

December 10th, 1935.

Mr. Stewart McDonald, Administrator,  
Federal Housing Administration,  
Washington, D.C.

Dear Mr. McDonald:

Complying with your suggestion in our interview yesterday, I am giving you herewith a brief statement concerning the position of the National Association of Real Estate Boards as to the need of a mortgage discount agency and the manner in which we believe it should be set up.

The twelve thousand real estate firms which constitute our four hundred and fifty local real estate boards probably deal with more different phases of urban mortgage problems than any other organized business group. These firms are also more familiar with the problems of real estate valuation than any other group. We are practically unanimous in our conviction that the mortgage structure of the country can never be soundly and properly organized for the benefit of borrowers and lenders alike until there is created a central mortgage discount bank system which is comprehensive and national in scope. We are convinced also that small, partial efforts to do this task cannot be successful.

The form which such a central mortgage discount system should take, in our opinion, has been set forth in the bill introduced by Senator Fletcher at the last session of Congress. This bill sets up a Federal Mortgage Bank which would be essentially a private institution operated under Federal supervision. The bill provides for an appropriation of \$75,000 to be used by an organization committee of nine which would solicit subscriptions for the capital stock which is fixed at a minimum of \$10,000,000. The stockholders elect six directors and the President of the United States appoints three.

The Bank, when organized, may purchase or lend upon mortgages on urban property when the classification of such mortgages is created. The Bank may issue notes or bonds against mortgages held up to twelve times its capital and surplus. These bonds are tax free only as long as the Federal Government continues the tax free policy for its own bonds. The Bank may create branches wherever desirable. Its operations are subject to supervision by the same agencies that supervise national banks.

Mr. Stewart McDonald, Administrator.  
Federal Housing Administration.  
December 10, 1935. #2.

We believe that this type of privately conducted but publicly supervised agency is the best method of getting Government out of the private mortgage field. We doubt if there is any other way in which this end can be achieved. We believe that the Federal Mortgage Bank should be free to deal in all types of urban mortgages; a bank system of this kind must have a varied portfolio. Moreover, from time to time, different types of property have their periods of over-expansion and contraction and one must be balanced against the other. It is not, in our judgment, desirable to try to create a separate institution for each general type of urban mortgage.

We believe that some form of sound mortgage bond is a desirable investment for the savings of the public, as demonstrated by the fact that in 1927 there were more than ten billion of such bonds outstanding, privately issued. The fact that abuses arose in connection with the issuance of such bonds in the past, clearly demonstrates to us not that this type of mortgage financing is unsound or unnecessary but that it is in need of proper control.

We believe that mortgage bonds should be issued by a central agency so that standards will be uniform and liquidity assured. If mortgage bonds are issued by many types of institutions, whether under Federal supervision or not, the bonds will necessarily vary in value sufficiently to defeat the free flow of capital from one region to another.

We believe that a Federal Mortgage Bank is superior to state mortgage banks such as are being discussed in several states, notably New York. Only a few states could successfully maintain such banks, in our judgment, and the remainder would be left without the advantages of a central discount agency.

We are convinced that the mortgage associations which are provided for in Title III of the National Housing Act are too limited in their scope as to the type of mortgages which may be purchased or discounted to serve the broad national purposes which we feel essential.

We believe that a Federal Mortgage Bank should operate in close cooperation with the Federal Housing Administration. The Housing Administration should be a permanent and important agency in our national life and can lead the way in creating the underlying standards for neighborhood and housing development upon which a sound mortgage structure must be based.

Our convictions in the above matters are not affected by the fact that various important groups of those engaged in mortgage financing have opposing views. We recognize the right of each of these groups to speak in their own interest but we have not found that any of them are disposed to consider our national mortgage problem as a whole.

Mr. Stewart McDonald, Administrator.  
Federal Housing Administration.  
December 10, 1935. #3.

We ask that your Committee in its deliberations, take a broad view of this matter and we hope that you will find it possible to recommend passage of a bill by Congress which will create a comprehensive Federal Mortgage Bank for urban mortgages.

I am taking the liberty of sending copies of this letter to some of the other members of your Committee.

Sincerely yours,

EAMacD:D

Chairman, Committee on Real Estate Finance  
National Association of Real Estate Boards