

Office Correspondence

FEDERAL RESERVE
BOARD

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To Chairman Eccles

Subject: Mortgage developments among

From J. M. Daiger *JMD*

New York banks.

••• 16-552

You will be interested in knowing that the mortgage plans on which Mr. Miller and Mr. Hathaway are working in New York contemplate the inclusion of representatives of New York City commercial banks and trust companies in an informal group to consider the adoption of uniform minimum standards of construction. The purpose is to avert a recurrence of the shoddy building that characterized much of the activity in and around New York City during the construction boom of the 1920's.

In the past the savings banks have been the principal mortgage-lending agencies both in New York City and in the State as a whole. At the present time some of the up-State savings banks have shown a greater disposition to make mortgage loans in and around New York City than have the savings banks in Manhattan and Brooklyn. This is particularly true in the case of some new suburban developments on Long Island financed under the FHA set-up.

Two or three of the large trust companies, particularly the Manufacturers and the New York Trust, have likewise shown a readiness to go along on this new residential financing in an area that heretofore has been served primarily by the Brooklyn savings banks. The Brooklyn savings banks, meanwhile, have been financing no new construction in this suburban area because they still have for sale a number of properties that they are holding at a price above the current market.

The luncheon meeting that I was asked to attend in Brooklyn last Thursday was attended by the presidents of eight Brooklyn savings banks. During the earlier part of the meeting they were severe in their criticisms of the FHA. It developed, however, that their chief complaint was that any new construction at all was taking place on Long Island in the general area where they still had properties to dispose of. The simple fact seemed to be, as far as I was able to judge from a pretty extensive discussion, that the new houses are a better bargain than the second-hand houses.

I undertook to bring the discussion around to a practical basis of cooperation between the local banks--the banks that ordinarily made the bulk of the loans in the area--and the Federal Housing Administration. I pointed out that the loans complained of were being made by highly reputable institutions, and presumably were being made in accordance with the FHA standards that have been widely commended by banks. I said that what was really being complained of, therefore, was competition, and hence that the practical question was not how to prevent it, but how to meet it.

I then pointed out that the insured mortgage system was now being used very extensively by banks and that their current business under that system was running into pretty large figures. I said that the practical test of the insured mortgage system, at this stage, was in its widespread acceptance by banks, and that I thought the practical view of the matter for the Brooklyn banks to take was that they had to live with the system and that their best course was therefore to try to influence its local operation. I said that I felt sure they would realize that the Federal Government could not join them in saying that builders should not build on Long Island when it is perfectly evident that the houses being built are being responsibly financed and are finding a ready market.

The tone of the meeting changed considerably after this, and one of the most influential members of the group, Mr. Henry R. Kinsey, president of the Williamsburgh Savings Bank, said that he thought it was probably the case that the thing for them to do was to get acquainted with the local representatives of the FHA and to try to work out some basis of cooperation. Mr. Philip A. Benson, president of the Dime Savings Bank of Brooklyn, and the most active member of the group, said that he agreed with me that they would do better to try to influence the character of the construction on Long Island than to try to stop any building from being done there. The attitude of these two seemed to influence most of the others, and a meeting that had been marked by undisguised bitterness and hostility toward the Roosevelt Administration in general and the FHA in particular ended with a decision to call a further meeting and to bring in local representatives of the FHA with a view to finding a practical means of cooperation.

I was asked to come to luncheon at the Bowery Savings Bank on the following day by Earl Schwulst, formerly president of The RFC Mortgage Company and now first vice president of the Bowery. Schwulst wanted me to discuss the insured mortgage set-up with him and Mr. Bruere and other officers of the Bowery. I accepted the invitation, and I now think it is highly probable that the Bowery will begin to make Title II loans notwithstanding the legal opinion which the bank has received from Cadwalader, Wickersham & Taft questioning the constitutionality of the Housing Act. Up to the present time the existence of that opinion has been the principal reason given by the Bowery for not making Title II loans, and the knowledge that the Bowery had obtained such an opinion has of course not been without its influence on other institutions.

I have learned today from Mr. Hathaway that a meeting of savings bank presidents, which he and Mr. Miller arranged and which was held on Monday, made some progress on the matter of forming an informal group to consider the question of construction standards, and also the question of inviting the New York City commercial banks and trust companies to be represented in such a group. Mr. Hathaway said that much of the discussion on Monday turned to the lending activities on Long Island, and that he thought any definite action by the larger group would have to wait on the meeting between the Brooklyn banks and the local representatives of the FHA. It is still my opinion that Mr. Miller, despite his years, is perhaps the most progressive and most farsighted banker in New York; and I am also of the opinion that it would be to the advantage of the commercial banks and trust companies to join hands with him in the work that he is doing to improve the mortgage situation.