

Office Correspondence

FEDERAL RESERVE
BOARDDate June 8, 1935To Governor EcclesSubject: Further comment on Fletcher billFrom J. M. Daiger *JMD*for Federal Mortgage Bank

16-852

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I read last night the full text of the Federal Mortgage Bank Bill introduced by Senator Fletcher at the request of Schmidt and MacDougall of the National Association of Real Estate Boards.

When I finished reading the bill, I found that I had marked twenty-one places at which I would question either the terms of the bill or its draftsmanship. It has in the main the essential defect that has characterized all of Schmidt's proposed bills over the past five or six years, which is that it is designed to create a realtor's paradise of profits without too strict a regard for the economic, social, and political consequences.

To a very large extent, the proposed Federal mortgage bank would duplicate or supersede functions of the Federal Home Loan Bank System and the Federal Housing Administration. It would also duplicate the existing private agencies--building and loan associations, savings banks, insurance companies, commercial banks, etc.--in the field of home mortgage lending.

In these respects, therefore, the establishing of a Federal mortgage bank is neither necessary nor practicable.

As I remarked in my recent letter to Mr. Brown, the financing of home mortgages is an altogether different type of operation from the financing of commercial mortgages. We now have all the legal machinery* that is needed to deal with the home mortgage problem. Where there is an opportunity for a Federal mortgage bank or banks is in the field of urban mortgages from \$20,000 into the millions. The machinery in this field has completely broken down, and only a small part of it can be reconditioned and operated through existing agencies.

Two of Brown's mortgage men have spent some time during the past week with Catharine, myself, and others going over the proposals made by Brown in his very extensive survey. What I have told his men is that in my opinion they must concentrate on the problem or problems that are not being dealt with by governmental agencies, rather than try to establish de novo a central mortgage bank on European lines as if there were no existing American machinery.

Schmidt, in the bill introduced by Senator Fletcher, makes the same mistake that Brown does of adhering to European models which were fashioned before you and I were born, but which have not yet reached a size that would make a perceptible dent in the American mortgage market.

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*Except for certain amendments to existing laws