

May 25, 1936.

Honorable Stewart McDonald, Administrator,
Federal Housing Administration,
Washington, D. C.

My dear Mr. McDonald:

I have just received from Walter W. Ross, a Chicago lawyer, a letter which, if it truly reflects conditions in Chicago or elsewhere, indicates an intolerable situation. I thought you would be interested in seeing the following paragraphs from Mr. Ross' letter, not so much because of the individual cases cited, but as an apparent reflection of the failure of the banks and existing credit mechanisms to provide funds for housing:

"I am somewhat familiar with this situation in our locality because my eldest son has for a number of years been engaged in designing and building attractive homes. A little over two years ago the architectural business being practically dead, he decided to utilize his time by building a house for sale or rent. When he had finished the house he found that he needed about \$3,500.00 to complete the payments. He spent several weeks interviewing bankers in Chicago and the suburbs and men who had formerly been engaged in making such loans, but it was impossible for him to borrow the \$3,500.00 on a first mortgage on the house. However, he finally located a woman in California who was willing to make the loan. Within a few months he sold the house for \$15,500.00 cash and then started to build another house about twice as expensive as the one he had just sold, and when he had finished it last year he wanted a loan of about \$12,500.00 on a \$30,000.00 property. He went to the FHA and submitted the proposition to them and they in turn sent him to various banks in this locality, none of whom, however, would make the loan. He finally found a lender in Minneapolis. He has not as yet sold the house but it is rented for over \$200.00 a month at the present time.

"There are great numbers of young men who are just getting established in their life work who need to utilize credit, and although many of them are well entitled to the credit they are at this time having great difficulty in

"obtaining money. Here are several instances which have recently come under my personal observation:

"There is a young man who is a tenant of mine who pays me \$1,500.00 a year for the house in which he lives. He is at the head of a department of one of the largest stores in Chicago, of which his father is a partner, and he has been negotiating with me for the purchase of a lot upon which to build a home. His uncle is a director of one of the largest banks in Chicago, and he went to this bank to see if he could borrow money for the purpose of building a home, but the reply was that the bank did not care to bother with such loans. This particular bank has approximately two hundred million dollars invested in Government bonds. Why should it bother to make loans of this kind, when it can invest its depositors' money in Government bonds which it can convert into cash on a moment's notice and yet earn profits which enables it to pay very handsome dividends to the stockholders?

"I observe that the Government is about to issue another billion dollars of bonds, and the bank referred to above will undoubtedly invest further surplus deposits in those bonds, and so it will continue undoubtedly as long as the Government is issuing bonds at frequent intervals, and the question arises as to how is that circle to be broken.

"Prior to the War, our Government had outstanding only a little over a billion dollars of bonds, most of which were owned by national banks and used as a basis for their currency, so that the banks at that period were compelled to make loans of many kinds in order to operate at a profit. At the present time, as you know, the Government is borrowing the money from the banks and loaning it through one loaning agency or another to the citizens of our country, and, as I see it, this will have to continue until the circle above mentioned is broken.

"Here is another illustration which has come under my observation: This young man's father is the president of one of our large manufacturing companies, the son is a vice-president of the same company, is well established, married and has two children, and wants to build a house but he has not yet found a way to finance the operation.

"Mr. Edward E. Brown - (3)" is clearly an error.
In this series of correspondence Eeelo quotes from
Ross's letter in his letters to both Brown &
McDonald & this probably explains the confusion.

Gwen Gittins

Processor of Docs.

7/11/79

Mr. Edward E. Brown - (5)

"My second son is a young lawyer here in Chicago, married. He too wants to build a house. He is well established with an income of several thousand dollars a year, owns his own lot which is worth approximately \$8,000.00, has had the plans drawn for his house and has made his application for a loan. He does not know yet whether he will be able to borrow the money. I have been told that one of the largest banks in Chicago has on hand several thousand applications for loans approved by the FHA but up to the present time has made only a very few of such loans.

"These conditions exist no doubt in nearly all parts of our country today. It is through the individual initiative of great numbers of our citizens that our country has prospered and progressed when they have utilized their credit by borrowing money necessary for their purposes. We have experimented during the past hundred years with depending entirely upon credit furnished by private banks. In March 1933 this system entirely collapsed temporarily and we found it necessary to have our Government provide credit for millions of our citizens who could not be accommodated by the private banks. It is my belief that a central bank is necessary to perpetuate our constitutional form of government."

I have cited the above paragraphs to a prominent Chicago banker with a request for his opinion as to whether this letter correctly portrays the situation. I would be glad to have your opinion on this for my own information because obviously this sort of thing not only discredits the banking fraternity, but will destroy it if apparently well-informed responsible citizens like this man reach the conclusion that the government through a central bank or otherwise is the only remedy.

Sincerely yours,

M. S. Eccles,
Chairman.


ET:b