

Chairman
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November 7, 1935.

MEMORANDUM:

TO - Mr. McIntyre.
FROM - Mr. Eccles.

This is the memorandum to the President which I discussed with you over the telephone today. I trust you personally will take time to read it in view of your interest in the question.

I hope you are successful in getting it before the President. I believe if he will take time to read it thoroughly, he will not permit any change to be made in the present installment financing being done by banks through the Federal Housing Administration, at least not before April 1st, the date on which Title One of the Housing Act is due to expire.

Attachment.

November 4, 1935

TO: The President

FROM: M. S. Eccles

SUBJECT: Installment financing by banks of
domestic electrical equipment.

Through a member of our staff who acts as a liaison officer for the Board on housing matters, I have learned of the question that has arisen between the Electric Home and Farm Authority and the Federal Housing Administration as to whether the latter agency shall discontinue the insuring of loans on certain domestic electrical equipment. I understand that you now have the question under advisement.

This is a kind of situation in which I should ordinarily, of course, hesitate to put my views forward. I feel that I may do so with your indulgence in the present instance, however, for two particular reasons. In the first place, I had a good deal to do with working out the program of installment financing that was incorporated in Title I

of the Housing Act. You may recall, in this connection, that I served as the Treasury representative on your Committee on Housing. In the second place, I am now especially interested in the FHA program because of the fact that the great bulk of the business under both Title I and Title II of the Housing Act is being financed by member banks of the Federal Reserve System.

It is my recollection that the insurance of loans on domestic electrical equipment was not originally contemplated by the authors of the program provided for in the Housing Act. Nevertheless, a widespread demand developed for the insurance of such loans, and in October of last year they were authorized to a limited extent by administrative regulation. In May of this year Congress adopted an amendment which enlarged the field of FHA operation in this respect, and a further clarifying amendment as to the Administrator's powers under Title I was included in the Banking Act of 1935.

Loans by banks on domestic electrical equipment, I am informed, apparently represent more than 20 per cent of the total business of some \$200,000,000 done to date under Title I. I am also informed that at the present time Title I loans by banks and other agencies are being made at the rate of \$6,000,000 to \$7,000,000 a week, of which approximately \$1,250,000 a week is

estimated to be on domestic electrical equipment. This is in itself a substantial volume of business and, from an earning standpoint, is of no less importance to the banks than to the manufacturers and dealers whose products they are financing. Moreover, the cost of this financing is the lowest that the purchasers of such products have ever been required to pay--approximately half the rate that prevailed before the FHA program was inaugurated.

On the other hand, if I am correctly informed, the total volume of household-appliance business financed by the EHFA since it was established in December 1933 is less than that which the banks are now financing every week under the EHA program; and the cost of the EHFA financing to domestic consumers, if I am correctly informed, ranges from 11 per cent to more than 15 per cent, whereas the maximum charge made by banks for Title I loans is 9.7 per cent and is in numerous instances below that rate.

Hence, it seems to me that this bank lending in the field of household appliances is of such evident practical value that every effort should be made at this time to encourage it through FHA rather than to curtail it or abandon it in favor of

governmental financing through EHFA.

This last point I regard as the crux of the matter. In common with other officials of the Administration, I have in recent addresses and in numerous private conversations been placing great emphasis on the effort that is being made by the Administration to have the Government withdraw from the lending field and to revive private lending. I think you will agree with me that the two forms of insurance provided for in the Housing Act are thus far the most effective, the most popular, and the most economical means devised to bring this transition about. To date 5,901 banks and other agencies have made loans under Title I, and 3,675 have made loans under Title II. The aggregate volume of business being done under these two titles is running currently between \$50,000,000 and \$60,000,000 a month.

This is all private capital and coming in the main, as I said before, from member banks of the Federal Reserve System.

If this flow of private capital were interrupted by diverting from the banks to the EHFA the financing of household-appliance sales, the reaction would in my opinion be harmful to the FHA program--not only to the short-term modernization financing under Title I, but to the much more important long-term mortgage financing under Title II. I say this because for the FHA now

suddenly to alter its course, after manufacturers and dealers had entered into arrangements with banks in accordance with the recent amendments to Title I, would cause much confusion among these banks and not a little loss of business now definitely in prospect for them.

This would naturally provoke resentment toward the FHA program as a whole and impair confidence in its stability. Furthermore, it would almost inevitably result in widespread criticism of the Administration on the part of the press, the banking community, and the numerous manufacturers and dealers involved, without any commensurate gain to the buying public and without any commensurate impetus to business recovery. For another thing, the effort to transfer to a governmental agency a volume of financing that is now being well handled by the banks would embarrass those of us who are consistently urging private agencies to relieve government of the necessity of financing private borrowers.

It seems to me quite evident that nothing which the EHFA could accomplish during the next few months would warrant the operating upset that manufacturers, dealers, and banks would experience, or the great commotion they would stir up, if the existing smooth arrangement were prematurely altered.

I would earnestly request, therefore, that in reaching your final decision in this matter you consider the desirability, on practical grounds as well as on grounds of governmental policy, of permitting the banks to continue their present method of financing domestic electrical equipment at least until April 1, 1936, on which date Title I of the Housing Act is due to expire. Any change you might then wish to inaugurate in the event Title I is extended could be brought about without the harmful repercussions that would accompany an earlier curtailment of FHA's business with the banks.

A handwritten signature, possibly "J. M. D.", is written in the bottom left corner of the page.