Form F. R. 131

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date July 9, 1937

To Mr. Currie

From Mr. Terborgh

Subject: Hearing on Senate Bill 2350

In accordance with your request I covered this morning's hearing before the Selected Committee for an Investigation of the Executive Agencies of the Government with a View of Coordination, the subject of the hearing being Senate Bill 2350 introduced by Senator Byrd and entitled "The Federal Home Credit Act". Testimony was offered by Mr. Hardy of the Brookings Institution on the Brookings recommendation for consolidation among the Government agencies concerned with mortgage lending. These recommendations have been embodied in the Bill to which reference has just been made and a copy of which is attached to this memorandum. It is not necessary in view of the brevity of this Bill to present a resume of its provisions here.

Mr. Hardy devoted the bulk of his testimony to a discussion of the overlapping of activities among the various Federal agencies in the mortgage field. He stated particularly that he offered no appraisal of the functions performed by these organizations and expressed no opinion as to the desirability of the continuance of these functions, the sole object of his recommendations being their administration.

A list of the duplications and overlapping of activity as developed by Mr. Hardy is as follows:

1. The FHA contacts building and loan associations and Federal Savings and Loan Associations in connection with insurance. Over 1,000 such organizations have bought FHA loans to the amount of 17 percent of the total of such loans issued. The Federal Home Loan Bank Board contacts these associations for other purposes. Both organizations engage in examination and have separate field forces and branch offices with

duplicate legal and technical forces. They are unable to supply each other with confidential information developed in the course of these contacts.

2. Both the FHA and the FHLB engage in the business of real estate appraisal and have separate appraisal staffs. Appraisals often conflict. These appraisals are sometimes competitive between the Federal Savings and Loan Associations under the FHLB and the FHA, which appraises for insurance.

3. Both FHA and FHLB maintain architectural advisory services. These activities overlap.

4. FHA spends $250,000 a year on research and statistics while the FHLB spends $200,000. Interchange of confidential information is forbidden. The consolidation would cut costs greatly and render the work more effective.

5. Both FHA and HOLC have property management departments to operate foreclosed properties. Their activities are likely to be extended as time goes on and to result in very widespread duplication of activity.

6. While the FHLB has centralized nine different bureaus or services for its subordinate organizations (Home Owners Loan Corporation, Federal Savings and Loan Association, Federal Savings and Loan Insurance Corporation and Federal Home Loan Banks), the elimination of duplication in these services does not prevent conflict with similar services organized within the FHA.

The report recommends a sale of mortgage assets of HOLC as rapidly as can be accomplished without undue prejudice to the personnel of the organization. Insurance companies and banks are low on mortgages at the present time. Banks could expand their mortgage holdings by $4 billion. These organizations, together with building and loan associations, would welcome the opportunity to expand their portfolios. Some mortgages could be sold if necessary with insurance. Losses could be charged against the $200 million of HOLC capital or against Treasury funds. HOLC would probably lose no more by guaranteeing mortgages than it would lose if they were held to maturity. A premium for the guarantee could be charged so that the mortgages could be sold to yield $4\frac{1}{2}$ percent. Closing out the HOLC portfolio would have the advantage of reducing the danger of political pressure from borrowers for interest reductions and for postponement or suspension of foreclosures.

The proposed bill provides for a single administrator of the Federal Home Credit Administration. This is in line with the precedent established by the Farm Credit Administration which Mr. Hardy considers one of the most efficiently organized and administered agencies in the Government. If desirable, an advisory board could be appointed to assist the administrator.

It is estimated that the adoption of the proposals in the bill would result in the saving of approximately $18 million a year in administrative, technical, and other expenses.

Representatives of the FHA and FHLB did not reply to Mr. Hardy's observations this morning but plan to do so in a week or ten days after they have had an opportunity to study the manuscript of the report which Mr. Hardy read. Copies of that report will be available for our use if so desired in three or four days.