary security deeds enclosed, you will note that, with the one exception of a house with a basement and higher sales prices, the maximum second loan has been $2,055 and 20 of the second loans have been $1,955.

You, of course, realize that First Federal is not a party to the secondary financing, but, subsequent to the closing of the Association's loan to Messers. Hawkins and Bates, the sale of the property is made by Messrs. Hawkins and Bates to their purchaser in their offices. At that time a note is taken from their purchaser along with a security deed subject to the Association's security deed.

The note of the Association is 77.9 percent of the selling price of $8,450. At the time these loans were closed, the Association had no knowledge of the terms of any proposed sale or of the amount of the downpayment which would be taken by Messrs. Hawkins and Bates, or of the amount and terms of secondary financing, if any.

The Association not being a party to the subsequent sale and secondary loan transaction, nor to the assumption by the purchaser of the loan to the Association, it is our legal opinion, in which we have no doubt, that neither the personal obligation of Messrs. Hawkins and Bates to the Association, arising from their note, nor the security of the real estate is affected by the subsequent sale and assumption. Such being the legal position of the Association, until the report of the examiners and your supervisory letter, we have not felt called upon to inquire into the personal business of Messrs. Hawkins and Bates concerning their sales procedure and sales terms.

So that we might be informed in order to better advise our Directors and that you might be informed, we have obtained a typical breakdown of the transactions criticized by you. The second loan made by Messrs. Hawkins and Bates was determined as follows:

Sales Price	$8,450.00
Association closing costs on first loan, plus recording charges and recording taxes on second loan and 3-year insurance policy	305.00
Total cost to purchaser	8,755.00
Less Association loan assumed by purchaser	6,600.00
Less down payment	100.00
Second loan	2,055.00

From the above analysis, you will note that the ultimate purchaser does have an equity in the property of at least $100. In the cases of second loans of $1,995, the purchaser has an equity of at least $200. The first and second loan exceed the appraised price because Messrs. Hawkins and Bates elect to charge the closing costs of the first loan to the purchaser and to extend credit therefor.

In view of the fact that the loan of the Association is only 77.9 percent of the sale price of the security whereas a VA guaranteed loan is 100 percent and an FHA insured loan is 97 percent, we are inclined to agree with your statement that there is "no basis for comparison" of these types of lending insofar as the degree of security afforded by the real estate is concerned. In the writer's 10½ years' representation of the Association, the security of the property has been adequate to pay off every 80 percent permanent loan made by the Association which went to foreclosure and resort to the note obligation of the borrower above the security has not been necessary. The Association has never found it necessary to declare in default any loan made to Messrs. Hawkins and Bates or to any other borrower financing his property on the basis herein discussed.

We find comparison of the Hawkins and Bates loans with FHA-insured and VA-guaranteed loans only in that all involve substantially 100 percent financing. The experience of the FHA and the VA has not shown such financing to be unsound.

We cannot agree that in both FHA-insured and VA-guaranteed loan "the borrower must have some equity, and secondary financing is prohibited." Until April 28, 1955, VA-guaranteed loans could be for 100 percent of the appraised value, plus all closing costs. From April 28, 1955 until April 4, 1958 (23 Fed. Reg. 2218) the veteran was required to pay 2 percent of the appraised value down and all closing costs. On April 4, 1958 this downpayment requirement was revoked and at the present VA loans may be made for 100 percent of the appraised value, the veteran having no investment other than his closing costs. We know of no regulation precluding a veteran from borrowing the closing costs.

For loans up to $13,500 the FHA borrower must pay 3 percent of the appraised value, plus closing costs and secondary financing is prohibited (Reg. Sec. 221.31), but the prohibition is not applicable to borrowers over 62 years of age and the borrower may make a second loan covering the 3 percent downpayment and his closing costs, so that the borrower over 62 years of age will have no equity either in the property or his closing costs.

We trust that the foregoing information and discussion will be helpful to you in clearing up the criticism contained in the examination letter and would appreciate your comments in the light of this information in order that the Board of Directors and its committee appointed to review your criticism might be further informed and better prepared to respond.

Yours very truly,

JOHNSON, HATCHER, MEYERSON & IRVIN.

Schedule of second deeds to secure debt to Bates and Hawkins

Loan No.	Name	Deed book/ page	Amount
13265	Alvin C. Lilly	147/377	$2,055
13266	Rowland Campbell	147/375	2,055
13309	Charles S. Powers	150/177	2,055
13310	Edward L. Clack	150/153	2,055
13311	W. M. Ledbetter	150/197	2,055
13312	Ruby Winkler	150/779	2,055
13313	James R. Landers	150/151	2,055
13314	Squire Alcorn	150/155	2,055
13357	Pat M. Smith	150/213	1,955
13358	Raymond M. Yantis	150/209	2,055
13386	Robert W. Carter	150/191	1,955
13400	Marion C. Tuten, Jr	150/189	1,955
13401	J. C. Davis	150/165	2,055
13418	Gerald L. Begley	150/285	1,955
13450	Donald W. Snowden	150/489	1,955
13451	Woodrow Wilson	150/487	1,955
13470	Jesse Coyle	150/475	1,955
13471	Bobby F. Daniell	150/479	1,955
13472	Julia Boring	150/473	1,955
13497	Victor R. Puckett	151/351	1,955
13519	V. M. Nichols	151/331	2,055
13520	William R. Whitfield	151/307	2,055
13535	Charles W. Wingate	151/326	1,955
13538	Walter R. Elrod	151/239	1,955
13536	Thomas H. Elmore	151/247	2,055
13539	C. Hoyt Dunn	151/245	2,055
13562	Marion W. St. John	151/345	2,055
13564	Robert J. McManus	151/309	1,955
13578	Robert Creswell	151/335	2,234
13579	Herbert L. Strain	151/293	1,955
13580	Joseph D. Caufman	151/287	1,955
13581	Howard H. Roach	151/295	2,055
13605	Harvey B. Nichols	160/35	2,055
13613	Frank W. Holtsclaw	156/29	1,955
13614	Robert D. Bracewell	156/41	1,955
13643	Clifford Stewart	156/37	2,055
13650	Johnny F. Scott	156/9	2,055
13663	Kathleen Strain	156/35	1,955
13664	Samuel S. Paine	156/11	2,005
13672	Royace A. Howard	156/361	1,955
13673	John A. Harmon	156/343	2,005
13678	Alice A. Scates	156/363	1,955
13706	Charles M. Irvin	156/335	2,055
13718	Walton H. Lashley	156/351	2,055
13719	Hoyt V. Smith	156/341	2,055
13731	Carl L. Mitchell	156/339	2,055
13732	Henry T. Williams	156/353	2,055
13738	Robert H. Mobley	156/355	2,055
13739	John H. Pulliam	156/337	2,055
13742	James T. LeMaster	160/49	2,055
13757	Harvey B. Nichols	156/43	2,055

(For the file)

EXCERPT FROM MINUTES OF MEETING OF EXECUTIVE COMMITTEE AND SPECIAL COMMITTEE OF FIRST FEDERAL SAVINGS & LOAN ASSOCIATION OF ATLANTA HELD JOINTLY WITH THE BUILDING COMMITTEE ON WEDNESDAY, AUGUST 3, 1960, AT 1:30 P.M. AT THE OFFICE OF THE ASSOCIATION

"The next order of business was consideration of the Supervisory Agent's letter of June 5, 1960, which had been referred to the Special Committee. The President stated that he and Mr. Hatcher had been corresponding with Mr. Philip J. Mank regarding the examination and audit of January 22, 1960, and asked Mr. Hatcher to read this correspondence to the committee. Mr. Hatcher read the following letters:

"Letter of July 5, 1960, from Mr. Philip J. Mank, Supervisory Agent, to Mr. George W. West, Jr.
"Letter of July 8, 1960, from Mr. Henry M. Hatcher to Mr. Mank.
"Letter of July 13, 1960, from Mr. Mank to Mr. George W. West, Jr.
"Letter of July 15, 1960, from Mr. George W. West, Jr., to Mr. Mank.
"Letter of July 26, 1960, from Mr. Henry M. Hatcher to Mr. Philip J. Mank.

"After considerable discussion, it was agreed that the committee could not take any action until replies were received from letters of July 15 and July 26 written to Mr. Mank by Mr. West and Mr. Hatcher. Mr. West stated that Mr. Mank's letter of July 13, 1960, would be read to the Board at their meeting on August 4, 1960."

AUGUST 9, 1960.

MR. PHILIP J. MANK,
Supervisory Agent,
Federal Home Loan Bank Board,
Greensboro, N.C.

DEAR MR. MANK: As per request contained in your letter of July 13, 1960, to Mr. George W. West, Jr., we are enclosing certified copy of excerpts from minutes of the meeting of Board of Directors held on August 4, 1960.

Yours very truly,

MILDRED PENDERGRASS, *Vice President.*

"Letter dated July 13, 1960, written by Mr. Philip J. Mank, Supervisory Agent, to Mr. George W. West, Jr., was read to the Board and discussed. This letter was in reference to the examination and audit made as of the close of business January 22, 1960. No action was taken as the Special Committee reported to the Board that the President and attorney had been corresponding with Mr. Mank and they were waiting for a reply to the last two letters written to Mr. Mank."

I, Ludie Cornwell, Secretary and Treasurer of First Federal Savings and Loan Association of Atlanta, certify that the above is a true and correct copy of excerpt from minutes of the meeting of Board of Directors held on August 4, 1960.

LUDIE CORNWELL, *Secretary and Treasurer.*

AUGUST 9, 1960.

FEDERAL HOME LOAN BANK BOARD
OFFICE OF
SUPERVISORY AGENT
FEDERAL HOME LOAN BANK BUILDING
GREENSBORO, NORTH CAROLINA

August 15, 1960

Mr. George W. West, Jr., President
First Federal Savings and Loan Association of Atlanta
46 Pryor Street, N. E.
Atlanta 3, Georgia

Dear Mr. West:

Reference is made to your letter dated July 15, 1960, and to the letter from Mr. Henry M. Hatcher, Jr., dated July 26, 1960. Both of these letters as well as previous correspondence refers to page 19 of the association's report of examination and audit dated January 22, 1960, and concerns the equity which the home owner has in property on which the association has a first lien.

A typical example of these transactions is very clearly stated in Mr. Hatcher's letter of July 26, 1960, which shows that the purchaser assumes the association's loan of $6,600, pays $100 in cash and gives the seller a second mortgage of $2,055 for a total indebtedness of $8,655, which may be compared against the sales price of the property of $8,450. We were surprised by the statement made by the Directors in their reply to the supervisory letter dated April 13, 1960, that the Board of Directors were "at a loss to understand the basis of the criticism", inasmuch as this type of financing was referred to under Section 2 of a special committee's report adopted by the Board of Directors on February 24, 1958, and was discussed by Mr. Fogarty at a special meeting of the Board held on June 17, 1958, mention being made of the discussion in the minutes of that meeting. Simply stated, we are of the opinion that the person to whom the association looks to for repayment of its loans should have a sufficient equity in the property to give him a definite and continuing interest in maintaining the integrity of the obligation. We further believe that the association must look to the owner of the property securing its loan for repayment of the loan.

From the correspondence received from you and from Mr. Hatcher, it is apparent that you both have other views in this matter and that further correspondence on this subject would be merely repetitious and argumentative.

We would be very glad to meet with the Board of Directors or with a committee appointed by them in order to discuss this or any other matter with them at any time. We are confident that your Board of Directors must have formulated a policy as to loans of this type, and we would like very much to have them inform us as to just what this policy is.

In order that everyone may be kept informed, please have this letter read to your Board of Directors at its next meeting.

Sincerely yours,

Philip J. Mank
Supervisory Agent

FEDERAL HOME LOAN BANK BOARD,
OFFICE OF SUPERVISORY AGENT,
Greensboro, N.C., August 19, 1960.

Mr. GEORGE W. WEST, Jr.,
President, First Federal Savings & Loan Association of Atlanta, Atlanta, Ga.

DEAR MR. WEST: We are enclosing a revised schedule of the loans presented on page 19 of the association's report of examination and audit as of January 22, 1960. We are also enclosing copy of memorandum from Mr. John F. Harbison, Chief Examiner for this District, which explains the reason for this substitution.

In reviewing the corrected schedule, we note that the percentages in the last two columns have been reduced but that in each case the indebtedness on the property exceeded the purchase price, and in all cases except one the indebtedness exceeded the value assigned to the property by the association's appraisers. This revised schedule does not change the opinions which we have previously expressed to regard to these loans the most recent of which was contained in our letter dated August 15, 1960.

We also regret any inconvenience caused by this error.

Sincerely yours,

PHILIP J. MANK, *Supervisory Agent.*

FOURTH DISTRICT

AUGUST 19, 1960.

To: Philip J. Mank, Sr., Supervisory Agent.
From: John F. Harbison.
Subject: First FS&LA of Atlanta, Atlanta, Ga.

It has been brought to my attention that the amounts of second mortgages listed on the schedule presented on page 19 of the January 22, 1960, report of examination of subject association are in error. As a result we are enclosing two copies of the schedule as corrected. Please substitute one copy in your copy of the report and transmit the other copy to the association.

The reason for the error was that, at the time of the examination, the examiners checked with the firm of Hawkins and Bates as to the amount of the second mortgages. This was done by telephone. Since the second mortgages were held by either Hawkins or Bates we did not deem it necessary to make a further check of the recorded instruments.

We regret the error and the inconvenience caused.

Yours very truly,

JOHN F. HARBISON, *Chief Examiner.*

FIRST FEDERAL SAVINGS & LOAN ASSOCIATION OF ATLANTA, ATLANTA, GA.—EXAMINATION AND AUDIT AS OF JANUARY 22, 1960

"Rollover" loans from the association blanket construction loans—E. R. Hawkins and W. R. Bates, III, builders

Loan No.	Date of loan	Original amount	Appraisal		2d mortgage [1]	Total mortgages	Purchase price	Percentage of purchase price financed	Percentage of appraisal financed
			Date	Amount					
13265	Feb. 11, 1959	$6,600	Feb. 5, 1959	$8,500	$2,055	$8,655	$8,450	102.4	101.8
13266	do	6,600	do	8,500	2,055	8,655	8,450	102.4	101.8
13309	Mar. 6, 1959	6,600	Feb. 26, 1959	8,500	2,055	8,655	8,450	102.4	101.8
13310	do	6,600	do	8,500	2,055	8,655	8,450	102.4	101.8
13311	do	6,600	do	8,500	2,055	8,655	8,450	102.4	101.8
13312	do	6,600	do	8,500	2,055	8,655	8,450	102.4	101.8
13313	do	6,600	do	8,500	2,055	8,655	8,450	102.4	101.8
13314	do	6,600	do	8,500	2,055	8,655	8,450	102.4	101.8
13357	Apr. 2, 1959	6,600	Mar. 16, 1959	8,500	1,955	8,555	8,450	101.2	100.6
13358	do	6,600	do	8,500	2,055	8,655	8,450	102.4	101.8
13386	Apr. 16, 1959	6,600	Apr. 9, 1959	8,500	1,955	8,555	8,450	101.2	100.6
13400	Apr. 23, 1959	6,600	Apr. 16, 1959	8,500	1,955	8,555	8,450	101.2	100.6
13401	do	6,600	do	8,500	2,055	8,655	8,450	102.4	101.8
13418	May 1, 1959	6,600	Apr. 9, 1959	8,500	1,955	8,555	8,450	101.2	100.6
13450	May 22, 1959	6,600	May 14, 1959	8,500	1,955	8,555	8,450	101.2	100.6
13451	do	6,600	do	8,500	1,955	8,555	8,450	101.2	100.6
13470	June 3, 1959	6,600	May 25, 1959	8,500	1,955	8,555	8,450	101.2	100.6
13471	do	6,600	do	8,500	1,955	8,555	8,450	101.2	100.6
13472	do	6,600	do	8,500	1,955	8,555	8,450	101.2	100.6
13497	June 24, 1959	6,600	June 18, 1959	8,500	1,955	8,555	8,430	101.2	100.6
13519	July 9, 1959	6,600	July 2, 1959	8,500	2,055	8,655	8,450	102.4	101.8
13520	do	6,600	do	8,500	2,055	8,655	8,450	102.4	101.8
13535	July 17, 1959	6,600	July 9, 1959	8,500	1,955	8,555	8,450	101.2	100.6
13536	do	6,600	July 2, 1959	8,500	2,055	8,655	8,450	102.4	101.8
13538	July 22, 1959	6,600	July 16, 1959	8,500	1,955	8,555	8,450	101.2	100.6
13539	do	6,600	July 10, 1959	8,500	2,055	8,655	8,450	102.4	101.8
13562	July 31, 1959	6,600	July 23, 1959	8,500	2,055	8,655	8,450	102.4	101.8
13564	Aug. 3, 1959	6,600	July 28, 1959	8,500	1,955	8,555	8,450	101.2	100.6
13578	Aug. 14, 1959	6,800	Aug. 6, 1959	9,300	2,234	9,034	9,000	100.4	97.1
13579	do	6,600	do	8,500	1,955	8,555	8,450	101.2	100.6
13580	do	6,600	do	8,500	1,955	8,555	8,450	101.2	100.6
13581	do	6,600	July 30, 1959	8,500	2,055	8,655	8,450	102.4	101.8
13605	Aug. 28, 1959	6,600	Aug. 20, 1959	8,500	2,055	8,655	8,450	102.4	101.8
13613	Sept. 4, 1959	6,600	Aug. 26, 1959	8,500	1,955	8,555	8,450	101.2	100.6
13614	do	6,600	do	8,500	1,955	8,555	8,450	101.2	100.6
13643	Sept. 25, 1959	6,600	Sept. 17, 1959	8,500	2,055	8,655	8,450	102.4	101.8
13650	Oct. 2, 1959	6,600	Sept. 24, 1959	8,500	2,055	8,655	8,450	102.4	101.8
13663	Oct. 16, 1959	6,600	Oct. 8, 1959	8,500	1,955	8,555	8,450	101.2	100.6
13664	do	6,600	do	8,500	2,005	8,605	8,450	101.8	101.2
13672	Oct. 23, 1959	6,600	Oct. 15, 1959	8,500	1,955	8,555	8,450	101.2	100.6

13673	do	6,600	do	8,500	2,005	8,605	8,450	101.8	101.2
13678	Oct. 30, 1959	6,600	Oct. 22, 1959	8,500	1,955	8,555	8,450	101.2	100.6
13706	Nov. 27, 1959	6,600	Nov. 19, 1959	8,500	2,055	8,655	8,450	102.4	101.8
13718	Dec. 2, 1959	6,600	Nov. 25, 1959	8,500	2,055	8,655	8,450	102.4	101.8
13719	do	6,600	do	8,500	2,055	8,655	8,450	102.4	101.8
13731	Dec. 11, 1959	6,600	Dec. 3, 1959	8,500	2,055	8,655	8,450	102.4	101.8
13732	do	6,600	do	8,500	2,055	8,655	8,450	102.4	101.8
13738	Dec. 18, 1959	6,600	Dec. 11, 1959	8,500	2,055	8,655	8,450	102.4	101.8
13739	do	6,600	do	8,500	2,055	8,655	8,450	102.4	101.8
13742	Dec. 31, 1959	6,600	Dec. 17, 1959	8,500	2,055	8,655	8,450	102.4	101.8
13757	Jan. 22, 1960	6,600	Jan. 14, 1960	8,500	2,055	8,655	8,450	102.4	101.8
(51 loans)		336,800		434,300	102,884	439,684	431,500	101.9	101.2

All association loans were written for a term of 18 years and to bear interest at an annual rate of 6.5 percent.

All secondary financing for a term of 10 years with an annual interest rate of 8 percent.

The loans were closed in name of Bates or Hawkins and assessed by purchaser on same data.

The 2d mortgages were either Bates or Hawkins. The 2d mortgages are dated the same as the 1st mortgages.

[1] Principal only.

SEPTEMBER 8, 1960.

Mr. PHILIP J. MANK,
Supervisory Agent,
Federal Home Loan Bank Board,
Greensboro, N.C.

DEAR MR. MANK: Upon returning from my vacation, I find your letters of August 15 and August 19, in reference to our lengthy correspondence in the past of the items shown on page 19 on the Association's Report of Examination and Audit, dated January 22, 1960.

As requested in the last paragraph of your letter of August 15, I shall be happy to read it to our Board of Directors at their next meeting. I believe that it will be helpful to them, however, for you to define in greater detail your interpretation of "a policy." All of our lending activities are in accordance with the Rules and Regulations and Charter provisions.

It would be very helpful if I could receive this clarification from you before Wednesday, September 14.

Thank you for your assistance in this matter.

Kindest regards.

Yours truly,

GEORGE W. WEST, Jr.

FEDERAL HOME LOAN BANK OF GREENSBORO,
Greensboro, N.C., September 12, 1960.

Mr. GEORGE W. WEST, Jr.,
President, First Federal Savings & Loan Association of Atlanta,
Atlanta, Ga.

DEAR MR. WEST: Reference is made to your letter dated September 8, 1960.

The association's Board of Directors have the power to exercise any and all of the powers of the association not expressly reserved by the charter to the members, and the powers of the association are set forth under Section 3 of the association's charter. The directors' position is one of trust originating in the fact that he has control and guidance of corporate business affairs and property and hence of the property interest of the members. The directors are responsible for the selection of a managing officer who conducts the operational affairs of the association under the directors' guidance. This guidance generally takes the form of a policy resolution on the part of the Board of Directors. For example, the directors might decide to limit loans in certain locations to 70% of valuation in spite of the fact that regulations might permit them to make loans up to 80%. This would be a policy resolution which management would follow.

We are enclosing a mimeographed set of suggested policy resolutions which might be of interest to you.

With best personal regards.

Sincerely yours,

PHILIP J. MANK, *Vice President.*

SUGGESTED POLICY RESOLUTIONS

WHEREAS, In order to assure that this association will invest its funds in the best loans available, maintain adequate liquidity, a strong reserve position, and operate in accordance with the best established practices in the savings and loan business

Lending Policy

RESOLVED, That:

(a) The facilities of the association shall be extended to all sources of origin on an equal basis and its lending plans shall include loans guaranteed or insured by agencies of the government.

(b) The association shall diversify its loan portfolio avoiding any undue concentration of loans, (1) to any group of borrowers, (2) for any specific purpose, and (3) as to type or location of the property serving as security.

(c) Interest rates, fees and other loan costs shall be consistent with economical home financing and such as to enable the association to obtain and hold the best mortgage loans available.

(d) Appraisal policies and practices shall be in accordance with the best established practices in the savings and loan industry.

(e) Sufficient information on which to base consideration of each loan shall be included in the appraisal report.

(f) Loans shall be based on the lesser of cost (selling price or construction cost plus a reasonable profit) or appraisal.

(g) The association shall require each borrower to have a sufficient equity in the real estate which secures the loan to give him a definite interest in maintaining the future integrity of his obligation.

(h) Sufficient credit information shall be secured on each loan applicant to show his past performance and permit a determination as to whether his present "take home" income is sufficient to meet all of his present obligations according to agreement, plus the payments on the loan for which he has applied.

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(i) Loan closing procedures shall be in accordance with the best established procedures in the savings and loan industry and shall be such as to protect fully the priority of the association's lien.

(j) Construction loan procedures shall be sufficiently comprehensive to safeguard the interests of the association and its borrower.

(k) Free choice will be permitted borrowers in the selection of hazard insurance, insurance brokers or agents, and in the purchase of land, building supplies, and equipment involved in the purchase, construction, or improvement of the property offered as security; provided, however, that the association may set minimum standards and require compliance thereto.

(l) Except for loans on the security of a first lien on the home or combination of home and business property owned and occupied by a director, officer, attorney or employee, no mortgage loan shall be made in which any such person has any proprietary interest in the security or in the loan proceeds. The directors, officers, employees, and the attorney for the association will avoid all situations that invite or may lead to a conflict of personal interests with official duty and responsibility including the holding or acquisition of junior liens or pledged share accounts on property on which the association holds a first mortgage.

(m) A current loan commitment register shall be maintained in order that the total amount of all loans for which the association is obligated may be determined at all times.

(n) No loan shall be made or committed which would result in the association violating its liquidity policies.

(o) All loans shall be made in compliance with law and regulation. Until further notice in order that the association may secure the best mortgage loans available the association shall limit loans as follows:

Home Loans:

Conventional

Maximum ratio of loan to appraisal

Existing construction _____% New Construction _____%

Term

Existing construction _____Yrs. New Construction _____Yrs.

Interest rate _____%

Minimum borrower equity required _____%

F.H.A.

Maximum ratio of loan to appraisal

Existing construction _____% New Construction _____%

Term

Existing construction _____Yrs. New Construction _____Yrs.

Interest rate _____%

Minimum borrower equity required _____%

G.I.

Maximum ratio of loan to appraisal

Existing construction _____% New Construction _____%

Term

Existing construction _____Yrs. New Construction _____Yrs.

Interest rate _____%

Minimum borrower equity required _____%

Other Improved Loans:

Maximum ratio of loan to appraisal

Existing construction _____% New Construction _____%

Term

Existing construction _____Yrs. New Construction _____Yrs.

Interest rate _____%

Minimum borrower equity required _____%

Unsecured Loans:

Maximum amount $_____ Maximum term _____

Discount rate _____%

Liquidity Policy

RESOLVED, That the assqciation shall, as a policy, maintain liquidity in the form of cash and government bonds in an amount equal to 15% of savings or one-half of the amount of its withdrawals during the preceding twelve months' period, whichever is less, and in no event will it make or commit itself to make any real estate loan at any time when its cash and unpledged government obligations are less than the amount required by law and regulation.

RESOLVED FURTHER, That the association, as a policy, will limit its loans in process and loan commitments to an amount not exceeding 10% of savings plus the amount of its firm commitments for sale of loans and the amount of its cash and government obligations which is in excess of 15% of its savings or one-half the amount of its gross withdrawals for the preceding twelve months, whichever is less.

RESOLVED FURTHER, That the directors shall be informed of the amount of the association's liquidity, the amount required for compliance with this policy, and the amount of funds available for investment prior to their consideration of loan applications.

Reserve Policy

RESOLVED, That the association, as a policy, will allocate a sufficient percentage of its net income to reserves to enable it to increase reserves at a rate commensurate with its growth and adequate to meet its reserve goal of ____% of net assets by 19___; provided that the reserve allocation shall in no event be less than that required by the regulations or 15% of net operating income, whichever is greater, unless or until such time as the association's reserves equal 12% of its withdrawable accounts.

Dividend Policy

RESOLVED, That the association shall base its dividends on its net income after reserve allocations with due regard to maintenance of a stable dividend rate and to the prevailing rate paid by other associations in the area. In maintaining a stable dividend rate it shall avoid payment of dividends based on nonrecurring income.

September 16, 1960.

Mr. PHILIP J. MANK,
Supervisory Agent, Federal Home Loan Bank Board,
Greensboro, N.C.

DEAR MR. MANK: With reference to your request in the fourth paragraph of your August 15 letter, I am attaching hereto a certified copy of excerpt from minutes of our September 15 Board Meeting.

Yours truly,

GEORGE W. WEST, Jr.

"Minutes of the Executive Committee meeting of September 14, 1960, were read; also the letters from Mr. Philip J. Mank, Supervisory Agent, and Mr. John F. Harbison, Chief Examiner, which were referred to in the minutes.

"The President read a letter dated September 7, 1960, which he had received from Mr. John A. Fogarty, President of Federal Home Loan Bank of Greensboro, inviting the managing officers and directors to a meeting to be held in Atlanta on September 20 with officers of the Greensboro Bank for the purpose of discussing services of the bank and any other matters pertaining to relationship with the bank. He stated he had already sent copies of Mr. Fogarty's letter to members of the Special Committee and urged their attendance. All directors were urged to attend if possible. In view of this meeting and as per recommendation of the Special Committee, the following resolution was introduced by Mr. Gottenstrater and adopted:

"'Whereas the Special Committee of the Association appointed to consider the supervisory letter of the examination and audit of January 22, 1960, with particular reference to pages 18 and 19 of the examination report, has considered at length the criticisms of the supervisory letter, there having been several exchanges of letters between representatives of the Association and the Supervisory Agent and the matter not having been resolved as a result of such exchange of correspondence;

"'*Be it resolved*, That further consideration of the matter be deferred until after the conference to be held in Atlanta on September 20, 1960, by representatives of the local associations and representatives of the Federal Home Loan Bank of Greensboro.'"

I, Ludie Cornwell, Secretary and Treasurer of First Federal Savings and Loan Association of Atlanta, certify that the above is a true and correct copy of excerpt from minutes of the meeting of Board of Directors held on September 15, 1960.

LUDIE CORNWELL, *Secretary and Treasurer.*

SEPTEMBER 16, 1960.

"The President stated that a letter had been drafted to Mr. Philip J. Mank, Supervisory Agent, which he believed set out the Association's lending policy and should bring to a conclusion the correspondence between Mr. Mank and the Association regarding criticisms in the supervisory letter and audit of January 22, 1960. The proposed letter was read and discussed and motion made by Dr. Hicks that the President write this letter to Mr. Mank. Motion seconded and carried."

I, Ludie Cornwell, Secretary and Treasurer of First Federal Savings and Loan Association of Atlanta, certify that the above is a true and correct copy of excerpt from minutes of the meeting of Board of Directors held on November 10, 1960.

LUDIE CORNELL, *Secretary and Treasurer.*

NOVEMBER 30, 1960.

NOVEMBER 30, 1960.

Mr. PHILIP J. MANK,
Supervisory Agent, Federal Home Loan Bank Board,
Greensboro, N.C.

DEAR MR. MANK: Subsequent to our correspondence concerning your criticism of the lending policy of the Association set forth in pages 18 and 19 of the examination report of January 22, 1960, the Special Committee of our Board of Directors attended a meeting held in Atlanta by Mr. Fogarty on September 20. We discussed our policy in great detail with him. This Committee reported this discussion to our Board of Directors at the October 6 meeting.

The Committee and the Board agree with Mr. Fogarty that each home loan should stand on its own. We also agree with Mr. Fogarty that the financial responsibility of the borrower in every case is of major importance in passing upon the soundness of any loan.

In your letter of August 15, 1960, you requested a statement of the policy of the Association as to loans of the type criticized. Our policy is that each loan be appraised on its own merits in the light of the financial responsibility of the borrower to whom the Association looks for payment, the security and all other attendant circumstances, and each loan must be accepted or rejected in the exercise of the best judgment of the Loan Committee and the Board of Directors.

The Board of Directors believes that the purchase price of property is the price the purchaser pays for it and not a fictitious purchase price. The purchase price of the houses sold by Hawkins and Bates, as set forth in the examiners report, are not the prices for which the houses were sold. We are all familiar with the fact that not only houses but many articles have a cash price and a term price and the term price is always higher than the cash price.

Yours very truly,

GEORGE W. WEST, Jr.

EXHIBIT NO. 15.—CORRESPONDENCE BETWEEN THE FEDERAL HOME LOAN BANK BOARD, WASHINGTON, D.C., AND FIRST FEDERAL SAVINGS & LOAN ASSOCIATION OF ATLANTA, ATLANTA, GA., AND OTHER MATERIAL RELATIVE TO EXAMINATION AND AUDIT OF THE ASSOCIATION AS OF MARCH 2, 1961

FEDERAL HOME LOAN BANK BOARD,
OFFICE OF THE SUPERVISORY AGENT,
Greensboro, N.C., May 2, 1961.

BOARD OF DIRECTORS,
First Federal Savings & Loan Association of Atlanta,
Atlanta, Ga.

GENTLEMAN: We enclose the report of the examination and audit of your association made as of March 2, 1961, by the Division of Examinations of the Federal Home Loan Bank Board. We request that you carefully review the entire report.

The schedules on pages 23, 24, and 25 show that the association continues to grant loans when the buyer has little or no equity in the loan security. Our opinion relative to loans of this type remains the same as that conveyed to you in previous correspondence and in our last two supervisory letters.

Comment 2–f shows that six loans were granted which did not conform with Section 545.6–12 of the Federal Regulations. In addition, the association granted twelve loans (Comment 2–h) which exceeded the lending limitations. Subsequent payments have brought ten of these loans into compliance. The other two should either be brought into compliance or removed from the association's assets without loss.

We believe it desirable for the appraisal report forms to show a separate valuation for land and improvements.

Loan No. 14294 was granted by the association when a mortgage held by a company in which a director has a financial interest was repaid from the loan proceeds. The policy and practice of granting loans on the security of real estate in which a director has an indirect or direct proprietary interest is contrary to well-established principles of fiduciary relationship widely recognized and accepted by the courts as well as by prudent management. It is our firm opinion that strict adherence to these principles is essential to the responsible operation of the affairs of a mutual financial institution and that any transactions that involve or might lead to a conflict of personal interest with official duty and interests of the association should be scrupulously avoided.

We call your attention to the note at the bottom of Schedule 7. Section 5 of the association's charter contemplates that the number of directors will be fixed, either in the association's bylaws or by resolution of the association's members. Please advise us if thas has been done.

After you have considered the report and this letter and have taken such action as is required, please send us two certified copies of excerpts from your minutes setting forth the action taken on each point discussed. All correspondence referring to the supervisory letter should also be submitted in duplicate.

Sincerely yours,

PHILIP J. MANK, *Supervisory Agent.*

EXCERPTS FROM THE REPORT OF EXAMINATION AND AUDIT OF THE ASSOCIATION

Rollover loans from the association blanket construction loan—E. R. Hawkins and W. R. Bates III, builders

Loan No.	Association 1st mortgage		Seller's 2d mortgage [1]	Total mortgages	Appraisal		Purchase price [2]	Required monthly payment			Monthly income (gross) (total dependents in brackets)[3]			Percentage of—		
	Date	Original amount			Date	Amt.		1st mortgage	2d mortgage	Total	Borrower	Spouse	Total	Loan to appraisal	Purchase price financed	Appraisal financed
13763	Jan. 29, 1950	$6,600	$2,055	$8,655	Jan. 22, 1960	$8,500	$8,450	$52	$25	$77				77.6	102.4	101.8
13764	do	6,600	2,055	8,655	do	8,500	8,450	52	25	77				77.6	102.4	101.8
13780	Feb. 12, 1960	6,600	2,055	8,655	Feb. 4, 1960	8,550	8,450	52	25	77				77.2	102.4	101.2
13781	do	6,600	2,055	8,655	do	8,500	[4] 8,550	52	25	77				77.6	102.4	101.8
13782	do	6,600	2,055	8,655	do	8,500	8,450	52	25	77				77.6	102.4	101.8
13783	do	6,600	2,055	8,655	do	8,500	[4] 8,450	52	25	77				77.6	102.4	101.8
13803	Mar. 11, 1960	6,600	2,055	8,655	Mar. 2, 1960	8,500	[4] 8,450	52	25	77				77.6	102.4	101.8
13804	do	6,600	2,055	8,655	do	8,500	[4] 8,450	52	25	77				77.6	102.4	101.8
13860	Apr. 4, 1960	6,600	2,055	8,655	Mar. 28, 1960	8,500	[4] 8,450	52	25	77				77.6	102.4	101.8
13861	do	6,600	2,055	8,655	do	8,500	8,450	52	25	77				77.6	102.4	101.8
13865	Apr. 8, 1960	6,600	2,055	8,655	Apr. 1, 1960	8,500	[4] 8,450	52	25	77				77.6	102.4	101.8
13887	Apr. 22, 1960	6,600	2,055	8,655	Apr. 15, 1960	8,500	8,450	52	25	77				77.6	102.4	101.8
13906	May 9, 1960	6,600	2,055	8,655	May 2, 1960	8,500	8,450	52	25	77				77.6	102.4	101.8
13951	May 30, 1960	6,600	2,055	8,655	([5])	8,500	[6] 8,450	52	25	77				77.6	102.4	101.8
13996	June 23, 1960	6,800	2,234	9,034	June 17, 1960	9,400	9,034	53	27	80				72.3	100.0	96.1
13997	do	6,600	2,035	8,655	do	8,500	[6] 8,450	52	25	77				77.6	102.4	101.8
13998	do	6,800	2,055	8,855	do	8,900	[7] 8,750	53	25	78				76.4	101.2	99.5
13999	do	6,600	2,035	8,655	do	8,500	[7] 8,450	52	25	77				77.6	102.4	101.8
Total (18 loans)		119,200	37,169	156,369		156,350	152,984							77.2	102.2	101.3

[1] All 2d mortgages were for 10 years at 8 percent interest; 2d mortgage information as to amount and terms taken from public records.

[2] Purchase price information taken from association loan application.

[3] Credit information on the borrower-purchasers was not developed by the association.

[4] In the process of foreclosure or previously foreclosed by the 2d mortgagees (Hawkins and Bates) per a statement by Mrs. S. Elmore, secretary for Hawkins and Bates (partners). She further stated that 2d mortgage payments were not current on loans identified as loan Nos. 13763, 13996, and 13998.

[5] Not dated.

[6] Loan granted to Bates with Moss (borrower-purchaser) signing association promissory note. The 2d mortgage of Moss was not recorded. Trustee (now borrower-purchaser) signed 2d mortgage Aug. 22, 1960, and this mortgage was recorded. Amount and terms of 2d mortgage are the same for cash (per promissory note of Moss).

[7] Loans granted to Bates and Hawkins, individually, and assumed by purchasers.

Rollover loans from the association blanket construction loan—Contemporary Homes, Inc.—Fred Fett, Jr., president

Loan No.	Association 1st mortgage		Seller's 2d mortgage [1]	Total mortgages	Appraisal		Purchase price [2]	Required monthly payment			Monthly increase (gross) (total dependents in brackets)			Percentage of—		
	Date	Original amount			Date	Amt.		1st mortgage	2d mortgage	Total	Borrower	Spouse	Total	Loan to appraisal	Purchase price financed	Appraisal financed
14019	July 6, 1960	$11,150	$2,380	$13,530	June 27, 1960	$13,900	$14,025	$75	$16	$91	[3] $140	$400	$540 (4)	80.2	96.5	97.3
14020	do	11,150	2,550	13,700	June 30, 1960	13,900	13,995	75	17	92	500		500 (3)	80.2	97.9	98.6
14032	July 11, 1960	11,150	2,350	13,500	June 29, 1960	13,900	13,995	75	16	91	360	215	575 (2)	80.2	96.5	97.1
14042	July 14, 1960	11,150	2,350	13,500	July 7, 1960	13,900	13,995	75	16	91	750		750 (4)	80.2	96.5	97.1
14043	do	11,150	2,350	13,500	do	13,900	13,995	75	16	91	390	250	640 (4)	80.2	96.5	97.1
14060	July 21, 1960	11,150	2,550	13,700	July 18, 1960	13,900	13,995	75	17	92	350	296	646 (2)	80.2	97.9	98.6
14079	Aug. 2, 1960	11,150	2,350	13,500	July 25, 1960	13,900	13,995	75	16	91	400		400 (2)	80.2	96.5	97.1
14080	do	11,150	2,350	13,500	do	13,900	13,995	75	16	91	[4] 70	380	450 (2)	80.2	96.5	97.1
14107	Aug. 16, 1960	11,150	2,550	13,700	Aug. 9, 1960	13,900	13,995	75	17	92	[5] 270		270 (4)	80.2	97.9	98.6
Total (9 loans)		100,350	21,780	122,130		125,100	125,985							80.2	96.9	97.6

[1] All 2d mortgages were for 25 years. Amount and term of 2d mortgage taken from public records. Monthly payments taken from promissory notes at office of Mr. Fred Fett, Jr.

[2] Informed by Mr. Fred Fett, Jr., that the correct purchase price was $5 more than indicated in this schedule as cost of credit report not included and should be. Purchase prices and monthly payments on 2d mortgages taken from sales contracts and promissory notes of Mr. Fred Fett, Jr.

[3] Intern at local hospital.

[4] Disability compensation.

[5] Payment on 1st mortgage guaranteed by Mr. Fred Fett, Jr. (borrower-purchaser is intern at local hospital).

Examples of secondary financing on permanent construction loans

Loan No.	Association 1st mortgage		Seller's 2d mortgage [1]	Total mortgages	Appraisal		Purchase price [2]	Required monthly payment			Monthly increase (gross) (total dependents in brackets)			Percentage of—		
	Date	Original amount			Date	Amt.		1st mortgage	2d mortgage [2]	Total	Borrower	Spouse	Total	Loan to appraisal	Purchase price financed	Appraisal financed
13832	Mar. 22, 1960	$11,500	$2,350	$13,850	Mar. 11, 1960	$14,400	[3] $14 500	$77	$15	$92	--------	--------	--------	79.9	95.5	96.2
14189	Sept. 14, 1960	12,000	2,175	14,175	Sept. 1, 1960	15,000	[4] 15,025	80	14	94	$700	--------	$700 (3)	80.0	94.3	94.5
14329	Nov. 10, 1960	14,150	2,725	16,875	Oct. 31, 1960	17,700	[4] 17,725	94	18	112	550	$75	625 (4)	79.9	95.2	95.3
14167 [5]	Sept. 7, 1960	14,300	2,900	17,200	Aug. 31, 1960	17,900	[4] 18,050	95	19	114	504	--------	504 (3)	79.9	95.3	96.1
Total (4 loans)	--------	51,950	10,150	62,100	--------	65,000	65,300	--------	--------	--------	--------	--------	--------	79.9	95.1	95.5

[1] All 2d mortgage loan information taken from public records—all 25 years loans.
[2] Information pertaining to purchase price and monthly payments taken from sales contracts and promissory notes at office of Mr. W. Moore.
[3] Construction loan assumed at later date than loan closing. No credit information available.
[4] Loan to speculative builder. Assumptor signed promissory note at loan closing.
[5] Loan No. 14167, Gray. The original borrower-purchaser did not move in home. Mr. W. Moore, president of Oakcliff Estates, stated that Gray deeded the property back and his money was refunded. Property sold Jan. 11, 1961, to Ligget who gave a 2d mortgage of $3,990 at 6¼ percent for 25 years (payments of $23 per month) with $500 of debt due by June 10, 1961. No credit information on Ligget in association file. Mr. Moore stated the purchase price to Gray and Ligget was the same.

FURTHER EXCERPTS FROM THE REPORT OF EXAMINATION AND AUDIT OF THE ASSOCIATION

f. Deferred principal payments

The promissory notes for the following construction loans provided for the first principal payment to be made thirteen months from the date of the note:

Loan			Unpaid balance, Mar. 2, 1961	Terms		Date of disbursement for closing costs
Loan No.	Date	Original amount		Date of 1st payment	Number of equal installments	
13549	July 24, 1959	$264,000	$105,600	Aug. 24, 1960	24	July. 24, 1959.
13655	Oct. 7, 1959	536,000	32,000	Nov. 7, 1960	24	Oct. 7, 1959
13668	Oct. 19, 1959	103,500	31,500	Nov. 19, 1960.	24	Oct. 19, 1959
13759	Jan. 27, 1960	728,000	56,000	Feb. 27, 1961	24	Jan. 27, 1960
14093	Aug. 10, 1960	189,000	169,600	Sept. 10, 1961.	12	Aug. 10, 1960.
14221	Sept. 27, 1960.	187,600	173,100	Oct. 27, 1961	12	Sept. 27, 1960.

g. Separate valuation for land and improvements

The appraisal report form for recast loans (refinancing of existing loans) did not provide for separate valuation for land and improvements. Appraiser Heckman stated that the only time separate valuations would be reported was in cases when extensive improvements were made or were to be made.

h. Loans granted in excess of lending limitations

During the review period, the following loans secured by one-family dwellings were granted for an amount in excess of lending limitations:

Loan			Unpaid balance, Mar. 2, 1961	Appraisal	Percent of loan to appraisal	Percent of unpaid balance to appraisal
Loan No.	Date	Original amount				
13760	Jan. 27, 1960	$3,300	$3,043	$4,000	82.5	76.1
14019	July 6, 1960	11,150	11,043	13,900	80.2	79.4
14020	do	11,150	11,028	13,900	80.2	79.3
14032	July 11, 1960	11,150	11,027	13,900	80.2	79.3
14042	July 14, 1960	11,150	11,043	13,900	80.2	79.4
14043	do	11,150	11,043	13,900	80.2	79.4
14060	July 21, 1960	11,150	11,043	13,900	80.2	79.4
14079	Aug. 2, 1960	11,150	11,059	13,900	80.2	79.6
14080	do	11,150	11,043	13,900	80.2	79.4
14107	Aug. 16, 1960	11,150	11,043	13,900	80.2	79.4
14248	Oct. 5, 1960	15,500	15,435	18,900	82.0	81.7
13927 [1]	May 23, 1960	104,400		153,600	68.0	63.5
7 units remaining			56,900	89,600		

[1] Noninstallment loan due in 18 months, secured by 12 dwellings.

i. Loan No. 13744, Fett Land Company—development loan

(1) *Information at start of examination.*—At the examination date, the association's records disclosed the following information regarding the $43,300 development loan cited in Comment 2.g of the last report:

(*a*) On March 11, 1960, the association required the borrower to make a $1,046 principal payment. The unpaid balance ($47,254) of the loan on said date represented 76.5 percent of the land development costs ($61,800) and 58.7 percent of the appraised value ($80,500), which included an estimated profit of $19,320.

(*b*) Except for a $1,235 disbursement for survey costs at the loan settlement date, the initial advance for development purposes was made on June 10, 1960, for $4,000 and the final advance was made on December 2, 1960, for $11,513.

(*c*) On January 6, 1961, this loan was extended to January 6, 1962.

(*d*) The unpaid balance of the loan was $24,154.

(2) Additional information obtained.—During the course of the examination, the association obtained the following additional information for its files:

(*a*) Certificate dated March 17, 1961, from the mortgagor, stating the cost of the land.

(*b*) Statement dated March 17, 1961, from the mortgagor, reporting the name and address of each and every person who had an interest in or was an officer in the corporation, and the nature and extent of the interest of each;

(*c*) A Dun & Bradstreet report dated March 21, 1961, and;

(*d*) A balance sheet and statement of income and retained earnings of the corporation dated November 30, 1960.

j. Director's interest in loans

The settlement statements for two loans granted during the review period showed that parts of the loan proceeds were disbursed to the West Lumber Company. President George W. West, Jr., reported that he owned 13.47 percent of the total outstanding stock in said company. The loans involved and the amounts disbursed to the West Lumber Company were:

Loan No.	Date	Amount	Amount disbursed to West Lumber Co.	Purpose
14172	Sept. 8, 1960	$9,000	$1,169	For material.
14294	Oct. 25, 1960	3,000	253	Repay mortgage.

Loan No. 14294 was approved by President West and subsequently ratified by the board.

The above loans were granted prior to the date George W. West, Sr., was reelected a director.

SCHEDULE No. 7.—*Officers, directors, attorneys, and employees (list in order of caption)*

Name	Title	Meetings attended, current period [1]	Time devoted	Annual salary	Indebtedness [2]		Investment in shares	Bonus, 1960	Bond		
					Type	Amount			Amount	Name of surety	Expiration date
West, George W., Sr.	Director; chairman of board.	[3] 3					$11,196		[4] $570,000	St. Paul Fire & Marine Insurance Co., St. Paul, Minn. Form 22.	Indefinite; premium paid to Aug. 1, 1963.
West, George W., Jr.	Director; (president; managing officer).	14	Full	$25,000	S-C M-D-H	$450 37,338	2,463	$4,123			
Mobley, Marilu	Executive vice president.		do	21,678	M-D-H	10,500	6,951	4,333			
Pendergrass, Mildred	Vice president		do	11,014	M-D-H	8,300	5,180	2,082			
Kirk, Ellis G.	do		do	13,226	M-D-H	23,059	2,805	1,649			
Jones, Mary Lee	do		do	13,594	M-D-H	12,726	8,000	2,735			
Cornwell, Ludie	Secretary-treasurer		do	7,218			2,601	1,283			
Adcock, Carl	Assistant vice president.		do	6,888	M-D-H	16,756	22	659			
Random, Harold E.	do		do	7,188	M-D-H-C	15,080	12	1,300			
Vax, John J.	do		do	9,258			190	514			
Barker, Robert	do		do	6,558	M-D-H	6,176		684			
Mitchell, Zola Mae	Assistant secretary		do	6,288	S-C M-D-H	100 7,167	3,619	1,142			
King, Muriel	do		do	4,380			9,000	271			
Owens, Charles	Assistant treasurer		do	6,102	M-D-H-C	15,421	70	305			
Caligan, Mary Ann	Assistant controller		do	5,958	M-D-H	8,840		701			
White, Joe	do		do	5,490	S-C	375	425	272			
Armstrong, Fannie	Branch manager, East point.		do	5,598			1,465	548			
Upshaw, Gladys	Branch manager, Sandy Springs.		do	5,640				662			
Noland, William K.	Branch manager, Piedmont.		do	6,204			1,775	330			
Burgs, W. Lee	Director	9					531				
Cottonstrater, E. W.	do	14					23,939				
Nathcock, T. O.	do	13					53,651				
Handley, A. C.	do	13					9,280				
Hicks, T. J., Jr.	do	14			M-D-H	25,829	9,147				
Moore, Fred B.	do	14					4,581				
Paris, E. Ralph	do	14					2,539				
Stelling, Peter J.	do	9					1,726				
Subtotal				167,282		188,117	161,168	23,593			
Hatcher and Irvin	Attorneys			(5)							
23 main office employees			Full	97,384				6,401			

Sandy Springs Branch, 1 employee			do	3,900				180		
East Point Branch, 1 employee			do	4,000				214		
Piedmont Branch, 1 employee			do	3,600				162		
Building employees:										
5			do	(6)				2,313		
1			Part	(6)						
Total				276,174				32,863		

[1] Meetings held since last examination 14. Date of last shareholders' meeting Jan. 18, 1961.

[2] Designate mortgage loan M; share loan S; unsecured loan U; also direct D; indirect I; home H; granted during period under review C.

[3] Elected to board on Jan. 18, 1961.

[4] Increased to $625,000, effective Mar. 20, 1961.

[5] Fee basis.

[6] Hourly.

NOTE.—Number of directors authorized by shareholders' meeting of Jan. 6, 1936: 5 to 15. Each director receives $200 a meeting. Each member of the executive committee, except Mr. West, Jr., receives $50 a meeting.

May 12, 1961

Mr. Philip J. Mank,
Supervisory Agent,
Federal Home Loan Bank Board,
Office of the Supervisory Agent,
Federal Home Loan Bank Building,
Greensboro, North Carolina.

Dear Mr. Mank:

Your letter of May 2 and its attachments have been received. Your request has been fulfilled, as evidenced by the attached excerpts from our Board of Directors minutes.

Kindest regards.

Yours truly,

George W. West, Jr.

GWWsht
Incl.

EXCERPT FROM MINUTES OF MEETING OF BOARD OF DIRECTORS HELD ON MAY 11, 1961

"The President stated that the report of Examination and Audit made as of close of business March 2, 1961, had been received. The Supervisory Letter addressed to the Board of Directors under date of May 2, 1961, and signed by Mr. Philip J. Mank, Supervisory Agent, was read to the Board and each paragraph discussed. The President stated that since the letter and examination had just been received, that a study was being made and corrective action taken, where needed, on all items covered in the letter."

I, Ludie Cornwell, Secretary and Treasurer of First Federal Savings and Loan Association of Atlanta, certify that the above is a true and correct copy of excerpt from minutes of meeting of Board of Directors of the Association held on May 11, 1961.

LUDIE CORNWELL, *Secretary and Treasurer.*

MAY 12, 1961.

Hoots, E. Hatcher Middleton

FEDERAL HOME LOAN BANK BOARD
OFFICE OF
SUPERVISORY AGENT
FEDERAL HOME LOAN BANK BUILDING
GREENSBORO, NORTH CAROLINA

May 30, 1961

Mr. George W. West, Jr., President
First Federal Savings and Loan Association
46 Pryor Street, N. E.
Atlanta 3, Georgia

Dear Mr. West:

Thank you for your letter of May 12, 1961, and excerpts from the minutes of the meeting of the board of directors of the association held on May 11, 1961.

After the study referred to in the resolution has been completed, please forward to us, in duplicate, a copy of the report to the board of directors as to the corrective action taken on all items covered in our supervisory letter.

Sincerely yours,

Philip J. Mank
Supervisory Agent

EXCERPT FROM MINUTES OF MEETING OF BOARD OF DIRECTORS HELD ON JUNE 8, 1961:

"The next matter for consideration was the supervisory letter of May 2, 1961 addressed to the Board of Directors in connection with the Federal Home Loan Bank Board report of examination and audit made as of March 2, 1961. The President stated he would like to read a statement made by Mr. John Wyman, Director of Supervision of the Federal Home Loan Bank Board, in order for the Directors to better understand the intent of a supervisory letter. He read a portion of the testimony of Mr. Wyman before a Subcommittee of the Committee on Government Operations, House of Representatives, made in June 1960 concerning Federal Home Loan Bank Board seizure of Long Beach Federal Savings and Loan Association.

"Each item in the supervisory letter was reread and discussed. The criticism of the Supervisory Agent with reference to schedules on pages 23, 24, and 25 of the examination was discussed and Mr. Hatcher reviewed the correspondence had during the year 1960 with Mr. Philip J. Mank concerning loans of the type listed in the schedules. Attention of the Directors was called to the statement of policy of the Board contained in letter from Mr. West, Jr. to the Supervisory Agent on November 30, 1960 as follows:

> 'Our policy is that each loan be appraised on its own merits in the light of the financial responsibility of the borrower to whom the Association looks for payment, the security and all other attendant circumstances, and each loan must be accepted or rejected in the exercise of the best judgment of the Loan Committee and the Board of Directors.'

"It was pointed out that none of the loans criticized had ever been foreclosed. The Board of Directors reaffirmed its approval of the loans contained in the schedules and the statement of policy reflected in Mr. West's letter.

"The President reported that loans referenced in comments 2-f and 2-h as not conforming with regulations had now been brought within conformity and the criticism corrected. He also reported that appraisal report forms for refinancing of existing loans and for additional notes had been redrafted to show a separate valuation for land and improvements.

"The criticism in the supervisory letter on loan No. 14294 on the ground that a second mortgage to West Lumber Company in the amount of $253.00 had been paid from the proceeds of the loan was discussed at length by the Directors. Mr. Hatcher pointed out that the application for the loan came from a third party and the existence of a second mortgage appeared from an examination of title. He further pointed out that a first lien on the realty could be obtained only by payment of the second mortgage. It was the opinion of Mr. Hatcher that the term 'fiduciary' was an improper use when referred to the duties and obligations of a Board of Directors and that certainly the payment of a second mortgage necessary to the obtaining of a first lien by the Association did not violate any recognized principles governing the duties and obligations of the Board of Directors. It was the consensus of the Board that the payment of the second mortgage was not improper.

"The reference to schedule 7 concerning the number of Directors authorized by the shareholders' meeting on January 6, 1936 was discussed. The only reference in these minutes concerning the number of Directors was in the bylaws which were adopted at that meeting which stated:

> 'The business of the association shall be conducted under the direction of the board of directors of not less than five nor more than fifteen as fixed by the vote of the members at the first meeting of the members of the association.'

FIRST FEDERAL SAVINGS & LOAN ASSOCIATION OF ATLANTA

"Attention was called to the minutes of special meeting of the shareholders held on September 28, 1934, apparently overlooked by the examiners, reading as follows:

> 'Motion duly made, seconded and unanimously carried that the directors of the First Federal Savings and Loan Association be fixed at 15.'

"After further discussion of the supervisory letter, motion was made by Mr. Hendley that the Board approve the action management had taken in handling the letter. Motion seconded and carried."

FIRST FEDERAL SAVINGS & LOAN ASSOCIATION OF ATLANTA

EXHIBIT NO. 16.—RESOLUTION ADOPTED BY FIRST FEDERAL SAVINGS AND LOAN ASSOCIATION OF ATLANTA, ATLANTA, GA., JULY 1961, REVOKING THE JOHNSON-WYMAN LETTER OF APRIL 14, 1958, AS WELL AS THOSE RESOLUTIONS PASSED BY THE BOARD, JUNE 17, 1958.

Mr. George W. West, Sr. recommended passage of and proposed the following resolution to the Board, which after lengthy discussion thereon, was duly passed:

WHEREAS this Board recognizes that continual criticisms by Mr. John M. Wyman, Director of Division of Supervision, and his office, even prior to 1954, were not justified by any violations by management of law, rules or regulations,

WHEREAS even though Mr. Wyman in a letter of November 1, 1954 to Mr. Moyer Sink, President of the Federal Home Loan Bank of Greensboro, stated "most of the supervisory criticisms. . . . .have been disposed of," the letter concluded with the further statement that ". . . .the lending activity just described clearly ignores the well-recognized principle that the loan percentage should be based on appraised value or sale price whichever is less . . . . we must insist that the association's lending practice be revised accordingly and you should so advise the association's Board of Directors," which statement caused this Association to request a meeting with the Federal Home Loan Bank Board (of which Mr. Walter McAllister was then Chairman and Mr. Ira Dixon was then a member), at which meeting this Association was represented by Messrs. George W. West, Sr., George W. West, Jr., Joseph S. Shaw, Horace Russell, and Herbert Johnson and at which meeting the Board called in Mr. Wyman, Board Counsel Mr. Creighton and Board Secretary J. Francis Moore,

WHEREAS the Federal Home Loan Bank Board at the meeting was informed that this Association would abide by any regulation requiring the loan percentage to be based on appraised value or sales price whichever was lower but would not recognize such a directive from supervision not supported by law, rules or regulations,

WHEREAS officers of this Association concluded thereafter that all criticism had been corrected, but an examination of January 14, 1957, reported to the Association on December 2, 1957, "admonished" the Association that it had not corrected various practices, which report caused this Board to appoint a special committee which held numerous meetings and made its own investigation of

officers and customers and caused the Board to send to Washington the Association's lawyer, Mr. Herbert Johnson, to confer with Mr. Wyman and find out what he had in mind,

WHEREAS, as a result of two or three conferences between Mr. Johnson and Mr. Wyman, Mr. Johnson reported to the Board that Mr. Wyman insisted that both Chairman West, Sr. and President West, Jr. be discharged both from office and from the Board, that Mrs. Marilu Mobley be removed from the Board and that four new Board members be named,

WHEREAS a compromise was thereafter reached between Mr. Wyman and Mr. Johnson reflected in a letter written by Mr. Johnson to Mr. Wyman dated April 14, 1958 including the proposal that Mr. West, Sr. resign from the Board and as Chairman and leave the premises in order that Mr. Wyman might "determine the competency of Mr. West, Jr." and this Board was advised that unless these requirements of Mr. Wyman were met, the original proposal from Mr. Wyman only could be considered,

WHEREAS Mr. West, Sr. did then confer with Mr. Wyman and receive confirmation of the proposal and did then about the first of April 1958 advise Messrs Robertson, Dixon, and Hallahan, then members of the Board, of the proposal of Mr. Wyman that he resign and leave the premises in order that the competency of Mr. West, Jr. as President might be determined,

WHEREAS this Board of Directors as then constituted knew that the relations between it and the supervisory authorities were considerably strained and that seizure of the Association by Mr. Wyman's office was then probable, and based upon this realization this Board did accept the proposals of Mr. Wyman and Mr. West, Sr. did then resign from the Board,

WHEREAS on June 17, 1958 Mr. John Fogarty, President of the Federal Home Loan Bank of Greensboro, and Mr. Philip J. Mank, Supervisory Agent, met with this Board and required this Board to adopt the following resolutions;

> "BE IT RESOLVED that the association make no loan on the security of real estate in which any director, officer, employee or attorney of the association has a direct or indirect interest or has had for the past twelve months,

or to a purchaser from any corporation in which any such person has an interest in excess of 2 per cent, except as expressly permitted by the regulations, or as necessary to salvage the association's investment in real estate in Meadowcliff Subdivision."

"BE IT RESOLVED that agreements with second mortgage holders be limited to the value of their second mortgages and that any conveyance of property be deferred until the date when the association's first mortgages on the properties on an overall basis are reduced so as not to exceed 80% of value as appraised on date of conveyance."

"BE IT RESOLVED that the purchase of materials for completing construction on real estate owned by the association be made on the basis of competitive bids, except when very small amounts of materials are involved."

WHEREAS, implications contained in the letter of Mr. Johnson to Mr. Wyman of April 14, 1958 that this Association has been guilty of conduct prohibited thereby are erroneous and misleading and thereby damaging to this Association and the proposals of such letter attempt to restrict the authority of this Board in matters not prohibited by law, rule, or regulation,

WHEREAS the approval by this Board of the proposals contained in the letter from Mr. Johnson to Mr. Wyman dated April 14, 1958 and the resolutions of the Board of June 17, 1958 were entered under duress and without freedom of discretion with which this Board is endowed, and

WHEREAS this Board feels that it is entitled to the free exercise by it of the duties and authorities vested in it by law and rules and regulations duly promulgated,

BE IT RESOLVED that the letter of April 14, 1958 from Mr. Johnson to Mr. Wyman be made a part of the minutes of the Association, and

BE IT RESOLVED that the approval of this Board to the letter of Mr. Johnson to Mr. Wyman dated April 14, 1958 and the resolutions of June 17, 1958 be repealed, revoked, and abrogated.

EXHIBIT No. 17.—CORRESPONDENCE BETWEEN THE FEDERAL HOME LOAN BANK BOARD, WASHINGTON, D.C., AND FIRST FEDERAL SAVINGS & LOAN ASSOCIATION OF ATLANTA, ATLANTA, GA., AND OTHER MATERIAL RELATIVE TO THE EXAMINATION AND AUDIT OF THE ASSOCIATION AS OF JANUARY 14, 1959

FEDERAL HOME LOAN BANK BOARD,
OFFICE OF SUPERVISORY AGENT,
Greensboro, N.C., April 29, 1959.

BOARD OF DIRECTORS,
First Federal Savings & Loan Association,
Atlanta, Ga.

GENTLEMEN: We enclose report of examination and audit of your association made as of January 14, 1959, by the Division of Examinations of the Federal Home Loan Bank Board. We request that you review the entire report carefully, giving especial consideration to the following comments:

Comment 2–b refers to certain schedules in the report listing a number of loans where the borrower had little or no equity in the property. While we appreciate the circumstances under which these loans were made, we are calling it to your attention with the suggestion that this type of lending activity be discontinued as soon as practical.

Comment 2–b(5) cites a change in the association's security deed form which was approved by the executive committee and deferred by the board of directors until this change had been prepared by the association's attorney. Please advise us as to the current status of this change.

The unearned profit on real estate sold should be removed from the association's Real Estate Owned Account and recorded as a deferred credit. In adjusting unearned profit on the sale of real estate which was previously credited to income, the association's transfer to required reserves for the year 1958 was $1,379 short of the minimum requirement. We request that you advise us that both of these adjustments have been made on the association's records.

The examiner cites three internal control weaknesses in Comment 7–b. Please advise us of the specific action taken to correct each of these items.

The deferred compensation contracts do no comply in all respects with the Board's stated policy which is outlined in detail on pages S–44 and S–45 of the Service Manual. The total obligation or liability of the association as to each participant should either be stated in or be determinable from the plan or contract. In these contracts the provision for pension payments in event of disability, or for life rather than for a certain number of years is unobjectionable from a supervisory standpoint provided such liability is fully funded by insurance with an insurance company. The other requirements shown as items 5, 6, and 7 in the "Service Manual" and which refer to the funding of the liability, the termination of the plan or contract, and terms in event of default of the association should also be complied with in these agreements. Please advise us of the specific action which will be taken in this matter.

After you have considered the report and this letter and have taken such action as is required, please send us two certified copies of excerpts from your minutes setting forth the action taken on each point discussed. All correspondence referring to the supervisory letter should be submitted in duplicate also.

Yours very truly,

PHILIP J. MANK, *Supervisory Agent.*

EXCERPTS FROM THE REPORT OF EXAMINATION AND AUDIT OF THE ASSOCIATION

b. Lending policies and procedures

(1) *Commissions to real estate agents.*—During the period under review the Board of Directors authorized the officers to pay brokerage commissions to real estate agents in order to obtain up to a maximum of $2,500,000 in conventional loans. As of the examination date, commissions aggregating $16,254,50 had been paid to 34 different real estate agents to obtain loans totalling $1,631,850. Commissions on all but one of the loans was at 1 percent and on that one, one-half of 1 percent.

(2) *Equity of borrowers.*—Attention is directed to the schedules of "rollover" loans, loans made to purchasers of properties from West Lumber Company, and loans to purchasers of properties from Home Owners Company which are a part of Comment 2–a. Attention is also directed to the schedules of

purchase money mortgages made by the association which are a part of Comment 3. These schedules show that association borrowers were granted loans both before and after April 14, 1958, without having any equity in the properties.

(3) *Interest of directors, officers, and employees in loans or properties securing loans.*—In its letter to the Director of the Division of Supervision on April 14, 1958, the association agreed, among other things, (1) not to make any loan on property on which the West Lumber Company will have a second mortgage and (2) not to make any loan on property on which the Home Owners Company will have a second mortgage.

At a special meeting held on June 17, 1958, the Board of Directors passed the following resolution:

"*Be it resolved,* That the association make no loan on the security of real estate in which any director, officer, employee or attorney of the association has a direct or indirect interest or has had for the past twelve months, or to a purchaser from any corporation in which any such person has an interest in excess of 2 percent, except as expressly permitted by the regulations, or as necessary to salvage the association's investment in real estate in Meadowcliff Subdivision."

No exceptions were noted to the policies stated above.

(4) *Appraisals.*—At its meeting held on May 7, 1958, the Board of Directors passed the following resolution:

"*Be it resolved,* That the association is authorized to make a loan after one of the authorized appraisers has submitted a signed appraisal of the real estate security and may also make any insured or guaranteed loan on the basis of the evaluation of the real estate security furnished to the association by the insuring or guaranteeing agency."

(5) *Insurance.*—In its letter to the Director of the Division of Supervision on April 14, 1958, the association agreed that it would not require any borrower to carry hazard insurance through the Home Owners Company. It further stated that the person taking loan applications will tell all prospective borrowers that fire and extended coverage insurance is required and ask if they have a preference as to agency. If the borrower names a choice, his choice will be accepted; if not, the Home Owners Company will be suggested. The borrower can accept or refuse this suggestion. The letter further stated that the borrower or any subsequent purchaser shall have the right to change insurance on any anniversary date of the policy.

It was the consensus at the Executive Committee meeting held on April 16, 1958, that the association should accept insurance furnished by the customer in any company whose record for payment of fire insurance losses was satisfactory to the association, and the "Application for Loan" and deed forms be referred to the attorney for modification.

On April 23, 1958, the Executive Committee made the following specific recommendations in respect to fire insurance: (1) on the front of "Application for Loan" form at the bottom of the page, the last part of the last sentence be stricken which reads "* * * through an agent in a company designated by the lender;" (2) that the association require adequate insurance against fire and extended coverage; and (3) that Item No. 5 of the security deed be changed which reads "* * * to designate the agent and the company and the amount of all insurance covering the said property that is to be carried * * *" and that it be referred to our attorney to prepare a clause similar to that used by the VA, FHA, and FNMA. At its meeting held on May 7, 1958, the Executive Committee recommended that the sentence on the application form which refers to insurance coverage be changed to read "* * * also agrees to furnish adequate insurance against fire and extended coverage."

On May 7, 1958, the Board of Directors adopted all recommendations of the Executive Committee in regard to fire insurance coverage except the change in the security deed form. Approval of the recommended change in the deed form was deferred until such a clause was prepared by the attorney.

As of the date of the examination the application form has been changed as recommended, but the deed form still reads "to keep all of said property insured against loss by fire and other losses included in the term 'extended coverage,' with the right on the part of Grantee to designate the agent and the company and the amount of all insurance covering the said property * * *"

c. Loans assumed by West Lumber Company, Inc., and Home Owners Company

During the period under review both West Lumber Company and Home Owners Company assumed loans made by the association to individuals. Dates of these assumptions extended throughout the period under review. All loans assumed were granted prior to April 14, 1958. (See the following two schedules for a list of the loans involved.)

* * * * * * *

6. LIQUIDITY

On two days during the period under review the liquidity ratio of the association fell below 6 percent. On both of the days loans were granted. (See schedule which follows.)

Date	Liquidity ratio (percent)	Loans granted	
		Number	Amount
Jan. 24, 1958	5.9	8	$110,460
Jan. 29, 1958	5.8	5	58,565

7. GENERAL

a. Personnel changes

Effective April 15, 1958, George W. West, Sr., resigned as a Director and as Chairman of the Board. At the regular meeting of the Board held on April 11, 1958, he was elected Honorary Chairman of the Board, a position, as stated in the minutes of that meeting, which carries no duties, obligations, or authority connected with the association, or any activity connected with the association, or any right to office or desk space. It is noted that the financial statement of First Federal for December 31, 1958, shows George W. West, Sr., under the heading "Directors" with the notation "Honorary Chairman (Retired)" under his name.

At the regular Board meeting held on April 11, 1958, the resignation of Mrs. Marilu Mobley as a director was accepted. At the same meeting Mr. George W. West, Jr., tendered his resignation as a member of the Executive Committee. This resignation was also accepted.

At the adjourned special meeting of the Board of Directors held on February 24, 1958, Mrs. Mobley informed the Board that she would resign as a director of Home Owners Company; Mr. George W. West, Jr., also informed the Board that he would resign as a director of both Home Owners Company and West Lumber Company, Inc.

At the regular Board meeting of May 7, 1958, George W. West, Sr., informed the Board that he had sold his stock in Home Owners Company and that neither he nor any member of his immediate family owned any stock in Home Owners Company.

At a special meeting of the Board held on June 17, 1958, Peter J. Stelling, Fred B. Moore, and Herman W. Lay were elected to serve as directors until the next shareholders' meeting.

b. Internal control

Since the date of the last examination, the association has initiated the procedure of recording collections of mortgage life insurance premiums on the books of the association. However, there is oftentimes a lag between the date of collection and the date of recordation.

Some examples are shown below.

Date of ticket	Payee	Amount	Date of recordation
July 28, 1958	Carswell	$1.43	Aug. 7, 1958
Do	Wood	1.77	Do.
July 24, 1958	Huddleston	3.20	Aug. 14, 1958
Aug. 11, 1958	Beard	3.29	Aug. 21, 1958
Aug. 1, 1958	Berry	2.43	Do.
Aug. 7, 1958	Schols	4.64	Do.
Aug. 12, 1958	Graham	3.76	Do.
Aug. 8, 1958	Griffin	1.46	Do.
July 14, 1958	Leonard	2.20	Do.
Aug. 11, 1958	Lovin	2.67	Do.

It was also noted that receipts from the sale of coin banks were allowed to accumulate and posted at irregular intervals.

Savings passbooks are not prenumbered by the printer; there appears to be no control over the passbooks.

Inactive savings account cards have been segregated and are kept under lock and key. Keys are kept by three of the tellers.

Pension, Retirement and
Deferred Compensation Plans

Supervisory experiences over the last several years in connection with a wide variety of pension, retirement and deferred compensation plans proposed or adopted by insured institutions, have clearly shown certain elements to be essential to the maintenance of sound financial practice. These elements are hereinafter outlined as guides which will be used in our supervisory review and action with respect to any such plans.

It should, of course, be recognized that these principles are applied in terms of substance rather than mere technicality, that in some states there are statutes specifically governing such plans in state-chartered institutions; and that legal questions involved in any instance might require legal review of the particular plan and contract.

1. Consideration. The expense or obligation of the association should not be excessive.

   This, of course, is a relative matter that must be decided on the basis of the facts of the particular case; but the cost should be reasonable as related to the consideration received by the association, to the compensation and term of employment of the officer or employee, and to the means of the institution.

2. Participants. The participants in such a plan, paid for in whole or in part by an association, should be limited to its salaried officers and employees who are actively engaged in the day-to-day duties of operation.

   Sound justification for such expense on the part of an association does not extend beyond persons who derive their livelihood from employment by it; it does not extend to directors as such.

3. Employment Contract. There should be no provision that obligates the institution to employ any person beyond the date of the next regular election of directors, nor that, either by prohibition or by imposing economic sanction, places any obstruction in the way of free exercise by the board of directors of the duty or discretion provided by law, charter, bylaw or regulation as to their employment or termination of employment of any officer or employee..

4. Amount of the Association's Obligation. The total obligation or liability of the association as to each participant should either be stated in or be determinable from the plan or contract In some instances the amount of the liability is determinable only actuarily (e.g. provisions for pension payments in event of disability, or for life rather than for a certain number of years); this is unobjectionable from a supervisory standpoint provided such liability is fully funded by insurance with an insurance company.

It is obviously indispensable to sound financial practice that an association's liability under such a plan be known, recognized, and provided for.

5. Funding. The association's liability in respect to each participant should be fully funded so as to afford positive assurance against the accumulation of an unrecognized liability and against deferral to future periods of current operating costs.

This may be accomplished in a variety of ways: Funding of the obligation in full at the outset if that is practicable; the purchase of insurance covering all of the obligations, with the premium payable periodically as a current operating expense; by pro-rata payment into a fund and charge to expense in each fiscal period during the remainder of the participant's normal employment so that the cost fairly applicable to each fiscal period will be so charged and so that none of the cost will remain to be charged or absorbed after the fiscal period in which the normal employment of the participant terminates.

As to obligations the amount of which are not determinable definitely or with such close approximation as to leave no material question, the only practical manner of "funding" consistent with the foregoing is by means of insurance with an insurance company.

6. Termination of the Plan or Contract. The plan or contract should permit the board of directors or their successors at any time to terminate the plan or contract and any obligation beyond those theretofore fully funded, and to discontinue the making of any payments thereunder.

Failure to preserve such freedom could well operate to deprive those responsible in the future for the association's operation of the freedom necessary to adjust its affairs and obligations to changed conditions and means and thus make the interests of officers and employees paramount to the interests of the members.

7. Default of the Institution. The plan or contract should provide that all obligations of the association thereunder not theretofore fully funded shall terminate automatically in event of default as defined in Title IV of the National Housing Act.

While the foregoing states the fundamentals of material supervisory interest in every instance, additional matters may need to be considered in the light of the facts of the particular plan or contract.

May 18, 1959

Mr. Philip J. Mank,
Supervisory Agent
Federal Home Loan Bank Board
Federal Home Loan Bank Building
Greensboro, N. C.

Dear Mr. Mank:

At our board of directors meeting on May 15, 1959, your supervisory letter and the examination and audit for the association made on January 14, 1959, was submitted by me to the board as requested in your letter of April 29, 1959. The following is a quotation from our board minutes as to their immediate action:

"After completion of discussion of the Supervisory Agent's letter and the proposed reply, Mr. Hendley moved that a copy of each of these letters be furnished the Directors for further consideration, and that the President be asked to notify Mr. Mank by letter that a thorough study was being made and a reply would be ready at the next meeting of the Board. Motion seconded and carried."

Yours very truly,

George W. West, Jr.

JUNE 5, 1959.

Mr. PHILIP J. MANK,
Supervisory Agent, Federal Home Loan Bank Board,
Greensboro, N.C.

DEAR MR. MANK: We have received through the president of the association your supervisory letter of April 29th, with its enclosed report of examination and aduit for the First Federal Savings and Loan Association of Atlanta made as of January 14, 1959. We have reviewed it in great detail and the following is the result of our findings and findings and action.

Comment 2-b which refers to certain schedules in the report wherein the borrowers had little or no equity in the property has been reviewed carefully and closely by us and in each incident these were not loans but were sales under purchase money security deeds which were sold pursuant to a salvage operation which was approved by us and reflected in previous board minutes as each incident arose. We understand the charter provision of 80 percent limitation of home loans of the association and agree with your suggestion that this will be discontinued as soon as practical.

Comment 2-b(5) with reference to the association's security deed, we are attaching herewith excerpts from our today's minutes which is a formal report from the association's attorney.

The unearned profit on real estate sold has been removed from the association's real estate owned account and recorded as a deferred credit and will appear on the May 31st statement of condition. With reference to the association's unearned profit on the sale of real estate previously credited to income and its transfer to required reserves in 1958, being short by $1,379.00, our Controller and accountant explains to us that they do not believe that our reserve requirement was short because that the $27,541.08 which you have deducted from our total reserve for losses on Exhibit C, page 5 of the audit was incorrect because it was actually earned income and received in cash in 1958, and, therefore, it was an earned profit.

The Internal Control weaknesses noted in Comment 7–b have been changed as follows:

1. Mortgage life insurance premium payments are recorded and deposited the same day they are received.
2. Coin Bank sales are posted and recorded daily.
3. Savings passbooks have been placed under the control of the Administrative Vice President and pre-numbered. We are in a transition period of style of savings books and, therefore, are required to maintain a few unnumbered books. However, this transition period should be accomplished to a high degree within a few months.
4. Inactive savings account procedures were adopted under the supervision of our Executive Vice President, Mrs. Marilu Mobley, who reported to us that you had approved this procedure. Mrs. Mobley reports to us today that she is in the process of reviewing these procedures with you by correspondence and we shall be guided by your recommendation.

With reference to deferred compensation contracts, attached are excerpts from our minutes of our action on this matter.

Thanks for your prompt reporting on this examination and audit to us and we hear from our officers that your examination team was most pleasant to work with and very helpful.

Yours very truly,

George W. West, Jr., President; Herman W. Lay, Director; E. W. Gottenstrator, Director; Fred B. Moore, Director; T. O. Hathcock, Director; E. Ralph Paris, Director; Albert G. Hendley, Director; Peter J. Stelling, Director; Thomas J. Hicks, Jr., Director.

"The report of the Examination and Audit of the Association made as of January 14, 1959, and the letter of April 29, 1959 from Mr. Philip J. Mank, Supervisory Agent, were again reviewed and discussed.

"With reference to the change in the Security Deed, Mr. Johnson stated that the word "agent" was being stricken from section 5 of the Security Deed until a new form could be put in use, and that this and other changes not pertaining to insurance were being considered and a report would be made at the next meeting. Motion was made by Dr. Hicks that Mr. Johnson's report be approved. Motion seconded and carried.

"A proposed reply to Mr. Mank's letter was drafted and after discussion of each paragraph, motion was made by Mr. Hendley that the reply be approved and signed by each Director present and forwarded to Mr. Mank, a copy to be made a part of these minutes. Motion seconded and carried."

I, Zola Mae Mitchell, Assistant Secretary of First Federal Savings and Loan Association of Atlanta, certify that the above is a true and correct copy of excerpt from minutes of meeting of the Board of Directors held on June 5, 1959.

ZOLA MAE MITCHELL, *Assistant Secretary.*

JUNE 5, 1959.

JUNE 26, 1959.

MR. PHILIP J. MANK,
Supervisory Agent,
Federal Home Loan Bank Board,
Greensboro, N.C.

DEAR MR. MANK: Enclosed are two certified copies of excerpts from minutes of the meeting of our Board of Directors held on May 15, 1959.

These excerpts should have been sent to you with the letter of June 5, 1959 signed by our Board of Directors.

Yours very truly,

MILDRED PENDERGRASS, *Vice President.*

"The comment concerning Deferred Compensation Contract was discussed, and motion made by Dr. Hicks that the matter be referred to the Executive Committee and the attorney for further study and that they report to the Board at an early date. Motion seconded and carried."

I, Ludie Cornwell, Secretary of First Federal Savings and Loan Association of Atlanta, certify that the above is a true and correct copy of excerpts from minutes of meeting of the Board of Directors held on May 15, 1959.

LUDIE CORNWELL, *Secretary.*

AUGUST 14, 1959.

MR. PHILIP J. MANK,
Supervisory Agent, Federal Home Loan Bank Board,
Greensboro, N.C.

DEAR MR. MANK: Enclosed herewith is evidence of the action taken as requested in your Supervisory letter of April 29th, paragraph 3.

Yours very truly,

GEORGE W. WEST, Jr.

"Mr. Johnson submitted a new security deed which he had prepared which omitted the word "agent" from the paragraph pertaining to fire insurance as recommended by the Executive Committee on April 23, 1958. He stated the deed was shorter and contained other changes, not pertaining to insurance, which were made for clarity. The President stated he had reviewed each part of it in conference with Mr. Johnson, other operations officers and the appraiser, and upon recommendation of Mr. Johnson, believed it to be an improvement. After a review of the instrument and discussion, motion was made by Mr. Stelling that the new security deed be approved and put into operation. Motion seconded and carried."

I, Ludie Cornwell, Secretary of First Federal Savings and Loan Association of Atlanta, certify that the above is a true and correct copy of excerpt from minutes of meeting of Board of Directors of the Association held on Friday, August 7, 1959.

LUDIE CORNWELL, *Secretary.*

AUGUST 14, 1959.

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