

FROM: MR. DAIGER'S OFFICE

TO: Mr. Eccles

I think you will be interested in receiving this letter that has just come across my desk. It so happens that I have known of this association for about 20 or 25 years, though I have never been acquainted with any of its officers.

From my knowledge of its reputation, I should say that the association is typical of the long-established and well-managed State-chartered institutions that are finding themselves hard-pressed by the competition in laxity that is being stimulated and subsidized from Washington.

J. M. Daiger



Enclosure

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WEST BALTIMORE BUILDING ASSOCIATION  
of Baltimore City

N. E. Cor. North Ave. & St. Paul St.  
Baltimore, Md.

June 19, 1937.

Mr. Stewart McDonald  
Federal Housing Administrator  
Washington, D. C.

Dear Sir:

We have read with much interest your recent speech entitled "Steps Toward a Sound Mortgage Market" published in the June number of the "Portfolio".

This Association has been making quite a few F. H. A. loans and is constantly seeking more of them, but we have recently been considerably handicapped in getting new business, of this kind by the readiness of some loaning companies in this city, principally the Federalized Building and Loan Associations to take on uninsured loans as high as 80% of appraisal valuation and on fifteen to twenty year terms, and at even less monthly repayments than the F. H. A. guaranteed mortgage terms. The seller takes an unsecured promisory note, a second mortgage, or hypothecates stock for the difference between the selling price and the amount of the loan secured in lien of some part of the 20% down payment as required on the F. H. A. loans, and without the thorough complete investigation and "follow up" so efficiently made by the F. H. A. office in this city.

Many mortgage companies in their desire to increase their business are complying with the wishes of the builders in this regard, and we think taking undue risks by so doing.

This is an old association and has weathered the storm without decreasing its surplus or tying up the deposits of its shareholders, but we have reached the point now where we are finding it increasingly difficult to get enough of what we consider desirable loans, to keep our funds employed.

We do not think that we are overly conservative, but we are not yet convinced that it is safe business to make mortgage loans for over ten years or for more than 65% to 70% of appraisal value, except when they are secured by the F. H. A. insurance.

On a loan say of \$3000.00 for instance the total repayment of principal for first two years would not be enough to cover the expenses of foreclosure if necessary, and on smaller loans it will take a longer time to collect enough on the principal for acquiring title.

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We understand that the Federalized Building and Loan Associations are not under the control of your bureau, but it seems to us that something could, or should be done to limit the percentage and terms of uninsured loans made by the Federalized Associations to a basis less hazardous to the investors in these associations, whether the United States government or individual shareholders. Those loaning companies that are not federalized, who are making loans on these terms, feel that they are forced to do so in order to get their share of the business.

This situation has of course been brought about by the anxiety of the builders to sell their houses more rapidly and on a 10% or even 5% or less down payment. It is likely that in time, or should the present business conditions again slack up, they will be obliged to take back a number of these houses or that the loaning companies will be obliged to acquire them. It seems to us that this is getting back to the same conditions that partly brought on the troubles that the Government is now trying to prevent by the establishment of your Bureau.

We should like very much to have your views on these matters and to have you advise us how to meet these conditions. We are only interested in getting our share of the mortgage business that is available, and to do so without taking undue risks, and also to continue to operate under our State Charter.

Yours very respectfully,  
West Baltimore Building Association

(Signed) Arthur H. Schultz  
President.

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