NOTES FOR SATURDAY EVENING, FEBRUARY 2, 1935

MR. TOASTMASTER, Etc.--

This is the second time today, and the third time in the two or three months since I became Governor of the Federal Reserve Board, that I have had the opportunity of meeting a representative group of business and financial leaders of Baltimore. I may say that I have welcomed each of these opportunities, and have found genuine pleasure in meeting with the men of your city who are grappling with the problems in which private enterprise and government alike are now mainly concerned.

It is a great advantage, I believe, for those of us who have become a part of the official life of Washington not to become too closely confined there. For my own part, coming as I do from a section of the country where the time and distance between large centers of activity is much greater than it is here in the East, I am truly glad to find that there is within easy commuting distance of Washington one of the great industrial, commercial, and financial centers of the Atlantic Seaboard.

I do not know whether you gentlemen who are in the real estate business regard Washington as suburban to Baltimore, or vice versa. From what I hear of the number of Baltimoreans who now commute to and from work in Washington each day, I might assume that your city, even more than some of the Maryland towns immediately adjacent to the District, has become the principal suburb of the New Deal. But, however that may be, I take it to be a matter for mutual congratulation that only within the past week the commuting distance between the two cities has been even further lessened by high-speed electrification.

One of my friends to whom I remarked that I was coming to your dinner this evening asked me what interest the Governor of the Federal Reserve Board would have in the proceedings of a local real estate board. I must confess that I had not thought of the matter in that light--had not thought of your concerns as being confined to a particular locality. I simply felt that I was coming to a representative gathering of men with whom I have much in common.

But my friend's point of view, I am quite certain, was a mistaken one. Real estate, of course, is in one sense the most local of all businesses; but real estate, and the industrial and financial problems related to real estate, have become, as all of us now fully realize, matters of the very first importance in the shaping of national policies.

This is the first of your annual dinners for five years in which it has been possible for your officers who are in touch with the real estate situation in the country as a whole to report an improvement over the previous years. True, the improvement has not been marked, and it is still very much scattered and spotty. But for the past year the "undoubling" of families has been gradually under way, the marriage rate has again begun to rise, and rentals--long depressed below an economic level--have begun to show a moderate increase as the country itself has begun to emerge from the depression.

The fact of the matter is, however, that we still have a great deficit of purchasing power in the United States. Our national income is still some 40 per cent below the level of five years ago, a substantial proportion of our population is still unemployed, and the incomes of the great bulk of the population that is employed are still at a relatively low level. This is the fundamental problem in our national economy for which the President and his advisers are seeking a remedy in large part through the industries in which you gentlemen are chiefly interested.

I scarcely need remind you of the extent to which the lag in construction behind the general business recovery is accountable for the great deficit of purchasing power to which I have referred. You are by this time familiar with the figures—a drop from a pre-depression total of $11,000,000,000 spent for a year's construction to a low point of some $3,000,000,000 a year ago, with only a moderate rise since then. In residential construction the decline was even more marked—from a pre-depression total of $3,000,000,000 a year to but a tenth of that sum. And one of the most serious aspects of this decline, as you are in a position to know from your practical experience with the construction industry, is that a much larger part of the construction total, including the cost of materials, goes into wages than in most other industries.

Along with the great decline in the volume of construction there was throughout the country, among institutional and individual investors alike, a flight of capital from mortgages--an effort to convert what is essentially a long-term investment into immediate cash. This is a trend that has likewise been arrested only within the past year, and the task now is to direct again into construction and mortgage financing the savings that in the past have been made available for this purpose.

I know that there are some bankers, some insurance company officials, and others experienced in mortgage lending who, though willing, as they put it, to make loans on sound existing mortgages, are unwilling to encourage new construction because of foreclosed properties that they and others have hanging over the market. This view seems to me to be a mistaken one. It is a view that if persisted in by all institutions--as fortunately it is not--would compel the government to enter the field of mortgage lending in a manner and on a scale that neither you nor I would care to contemplate.

What is mistaken in their point of view, as I see it, is that it fails to recognize that the effective demand now lacking for properties that overhang the market can be brought about only by putting more and more people back to work at an income level that will enable them to pay an economic rent. The real property inventory recently taken by the Department of Commerce, like the surveys made by your national association, have shown how widespread the need is for modern housing--how obsolete and decadent a huge proportion of our homes are judged by any reasonably modern standards. Put back even into part-time employment the several million persons dependent directly or indirectly on the construction industry, and the nation-wide shortage of housing that some persons now call theoretical will quickly become real.

It is to give impetus and direction to that reemployment that the housing policy of the Administration is being directed. As the lines are now laid, only the start can come from Washington. Private enterprise and private capital must then take hold if a program of construction adequate to the needs of the country is to go quickly forward; and if this is to be done we shall necessarily, of course, have to revise our mortgage financing practices of the past in order to safeguard both the home owner and the mortgage investor.

The mortgage provisions of the National Housing Act show the direction that I believe mortgage lending will take henceforward. Our savings banks, the savings departments of our commercial banks, our insurance companies, our fiduciary institutions, and other agencies that have heretofore confined themselves largely to short-term mortgages—the so-called renewable mortgage maturing in three years or five years—will see the wisdom, I have no doubt, of adopting instead the long-term amortized mortgage. I believe that they will also see the wisdom of reducing the interest cost to the borrower, to correspond to the lower rates now being paid by banks and life insurance companies to their depositors and policy holders. And I believe that they will see the greater soundness of a long-term amortized first mortgage loan up to, say, 80 per cent--at a fair rate of interest that the borrower can afford--than a 50 per cent first mortgage followed by a second and perhaps a third mortgage, with costs on the secondary financing that are in the long run prohibitive to the home owner and unduly hazardous to the first mortgage investor.

The widespread adoption of these new standards will doubtless require some further revision in both federal and state legislation--including, I dare say, the provision of mortgage discount facilities, either along the lines that your national association has been advocating in Washington for several years, or by other means that will accomplish the result aimed at in your plan for a mortgage-discount bank. I fully realize that our present system of mortgage financing is deficient in this respect, and I agree with your association that adequate provision for mortgage discount will go a long way to encourage mortgage lending, to stabilize real estate values, and to prevent a recurrence of the disastrous experience suffered by home owners and mortgage investors alike in the past few years.