

July 30, 1935

Dear Senator Bulkley:

Mr. Daiger asked me on Saturday if I had any objection to his discussing with you, in view of your special interest in various measures having to do with mortgage lending, some suggestions that he recently made with regard to reconciling the real-estate loan provisions of the House and Senate versions of the Banking Act. I told him that I had no objection, but on the contrary thought you might find the suggestions useful in working out a compromise that both groups of conferees would be disposed to accept.

I understand from Mr. Daiger that he has since talked with you and that you thought his suggestion with regard to the regulation of real-estate loans might afford a feasible basis of compromise, and hence was one that you might be willing to sponsor. He tells me that you further expressed the view, however, that the suggested compromise might more appropriately come from me for the consideration of both groups of conferees. I am glad to act on your suggestion in this matter and am accordingly enclosing, for such use as you may wish to make of them in conference, drafts of two amendments embodying the ideas that Mr. Daiger discussed with you.

One of these proposed amendments would be an addition to Section 207 of the measure adopted by the Senate last Friday and would authorize the Board of Governors of the Federal Reserve System to prescribe real-estate loan regulations within the maximum limitations fixed in this section. The other proposed amendment, which Mr. Daiger tells me you do not regard favorably, would modify the Senate provision relating to amortized loans on real estate, not increasing the proposed time limit of 10 years, but permitting amortization at a rate that would retire the loan in not more than 20 years rather than in 15 years. The latter is the rate of amortization contemplated by the Senate provision.

To explain these proposed changes briefly, I may say that the House measure limits real-estate loans by national banks to 60 per cent of the appraised value of the real estate, but in other respects authorizes the Federal Reserve Board to prescribe regulations governing such loans.

The Senate measure, on the other hand, retains the time limit of five years and the loan limit of 50 per cent of appraised value of the real estate, as provided in the existing law, but also provides that loans may be made up to 10 years, in amounts not exceeding 60 per cent of appraised value of the real estate, if installment payments are required that would reduce the loan to at least one-half its face amount in 10 years.

Taken alone, the proposed amendment relating to regulation of real-estate loans would retain all the provisions of Section 207 of the measure enacted by the Senate on Friday, but within these maximum limitations would authorize the Board of Governors of the Federal Reserve System to prescribe additional regulations. The amendment would require all member banks to comply with the provisions of the revised section and with such

regulations as might be issued pursuant thereto, except that neither the statutory provisions nor the Board's regulations would prevent State member-banks from making real-estate loans to the extent expressly authorized by specific provisions of State law.

Under the terms of both the House and the Senate measures, the Board would have authority to prescribe regulations governing advances to member banks on real-estate loans. I think it would also be desirable, however, to enable the Board to establish certain minimum standards in appraisal practice and other governing factors, with a view to bringing about a greater uniformity and a greater degree of safety in the real-estate lending methods of member banks. As a practical matter, of course, the Board could not prescribe real-estate loan regulations in exhaustive detail, but within the limitations fixed by Congress it could use its regulatory authority to prevent a recurrence of unsound mortgage practices, to meet changing conditions in the real-estate and mortgage markets, and to restrain speculative excesses and abuses.

As to the proposed amendment relating to the rate of amortization of real-estate loans, I hope that you will give this equal consideration with the foregoing proposal, and also that you will take the proposed regulation of such loans into account in reaching ^{your} final conclusion with regard to the rate at which they are to be paid off. I think you would agree with me that there is now a consensus among all who have considered the real-estate mortgage problem that the short-term "renewal" mortgage should be discouraged and an effort made to establish amortization as standard practice.

As a matter of fact, much progress in this direction has been made during the past two years under governmental leadership, and you yourself, I believe, deserve much of the credit for what has been accomplished along this line. I realize, of course, that there is a great diversity of both opinion and practice as regards the number of years required for amortization of real-estate loans, but I think that the 20 year amortization established for loans made by the Federal savings and loan associations, or loans insured by the Federal Housing Administration, represents a sound and practical middle course. This rate of amortization is also one that would not leave the banks at too serious a competitive disadvantage in relation to the insurance companies, the savings and loan associations, and other agencies that make loans up to 20 years.

What I particularly have in mind in this respect is that, if the banks are to be authorized to make real-estate loans up to 10 years, provided the loans are to be regularly curtailed, the rate of amortization should be one that borrowers can and will use, and one that will effectually discourage banks from making real-estate loans that carry no provision for regular curtailment.

With kindest personal regards, I am

Sincerely yours,

Hon. Robert J. Bulkley
United States Senator
Washington, D. C.

M. S. Eccles,
Governor

Enclosures