

## Office Correspondence

FEDERAL RESERVE  
BOARDDate March 16, 1936Chairman EcclesSubject: Second-mortgage proposalm J. M. Daiger

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Much as I should like to see a compromise effected that would forestall further controversy over the proposal to put the Government into the business of making 20 per cent second-mortgage loans, I do not see any means of effecting one. I hope that you will stand on your decision of last week to make a strong protest against the proposal when it comes up for discussion with the President today.

Here is the situation in its practical aspects. First, the Administration obtains the adoption of a workable insurance law to induce first-mortgage lenders to make 80 per cent loans. Then all the States, except Georgia, pass enabling acts to authorize first-mortgage lenders to make 80 per cent loans.

After getting off to a false start the FHA finally gets down to work under a law that was workable from the outset if the first Administrator had known how to go about it. Now in more recent months, the business has begun to get into its stride and there is every practical indication that, if the movement toward the long-term insured mortgage is not suddenly arrested, there need be no doubt that the future course of mortgage lending in the United States is definitely fixed.

Certainly, from a long-term banking point of view such a result is far more to be desired than any temporary advantage from whatever addition might be made to the current volume of construction by an offer of second-mortgage money on the part of the Government.

Furthermore, a law authorizing the Government to take 20 per cent second-mortgages is for all practical intents and purposes to induce first-mortgage lenders to make 70 per cent loans notwithstanding the fact that the law to induce 80 per cent loans is now beginning to show very tangible results, not only directly through the FHA, but in a general movement toward the revamping of mortgage-lending practices.

Mr. Fahey continues to insist that he does not want the 20 per cent second-mortgages restricted to cases where the result

would be a 90 per cent loan. He wants authority to make a second-mortgage loan regardless of the percentage of appraised value represented by the first mortgage. This proposal seems to me to be utterly untenable. There is no conceivable need for it in the increasingly competitive state of the mortgage market, and its only result could be that, from the point of view of the HOLC, the second-mortgage scheme would be a huge success because only a borrower with superlatively high ideals and perfect conscience would fail to take advantage of it.