THE

AMERICAN BANKERS

ASSOCIATION

22 East 40th Street
New York, N.Y.

File

Washington, D. C. September 5, 1935.

To The Members of the American Bankers Association:

When the Federal Housing Administration commenced operations a little over a year ago, the American Bankers Association, being in sympathy with the objectives of the National Housing Act, designated me to act as the liaison representative of our Association to cooperate with the Federal Housing Administration.

I am advised that in this short space of time, the volume of credit extended for modernization of property and mortgages selected for appraisal to be insured on dwellings has reached the total of $291,904,337, and the daily volume is steadily increasing. A very substantial part of the residential construction, the property repairs, and the manufacture of building materials, equipment and machinery, etc., thus stimulated is due directly to the active participation of our members in the Insured Mortgage Plan and the Modernization Credit Plan of the FHA. In fact, the banks of the country to date account for considerably more of the mortgages and modernization loans that the FHA is insuring than all other classes of institutions combined.

In view of the fact that we believe the provisions of the National Housing Act afford a medium whereby the banks of the country can materially assist in economic recovery and render a further useful service to their communities, as well as obtain a safe and sound earning asset, I feel it is desirable to call to the attention of our members certain additional measures recently adopted by Congress, a summary of which is contained in the enclosed memorandum, which are designed to make the original law more workable and broaden the opportunity for service.

I am also enclosing a copy of a letter from the Chairman of the RFC to the Federal Housing Administrator, from which you will observe that insured mortgages are given a degree of liquidity which should be desirable from the standpoint of the lending agency. You will note further that under the Banking Act of 1935 insured mortgages will be eligible as collateral with the Federal Reserve banks. Your attention is also directed to a form of approved trust agreement, provided by and available through the FHA offices in Washington, which is designed to encourage the purchase of this type of mortgage by individual investors.

May I urge your continued and active interest in the program of the Federal Housing Administration, which affords our members a desirable facility to offer to the communities which they serve.

Yours very sincerely,

(Signed) Robert V. Fleming

First Vice President

Enclosures

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AMERICAN BANKERS ASSOCIATION

Washington, D. C.
Date

1. The limit of $2,000 originally set on insured modernization loans has been increased to $50,000 in order especially to encourage improvements to business and industrial property, including the installation of machinery and equipment.

2. The face amount of FHA debentures paid to mortgagees in satisfaction of insurance claims is to include interest (present guaranteed rate is 3% per annum) from the date foreclosure proceedings are instituted by the mortgagee. Originally provision for payment of interest was made only from date title to property was delivered to Federal Housing Administrator.

3. The restriction that heretofore prevented a national bank from placing real estate loans outside its own Federal Reserve district, or farther than 100 miles from the location of the bank regardless of district lines, has been removed altogether. This should facilitate especially the sale of FHA-insured mortgages between banks that have a correspondent or similar relationship with one another.

4. The requirement that in making a real estate loan a national bank must acquire the entire mortgage has been removed altogether. This should make it feasible for banks to join with one another in financing low-cost-housing projects under the terms of the Housing Act.

5. Provision is made whereby the Comptroller of the Currency may classify as investment securities, rather than as real estate loans, bonds issued against FHA-insured mortgages on low-cost-housing projects.

6. Corporations which are mortgagors under the low-cost-housing provisions of the Housing Act are exempted from the corporate reorganization provisions (Section 77B) of the Bankruptcy Act.

7. The proportion of their funds that national banks may invest in real estate loans has been raised to 100% of their capital and surplus or 60% of their time deposits, whichever is greater. This raises the effective limit of mortgage lending by national banks to approximately $4,700,000,000, an increase of approximately $1,100,000,000. At present the volume of mortgages held by national banks is approximately $1,300,000,000. Hence, they could increase their mortgage loans by $3,400,000,000 before reaching the effective limit; and in the case of mortgages insured under the Housing Act such loans may be made up to 80% of the appraised value of the property.

8. Under regulations to be prescribed by the Board of Governors of the Federal Reserve System, real estate mortgages will be eligible as security for advances by the Federal Reserve banks. Mortgages insured under the terms of the Housing Act are also eligible as security for advances by the Federal Home Loan banks. Besides these two provisions recently made by Congress, the RFC Mortgage Company has made provision for purchasing without recourse mortgages insured under the terms of the Housing Act. In this connection facsimiles of two letters from Mr. Jesse H. Jones, chairman of the Reconstruction Finance Corporation, are attached to this memorandum.