Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date July 10, 1935

To Governor Eccles

From J. M. Daiger

Subject: Suggested amendment providing 12-year instead of 10-year amortization of real-estate loans

(CC to Mr. Wyatt and Mr. Thurston)

In view of the manner in which the mortgage market has been opening up during the three or four months since the ABA committee and the Federal Advisory Council published their recommendations on the Banking Bill, it occurs to me that you might get a good deal of support for a proposal to change the amortization clause in the Senate measure from "ten years" to "twelve years," and leave this clause otherwise unaltered.

Twelve years is the period in which a loan reaches 50 per cent of its face amount if equal monthly payments of principal and interest are made at a rate that would fully repay the loan in 20 years.

The language of the ABA report plainly shows that the committee evaded the question of amortization. If they favor it at all, they would certainly, as practical men, ask for the same privilege as to a 20-year maturity on amortized loans that Congress has given to the Federal Savings and Loan Associations, or, as an alternative, the privilege of having the same number of years (12) that these associations are given to reduce a real-estate loan to 50 per cent of its original face amount.

Another thing: Has anyone ever asked how the Federal Advisory Council happened to hit on a 12-year maturity as its recommendation to the Glass committee? Bankers do not ordinarily think of any investment in terms of a 12-year maturity. What prompted them in this case?

It seems to me that some member of the Council must have suggested half amortization as a substitute for your proposal of full amortization by equal payments over 20 years. Thus he would have found that his substitute proposal involved a 12-year maturity. Then some other member, with a zeal for making Washington safe for conservatism, must have come forward with the proposal to recommend stiffer amortization requirements--namely, "payments of not less than 5 per centum per annum on principal in addition to current interest."

There would seem to be no other logical explanation of why a group of practical bankers would think in terms of reducing an obligation to 40 per cent in 12 years rather than 50 per cent in 10 years.