

July 3, 1935

Dear Senator Sheppard:

Under the improving conditions now evident in the mortgage market, a complaint of the kind voiced in the letter enclosed with your letter to me of June 28 would most likely arise from a particular experience rather than from a situation that is general among either farm borrowers or the Federal Land Banks.

I should be disposed, therefore, if I were advising your correspondent, to suggest that he explore the alternatives to a loan from the Federal Land Bank in his district and then consider whether the requirements of that bank or of his local farm loan association are too severe.

It is true that the Federal Land Banks are given special privileges to enable them to obtain funds more readily from private investors and to lend these funds in turn on terms more favorable than are usually available through strictly private agencies. This does not mean, however, that a land bank "takes the best loans and freezes out all competitors," as your correspondent puts it; nor are these other agencies "put out of business."

A recent compilation indicates that, during the last quarter of 1934, the amount of farm loans made by all classes of private agencies, including individuals, was 36 per cent of all farm loans recorded. The same compilation indicates that new farm loans by insurance companies totaled \$61,000,000 over a period of sixteen months to the end of January 1935, and that farm loans by banks during the same period totaled \$145,000,000.

From my own observation of numerous scattered reports for more recent months, and from the attitude of most bankers with whom I have been in contact, I should say that there has been a perceptible easing of the mortgage market and a greater willingness on the part of insurance companies, banks, and trust companies to make mortgage loans, including farm loans.

Of course, all this does not meet the precise case of your correspondent, whose chief complaint with regard to the Land Bank in his area is that "a person cannot get a fair appraisal on land nor can he obtain a loan on anything like a normal valuation."

Your correspondent evidently attaches a great deal of importance to the tax exemption enjoyed by the Federal Land Bank bonds, and believes that if some comparable privilege were accorded other lending agencies "they would open up and begin making good loans." Tax exemption, however, is a factor that relates to the terms on which money is obtained for lending and not to the amount of money that can be loaned on a particular property. Nor would it affect the attitude of a lending agency in making an appraisal.

Leaving aside the particular case of your correspondent, I would say that there are several steps that might be taken by Congress to simplify and improve the conditions of mortgage lending in local communities throughout the country. What these steps are I have discussed at some length in my testimony on the Banking Bill of 1935. They may be stated briefly as follows:

1. Make all sound assets held by member banks of the Federal Reserve System eligible as security for advances by the Federal Reserve Banks.

2. Increase the proportion of their time deposits or, alternatively, of their capital and surplus, that member banks may invest in first mortgages on improved farm property and improved business and residential property.

3. Increase the proportion of the appraised value of a property that a bank may lend, or leave this matter subject to regulation by the Federal Reserve Board.

4. Abolish the legal fiction of a five-year limit on real estate loans, and leave the question of maturities subject to regulation by the Federal Reserve Board.

As you know, it is my earnest belief that the inclusion of these measures in whatever banking legislation is enacted by the present Congress would be of great benefit both to the banks and to their local communities, and in addition would be of material help in furthering industrial activity and employment, with corresponding gains to business and agriculture generally.

With kind regards, I am

Yours sincerely,

M. S. Eccles,
Governor.

Hon. Morris Sheppard
United States Senator
Washington, D. C.