

TO Chairman Eccles

FROM J. M. Daiger

A handwritten signature in dark ink, appearing to be 'J. M. Daiger', written in a cursive style. The signature is located below the typed name 'J. M. Daiger'.

TO Mr. Morrill *Am*

FROM Miss Egbert

REMARKS:

For circulation. Please return
to Mr. Eccles.

Miss Egbert ✓

April 22, 1936

Dear Mr. Fleming:

Pursuant to my recent conversation with you and Mr. Ransom, I have obtained a copy of the recent survey of mortgage lending in Westchester County, New York, and I am enclosing a copy of it for you herewith.

You will notice that the lending activity in 1935, as in contrast with 1930, was heavily concentrated in the building and loan associations, these organizations accounting in November, 1935, according to a footnote on page 2 of the enclosed memorandum, for 84% of the total.

On page 3 you will find a discussion of the potential expansion of Federal savings and loan associations on the basis of a relatively small private investment in their capital shares. For these associations, the potential ratio of government funds to private funds would of course be further increased if the second-mortgage proposal made by Mr. Fahey were adopted.

The legal effect of the second-mortgage proposal, if it were adopted, would be to enable Federal savings and loan associations to finance the purchase of new homes up to 95 per cent of the appraised value, other building and loan associations to finance from approximately 87 to 95 per cent, and commercial banks, trust companies, mutual savings banks, and life insurance companies 80 per cent. This would come about without the use of the insured mortgage, and hence would tend to nullify Titles II and III of the National Housing Act.

As you will see, then, the second-mortgage proposal would give building and loan associations in general, and Federal savings and loan associations in particular, a competitive advantage over Federal Reserve member banks, other insured

FOR CIRCULATION
First to Mr. *WLF*
Mr. Broderick ✓
Mr. Szymczak ✓
Mr. McKee ✓
Mr. Ransom *apert*
Mr. Morrison *apert*
Mr. Clayton ✓
Mr. Morrill ✓
Mr. Bethea ✓
Mr. Carpenter ✓
Noell ✓
Mr. _____
Please note, check and return to Mr. *WLF*
(Mr Eccles)

banks, mutual savings banks, and life insurance companies. Nevertheless, if there is to be a substantial increase in lending for construction and mortgage-financing purposes, the great bulk will have to come directly or indirectly from banks and insurance companies; for at the present time it would appear that insured banks have available for mortgage lending \$5,800,000,000, life insurance companies and mutual savings banks \$2,900,000,000, and building and loan associations only about \$100,000,000.

With kind regards, I am

Yours sincerely,

J. M. Daiger
Special Assistant to the Board

Mr. Robert V. Fleming, President
Riggs National Bank
Washington, D. C.

Enclosure

SEMI-ANNUAL LETTER TO MEMBERS

WESTCHESTER REAL ESTATE CONFERENCE

The Westchester Real Estate Conference has completed a study of new mortgages recorded in this county and wants to show an evidence of the varied activity of the lending organizations together with probable causes.

The mortgages recorded in Westchester County for the months of October and November, 1930 and 1935 were selected for this analysis since these periods seem to reveal the most interesting series of facts and figures.

In order to obtain the figures for the following tables, it was necessary to examine some 20,000 pages of recorded instruments and to make as accurate a study as possible, there were eliminated all H.O.L.C. mortgages, purchase money mortgages, second mortgages, extensions, etc., wherever it was so indicated in the instrument.

NEW MORTGAGES - OCTOBER, 1930
SOURCE, NUMBER, VALUE AND RATE

									TOTAL	
	No.	6%	No.	5½%	No.	5%	No.	4½%	No.	Value
Sav. Banks	102	1,307,425	4	18,300	1	400,000			107	1,725,725
Comm. Banks	82	893,350							82	893,350
Ins. Co's.	10	110,000							10	110,000
Mtg. Co's.	181	2,743,750							181	2,743,750
Bldg. & L. orgs.	78	423,550			7	30,800			85	454,350
Others	240	961,070							240	961,070
	693	6,459,145	4	18,300	8	430,800			705	6,889,245

NEW MORTGAGES - OCTOBER 1935
SOURCE, NUMBER, VALUE AND RATE

									TOTAL	
	No.	6%	No.	5½%	No.	5%	No.	4½%	No.	Value
Sav. Banks	8	35,675			2	9,000	1	10,000	11	54,675
Comm. Banks	17	107,460	2	11,500	6	29,500			25	148,460
Ins. Co's.	2	14,000	4	56,000	4	43,000	1	6,000	11	119,000
Bldg. & L. Orgs.	62	354,200	5	25,000	2	4,700			67	383,900
Others	82	274,743	11	65,800	14	57,576	1	4,750	108	402,869
	171	786,078	20	158,500	28	145,776	5	20,750	222	1,108,904

Taken on a percentage basis, the following table discloses the trend of interest rates for the month of October, 1935

71%	of the mortgages were at the rate of	6%
14%	" " " "	5½%
13%	" " " "	5%
2%	" " " "	4½%

NEW MORTGAGES - NOVEMBER, 1930
SOURCE, NUMBER, VALUE AND RATE

									TOTAL	
	No.	6%	No.	5½%	No.	5%	No.	4½%	No.	Value
Sav. Banks	99	786,200	15	217,300					112	1,003,500
Comm. Banks	55	636,550							55	636,550
Ins. Co's.	4	40,000	1	16,500					5	56,500
Mtg. Co's.	184	2,581,850							184	2,581,850
Bldg. & L. Orgs.	68	353,650			7	41,000			75	394,650
Others	136	524,500			1	2,000			137	526,500
	546	4,922,750	14	233,800	8	43,000			568	5,199,550

NEW MORTGAGES - NOVEMBER, 1935
SOURCE, NUMBER, VALUE AND RATE

	No.	6%	No.	5½%	No.	5%	No.	4½%	No.	TOTAL Value
Sav. Banks	4	14,700							4	14,700
Comm. Banks	13	46,510	3	25,000	3	19,000			19	90,510
Ins. Co's.	1	7,500	3	28,500			1	9,000	6	45,000
Bldg. & L. Orgs.	66	466,650							66	466,650
Others	61	246,913	3	18,000	10	45,700			74	310,613
	145	782,273	9	71,500	13	64,700	1	9,000	168	927,473

Taken on a percentage basis, the following table discloses the trend of interest rates for the month of November, 1935

84%	of the mortgages were at the rate of	6%
8%	"	5½%
7%	"	5%
1%	"	4½%

TABLE SHOWING MONTHLY ACTIVITY OF EACH GROUP BY ITS PERCENTAGE OF TOTAL VALUE OF MORTGAGES RECORDED FOR THAT MONTH

	Savgs. Banks	Com'l. Banks	Ins. Co's.	Mtge. Co's.	Bldg. Loan Orgs.	Others
October, 1930	26%	10%	2%	40%	7%	15%
November, 1930	20%	12%	1%	49%	8%	10%
October, 1935	5%	13%	11%		35%	36%
November, 1935	1½%	10%	5%		50%	33½%

BUILDING LOAN CONTRACTS RECORDED IN WESTCHESTER
THE FIRST ELEVEN MONTHS OF 1935

	No. of Contracts	Total Value	% Total Value
Savings Banks	21	\$ 524,400	16%
Commercial Banks	15	156,700	5%
Insurance Companies	3	81,000	2½%
Bldg. & Loan Orgs. *	244	1,750,595	55%
Others	77	690,050	21½%
	360	\$ 3,202,745	100%

* In the month of November, 1935, the building and loan organizations were credited with 84% of the total value of loans; the banks and insurance companies with about 1/2 of the remaining 16%.

LOANING ACTIVITY: The figures for the 1950 period disclose that next to the mortgage companies, the banks and insurance companies were the most important factors in mortgage lending. Since the majority of the mortgage companies are no longer to be reckoned with in this field, the natural conclusion would be that this other group should be the leaders today.

The tables for the 1955 period do not agree, however, with this assumption, but show that a good share of the mortgage lending in this county is handled by the various building and loan groups.

The building and loan organizations have always been a smaller group of institutions for the investment of individual savings and therefore not too important a factor in mortgage financing. Recently, however, these organizations have taken the lead in mortgage lending in Westchester County and elsewhere and the better known and longer established lending institutions are relatively inactive.

This situation is due in part to the considerable financial support extended to some of the building and loan organizations by the Federal Government and to the present demand for a 75% to 80% loan, to be amortized over a long period of years.

The following facts and figures were taken from an analysis of building and loan activity in the Metropolitan area developed by John F. McKean, Executive Secretary of the Mortgage Conference of New York. A theoretical example of how a Federal savings and loan organization might be organized or an existing association expanded by the use of Federal funds:

Private investment in capital	\$25,000
Subscription to capital by H.O.L.C.	<u>75,000</u>
Total capital	100,000
Credit at Federal Home Loan Bank (at least)	<u>35,000</u>
Total available for mortgage investment	\$135,000

It will be observed from this illustration that there is available from government agencies a little over \$4 for each \$1 of original private investment. The building and loan associations in metropolitan New York reached their peak in total assets in 1951 with about \$200,000,000. Assuming a present total of \$175,000,000—which represents individual savings—a new fund of about \$875,000,000 may be created for home financing to be administered by building and loan associations in metropolitan New York. Actually, the total funds that have so far been made available for this purpose by the Federal Government are not as large as the expansion limit indicated for the New York area. The theoretic limit is included merely to illustrate to what extent Federal funds may enter the metropolitan mortgage field through one source.

An additional fact that will no doubt affect the loaning activity of building and loan organizations and other lending institutions is that the RFC Mortgage Company will purchase from approved mortgagees, FHA insured mortgages bearing a 5% rate of interest, secured on buildings under construction or completed since April 1st, 1955—a purchase without recourse.

Pertinent reasons advanced by some of the institutions for their recent smaller volume of mortgage loans are included in the following -

- they do not feel that a 75% to 80% mortgage today would give their depositors an ample margin of safety.
- they are doubtful of new construction proposed for certain areas being either necessary or desirable.
- they are reluctant to loan on a certain class of structure that would tend to either lower the standards of a particular neighborhood or depress existing values in surrounding dwellings.
- their acceptance or rejection of a loan application is based on an intimate knowledge of local conditions, trends, etc., developed from a study of their own and each other's commitments in this county over a long period of years.
- they are stiffening their requirements on new construction so that the useful life of a structure will bear a definite relation to the length of the loan. This is not always popular with a speculative builder.

A conclusion might be drawn from the above to the effect that this group seems to be lending intelligent effort to protect not only their depositors and stockholders, but the present home owners of Westchester County from an artificially stimulated building boom that might bear little or no relation to necessary expansion and ultimately could result in considerable loss in valuation, and further, cause this county to lose its present leading place among suburban home communities of the country.

INTEREST RATE: It is interesting to note that the majority of the mortgages recorded in this county for October and November, 1935 bore a 6% interest rate. This at a time when there is a general public feeling that, with ample funds at hand, the rate should be somewhat lower; being relative of course to the nature and percentage of the loan. Inasmuch as the 6% rate on mortgages seems to be standing up in a comparatively easy money market, it might be taken to indicate a speculative angle to some of the loans.

MORTGAGE DEMAND: Some idea of the potential demand for mortgage money in Westchester may be determined by a study of the figures on new construction for 1935. These figures, taken from the Dodge Statistical Research Bureau report, show that \$19,602,400 was spent in new construction during this period. In 1934 \$11,909,100 was spent for new construction.

CONCLUSION: The foregoing facts and figures indicate a certain difference of opinion as to what should constitute a sound lending policy at present in Westchester County. The Westchester Real Estate Conference, made up of lending institutions of Westchester and New York City having commitments in this county, is endeavoring to be of help in this present situation by bringing up for discussion various important aspects of this mortgage problem and will try further to advance a mutual understanding by a series of conferences and round table discussions between various groups.

Respectfully submitted,

WESTCHESTER REAL ESTATE CONFERENCE

Louis B. Joyce, Executive Secretary