

November 18, 1937

To: Mr. Eccles

From: J. M. Daiger

Subject: PROPOSED HOUSING PROGRAM

I think it would be advisable if you were to have Mr. Vest, who is more or less familiar with the National Housing Act, draft an amendment to the Federal Reserve Act that would facilitate the making of repair and modernization loans by national banks. Repair and modernization constitute an important source of construction activity and employment.

Accurate estimates on the relationship of repair and modernization work to the total volume of construction are difficult to obtain, but the proportion is rather generally put as somewhere between 20 and 30 per cent of the total, depending upon whether the volume of new construction at a given time is relatively large or small. During the present year there has been a definite holding off of repair and modernization work because of the rapid increase in labor and material costs.

The operation of Title I of the National Housing Act was an important factor in stimulating repair and modernization work from the summer of 1934 to April 1 of this year, when Title I expired by statutory limitation. As you know, the great

bulk of the financing under this title was done by banks, and their experience was such as to make it evident that this type of business could be carried on at a reasonable profit, on the terms authorized under Title I, even without benefit of insurance.

The most important factors of Title I, apart from the insurance, were (1) the three-year period of amortization and (2) the discount basis of 5 per cent on which repair and modernization loans were made. The three-year period of payment is in many instances a practical necessity for the purposes of the borrower; the 5 per cent discount basis is necessary for the purposes of the institution in meeting the cost of servicing small monthly-amortized loans.

In the absence of the Federal and State legislation that made the operation of Title I effective, most banks are precluded from making three-year instalment loans on a 5 per cent discount basis. Under the small-loan laws of a number of States, they can make such loans variously from 12 months to 18 months on a discount basis of 5 per cent, or even somewhat higher; but if the loan goes beyond 12 months or 18 months, as the case may be, the usury laws operate against the 5 per cent discount basis.

For the state banks, this is a local matter, and the conditions of lending vary among the States. In a substantial number of cases the state banks have been able to carry on the

Title I type of business without interruption. The national banks, on the other hand, are in all cases limited by the State usury laws.

This is a matter that I discussed at some length early this year with representatives of the American Bankers Association. It was evident from that discussion that in this matter the state banks would regard the enactment of Federal legislation, affecting national banks, as facilitating the enactment of similar legislation in those States where the finance companies have more or less a monopoly of the instalment-financing business.

As a practical means of meeting this situation, and at the same time making a contribution of some importance to the stimulation of repair and modernization work, it would be helpful if national banks were authorized to make three-year instalment loans up to \$2,000 on a 5 per cent discount basis.

The inclusion of such a proposal in the President's new housing program would meet a real need and at the same time dispose of the current agitation for the revival of Title I.

A handwritten signature in black ink, appearing to be 'W. B.', written in a cursive style.