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August 8, 1984

The Honorable Edwin J. Gray
Chairman
Federal Home Loan Bank Board
1700 G Street, NW
Washington, D.C. 20550

Dear Mr. Chairman:

This follows my letter to you of June 24, 1984, regarding the Federal Home Loan Bank Board's proposed rule limiting direct investment by insured institutions (49 Fed. Reg. 20719).

Recently, I received a copy of a July 1982 study by the Board's Office of Policy and Economic Research, The Contribution of New Asset Powers to S & L Earnings: A Comparison of Federal- and State-Chartered Associations in Texas. After examining the above mentioned study, I concluded that its findings appear to contradict with the Board's proposed rule. In addition, I understand that the Board is relying on the "unsafe or unsound" provision in Section 407 of the National Housing Act (12 U.S.C. 1730) as authority for adopting the proposed regulation. To my knowledge, it was never the intent of Congress that the "unsafe or Unsound" provision be used to pre-empt state law.

In view of the above, I again urge the Board to defer action on a final rule limiting direct investments until the Congress and the public has had an opportunity to more carefully review the issue. Also, in light of the previously mentioned facts, I would appreciate the opportunity to review the information on which you relied in preparing this rule. Finally, I would suggest that a full evidentiary hearing may be in order before final action is taken on the proposed rule.

Thank you for your attention and for your cooperation.

Sincerely,

John McCain
Member of Congress

JM/lks

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