

FEDERAL HOUSING ADMINISTRATION

WASHINGTON

December 4, 1934

JAMES A. MOFFETT
ADMINISTRATOR

The Honorable Marriner S. Eccles,
Federal Reserve Board,
Washington, D. C.

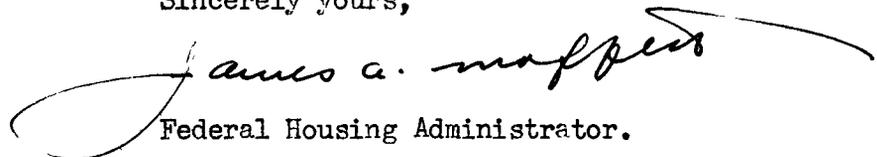
My dear Mr. Eccles:

Shortly after our rules and regulations were issued in initial form about the first of November, you indicated to me that you had certain comments and observations to make in relation thereto, and that at your convenience you would prepare a memorandum covering same. I understand, of course, that you have been extremely busy since taking your new office, and doubtless have had difficulty in finding time to do this. This letter is just a reminder that I would greatly appreciate receiving your comments.

In talking with Mr. Riefler some time ago, I gathered the impression that the Federal Reserve Board is interested in the formation of National Mortgage Associations, and it was felt that the Board could render real assistance to us in this direction. I believe that Governor Harrison was going to examine into the question as to whether or not financial institutions could legally subscribe to stock in the formation of these associations, and I have been given to understand that this cannot be done, but that there might be a way in which a proposition could be worked out through the formation of a holding company in New Jersey, or in some other such way.

We have had many feelers toward the formation of these associations, but nothing absolutely concrete as yet, and any assistance which the Federal Reserve Board can render to us will be more than appreciated.

Sincerely yours,


Federal Housing Administrator.

December 7, 1934.

Honorable James A. Moffett,
Federal Housing Administration,
Washington, D. C.

Dear Mr. Moffett:

It is true that I have been unusually busy since our conversation early last month about the mortgage-insurance regulations, and for that reason I was delayed in getting around to the memorandum that I mentioned at that time. Your letter of December 4th reminding of it, nowever, was by a coincidence written on the same day as my letter transmitting the memorandum to you.

As to the second matter that you inquire about in your letter of December 4th, I cannot at this time give you a very definite or helpful answer, though I hope I may be able to do so a little later.

In the first place, the question of exploring whether it would be legal and practicable for Federal reserve member banks to participate directly in organizing national mortgage associations and subscribing their capital was taken up by the Board shortly before I became a member of it. In the second place, the inquiries that are being made pursuant to this action have not yet reached the point where a conclusive opinion can be given or specific suggestions made.

Speaking offhand and for myself, I am inclined to believe that it would be better to wait until the mortgage-insurance program is pretty well under way and a considerable volume of insured mortgages actually available for purchase by national mortgage associations. In other words, the problem of getting the right men to organize mortgage associations, and of raising the capital for them, would be greatly simplified if the popularity of the insured mortgage had begun to manifest itself.

Sincerely yours,

JMD/mf

Office Correspondence

FEDERAL RESERVE
BOARDDate December 7, 1934.To Governor EcclesSubject: Mr. Moffett's inquiry reom J. M. Daigernational mortgage associations

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The attached minutes largely explain the question raised by Mr. Moffett in the second paragraph of his letter to you of December 4th. Pursuant to the Executive Committee's approval of a suggestion of mine referred to in these minutes, Mr. Riefler and I talked briefly with Governor Black on November 13th (I had talked with him at some length two or three months earlier) and at Governor Black's suggestion Governor Harrison remained over on November 14th for a long talk with Riefler and me.

Governor Harrison was very strongly of the opinion that a general reopening of the mortgage market must precede any substantial revival of capital issues and commercial lending. He was, therefore, favorably impressed with the idea of exploring the feasibility of having the reserve banks and member banks take an active leadership in seeing a national mortgage association established in each Federal Reserve district. We have all recognized, of course, that the legality of any means whereby member banks might subscribe to the capital stock of national mortgage associations is problematical.

Owing to the illness of Governor Harrison, the examination of the legal questions that he proposed making with Mr. Logan and some others, and also a meeting that he wished Riefler and myself to have with some men in the New York bank, had been delayed. I shall be hearing from him again, however, as soon as he is able to take up these matters.

Meanwhile I have been trying to get some help here on the legal aspect of my own ideas of meeting the practical problems presented by Title III. I shall give you a memorandum on this as soon as I have the additional information that I still need.

J. M. Daiger

EXCERPT FROM THE MINUTES OF THE MEETING OF THE EXECUTIVE
COMMITTEE OF THE FEDERAL RESERVE BOARD HELD NOVEMBER 8, 1954.

Mr. Daiger stated that Vice Governor Thomas had requested that, during his absence, Mr. Daiger discuss with the individual members of the Board the Administration's housing program preparatory to a meeting on the subject following Vice Governor Thomas' return next week. He said that the matter was being brought to the attention of the members of the Board at this time for the reason that it was felt that certain proposed activities under the National Housing Act should be considered by the Board and, if favorably regarded, they might be discussed with representatives of the Federal reserve banks who will be in Washington on November 13, 1954, in connection with a meeting of the System Committee on Legislative Program.

Mr. Riefler referred to the modernization activities being conducted by the Federal Housing Administration under title I of the National Housing Act and to the long term mortgage program to be conducted under titles II and III of the act, and he expressed the opinion that both activities are of such a character that the Federal Reserve Board might assume the leadership from a banking point of view with the thought of encouraging the cooperation of commercial banks. He said he thought it would be helpful if the Federal reserve banks could arrange meetings of representative bankers in the respective Federal reserve cities at which Mr. Roger Steffan of the Federal Housing Administration could make a talk on modernization credits similar to the one made by him at the meeting of the Board on October 18, 1954. He also suggested that it might be desirable for the Federal reserve banks to arrange office space for the local

offices of the Federal Housing Administration in the Federal reserve bank buildings which would give the Federal reserve bank officials close contact with the work of the Administration. He referred to the proposed organization under title III of the National Housing Act of mortgage associations for the purpose of taking insured home mortgages and issuing debentures against such mortgages to the general public, and he said that, in his opinion, it was important from the standpoint of the success of the program to have these associations sponsored by responsible interests and organized in as careful a manner as the Federal reserve banks were organized and by about the same general type of bankers.

Mr. Daiger stated that, in view of the fact that Governor Black is serving as liaison officer between the administration and the banks of the country, and since a group of New York bankers have been actively interested in the housing program for six months or more, he felt that it would be desirable to discuss the matter of the Federal Reserve System's activities in connection with the housing program with Governor Black and Governor Harrison of the Federal Reserve Bank of New York next week, following which a meeting might be called to which would be invited representatives of the Federal Reserve Bank of New York, three or four of the larger New York member banks and possibly others who are familiar with the housing program, with the view of developing a pattern of procedure in the New York district which could be followed in the other Federal reserve districts.

Mr. Szymczak inquired as to what action has been taken in connection with the suggestion made at the meeting of the Board on October 18 that Mr. Roger Steffan of the Federal Housing Administration address meetings in the

various Federal reserve bank cities, and Mr. Morrill called attention to the fact that Mr. Steffan had stated that at that time he was unable to arrange an itinerary for such meetings. Mr. Morrill also stated that he had discussed the suggestion with the Federal Reserve Agents at Cleveland, Chicago, and Minneapolis and that they had stated that they would be glad to arrange such meetings if they could be advised when Mr. Steffan would be available for the purpose; that Mr. Steffan recently attended a meeting in Minneapolis at which he discussed modernization credits; and that it was his understanding that there is a possibility of Mr. Steffan being able to arrange visits to the various Federal reserve banks in the near future.

There followed a general discussion of the housing program under the National Housing Act and the part which might be taken by banking institutions in such program. Mr. Riefler stated that the program would provide prime investments for banking institutions and that, in his opinion, the banks throughout the country would be a proper medium for making the insured mortgage loans contemplated by the act; that the banks would desire to arrange such insured mortgage loans as long as they carried savings deposits; that they would want to have an arrangement with the mortgage associations so that they could dispose of the insured mortgages whenever they desired to do so in order to enable them to use their funds in other channels; and that under this arrangement the banks would be parties to the transactions originating the insured mortgages and the mortgage associations would be the final repositories of the mortgages, against which they would issue debentures.

During this discussion Mr. James entered the meeting.

It was understood that Mr. Morrill would take up further the question of the possibility of arranging meetings in the various Federal reserve bank cities other than Minneapolis at which Mr. Steffan would be present to discuss modernization credits.

It was also understood that Messrs. Riefler and Daiger would discuss with Governors Black and Harrison next week the other suggestions made by Mr. Riefler at this meeting.