

Office Correspondence

FEDERAL RESERVE
BOARD

Date April 4, 1935.

To Governor Eccles

Subject: Real Estate Provision and the

From Lauchlin Currie

F. H. A.

16-832

Homeing file
MLC

Guy Greer of the F. H. A. has been to see me twice on the real estate provision in the Banking Bill. This was on his own initiative and entirely personal and confidential. He developed a line of argument which impressed me sufficiently to think that it ought to be brought to your attention.

In the first place, he agreed that under the present rate and charge schedule of the F. H. A. we were perfectly justified in going ahead regardless of the F. H. A.'s plans. At the same time he felt that if we permitted twenty-year loans up to an appraised value of 75% (not so much if only up to 60%), we would greatly impede the F.H.A. He thought that this would be a great pity since, under proper administration, the F. H. A. offers far-reaching possibilities in the future of securing very low interest rates to home builders. There will be opportunity for developing standardized appraisals and, through the development of national mortgage associations, of translating individual mortgages into a standardized instrument which would possess market-ability. He said that the German Pfandbriefe, almost exactly like the debentures and national mortgage associations, used to sell in financial markets on a yield basis comparable with that of Government bonds.

He pointed out that our interest lies in (a) getting mortgage rates down and (b) securing good investments for banks. Since insured mortgages would be good investments, the real issue is the question of rates.

He proposed, therefore, the possibility of working out a deal now along the following lines:

If we would leave the law as it now stands, exempting insured mortgages from the 50% appraisal basis, and the F. H. A. would get their maximum charges down to levels that correspond with going rates, we would both gain. The F. H. A. could work for standardized mortgages with a national market, and we would get low rates we are interested in while at the same time removing one of the chief objects of criticism to our bill and thus strengthen our position.

He has sold the idea to the other executives at the F.H. A., and they are going to work on Moffett to agree to set the maximum rates in the east at 4 $\frac{1}{2}$ % and in the west at 5%; to do away with the service charge; to make the premium charge $\frac{1}{2}$ % on new and refunded mortgages, and, finally, to come to you and bargain. Greer is even agitating that

they try to get Congress to assume contingent loss liability which would permit doing away with the premium charge altogether. They may, of course, get nowhere with Moffett. If they do, however, and he comes to you and is prepared to make substantial concessions on rates, I think it might be to our advantage either to modify our real estate provision or to give assurances that if the F. H. A.'s rates are substantially lowered the Board will retain the existing restrictions on uninsured mortgages in so far as they relate to the appraisal basis and maturity. Or we might confine our provision to permitting banks to loan more than 50% of their time deposits on real estate, provided that the amount in excess of 50% is composed of insured loans. There are other possible compromises. I do not think that we would suffer any loss of face if we made a substantial change in our real estate provision, since we could frankly explain the reason for the change and it would certainly remove one basis of criticism of the bill.