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**CREATION OF A SYSTEM OF FEDERAL
HOME LOAN BANKS**

HEARINGS
BEFORE A
SUBCOMMITTEE OF THE
COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES

SEVENTY-SECOND CONGRESS

FIRST SESSION

ON

H. R. 7620

A BILL TO CREATE FEDERAL HOME LOAN BANKS, TO
PROVIDE FOR THE SUPERVISION THEREOF
AND FOR OTHER PURPOSES

MARCH 16, 17, 18, 21, 22, 23, 24, 25, 28, 29, 30, 1932

Printed for the use of the Committee on Banking and Currency



UNITED STATES
GOVERNMENT PRINTING OFFICE
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COMMITTEE ON BANKING AND CURRENCY

HOUSE OF REPRESENTATIVES

SEVENTY-SECOND CONGRESS, FIRST SESSION

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CLYDE WILLIAMS, Missouri.	ROBERT LUCE, Massachusetts.
FRANK HANCOCK, North Carolina.	GUY E. CAMPBELL, Pennsylvania.

CREATION OF A SYSTEM OF FEDERAL HOME LOAN BANKS

WEDNESDAY, MARCH 16, 1932

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE OF THE COMMITTEE,
ON BANKING AND CURRENCY,
Washington, D. C.

The subcommittee met, pursuant to call, at 11 o'clock a. m., in the caucus room of the House Office Building, Representative Michael K. Reilly presiding.

Present: Representatives Reilly (chairman of the subcommittee), Hancock, Williams, Luce, and Campbell.

The subcommittee thereupon proceeded to the consideration of the bill (H. R. 7620) to create Federal home loan banks, to provide for the supervision thereof, and for other purposes.

[H. R. 7620, Seventy-second Congress, first session]

A BILL To create Federal Home Loan Banks, to provide for the supervision thereof, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Federal home loan bank act."

DEFINITIONS

SEC. 2. As used in this act—

(1) The term "board" means the Federal home loan bank board.

(2) The term "Federal home loan bank" means a bank established by the board under authority of this act.

(3) The term "State" includes the District of Columbia and the Territories of Alaska and Hawaii.

(4) The term "member" (except when used in reference to a member of the board) means any institution which has subscribed for the stock of a Federal home loan bank, and includes any institution which has, in lieu of subscribing for stock, deposited cash or securities, as authorized in section 5 (e).

(5) The term "home-mortgage loan" means a loan made by a member upon the security of a home mortgage.

(6) The term "home mortgage" means a first mortgage upon real estate upon which there is located a dwelling for not more than three families, and shall include such classes of first liens other than mortgages as are commonly given to secure advances on real estate by institutions authorized under this act to become members, under the laws of the State in which the same are located, together with the credit instruments, if any, secured thereby.

(7) The term "unpaid principal" when used in respect of a loan secured by a home mortgage means the principal thereof less the sum of (1) payments made on such principal, and (2) in cases where shares of stock pledged as security for the loan may, to the extent they are paid, be applied toward discharging the principal of the loan, the amounts paid on such shares either directly or by credit of dividends, or otherwise.

FEDERAL HOME LOAN BANKS

SEC. 3. As soon as practicable the board shall divide the continental United States and the Territories of Alaska and Hawaii into twelve districts. Such districts shall be apportioned with due regard to the convenience and customary course of business of the institutions eligible to and likely to subscribe for stock of a Federal home loan bank to be formed under this act but no such district shall contain a fractional part of any State. From time to time the board may adjust such districts and may create new districts, but the total number of such districts shall remain twelve. Such districts shall be known as Federal home loan bank districts and may be designated by number. As soon as practicable the board shall establish, in each district, a Federal home loan bank at such city as may be designated by the board. Its title shall include the name of the city at which it is established.

CAPITAL OF FEDERAL HOME LOAN BANKS AND SUBSCRIPTION THERETO

SEC. 4. (a) Such of the following as are duly organized under the laws of any State or of the United States, and are subject to inspection and regulation under the banking laws, or under similar laws, of the State or of the United States, shall be eligible to become a member of a Federal home loan bank:

(1) Building and loan associations, cooperative banks, and homestead associations;

(2) Any of the following whose time deposits and financial condition, in the judgment of the board, warrant their making such home mortgage loans as, in the judgment of the board, are long-term loans: Savings banks, trust companies, and other banks; and

(3) Insurance companies.

(b) An institution eligible to become a member under this section may become a member only of the Federal home loan bank of the district in which is located the institution's principal place of business, or of the bank of a district adjoining such district.

SEC. 5. (a) As soon as practicable after the enactment of this act, the board, with the approval of the Secretary of the Treasury, shall determine the minimum capital of each Federal home loan bank which shall be not less than \$5,000,000. The board shall, as soon as practicable thereafter, open books in each district established under section 3 for subscription to the capital stock of the Federal home loan bank of the district.

(b) The capital stock of each Federal home loan bank shall be divided into shares of a par value of \$100 each. The minimum capital stock shall be issued at par. Stock issued thereafter shall be issued at such price as may be fixed by the board.

(c) The original stock subscription for each institution eligible to become a member under section 4 shall be not less than \$2,500, plus an amount equal to 1 per cent of the aggregate of the unpaid principal of the subscriber's home mortgages. The board shall from time to time adjust the amount of stock held by each member so that, as nearly as possible, such member shall at all times have invested in the stock of the Federal home loan bank at least an amount calculated in the same manner as in the case of the member's original stock subscription.

(d) Stock subscriptions other than by the United States shall be paid for in cash, or by certified check, and shall be paid for at the time of application therefor, or, at the election of the subscriber, in installments, but not less than one-fourth of the total amount payable shall be paid at the time of filing application, and a further sum of not less than one-fourth of such total shall have been paid at the end of each succeeding period of four months.

(e) If the law of the State under which an institution described in section 4 operates does not permit such institution to subscribe for stock in the Federal Home Loan Bank, the board may permit such institution, in lieu of subscribing for stock, to deposit with the bank an amount of cash, short-term debenture bonds issued by the bank, or Federal Government securities, equal to the amount of the required stock subscription of such institution had it been authorized to subscribe for stock. The board shall prescribe terms and conditions under which such deposits are made so that the obligations of the institution to the bank will be adequately secured. Upon such deposit such institution shall become a member for the purposes of this act. Upon the enactment of State legislation authorizing the subscription to Federal Home

Loan Bank stock by such member, the bank shall issue to such member an amount of stock equal to the value at that time of the property deposited with the bank by such member under this subsection. In the case of any institution which has become a member under the provisions of this section, if the law of the State under which it operates does not at the end of forty-two months after the enactment of this act permit stock subscription by such institution, such institution shall cease to be a member, and the same provisions shall apply with respect to the termination of its relations with the Federal Home Loan Bank as apply in the case of the withdrawal of members under subsection (i) of this section. The board shall not permit the acceptance of cash or securities in lieu of subscriptions to stock after State legislation has been enacted authorizing the institution to purchase Federal Home Loan Bank stock, or after forty-two months after the enactment of his act, whichever is earlier.

The board shall prescribe regulations under which institutions enabled to become members under authority of this subsection shall, as nearly as practicable, have the same rights, privileges, powers, and benefits, and be subject to the same conditions, limitations, restrictions, and liabilities as institutions which have become members by reason of their purchase of capital stock of Federal Home Loan Banks. For the purposes of the foregoing provision, whenever any reference is made in this act to amounts of capital stock subscribed for, amounts required to be deposited under this subsection shall be held to be included, and if the reference is to amounts of capital stock paid in, amounts deposited under this subsection shall be held to be included.

(f) The Secretary of the Treasury shall subscribe, on behalf of the United States, for such part of the minimum capital of each Federal Home Loan Bank as is not subscribed for by members under subsections (c) and (e) of this section within thirty days after books have been opened for stock subscriptions as provided in subsection (a). Payments for stock subscriptions by the Secretary of the Treasury shall be subject to call in whole or in part by the board, with the approval of the Secretary of the Treasury, at such time or times as may be deemed advisable. The aggregate amount expended by the United States for the purchase of stock under this act shall not exceed \$150,000,000, and such sums as may be necessary for such purpose are hereby authorized to be appropriated out of any money in the Treasury not otherwise appropriated. Each Federal Home Loan Bank receiving such payments shall issue receipts therefor to the Secretary of the Treasury, and such receipts shall be evidence of the stock ownership of the United States.

(g) After the amount of capital of a Federal Home Loan Bank paid in by members equals the amount paid in by the Secretary of the Treasury under subsection (f), such bank shall apply annually to the payment and retirement of the shares of the capital stock held by the United States, 50 per centum of all sums thereafter paid in as capital until all such capital stock held by the United States is retired at par. Stock held by the United States may at any time, in the discretion of the Federal Home Loan Bank, and with the approval of the board, be paid off at par and retired in whole or in part; and the board may at any time require such stock to be paid off at par and retired in whole or in part if in the opinion of the board the Federal Home Loan Bank has resources available therefor.

(h) Stock subscribed for otherwise than by the United States, and the right to the proceeds thereof, shall not be transferred or hypothecated except as hereinafter provided, and the certificates therefor shall so state.

(i) Any member may withdraw from membership in a Federal Home Loan Bank six months after filing with the board written notice of intention so to do, and the board may, after hearing, remove any member from membership if, in the opinion of the board, such member has failed to comply with any provision of this act or the regulations of the board made pursuant thereto. In any such case, the indebtedness of such member to the Federal Home Loan Bank shall be liquidated, and the capital stock in the Federal Home Loan Bank owned by such member shall be surrendered and canceled. Upon the liquidation of such indebtedness such member shall be entitled to the return of its collateral, and, upon surrender and cancellation of such capital stock, the member shall receive a sum equal to its cash paid subscriptions for the capital stock surrendered, except that if at any time the board finds that the paid-in capital of a Federal Home Loan Bank is or is likely to be impaired as a result of losses in or depreciation of the assets held, the Federal Home Loan Bank shall on the order of the board withhold from the amount paid

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in retirement of the stock a pro rata share of the amount of such impairment as determined by the board.

(j) A Federal Home Loan Bank may, with the approval of the board, permit the disposal of stock to another member.

(k) No dividends shall be paid on stock subscribed for by the United States, but all other stock of any Federal Home Loan Bank shall share in dividend distributions without preference.

MANAGEMENT OF BANKS

SEC. 6. (a) The management of each Federal Home Loan Bank shall be vested in a board of eleven directors, all of whom shall be citizens of the United States and bona fide residents of the district in which such bank is located.

(b) Two of such directors shall be appointed by the board. The terms of such directors shall expire one year and two years, respectively, from the end of the calendar year 1932, and their successors shall be appointed by the board for terms of three years.

(c) Nine of such directors, three of whom shall be known as class A directors, three of whom shall be known as class B directors, and three of whom shall be known as class C directors, shall be first appointed by the board, and shall serve until the end of the calendar year 1932. Their successors shall be elected as provided in subsection (d), and of such successors first elected one of each such class shall serve for one, two, and three years, respectively. Thereafter all such directors shall serve for three years. Directors of classes A, B, and C, whether appointed or elected, shall be chosen from among persons connected with the home-financing business.

(d) The board shall divide the members of each Federal home loan bank into three groups which shall be designated as groups A, B, and C, which groups shall represent, respectively, and as fairly as may be, the large, medium-sized, and small members, the size of such members to be determined according to the net value of their holdings of home-loan mortgages. The board may revise the membership of such groups from time to time. Of the directors elected as hereinafter provided, each class A director shall be an officer or director of a member in group A, each class B director shall be an officer or director of a member in group B, and each class C director shall be an officer or director of a member in group C. Each member shall be entitled to nominate suitably qualified persons for election as directors of the class corresponding to the group to which such member belongs, and shall cast one vote for each director in its class. The directors of each class shall be nominated and elected in accordance with such rules and regulations as may be prescribed by the board.

(e) Any director appointed or elected as provided in this section to fill a vacancy shall hold office only until the expiration of the term of his predecessor.

(f) The board shall designate one of the directors of each bank to be chairman, and one to be vice chairman, of the board of directors of such bank.

(g) If at any time when nominations are required, members shall hold less than \$1,000,000 of the capital stock of the Federal home loan bank, the board shall appoint a director or directors to fill the place or places for which such nominations are required until the expiration of the next calendar year or, in the case of a vacancy, until the expiration thereof, whichever period is the shorter.

(h) Each bank may pay its directors reasonable compensation for the time required of them, and their necessary expenses, in the performance of their duties, in accordance with the resolutions adopted by such directors, subject to the approval of the board.

(i) Such board of directors shall administer the affairs of the bank fairly and impartially and without discrimination in favor of or against any member, and shall, subject to the provisions hereof, extend to each subscriber applicant such advances as may be made safely and reasonably with due regard for the claims and demands of other members, with due regard to the maintenance of adequate credit standing for the Federal home loan bank and its obligations, and with due regard to the orderly provision of credit to aid in the conduct of home financing in the various communities within its district, and within the district as a whole.

(j) The board shall cause to be made from time to time examinations of the laws of the various States of the United States and the regulations and procedure thereunder governing conditions under which institutions of the kinds which may become subscribers of banks hereunder are permitted to be formed or to do business, or relating to the conveying or recording of land titles, or to homestead and other rights, or to the enforcement of the rights of holders of mortgages on lands securing loans, or otherwise. If any such examination shall indicate, in the opinion of the board, that under the laws of any such State or the regulations or procedure thereunder there would be inadequate protection to a Federal home loan bank in making or collecting advances under this act, the board may withhold the establishment or prevent or limit the operation of any Federal home-loan bank in such State until satisfactory conditions of law, regulation, or procedure shall be established. In any State where State examination of members is deemed inadequate for the purposes of the Federal home loan banks, the board shall establish such inspection, all or part of the cost of which may be considered as part of the cost of making advances in such State. The banks and/or the board may make studies of trends of home and other property values methods of appraisals, and other subjects such as they may deem useful for the general guidance of their policies and operations and those of subscribers.

ELIGIBILITY TO SECURE ADVANCES

SEC. 7. Any member in a Federal home loan bank shall become eligible to apply for advances from such bank upon the granting of an application for permission to apply for such advances. Such application shall be in such form as shall be required by the Federal home loan bank with the approval of the board. Such Federal home loan bank may at its discretion deny any such application, or, subject to the approval of the board, may grant it on such conditions as the Federal home loan bank may prescribe.

ADVANCES TO MEMBERS

SEC. 8 (a) Each Federal home loan bank is authorized to make advances to members who have become eligible to apply therefor, as provided in section 7, upon the security of home mortgages, such advances to be made subject to such regulations, restrictions, and limitations as the board may prescribe. Any such advance shall be subject to the following limitations as to amount—

(1) If secured by a home mortgage given in respect of an amortized home mortgage loan which was for an original term of eight years or more, the advance may be for an amount not in excess of 60 per centum of the unpaid principal of the home mortgage loan;

(2) If secured by a home mortgage given in respect of any other home mortgage loan, the advance shall not be for an amount in excess of 50 per centum of the unpaid principal of the home mortgage loan;

(3) In no case shall the amount of the advance exceed 40 per centum of the appraised valuation of the real estate securing the home mortgage loan.

(b) No home mortgage shall be accepted as collateral security for an advance by a Federal home loan bank if, at the time such advance is made (1) the home mortgage loan secured by it has more than twenty years to run to maturity; or (2) the principal sum of the home mortgage loan secured by it exceeds three-fourths of the appraised valuation of the real estate securing such loan if the loan is amortized, or exceeds 60 per centum of the appraised valuation of the real estate securing such loan if such loan is not amortized; or (3) the unpaid principal of such home-mortgage loan exceeds \$15,000. For the purposes of this subsection and subsection (a) the appraised valuation of real estate shall be established by such certification by the borrowing member or such other evidence as the board may require. For the purposes of this section each Federal home loan bank shall have power to make, or to cause or require to be made, such appraisals and other investigations as it may deem necessary. No home mortgage otherwise eligible to be accepted as collateral security for an advance by a Federal home loan bank shall be accepted if any director, officer, employee, attorney, or agent of the Federal home loan bank or of the borrowing member is personally liable thereon, unless the board has specifically approved such acceptance.

(c) Such advances shall be made upon the note or obligation of the member secured as hereinafter provided, bearing such rate of interest as the board

may approve or determine, and the Federal home loan bank shall have a lien upon and shall hold the stock of such member as further collateral security for all indebtedness of the member to the Federal home loan bank. At no time shall the aggregate outstanding advances made by any Federal home loan bank to any member exceed twelve times the amounts paid in by such member for capital stock subscribed for by it.

(d) The applying subscriber shall enter into a primary and unconditional obligation to pay off all advances, together with interest and any unpaid costs and expenses in connection therewith according to the terms under which they were made, in such form as shall meet the requirements of the bank and the approval of the board. The bank shall reserve the right to require at any time, when deemed necessary for its protection, deposits of additional collateral security or substitutions of security by the member, and each member shall assign additional or substituted security when and as so required. Subject to the approval of the board, any Federal home loan bank shall have power to sell to any other Federal home loan bank, with or without recourse, any advance made under the provisions of this act, or to allow to such bank a participation therein, and any other Federal home loan bank shall have power to purchase such advance or to accept a participation therein, together with an appropriate assignment of security therefor, including a proportionate part of any proceeds of the retirement of capital stock of the selling bank subscribed for by the member to which such advances were made.

GENERAL POWERS AND DUTIES OF BANKS

SEC. 9. (a) Each Federal home loan bank shall have power, subject to the approval of the board, (1) to borrow money, to give security therefor, and to pay interest thereon, and (2) to issue bonds and debentures having such maturities as may be determined by the board, secured by the deposit of home mortgages.

(b) The board shall prescribe rules and regulations governing the assignment, deposit, custody, substitution, and release of home mortgages securing such bonds and debentures, the forms and terms of such bonds and debentures, and the conditions under which they may be issued and retired, including any option with respect to payment and retirement thereof in advance of maturity, and such regulations shall provide for the deposit in trust, under such terms and conditions as it may deem advisable, of the home mortgages securing such bonds and debentures.

(c) Such deposits in trust shall be so maintained that the aggregate unpaid principal of the home mortgage loans secured by the home mortgages deposited as security for any issue of bonds or debentures shall, as nearly as possible, be at all times not less than an amount equal to 190 per centum of the total outstanding amount of such issue. Cash deposited under authority of subsection (d) shall be included in the computation of the aggregate unpaid principal of home mortgage loans under this subsection.

(d) The board may at any time require any Federal home loan bank to deposit additional home mortgages or to make substitutions of home mortgages to secure such bonds and debentures, except that when in the opinion of the board home mortgages are not available for such purpose, it may permit, for such limited periods as it may deem advisable, the deposit of cash in lieu of the deposit of substitute or additional home loan mortgages.

(e) The board shall approve or determine the rates of interest to be paid by the Federal home loan banks upon the notes, debentures, or bonds which it may issue except that no bond or debenture issued within seven years after the enactment of this act shall bear a rate of interest in excess of 5½ per centum per annum, and no bond or debenture issued thereafter shall bear a rate of interest in excess of 5 per centum per annum and shall provide such margins between interest rates received upon advances made to members and interest paid upon obligations which the Federal home loan bank may issue as will cover expenses of operation and reserves and, under such regulations as may be provided by the board, some part of such reserve may be devoted to retirement of the stock subscribed by the United States.

(f) The Federal Home Loan Banks shall be jointly and severally liable for the payment when due of all bonds and debentures, and of notes and other obligations issued by any Federal Home Loan Bank, and interest thereon, in accordance with their terms: *Provided*, That this shall not prevent any par-

ticular Federal Home Loan Bank, when specifically so authorized by the board, from borrowing funds temporarily under the terms of obligations which shall expressly state in substance in such manner as shall be approved by the board that the liability therefor is confined to the issuing bank. The Federal Home Loan Banks shall from time to time in accordance with rules, regulations, and orders of the board make adequate agreements and arrangements among themselves for meeting the payment of the bonds, debentures, notes, or other obligations on which they are jointly and severally liable, and the interest thereon, but such agreements and arrangements shall not restrict in any respect the joint and several liability herein established.

(g) Each Federal Home Loan Bank shall have power to accept only such deposits as are made by members of such bank, or by other Federal Home Loan Banks. Such deposits shall not be subject to check, and no rate of interest in excess of 3 per centum per annum shall be paid thereon. No Federal Home Loan Bank shall transact any banking or other business not expressly authorized by this act.

(h) The board is authorized and empowered to permit, or, whenever in the judgment of at least four members of the board an emergency exists requiring such action, to require, Federal Home Loan Banks to rediscount the discounted notes of members held by other Federal Home Loan Banks, or to purchase the bonds issued by any other Federal Home Loan Bank, or to make deposits with other Federal Home Loan Banks. In any case in which the board requires the purchase of bonds, the board shall fix the price therefor, or requires the acceptance of a deposit, it shall fix the security therefor. The rediscount rates and the rates of interest to be paid upon deposits shall be fixed by the board.

(i) Each Federal Home Loan Bank shall at all times have an amount equal to the sums paid in on outstanding capital subscriptions of its members, plus an amount equal to the current deposits received from its members, invested in (1) United States Government securities, (2) interest-bearing deposits in banks or trust companies, and (3) advances with maturity not greater than one year made to members, upon such terms and conditions as the board may prescribe.

(j) Such part of the assets of each Federal Home Loan Bank (except reserves and except sums provided for in subsection (i)) as such bank may deem available therefor, may be invested otherwise than in advances to members. Such investments shall be made subject to such regulations, restrictions, and limitations as may be prescribed by the board.

INCORPORATIONS OF BANKS, AND CORPORATE POWERS

SEC. 10. The directors of each Federal Home Loan Bank shall, in accordance with such rules and regulations as the board may prescribe, make and file with the board at the earliest practicable date after the establishment of such bank an organization certificate which shall contain such information as the board may require. Upon the making and filing of such organization certificate with the board such bank shall become, as of the date of the execution of its organization certificate, a body corporate, and as such and in its name as designated by the board it shall have power to adopt, alter, and use a corporate seal; to make contracts; to purchase or lease and hold or dispose of such real estate as may be necessary or convenient for the transaction of its business; to sue and be sued, to complain, and to defend, in any court of competent jurisdiction, State or Federal; to select, employ, and fix the compensation of such officers, employees, attorneys, and agents as shall be necessary for the transaction of its business, subject to the approval of the board; to define their duties, require bonds of them and fix the penalties thereof, and to dismiss at pleasure such officers, employees, attorneys, and agents; and, by its board of directors, to prescribe, amend, and repeal by-laws, rules, and regulations governing the manner in which its affairs may be administered; and the powers granted to it by law may be exercised and enjoyed subject to the approval of the board. The president of a Federal home loan bank may also be a member of the board of directors thereof, but no other officer, employee, attorney, or agent of such bank, who receives compensation, may be a member of the board of directors. Each such bank shall have all such incidental powers, not inconsistent with the provisions of this act, as are customary and usual in corporations generally.

EXEMPTION FROM TAXATION

SEC. 11. Every Federal Home Loan Bank, including the capital and reserve or surplus therein and the income derived therefrom, shall be exempt from Federal, State, municipal, and local taxation, except taxes upon real estate held, purchased, or taken by said bank. The bonds and debentures issued by each Federal Home Loan Bank shall be deemed and held to be instrumentalities of the Government of the United States, and as such they and the income derived therefrom shall be exempt from Federal, State, municipal, and local taxation.

SEC. 12. When designated for that purpose by the Secretary of the Treasury each Federal Home Loan Bank shall be a depository of public money, except receipts from customs, under such regulations as may be prescribed by said Secretary; and it may also be employed as a financial agent of the Government; and it shall perform all such reasonable duties as depository of public money and financial agent of the Government as may be required of it.

SEC. 13. Obligations of the Federal Home Loan Banks issued with the approval of the board under this act shall be lawful investments, and may be accepted as security for all fiduciary, trust, and public funds the investment or deposit of which shall be under the authority or control of the United States or any officer or officers thereof. The Federal reserve banks are authorized to act as depositories, custodians, and/or fiscal agents for Federal Home Loan Banks in the general performance of their powers under this act.

RESERVES AND DIVIDENDS

SEC. 14. Each Federal Home Loan Bank shall carry to a reserve account semi-annually 50 per centum of its net earnings until said reserve account shall show a credit balance equal to 100 per centum of the paid-in capital of such bank. After said reserve has reached 100 per centum of the paid-in capital of said bank, 25 per centum of its net earnings shall be added thereto semi-annually. Whenever said reserve shall have been impaired below 100 per centum of the paid-in capital it shall be restored before any dividends are paid. Each Federal Home Loan Bank shall establish such additional reserves and/or make such charge-offs on account of depreciation or impairment of its assets as the board shall require from time to time. No dividends shall be paid except out of net earnings remaining after all reserves and charge-offs required under this act have been provided for, and then only with the approval of the board. The reserves of each Federal Home Loan Bank shall be invested subject to such regulations, restrictions, and limitations as may be prescribed by the board. If a Federal Home Loan Bank be dissolved or go into liquidation without transfer of its assets to another Federal Home Loan Bank, there shall be paid to the United States any reserves or surplus remaining after the payment of all debts, and after payments to members of any amounts paid in by them for stock of such dissolved or liquidated bank, not exceeding the par value thereof, and accrued dividends on such stock.

FEDERAL HOME LOAN BANK BOARD

SEC. 15. For the purposes of this act there shall be a board, to be known as the "Federal Home Loan Bank Board," which shall consist of five members appointed by the President of the United States, by and with the advice and consent of the Senate. Each member shall devote his time not otherwise required by the business of the United States principally to the business of the board. Before entering upon his duties each of the members shall take an oath faithfully to discharge the duties of his office. Nothing contained in this or in any other act shall be construed to prevent the appointment as a member of the board of any officer or employee under the United States. The President of the United States shall designate one of the members of the board to serve for a term of two years, one for three years, one for four years, one for five years, and one for six years from the date of the enactment hereof, and thereafter the term of each member shall be six years from the date of the expiration of the term for which his predecessor was appointed. Whenever a vacancy shall occur among the members the person appointed to fill such vacancy shall hold office for the unexpired portion of the term of the member whose place he is selected to fill. Each of the members of the board shall receive a salary at the rate of \$12,000 per annum: *Provided*, That any member receiving from the United States any salary or compensation

for other services shall not receive as salary as a member of the board any amount which would make the combined salary or compensation paid to him exceed \$12,000 per annum. The President shall designate one of the members as chairman of the board. The chairman shall be the chief executive officer of the board and in his absence or disability the duties of his office shall be performed by some one of the other members to be designated as acting chairman by the chairman in such order as he may determine. The board shall supervise the Federal home loan banks created by this act, shall perform the other duties specifically prescribed by this act, and shall have power to adopt, amend, and require the observance of such rules, regulations, and orders as shall be necessary from time to time for carrying out the purposes of the provisions of this act. The board shall have power to suspend or remove any director, officer, employee, or agent of any Federal Home Loan Bank, the cause of such suspension or removal to be communicated in writing forthwith to such director, officer, employee, or agent and to such Federal home loan bank.

ADMINISTRATIVE EXPENSES

SEC. 16. (a) There is hereby authorized to be appropriated the sum of \$500,000 for salaries, travel and subsistence expenses, rents, printing and binding, furniture and equipment, law books, books of reference, periodicals, newspapers, maps, contract stenographic reporting services, telephone and telegraph services, and all other necessary expenses of the board, together with expenses preliminary to the organization and establishment of the banks created hereunder, until the end of the calendar year 1932.

(b) The board shall have power to levy semiannually upon the banks, and they shall pay, on such equitable basis as the board shall determine, an assessment sufficient in its judgment to provide for the payment of its estimated expenses for the half year succeeding the levying of each such assessment, beginning with the first half of the calendar year 1933. All expenses of the board incurred in carrying out the provisions of this act, as determined by it, beginning January 1, 1933, shall be paid from the proceeds of such assessments, and if any deficiency shall occur in such fund at any time between such semiannual assessments the board shall have power to make an immediate assessment against the banks to cover such deficiency on the same basis as the original assessment. If any surplus shall remain from any assessment after the expiration of the semiannual period for which it was levied, such surplus may be deducted from the next following assessment.

SEC. 17. The board shall have power to select, employ, and fix the compensation of such officers, employees, attorneys, and agents as shall be necessary for the performance of its duties under this act without regard to the provisions of other laws applicable to the employment or compensation of officers, employees, attorneys, and agents of the United States. The board shall be entitled to the free use of the United States mails for its official business in the same manner as the executive departments of the Government; and shall determine its necessary expenditures under this act and the manner in which they shall be incurred, allowed, and paid.

EXAMINATIONS AND REPORTS

SEC. 18. The board shall from time to time, at least twice annually, require examinations and reports of conditions of all Federal Home Loan Banks in such form as the board shall prescribe and shall furnish periodically statements based upon the reports of the banks to the board. For the purposes of this act, examiners appointed by the board shall be subject to the same requirements, responsibilities, and penalties as are applicable to examiners under the National bank act and the Federal reserve act, and shall have the same powers and privileges as are vested in such examiners by law.

UNLAWFUL ACTS, AND PENALTIES

SEC. 19. (a) Whoever makes any statement, knowing it to be false; or whoever willfully overvalues any security, for the purpose of influencing in any way the action of a Federal Home Loan Bank or the board upon any application, advance, discount, purchase, or repurchase agreement, or loan, under this act, or any extension thereof by renewal, deferment, or action or otherwise, or the acceptance, release, or substitution of security therefor, shall be punished by a fine of not more than \$5,000, or by imprisonment for not more than two years, or both.

(b) Whoever (1) falsely makes, forges, or counterfeits any note, debenture, bond, or other obligation, or coupon, in imitation of or purporting to be a note, debenture, bond, or other obligation, or coupon, issued by a Federal Home Loan Bank; or (2) passes, utters, or publishes, or attempts to pass, utter, or publish, any false, forged, or counterfeited note, debenture, bond, or other obligation, or coupon, purporting to have been issued by a Federal Home Loan Bank, knowing the same to be false, forged, or counterfeited; or (3) falsely alters any note, debenture, bond, or other obligation, or coupon, issued or purporting to have been issued by a Federal Home Loan Bank; or (4) passes, utters, or publishes, or attempts to pass, utter, or publish, as true any falsely altered or spurious note, debenture, bond, or other obligation, or coupon, issued or purporting to have been issued by a Federal Home Loan Bank, knowing the same to be falsely altered or spurious, shall be punished by a fine of not more than \$10,000, or by imprisonment for not more than five years, or both.

(c) Whoever, being connected in any capacity with the board or a Federal Home Loan Bank, (1) embezzles, abstracts, purloins, or willfully misapplies any moneys, funds, securities, or other things of value, whether belonging to it or pledged or otherwise intrusted to it; or (2) with intent to defraud the board or any Federal Home Loan Bank, or any other body politic or corporate, or any individual, or to deceive any officer, auditor, or examiners of the board or a Federal Home Loan Bank, makes any false entry in any book, report, or statement of or to the board or a Federal Home Loan Bank, or, without being duly authorized, draws any order or issues, puts forth, or assigns any note, debenture, bond, or other obligation, or draft, mortgage, judgment, or decree thereof, shall be punished by a fine of not more than \$10,000, or by imprisonment for not more than five years, or both.

(d) It shall be unlawful for any individual, partnership, association, or corporation (1) which is not a Federal Home Loan Bank to use the words "Federal home loan bank," or a combination of all such words, as a name or a part of a name under which he or it shall do business (except in the case of a name under which business is being done at the time of the enactment of this act), or (2) which is not a Federal Home Loan Bank, to advertise or represent in any way that he or it is a Federal Home Loan Bank, or to publish or display any sign, symbol, or advertisement reasonably calculated to convey the impression that he or it is a Federal Home Loan Bank, or (3) which is not a member, to advertise or represent in any way that he or it is a member, or to publish or display any sign, symbol, or advertisement reasonably calculated to convey the impression that he or it is a member. Violations of this section shall be punishable by a fine of not exceeding \$1,000, or by imprisonment of not exceeding one year, or both.

(e) The provisions of section 112, 113, 114, 115, 116, and 117 of the Criminal Code of the United States (U. S. C., title 18, secs. 202 to 207, incl.), in so far as applicable, are extended to apply to contracts or agreements of any Federal Home Loan Bank under this act, which, for the purposes hereof, shall be held to include advances, loans, discounts, and purchase and repurchase agreements; extensions and renewals thereof; and acceptances, releases, and substitutions of security therefor.

(f) The Secret Service Division of the Treasury Department is authorized to detect, arrest, and deliver into the custody of the United States marshal having jurisdiction any person committing any of the offenses punishable under this act.

MISCELLANEOUS

SEC. 20. (a) In order to enable the board to carry out the provisions of this act, the Treasury Department, the Comptroller of the Currency, the Federal Reserve Board, and the Federal reserve banks are hereby authorized, under such conditions as they may prescribe, to make available to the board in confidence for its use and the use of any Federal Home Loan Bank such reports, records, or other information as may be available, relating to the condition of institutions with respect to which any such Federal Home Loan Bank has had or contemplates having transactions under this act or relating to persons whose obligations are offered to or held by any Federal Home Loan Bank, and to make through their examiners or other employees, for the confidential use of the board or any Federal Home Loan Bank, examinations of such institutions.

(b) Every institution which shall apply for advances under this act shall, as a condition precedent thereto, consent to such examination as the bank or

the board may require for the purposes of this act and/or that reports of examinations by constituted authorities may be furnished by such authorities to the bank or the board upon request therefor.

(c) Section 5202 of the Revised Statutes of the United States is amended by adding a clause as follows:

"Ninth. Liabilities incurred under the provisions of the Federal Home Loan Bank act."

SEC. 21. Each Federal Home Loan Bank shall have succession until dissolved by the board under this act or by further act of Congress.

SEC. 22. Whenever the board finds that the efficient and economical accomplishment of the purposes of this Act will be aided by such action, and in accordance with such rules, regulations, and orders as the board may prescribe, (1) any Federal Home Loan Bank may establish a branch or branches within the district in which such bank is located, or (2) any Federal Home Loan Bank may be liquidated or reorganized, and its stock paid off and retired in whole or in part in connection therewith after paying or making provision for the payment of its liabilities. In the case of any such liquidation or reorganization, any other Federal Home Loan Bank may, with the approval of the board, acquire assets of any such liquidated or reorganized bank and assume liabilities thereof, in whole or in part.

SEC. 23. If any provision of this act, or the application thereof to any person or circumstances, is held invalid, the remainder of the act, and the application of such provision to other persons or circumstances, shall not be affected thereby.

SEC. 24. Any institution organized under any law of the United States, including the laws relating to the District of Columbia, shall be authorized to subscribe for stock of a Federal Home Loan Bank if otherwise eligible to make such subscription under the terms of this act, any provision in any such law to the contrary notwithstanding.

SEC. 25. The right to alter, amend, or repeal this act is hereby expressly reserved.

Mr. REILLY (presiding). This is a meeting of a subcommittee of the Committee on Banking and Currency of the House of Representatives appointed for the purpose of considering H. R. 7620, to create Federal home loan banks, and so forth.

At an informal conference of the members of this committee, it was decided that in as much as the Senate of the United States had conducted extensive hearings on an identical bill as is now before the subcommittee, that this subcommittee would consider testimony taken on the Senate hearing on the pending bill.

In view of such determination on the part of the subcommittee, we do not care to hear any witnesses who appeared and testified at the Senate hearing unless they have some additional testimony to offer. The subcommittee does not desire to bar any person interested in this bill from appearing and giving his views, except that it is deemed unnecessary and a waste of time to hear the testimony of those who have already testified on a similar bill and which testimony is available for the use of the committee.

What is the vote of the committee on that?

Mr. WILLIAMS. That is my view.

Mr. REILLY (presiding). Mr. Campbell, what do you think?

Mr. CAMPBELL. That is my view, Mr. Chairman.

Mr. REILLY (presiding). Mr. Hancock?

Mr. HANCOCK. Yes; that is entirely satisfactory.

Mr. REILLY (presiding). The bill before this subcommittee bears the name of Representative Luce, a member of this subcommittee. The Chair understands that Mr. Luce has spent considerable time and study in the preparation of this bill, and I know the subcommittee will hear with profit whatever Mr. Luce may have to say on the pending bill.

STATEMENT OF HON. ROBERT LUCE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MASSACHUSETTS

Mr. LUCE. Mr. Chairman, as sponsor of the bill in the House, I will attempt to give you a concise statement of the bill, with a word or two about its history.

In 1913 Congress created the Federal reserve system, a system based upon membership—a compulsory membership by all of the Federal banks and an optional membership by State banks. The purpose of that system was twofold, an emergency purpose, in order that there might be a reservoir of credit available for commercial banks in times of stress, and the continuing purpose that the system might function to give the country adequate currency without exposing it to the danger of inflation. That system was based upon the rediscount of commercial paper—short-time paper arising out of business transactions and some transactions connected with agriculture.

Three years later Congress created the Federal farm loan system with the purpose of furnishing to agriculture access to greater credit, thus improving the opportunities for individual farmers and at the same time reducing the average rate of interest throughout the country on farm loans.

That system now has something more than a billion dollars of mortgages and an estimate resulting from an investigation semi-official in nature indicated that it had reduced the average rate of the total of farm mortgage interest throughout the country by one and a half per cent.

The creation of these two systems suggested that a similar system might furnish credit in the building field.

The idea took shape within the Department of Labor in the administration of President Wilson and that department formulated and presented a program to be applied to the home-building field, embodying the same principles that had been applied to the commercial field and to the agricultural field. The time was not ripe. The measure did not prevail. It started a discussion which has been continuous among those particularly interested in this subject, gradually arousing more and more interest and resulting in some State activities, notably in New York, where a land bank was formed. Very recently in my own State of Massachusetts, a system accomplishing or meant to accomplish a part of what is now before you has been put into effect, the Supreme Court having vouched for its constitutionality. The same proposition is under consideration in New Jersey. I have not heard the latest news as to where it stands. These are tentative steps toward combining the institutions particularly concerned, so that they may buttress each other and get the protective advantages that have accrued from the Federal reserve and the Federal land bank system.

The country-wide emergency with its prospect of great distress gave emphasis last year to the need for immediate action in order to expand the credit facilities in the building field. The occasion for this will undoubtedly be laid before you in detail by witnesses. It has already been set forth in the Senate hearings. Summarizing, the need may be said to spring from the withdrawals of deposits

from all sorts of banking institutions large and small, whether for the purpose of hoarding or for the necessities of domestic life.

This feature of the building situation became prominent in a conference held here last fall by representative men of high standing interested in the general subject of home construction. As a result of that the President issued a statement in November, urging action in the direction contemplated by the bill here pending, and in his opening message at the beginning of the session of Congress, early last December, he put this paragraph, to which I ask your attention while I read it. It is not long, and it covers the ground most succinctly. The President said:

I recommend the establishment of a system of home-loan discount banks as the necessary companion in our financial structure of the Federal reserve banks and our Federal land banks.

My I interject and ask particular attention to the fact that he begins by advising us to do the same thing here that we have done for commerce and agriculture. He goes on saying:

Such action will relieve present distressing pressure against home and farm property owners. It will relieve pressures upon and give added strength to building and loan associations, savings banks, and deposit banks, engaged in extending such credits. Such action would further decentralize our credit structure. It would revive residential construction and employment. It would enable such loaning institutions more effectually to promote home ownership. I have discussed this plan at some length in a statement made public November 14, last. This plan has been warmly indorsed by the recent National Conference upon Home Ownership and Housing, whose members were designated by the governors of the States and the groups interested.

As is customary in the matter of the more important Executive proposals, one of the departments, this time the Department of Commerce, undertook the preparation of a bill. At the opening of the session it was given to Senator Watson for introduction in the Senate and to myself for introduction in the House. Neither of us—and I am sure that I speak for the Senator as well as myself—claims the slightest credit for the preparation of the bill. When it was handed to me I was told that it had been drawn in some haste, and that undoubtedly changes would be necessary. Upon examining the bill this was quickly evident, and, upon further study, it proved that the bill need to be wholly recast, to be changed in some and to be rearranged in many particulars. Therefore, I went to the legislative drafting service, and Mr. John O'Brien, who sits at your left, was assigned to assist me. I want to attest for the record the very remarkable help that he has given in mastering a most complicated subject and preparing a far better bill than the original bill. Mr. O'Brien did not have all of the time that was desirable, and I gather from reading the Senate hearings that there were some particulars brought to attention where further changes in matter of technical detail are desirable. He will be with us through the hearings, and can furnish a more accurate statement in point of detail than I can. I am sure he will be very glad to assist us. He had to do this work more hastily than would be wished by reason of the desire on the part of the Senate subcommittee to proceed at once. It was important that they should proceed with the revised bill in hand rather than the original bill, and so he worked, and those of us who labored with him worked, under high pressure, for days. I gave to it as many hours as I could, without probably much help in matter of technique, but contributing, as far as I could, from my experience of a dozen years

in observing the criticisms made before the Committee on Banking and Currency in the matter of the details of the Federal farm loan system and of the Federal reserve system. Many little questions have come up in that committee as to the framework of the laws concerned. You must remember that the Federal reserve system was novel. Indeed, both systems were novel. There was no experience in this country to fall back upon. Inevitably, occasion to improve the machinery developed from time to time. Possibly I helped a little in the present matter by putting at the command of the draftsman the results of such observation as I had made. Also, representatives of the large interests directly concerned helped materially from the fund of their own practical experience. However, the details of the bill, as originally drafted and as reconstructed, were largely drawn from the farm loan and Federal reserve bills. There has been some contention in the Senate hearings over matters of machinery, with criticism by witnesses probably not informed as to the sources of the provisions in the pending bill. There is in matter of machinery little in this bill that has not been already tested through the years during which the farm loan and the Federal reserve systems have been in operation.

Perhaps I would better not try to anticipate witnesses with any résumé of objections to the bill. They will be developed as we go along. I would, however, take a minute or two to explain the general purposes that the President's advisers had in mind and that he himself in his statements given out since then has confirmed.

There are three general purposes in the bill. The first is to relieve the present emergency, it being thought by the proponents of the bill and confirmed by developments, at least so far as I have knowledge, that the Reconstruction Finance Corporation will not suffice to meet the needs here involved, and that there should be added this further provision for temporary relief. The needs are instant because of the lamentably large number of financial institutions that are at the present moment in dire distress by reason of their inability to raise money on perfectly good security. I will testify from my own experience. I received two days ago a letter from a cooperative bank in Massachusetts in which I have been a shareholder, regarding some of my shares that are now maturing. The president of the association wrote to me telling me of the facts and asked me if I would be willing to leave my money there, accepting a matured share certificate in its place. Further testifying from my own knowledge of the situation, not long ago I received from a constituent in the town of Brookline, one of the wealthiest towns in the world, a letter telling me of a neighbor who had just moved into an absolutely new \$10,500 house. Desiring to borrow \$7,000, he had visited 12 savings banks, and 11 of them had refused to make a loan under any conditions. That indicates the situation in my own region, a situation produced by withdrawals, whether for hoarding or for domestic needs in the case of persons in comparatively humble circumstances who are out of work. These withdrawals are putting every institution which lends money on mortgages in my State in the position of dire need of opportunity to raise money on perfectly sound securities. As you go through the Senate hearings you will find that situation reported again and again in practically every part of the country.

As an emergency measure the system here proposed is needed not alone to help these institutions meet applications for withdrawals, but also to enable them to resume business, inasmuch as they are practically now out of business for the time being so far as concerns loaning money with which borrowers may remodel or buy homes. That presents a situation which makes time an important element. If I have seemed from time to time unduly anxious to push this matter, it is because every day hundreds of foreclosures are taking place. Men are losing their homes and the savings of a lifetime are being swept away. The quicker we give such relief as may be within our power to give, the less the loss and the suffering.

The second purpose of the bill is to provide against repetitions of such emergencies as this. The major recessions in business in the last 115 years have averaged to come about once in 20 years, with a minor recession in between. It was to anticipate these recessions in business that the Federal reserve system was created. The same reason exists for creating this system.

The third purpose of the bill is to furnish permanently to the home-building field the same credit facilities that have been furnished in the agricultural field and the commercial field. I may be forestalling witnesses by saying that the necessity for a permanent system is one of the issues that developed sharply in the Senate hearings. Undoubtedly some witnesses will tell us it is desirable and some will think otherwise. It is one of the high lights of the question. For my part I favor a permanent supply of more building capital. There has been an attempt in this bill, and I think a successful attempt, to anticipate the danger which will be stressed of financing building booms. We have given in this bill much more power to the central authority than is given in either the Federal reserve or the farm-loan system. The confident expectation is that the President will appoint a board composed of wise and experienced men strong enough to use that power and to prevent the resources of this system from being put at the command of speculators and the instigators of real estate booms. The bill has been drawn to anticipate every such situation as we could imagine.

I think I would better not go into the details, but allow the witnesses to develop those features. I want, however, to point out that we have drawn a bill here which follows the middle course. Those who have studied the subject carefully will be able to point out that we have neither gone to the extreme advocated by some or the opposite extreme advocated by others as to figures in the bill, the amount that may be borrowed, its relation to the security, the amount of capital to be invested, the sources of the capital, and so forth.

The objection has been and will be raised that this is putting the Government still further into business, it perhaps not being fully understood that in the formulation of the system we have provided that all of the capital lent by the Government shall sooner or later be repaid by the system, as was provided in the Federal farm-loan system. Such money as the Government lent to the farm-loan system was, except for an insignificant portion, wholly repaid prior to the present depression. This depression caused the need for the additional capital that was lent to the system by the first of the reconstruction measures that we have passed at this session, a loan we

are confident will also be repaid. So, it is not in contemplation here that this will ultimately cost the taxpayers any money. We are lending to the home-loan system, such money as it does not itself furnish up to the total of \$150,000,000. So for the sake of accuracy it will be well to emphasize that it should not be spoken of as an appropriation by the Government or the giving by the Government of that amount of money. We are lending that part which the members of the proposed system do not themselves advance.

The question of whether the Government should ask interest upon the money will be discussed and ought to be discussed and considered. When the farm loan system was created it was believed by Congress that it was clothed with a public purpose and that it was to the social advantage of the whole community that the system should come into effect and function. Congress said our contribution toward this was to lend the initial capital. I do not know if that policy was wise, and I am not going to argue it, of course, at this moment. It is a matter to be argued and considered. The precedent is that where Congress aids in the institution of a system designed for the general welfare, it is not unreasonable for the Government to forego interest on its contribution.

Now, a word about the membership in this system. Mind you, the Federal reserve system had for its basis existing commercial institutions, including many banks of great resources. Every national bank was required by law to become a member, with membership for other banks, many of which at once joined. When, three years later, the farm-loan system was created we found no such basis, and so we created a foundation by making as a part of the structure freshly created local associations, cooperative in their nature, with very little capital of their own. Such is still the basis of the machinery of the farm-loan system. Now, in the home-building field we find already established a great variety of institutions that already have in their possession mortgages. So, we do not have to create any institution, but take for our basis associations of several kinds, with resources great in the aggregate. Most numerous are the cooperative associations framed on a system that has been successfully functioning through more than a hundred years. So, in place of the newly created farm-loan associations we have here for our basis chiefly what are known as building and loan associations, or, in my region, cooperative banks. Our purpose is to allow these institutions and the other financial institutions admissible to rediscount their mortgages. The impression has been spread abroad that we were trying to create here a system under which the Government would lend money to individuals. That has never been contemplated and will not be possible under the bill. We are doing precisely the same thing that the Federal reserve system does for the man in business, giving him a place to rediscount. We think that under suitable restrictions mortgages will be just as safely and effectively used as commercial paper, the backing for bonds for the raising of funds.

We point to the fact that the Federal Farm Loan Board has more than a billion dollars of invested money, lent to farmers for the purposes of agriculture. We believe that similar success may be accomplished with this home-loan system.

That, in general, is the layout of the bill. To sum up, in the light of our own experience and observation, we have taken the pertinent

parts of the farm loan and Federal reserve acts and combined them for the purpose of furnishing resources to the home-building field in order to help many distressed financial institutions, and even protect them in future emergencies, and I enlarge the facilities for the building of homes.

Now, a word as to my own share in it. Somebody had to decide in the matter of a large number of minor differences between the Federal-reserve and farm-loan machinery. It fell to me to take that part. The work was done under high pressure. I had to make many decisions offhand, and I am not conceited enough to think that I advised wisely in every instance, but I did the best I could, and my decisions, of course, will be subject to the revisions of this committee or the full committee with no likelihood of hurting my feelings in the slightest if some of the snapshot judgments I was compelled to make in matters of minor detail are reversed. That is all.

Mr. REILLY. I thank you, Mr. Luce, for your statement.

Now, Mr. O'Brien, gave to the Senate committee an explanation of the bill. It was rather long because he was interrupted.

Now, I wonder if the committee would want at this time a supplement to Mr. Luce's statement as to just how the bill works out and what the plan and theory is, so that it will be set up in front of this report and be available for the Members of the House to develop the workings, and how the banks are supposed to construe out, and the technical portions of the bill.

Mr. CAMPBELL. I think that would be very well, Mr. Chairman.

Mr. REILLY. Now, tell us that, Mr. O'Brien, to supplement what Mr. Luce has told us.

STATEMENT OF JOHN O'BRIEN, ASSISTANT COUNSEL, OFFICE OF THE LEGISLATIVE COUNSEL, HOUSE OF REPRESENTATIVES

Mr. O'BRIEN. The bill contemplates the establishment of 12 banks which are to be located in regions established by the board. The board is to consist of five people appointed by the President by and with the advice and consent of the Senate. The board has general supervision over the activities of the banks and their issuance of bonds and making of loans. Twelve banks are to be established and the capitalization is to be derived from two sources. The first source is from those institutions which are eligible to become members of the banks. The minimum capital of each bank is to be fixed by the board. Each of the 12 banks is to have a minimum capital of \$5,000,000. Upon the establishment by the board of a bank in one of the regions, the institutions eligible to become members will subscribe for stock. Such part of the minimum capital of the bank as is not subscribed by institutions eligible to become members of the bank within 30 days after the establishment of the bank will be subscribed by the United States, but in no event is the capital subscribed by the United States to exceed \$150,000,000. The institutions eligible to become members of the Federal home loan banks are described on pages 3 and 4, section 4. The institutions eligible to subscribe are institutions organized under the laws of any State or of the United States, and which are subject to inspection and regulation under the banking laws, or under similar laws of the State or of the United States.

The first class of such institutions includes building and loan associations, cooperative banks, and homestead associations. The sec-

ond class of such institutions includes such savings banks and trust companies and other banks as the board determines have such time deposits and are in such financial condition as to warrant their making such home-mortgage loans as the board regards as long-term mortgage loans.

The third class of institutions eligible to subscribe comprise insurance companies. An institution is eligible to become a member of the bank of the district in which is located its principal place of business or of the bank of a district adjoining such district.

The capital stock of the Federal home loan banks is to be issued at par, each share to be worth \$100. The amount of capital stock which each member is to be obliged to subscribe to in order to become a member is fixed by the bill to be \$2,500, plus an amount equal to 1 per cent of the aggregate of the unpaid principal of the subscribers' home mortgages.

Now this item of unpaid principal is extremely important. The unpaid principal is described by the seventh paragraph of the second section of the bill to mean the amount of the principal sum of the loan which made by the institution to the borrower, minus the amount which he has paid on that loan, or, in case the borrowing arrangement is the one frequently made by building and loan associations; that is, an arrangement by which the borrower pays for the shares which he purchases, minus that amount which he has paid on those shares and the amount of the dividends paid on those shares to him which has been credited to the loan, or which may be at any time credited to the loan. I point out the significance of the "unpaid principal," because that is not only the basis of the stock subscription of members but it is also the basis on which the member may borrow of the Federal home loan bank. **Stock subscriptions by the United States are to be subject to call by the board with the approval of the Secretary of the Treasury.**

There is authority in the Board to determine the time at which the subscriptions of the United States shall be paid. Stock subscriptions of the United States are not to share in dividends but all other stock subscriptions are. There is a provision made for the retirement of the stock held by the United States. The retirement begins when the members have paid in an amount equal to the amount paid in by the United States as stock subscriptions. This is a specific example: Suppose the minimum capital stock of one particular bank is fixed at \$12,000,000. Suppose the Secretary of the Treasury subscribes to the difference between \$9,000,000, which has been put up by members, and the \$12,000,000, which is \$3,000,000; upon the members' subscribing to that additional \$3,000,000 of stock, the stock of the United States is begun to be retired and that process is continued until the entire amount of the stock subscribed by the United States is retired at par.

There are in some States laws regulating banks and building and loan associations which would prohibit them from becoming members of this banking system. Provision is made for such members by permitting them in lieu of subscribing to stock to deposit either Federal securities—that is, either Federal bonds, or other obligations of the United States, or short-term debentures issued by the bank itself, or cash. That provision, however, is temporary. In no event

is any such member to remain a member of the system more than 42 months after the enactment of this act or later than the time when the State Legislature has enacted an act authorizing such institution to become a member of this system by stock subscription. Those members who become members in this manner are treated all the way through the act as if they were members regularly subscribing.

The banks are to be managed by a board of 11 directors, all of whom are to be citizens of the United States and residents of the districts in which the banks is located. Two of the directors are to be appointed by the board. There is also a provision made for staggering terms of the directors. Nine of the directors are to be elected by the member institutions. Those nine directors are divided into three classes, A, B, and C, and, correspondingly, of course, the members are divided into three classes, namely, A, B, and C. The member are divided into classes on the basis of their size, and their size is to be determined on the basis of their holdings in home mortgages, the holdings to be determined by reference to the unpaid principal to the home mortgages which the institution owns. As I say, these nine directors are elected by the members. All the directors elected by the members are to be chosen from persons connected with the home finance business. There is a provision by which, whenever the members of the bank hold less than \$1,000,000 of the capital stock of the Federal home loan bank, the board will appoint directors who are next to be elected directors, because in such a case the interest of the members of the bank, of course, is diminished and, correspondingly, theoretically at least, the interest of the United States becomes greater.

I might speak next of the system by which members secure advances from the bank. When speaking here of members I am speaking only of the bank members. I speak of members not only as members becoming members by reason of subscribing for their stock, but also members who have become so by reason of their deposits of government obligations, short-term debentures, or cash.

A member, in order to obtain the privilege of receiving advances from the bank, must apply for permission to receive such advances. The bank may, in its discretion, deny the application, or, subject to the approval of the board, may grant the application under such terms as the bank may prescribe.

Now, the securities upon which the banks are to give advances, and on which the members are to receive advances are mortgages on real estate upon which is located a dwelling for more than three families. The mortgage must be a first mortgage. When a member of the system comes to the bank for the purpose of obtaining advances, it has to enter into a primary obligation to pay off the advances when due and to deposit additional security. The amount which the member can receive from the bank on its discount of the mortgage which the member owns is set out, the limitations are set out, in section 8 of the bill which is what we find here on page 15.

In the first place, no mortgage can be accepted for the purpose of making advances thereon if the loan secured by it has more than 20 years to run from the time the mortgage is sought to be discounted to its maturity.

The second condition is that the unpaid principal sum of the home mortgage shall not exceed three-fourths of the value of the real estate secured if the loan is amortized, or shall not exceed 60 per cent of the value of the real estate if the loan is not amortized.

The third limitation is that the unpaid principal of such home mortgage can not exceed \$15,000. Now, in the case of an unamortized loan which would have an original term of eight years or more the banks may lend money not in excess of 60 per cent of the unpaid principal of the loan. I might explain that the theory of that is that eight years or more is the dividing line between long-term and short-term loans, and in addition, "amortizing" means a loan the principal obligation of which is discharged by regular payments substantially equal in amount, so that you have the situation by which the ordinary man makes the ordinary arrangement to pay over a number of years a rather definite sum, or a rather equal sum, which will result in the loan being terminated and the obligation discharged at the time the maturity accrues.

Now, in the case of any other loan—that is, a loan which is not amortized or an amortized loan which has a maturity of less than eight years—advances can not be for more than 50 per cent of the unpaid principal of the mortgage.

The third limitation is that in no case may advances made by the bank to the member exceed 40 per cent of the appraised valuation of the real estate securing the home mortgage loan.

Provision is made for ascertaining the value of the real estate under regulations prescribed by the board. As I have said, advances may be made upon the note of members bearing such rate of interest as the board may prescribe.

There is also a provision by which one bank can transfer to another bank the obligations which that bank holds with respect to mortgages. The banks themselves have the power to borrow money and to give security for that money and pay interest through the issue of bonds and debentures, having such maturities as may be determined by the board. The security which may be given by the banks for their borrowing is the mortgages which the banks have received from the members. Limitations are made upon the security which may be given to this extent; that is, in case a bank wants to borrow money and issue bonds therefor provision is made that the unpaid principal of the mortgage security for those bonds shall at no time be less than 190 per cent of the outstanding bond issue, and that security is to be, as I say, mainly mortgages which the bank has received from its members. Provision is made for cash being deposited in lieu of mortgage in certain limited classifications. The board is also given authority to require the bank to deposit additional and substitute collateral, of course, for the issue of its bonds.

The board is given power to determine the rate of interest which may be paid upon notes, debentures, and bonds which may be issued by the bank, but no bond or debenture issued within seven years after the enactment of the act shall bear a rate of interest in excess of $5\frac{1}{2}$ per cent per annum, and thereafter no bond or debenture shall bear a rate of interest in excess of 5 per cent per annum. The board is to provide such margins between interest rates received upon advances made to the members and interest paid upon obligations which

the Federal home land bank may issue sufficient to cover expenses of operations and reserves, and, under regulations provided by the board, some part of the reserves may be devoted to retirement of the stock subscribed by the United States. All of the banks are to be jointly and severally liable for payment when due of all bonds and debentures and notes and other obligations issued by all of the banks together with interest thereon, but there is provision made by which a particular bank can, with respect to a particular borrowing, which must be temporary in its nature, expressly state that in such a case the liability is limited to the borrowing bank.

Each bank is given power to accept deposits, but those deposits can be accepted only from members of such bank or from other Federal home land banks. Such deposits are not to be subject to check, and no rate of interest in excess of 3 per cent may be paid thereon. No Federal home loan bank shall transact any banking business or any business not expressly authorized by the act.

The board is given authority upon the affirmative vote of at least four of the members of the board, whenever an emergency exists, to require one bank to rediscount the discounted notes of members held by another bank or the bonds issued by another bank or to make deposits with another bank. In such cases the board is empowered to fix the price of the bonds, and if it requires a deposit to fix the security therefor, the board is also given authority to fix the rate of interest upon deposits.

A further provision provides that each bank shall at all times have invested in United States securities, interest bearing deposits in banks or trust companies and in advances with maturity not greater than one year made to members an amount equal to the sums paid in on outstanding capital subscriptions of its members, plus an amount, equal to the current deposits received by that bank from its members.

The bank has authority to invest part of its assets, except the sums of which I have just spoken in other securities, other than to members, and the board is given authority to regulate that. The banks themselves will be corporations having the usual corporate powers.

The capital, surplus, and income of Federal home loan banks shall be exempt from taxation, both Federal, State, municipal, and local taxation, except, of course, real estate held, purchased, or taken by the bank is to be taxed. The bonds and debentures of the home loan banks shall be deemed and held to the instrumentalities of the Government of the United States, and the income derived therefrom shall be exempt from Federal, State, municipal, and local taxation. This provision is exactly the same as in the land bank law.

The bank may, when designated by the Secretary of the Treasury, become employed as a financial agent of the Government. Obligations of the home loan banks are to be lawful investments, and may be accepted as security for fiduciary, trust, and public funds.

The Federal reserve banks are also authorized to act as depositories or fiscal agents for Federal home loan banks as provided under this act.

The Federal loan banks shall carry to reserve account semiannually 50 per cent of their net earnings until the reserve account shows a credit balance equal to 100 per cent of the paid-in capital of the bank. After that reserve account has reached 100 per cent of the paid-in

capital, 25 per cent of its net earnings shall be added thereto semi-annually. Provision is made, too, for the nonpayment of dividends during the time that the capital is impaired below 100 per cent.

The board is to consist of five members appointed by the President by and with the advice and the consent of the Senate. The salary of the members of the board is fixed at \$12,000 per annum. The usual provisions are made in the bill for staggering the terms of the members, which terms, after the first appointments, are to be for six years. Provision is made by which any officer of the United States who is appointed as a member of the board shall not receive a combined salary of more than \$12,000 per annum. The board is also given authority to control the officers and employees of the home loan banks by suspending or removing them.

An appropriation is authorized for \$500,000 for expenses of the board for the year 1932, and, thereafter, the expenses of the board are to come from proportionate assessments levied upon the banks semiannually to pay the expense of the board.

The board is given the usual powers to select its employees without regard to civil-service classification and the board is also given the authority of franking privileges of the mails. Examinations of the banks by the board is provided for under regulations prescribed by the board. An elaborate system of penalties is contained in the bill, which penalties relate to the ordinary unlawful acts in connection with banking business. There is a special provision contained in the bill by which an individual, partnership, or corporation which is not a Federal home loan bank may not use the words, "Federal home loan bank," or a combination of all such words as the name under which it is doing business, except if it is doing business before the enactment of this act under that name. In addition to that an institution which is not a member is not permitted to advertise that it is a member, and no institution that is not a Federal home loan bank may represent that it is a Federal home loan bank. Various provisions are made for enforcing the criminal penalties.

In order to carry out the provisions of the act, the Treasury Department, the Comptroller of the Currency, the Federal Reserve Board, and the Federal reserve banks, are authorized under conditions which they may prescribe, to make available to the board for its use and for the use of any Federal home loan bank reports, records, or information, that may be available relating to the condition of institutions with respect to which the Federal home loan banks have, or contemplate, having transactions under this act, or relating to persons whose obligations are offered to or are held by any Federal home loan bank, or to make through their examiners, or employees, for the confidential use of the board, or any Bank, examinations of those institutions. Provision is also made by which obligations incurred under this Act are lawful obligations of national banks under the national banking act.

The board is given authority to authorize the Federal home loan bank to establish branches, but a branch may be established only in the district in which the bank is located. The board is also given authority to provide for the liquidation of any Federal home-loan bank. The usual provision is made with respect to separability in

cases of unconstitutionality. As I understand it, under the law of the District of Columbia relating to building and loan associations and the cooperative banks and institutions of that sort, they do not now have the power to subscribe for the stock of an institution such as the Federal home loan bank. Specific provision is made which, in effect, is an amendment to the District of Columbia law by which those institutions can subscribe for this stock if they are otherwise eligible to subscribe. A similar provision is made with respect to institutions organized under the laws of the United States. The right to alter, amend, or repeal the act is expressly reserved.

Mr. REILLY (presiding). If any members wish to ask Mr. O'Brien any question to clarify what the bill means, he will answer them, except as to the policy of the bill.

Mr. O'BRIEN. I might say, Mr. Chairman, that there are a good many minor details I have omitted in discussion, but I think I have touched the major points.

Mr. REILLY. You have given us a general outline of what the bill is, and it will help us in reading the bill to understand it. Thank you. Mr. O'Brien, if you can stay with us we will be very much obliged.

Mr. HANCOCK. Is it the intention of the committee to confine their attention to this bill at this time or will the committee consider other similar bills? I was wondering whether it would be wise to consider them jointly or separately or just what the committee would want to do about it.

Mr. CAMPBELL. I was talking to Mr. Crosser, and he has a similar bill of this character.

Mr. HANCOCK. I do not think he would insist on hearings on his bill, but he would like to be heard on the home loan bank proposition at this time.

Mr. REILLY. Yes, we can hear Mr. Crosser. If he has any ideas that may convince us that his ideas should be substituted, we will consider them.

Mr. WILLIAMS. Yes; invite him to come before the committee and present his views.

Mr. REILLY. Yes.

Mr. LUCE. Mr. Chairman, in order that we might have as wide a spread of judgment bearing on the features of this bill as possible, I asked the Department of Commerce to send out a questionnaire in the matter and this was done, and I have here photostats of the results as far as secured, which are of much importance. If it is inconvenient for you to take them to your office now, I will give them to you later.

Mr. REILLY. The committee will adjourn until 2 o'clock.

(Whereupon, at 12.05 o'clock p. m., an adjournment was taken until 2 o'clock p. m., of the same day.)

AFTER RECESS

The committee reconvened at 2 o'clock p. m., pursuant to the taking of recess.

FURTHER STATEMENT OF HON. ROBERT LUCE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MASSACHUSETTS

Mr. LUCE: Mr. Chairman, I would like to supplement my statement of this morning by furnishing the results of a questionnaire sent out by the Department of Commerce to which eight thousand or nine thousand replies were received, showing or giving a complete statistical statement of the situation to which we are addressing ourselves.

Mr. REILLY. Later on you ought to put in what that shows, interpret that.

Mr. LUCE. I will put in an interpretation of it.

THE DEPARTMENT OF COMMERCE QUESTIONNAIRE

The Department of Commerce sent out the following circular letter and questionnaire, accompanied by President Hoover's statement of November 13, 1931:

DEPARTMENT OF COMMERCE,
Washington, January 15, 1932.

Circular letter to Presidents of Banks, Building and Loan Associations, and other Mortgage Institutions.

DEAR SIR: The inclosed material in regard to the proposed system of 12 Federal home loan discount banks is sent you at the request of Representative Robert Luce, who has introduced in Congress a bill designed to carry out the suggestions outlined by President Hoover in the attached statement.

Mr. Luce, a member of the House Committee on Banking and Currency, which will hold hearings on the measure, has asked this department to ascertain the probable effects of the system upon the operations of local mortgage-lending institutions. Accordingly, a questionnaire is attached which I hope you may fill in and return.

A full response from local institutions that make mortgages on homes should throw much light on the probable usefulness of the proposed measure.

Thanking you for your cooperation in this matter, I am

Very sincerely yours,

R. P. LAMONT,
Secretary of Commerce.

TEXT OF PRESIDENT HOOVER'S STATEMENT ON THE PROPOSED ESTABLISHMENT OF HOME LOAN DISCOUNT BANKS

(November 13, 1931)

I shall propose to Congress the establishment of a system of home loan discount banks for four purposes:

1. For the present emergency purpose of relieving the financial strains upon sound building and loan associations, savings banks, deposit banks, and farm loan banks that have been giving credit through the medium of small mortgage loans upon urban and farm properties used for homes; thereby to relieve pressures upon home and farm owners.

2. To put the various types of institutions loaning on mortgage in a position to assist in the revival of home construction in many parts of the country and with its resultant increase in employment.

3. To safeguard against the repetition of such experiences in the future.

4. For the long-view purpose of strengthening such institutions in the promotion of home ownership, particularly through the financial strength thus made available to building and loan associations.

The immediate credit situation has for the time being in many parts of the country restricted severely the activities of building and loan associations, deposit banks, including country banks, and savings departments, savings banks

and farm loan companies in such fashion that they are not only not able to extend credit through new mortgages to home and farm owners, but are only too often unable to renew mortgages or give consideration to those in difficulty with resultant great hardships to borrowers and a definite depreciation of real estate values in the areas where such pressures exist.

A considerable part of our unemployment is due to stagnation in residential construction. It is true there has been some overbuilding in certain localities in the boom years. But even in these localities the inevitable need is obscured by the tendency of the population to huddle temporarily due to unemployment. The real need steadily accumulates with increasing population and will become evident and insistent as we come out of the depression. The high importance of residential construction as a matter of employment is indicated by the fact that more than 200,000 individual homes are erected annually in normal times, which with initial furnishing contribute more than two billions to our construction and other industries. This construction has greatly diminished. Its revival would provide for employment in the most vital way. As a people we need at all times the encouragement of home ownership, and a large part of such action is only possible through an opportunity to obtain long-term loans payable in installments. It is urgently important, therefore, that we provide some method for bringing into continuing and steady action the great facilities of such of these great national and local loaning concerns as have been under pressure and should provide against such difficulties in the future.

The farm-mortgage situation presents many difficulties to which this plan would give aid.

I have consulted with representatives of the various groups granting credit on mortgage loans for the home and farms as well as Government officials and other economic agencies, and as a practical solution from the various needs and the various ideas advanced I propose the following general principles for the creation of an institution for such purpose:

(a) That there be established 12 home loan discount banks (if necessary), one in each Federal reserve district under the direction of a Federal home loan board.

(b) The capital of these discount banks shall be initially of minimum of five to thirty millions as may be determined by the Federal board upon the basis of the aggregate of such mortgage loans and probable needs of the particular district.

(c) The proposed discount banks to make no initial or direct mortgages but to loan only upon the obligations of the loaning institutions secured by the mortgage loans as collateral, so as to assure and expand the functioning of such institutions.

(d) Building and farm loan associations, savings banks, deposit banks, farm loan banks, etc., may become members of the system after they have satisfied the conditions of qualifications and eligibility that may be fixed by the Federal board.

(e) The mortgage loans eligible for collateral shall not exceed \$15,000 each and shall be limited to urban and farm property used for home purposes.

(f) The maximum amount to be advanced against the mortgage collateral not to exceed more than 50 per cent of the unpaid balance on unamortized or short-term mortgage loans and not more than 60 per cent of the unpaid balance of amortized long-term mortgages, and no advance to be made on mortgages in default. Such loans are to be made on the basis that there are sound appraisals of the property upon which such mortgages have been made. In other words, given sound appraisals, there will be advanced in the case of short-term or unamortized loans 25 per cent of the appraisal and in case of amortized long-term loans, 30 per cent of the appraised value of the property.

(g) The discount banks as their needs require from time to time to issue bonds or short-term notes to investors to an amount not to exceed in the aggregate twelve times the capital of the issuing bank. The bonds of these discount banks would be thus secured by the obligations of the borrowing institutions, the mortgages deposited as collateral against such obligations and the capital of the discount banks. These bonds to be acceptable for security for Government and postal deposits. The result would be a bond of high grade as to quality and security.

(h) If the aggregate initial capital of the discount banks should in the beginning be fixed at \$150,000,000, it would be possible for the 12 banks to finance approximately something over \$1,800,000,000 of advance to the borrowing institutions, which could be further expanded by increase in their capital.

(i) It is proposed to find the initial capital stock¹ for the discount banks in much the same way, in so far as is applicable, as the capital was found for the Federal reserve banks—that is, that an organization committee in each district should first offer the capital to the institutions which would participate in the service of the bank. And as was provided in respect to the Federal reserve banks, if the initial capital is not wholly thus provided, it should be subscribed by the Federal Government; and further, somewhat as was provided in the case of the Federal land banks, other institutions using the facilities of the discount banks should be required to purchase from time to time from the Government some proportionate amount of its holdings of stock, if there be any. In this manner any Government capital will gradually pass over to private ownership, as was the case in the Federal land banks.

The above details of the proposal are put forward as suggestions in order to give clarity to the central idea rather than as inflexible conclusions. The whole plan would necessarily be subject to the action of Congress, and many parts of it will no doubt need development.

There is no element of inflation in the plan but simply a better organization of credit for these purposes.

This proposed institution does not in any way displace the National Credit Association, which occupies an entirely different field of action.

DEPARTMENT OF COMMERCE,
Washington, D. C., January 15, 1932.

When you have replied to the following questions, please mail to the Secretary of Commerce, Washington, D. C., in the attached addressed envelope, which requires no postage:

1. Would the facilities provided by the proposed home loan discount banks for borrowing on your home mortgages add desirable flexibility and security to the conduct of your institution?-----
2. Would operation of the discount banks increase the amount of credit now available for legitimate use in your community?-----
3. Is there a demonstrable need for actual home construction, either new houses or remodeling work, that could be undertaken in your community if credit facilities were widened at the present time?-----
If so, could you estimate the probable extent of such contemplated construction?-----
4. Would the facilities afforded by the proposed discount banks help to relieve the dangers of foreclosures on urban homes and farms?-----
5. If the proposed system had been in operation, to what extent do you think foreclosures, local bank failures, etc., could have been avoided during the past two years?-----
6. It would be helpful in interpreting the results of this questionnaire if you furnish the following information for your institution:
Number of home mortgages-----
Outstanding principal amount of mortgages now held-----
Total assets-----
7. General comments:-----

Type of institution (check one):

- | | |
|--|--------------------------|
| 1. National bank - - - - - | Signed----- |
| 2. Building and loan, savings and loan, homestead association, or cooperative bank, etc. - - - - - | Title----- |
| 3. Mutual savings bank - - - - - | Name of institution----- |
| 4. Stock savings bank - - - - - | Street----- |
| 5. State bank - - - - - | City----- |
| 6. Loan and trust company - - - - - | State----- |
| 7. ----- | ----- |

¹ Some attention has been directed to restrictions in some State laws that might now prevent certain types of institutions from purchasing stock in the home loan discount banks. It is expected that this obstacle will be surmounted in the legislation now being considered by temporary provisions, pending the time when necessary changes could be made in State laws.

A summary of the replies, with breakdown of them by States, appears in full in part 4 of the hearings of the subcommittee of the Senate Committee on Banking and Currency, March 9, 1932. It is of importance to reprint here only the following:

	Question 1		Question 2		Question 3		Question 4	
	Yes	No	Yes	No	Yes	No	Yes	No
Total.....	5, 898	1, 796	6, 525	1, 974	4, 264	4, 479	5, 935	2, 217
National banks.....	1, 415	506	1, 772	607	1, 033	1, 291	1, 635	613
Building and loan associations.....	1, 415	267	1, 452	223	1, 040	691	1, 140	423
Mutual savings banks.....	110	76	110	79	30	181	71	106
Stock savings banks.....	79	35	84	38	53	74	85	44
State banks.....	2, 633	764	2, 822	901	1, 965	1, 962	2, 759	876
Loan and trust companies.....	217	51	231	57	126	172	208	66
Mortgage bankers.....	29	97	54	69	17	108	31	89

The replies to question 5 could not be tabulated, but a summary of them may be found on page 651 of part 4 of the Senate hearings.

It is to be noted that the bill now before us, not having been perfected, did not accompany the questionnaire, and no inference may be drawn that judgment was passed on the details of the bill. The instructive things are the general attitude toward the proposal of the President, the information as to the situation in all parts of the country, and the opinion as to the matters covered by the questions asked. Answers came from every State and Alaska, with distribution corresponding nearly enough to populations and banking resources to warrant the assumption that the summaries give a fair picture of the whole situation.

The total of assets reported was \$17,338,707,113.

It is also to be noted that while the bulk of the testimony before the Senate subcommittee related to the situation and needs of building and loan associations, more than three-quarters of these replies came from National and State banks, savings banks, and other institutions handling mortgages, with about three-quarters of them apparently approving the purpose of this bill.

It would appear that the men at the head of a little more than three-quarters of these institutions believe that the facilities of discount banks of the class proposed would add desirable flexibility and security to the conduct of their institutions, and increase the amount of credit now available for legitimate use in their communities.

The 8,743 answering are about equally divided as to whether there is a demonstrable need for actual home construction, either new houses or remodeling work, that could be undertaken in their communities if credit facilities were widened at the present time. This may confirm the impression to be gathered from the testimony before the Senate subcommittee that the need varies greatly. Some localities report real need for more housing; some stress the need for remodeling. Some witnesses before the Senate subcommittee thought there had been overbuilding in their particular localities. Few faced the question of whether the huddling now taking place may not impair judgment on this question, and whether when the credit jam is broken and employment conditions become normal again, there may or may not be need for more housing.

The figures as to replies to question 4 are particularly significant. They show that nearly three-quarters of the those answering believe that the proposed system would help relieve the dangers of foreclosures, which are the most distressing feature of the present situation.

Answering question 5 about 3,000 were of the belief that if the proposed system had been in operation in the last two years, foreclosures, local bank failures, etc., would have been avoided to greater or less extent.

It seems fair to point out that although it would appear some localities feel the need of the proposed system more than others, it does not follow that provision should not be made for the evident need of those that are suffering the more. When three-quarters of the most cautious and conservative group in the country, the banking group, say in effect that the purpose of this bill should be accomplished, it may be taken that the need is widespread and urgent.

Mr. REILLY. We will hear Mr. William E. Best.

STATEMENT OF WILLIAM E. BEST, PRESIDENT UNITED STATES BUILDING AND LOAN LEAGUE, BEAUMONT, ALLEGHENY COUNTY, PA.

Mr. REILLY. I understand that you appeared before the hearings in the Senate?

Mr. BEST. Yes, sir.

Mr. REILLY. Now, we do not care to have any repetition of that testimony, because we will consider it, but if you have anything additional to offer here we would be pleased to hear it. If you have nothing additional, and if you can summarize in a short time what you have said here we will be pleased to hear you.

Mr. BEST. In order to save the time of the committee, Mr. Chairman, I am prepared to offer here a very brief statement, or summary, which I would like to read and file.

Mr. REILLY. Proceed.

Mr. BEST. The common folks are looking to this Congress to pass the Home loan bank bill. Not one but several measures involving not millions but billions of dollars have been passed to assist banks. Building and loan associations are peculiarly institutions dedicated to thrift and to encouraging home ownership. The members or investors approximate 10,000,000, practically all of whom are small savers; in fact, the average savings account of building and loan associations to-day is less than \$720.

Public policy has led to the establishment of the Federal reserve system to serve the commercial interests of the country and the farm owner or buyer has been provided with the Federal farm loan system to supply agricultural credit. To-day the institutions in the cities which serve the small savers and finance home needs have no finance system to help them serve the people in the small towns and cities. The Government should not hesitate to do for the ordinary urban population what they have successfully done for the commercial and agricultural interests.

In addition to the 10,000,000 investing members in building and loan associations, there are approximately 2,000,000 people in the United States paying for their homes on the building and loan plan.

Eighty-eight per cent of the resources of these associations, amounting to \$7,790,835,171, is invested in mortgages, substantially all of which are on homes. The institutions of these people are an increasingly important unit of the financial structure of this country and the home loan bank measure would provide for them in a manner similar to the provisions made for other financial groups.

The United States Building and Loan League was organized just prior to the first World's Fair in Chicago in 1892. To-day it includes 45 State leagues and represents over 6,000 of the leading building and loan associations in every State, both through individual memberships and through affiliated State leagues.

The Home loan bank bill has been considered in detail by most of our State leagues, and, with one exception, they have unqualifiedly indorsed its principles and its present form. The United States Building and Loan League, represented by its directorate, following a conference of some 200 of the leading building and loan officials held in Washington at the time of the President's Conference on Home Building and Home Ownership, adopted a resolution, which in part declared that:

In times of depression when unemployment impairs the ability of our people to save systematically and causes them to draw heavily on their accumulated reserves, not only is the capacity of the building and loan associations to fully serve their patrons severely taxed, but the heavy calls to refinance resulting from the demands for repayment by institutions holding straight mortgages, whose funds are subject to immediate withdrawal, create a situation which makes necessary the establishment of a home-financing reserve system not only for temporary emergencies but for permanent needs as well.

The building and loan association is a creature of the laws of our several States separate and apart from every other type of financial agency. Its beneficent purposes have given it universal recognition. In any proposed set-up for a rediscount or reserve institution, the functions and services of the building and loan associations should be preserved and no different financial types should be included so as to embarrass the standing and capacity of those savings and home financing organizations which have so successfully served the people of the United States and for whose plan no substitute or superior has ever been conceived.

In a Nation composed so largely of wage earners and persons of moderate means it is apparent that home ownership must be achieved through financial institutions lending sufficient sums on the security of the home and on the faith and ability of the borrower to pay small amounts out of his earnings as received to cover interest charges, taxes, insurance, and a portion of the principal.

The building and loan association provides this means of home financing without excessive costs and charges, and offers a time-tested plan of small, periodic payments spread over a sufficiently long period of time to obviate renewals or the calling of substantial sums of money.

No straight mortgage or other plan of short or long maturity could have accomplished such successful results in home ownership.

The officers of the United States Building and Loan League, as well as thousands of our membership, have studied the home loan bank bill and find it admirably adapted to supplying not only present but future needs of the home-financing organizations. The bill is satisfactory in form and principle and we urge its passage without change of its salient features. It will place resources at the command of the home-financing institutions, which will lead, first, to lower costs of mortgage credits, and, second, to higher percentage loans to the sturdy, honest, home purchaser, thus gradually eliminating the onerous and costly second mortgage. We distinctly feel that this strengthening of the local home-financing institutions will

immediately and permanently work to the benefit of the small savers and the purchasers and owners of homes.

Mr. Chairman, if it suits your convenience, I would suggest that you call on Mr. Friedlander, who will present additional summary items on behalf of the United States Building and Loan League, and then if there are any questions the members wish to ask we will be pleased to answer.

Mr. REILLY. Mr. Friedlander.

STATEMENT OF I. FRIEDLANDER, CHAIRMAN ADVISORY COMMITTEE ON STATE LEGISLATION OF THE UNITED STATES BUILDING AND LOAN LEAGUE, AND PRESIDENT OF THE GIB-RAITAR SAVINGS AND BUILDING ASSOCIATION, HOUSTON, TEX.

Mr. REILLY. You also appeared before the other hearings?

Mr. FRIEDLANDER. Yes, sir; just incidentally.

Mr. REILLY. Now, I make the same statement to you that I made to Mr. Best, that if you have anything additional to offer, we will be glad to hear you, or, if you wish to summarize in a short time the arguments you want this committee to consider, we will be glad to have them.

Mr. FRIEDLANDER. I have been asked, Mr. Reilly, to attempt to cover the arguments, to sum up the arguments, for the building and loan proponents of this measure and also to attempt, inasmuch as we had no occasion to cross-examine the witnesses of the opposition before the Senate committee to meet some of the objections which were raised by leading witnesses there against the bill.

Mr. REILLY. Yes; I would like to hear it.

Mr. FRIEDLANDER. I believe that you will find that, while it may take some time, it will probably conserve the time of the committee, in that we are attempting to get it done with a few witnesses rather than with many.

No committee of Congress would seriously consider an attempt to repeal either the Federal reserve laws or the Federal land bank enactment and substitute in the place of both, or either, any temporary expedient for relief of credit, such as the recently enacted salutary Reconstruction Finance Corporation bill. And yet, the opponents of the Federal home loan bank bill, offered by the President as a permanent system of credit for the proper financing of homes, might properly, if they were consistent, make such a proposal, for every argument which has been made against this measure, if you would dignify their assertions as "argument," was made for the committees of the House and the Senate at the time these **against both the Federal reserve and the Federal land bank acts** before the committees of the House and Senate at the time these acts were considered. The strenuous opposition arguments were likewise made by the identical interests that now so violently oppose this measure.

Antagonists of the efforts to decentralize the commercial credit structure of the Nation, through the enactment of Federal reserve systems, made desperate efforts to prove to the Banking and Currency Committees of Congress 20 years ago that only temporarily relief measures were needed, and that, with the end of the then tem-

porary credit stringency, commercial credit, which had passed safely through the Civil War and other distress periods of finance, would need no additional or different system.

In a similar way every conceivable effort was made three years later to delay and then to defeat all suggested remedial legislation designed to create the Federal land bank system, a system of reserve credits to serve the great agricultural interests of the country.

Even as the great banking interests of New York 20 years ago strenuously opposed the enactment of laws creating a system that would give a comparatively even and ample flow of credit to all parts of the country as, when and where needed, and deprive the giant banking interests of that city of their practical monopoly of commercial credit dictation, so now do the gigantic life insurance companies of that same city and section, acting through their lending agents, the Mortgage Bankers Association, oppose the home loan bank bill before you, and for similar reasons.

The same specious and spurious arguments are being made against this bill and are a part of the voluminous Senate hearings records, as were made against both of these great constructive acts, one of which stands as a monumental work of financial achievement to a former chairman of this committee, the Hon. Carter Glass, of Virginia.

It may not be amiss to recall this little matter of past financial history to the attention of this committee so that proper and due consideration may be given to the dire predictions which are made by self-serving experts before congressional committees whenever financial measures are proposed for the benefit of the unorganized common, every-day folk. Such measures uniformly meet the opposition of those selfish interests that such measures tend to drive from special privilege monopolies.

That you may compare the opposition that has developed to the rounding out of our credit structure through the enactment of a reserve credit agency for home-financing to the opposition made to the creation of the Federal reserve system, may I not quote a few excerpts from the authoritative History of the Federal Reserve System, written by Dr. Henry Parker Willis, of New York, who served as technical adviser to the Committee on Banking and Currency of the House of Representatives in the preparation of the Federal reserve act. Senator Glass, who appointed Doctor Willis in such capacity as expert in the technique of banking credits, wrote an introduction to the book of Doctor Willis, from which book I quote.

Quoting the Hon. A. B. Hepburn, chairman of the Board of the Chase National Bank at the time of the passage of the Federal reserve act and who also was chairman of the currency committee of the American Bankers Association, Doctor Willis quotes in his book:

The bankers did not desire anything that would put the Government further in the banking business. That being the case, it was necessary for him to modify his general statement that what was desired was a central banking system organized upon European lines. Such a system, in fact, was by no means what the bankers desired. They were willing to see the organization of a central banking system, but only upon condition that it should be confined to emergency uses.

The same argument being made against the establishment of this credit system at this time, we find presented, which forms part of the Senate committee hearing, in which the interim committee of the American Bankers' Association to-day oppose a permanent credit structure for home financing, wanting only "emergency needs" taken care of through the Reconstruction Finance Corporation.

I shall only give you a few sentences from this very interesting history to show you that previous committees of Banking and Currency of this body had to meet the self-same bugaboos from the self-same and related interests that you will be called upon to listen to in opposition to this measure.

According to the author there were three lines of attack made by the bankers against the Federal reserve bill. The first and most obvious plan of attack was that seeking to discredit the bill as drafted on account of its "amateurishness." It may be well to note at this point that the Ohio Bankers' Association made such an attack upon the home loan bank bill before the Senate committee considering it and offered amendments that would emasculate it and defeat its worthy purposes.

Quoting Doctor Willis again:

The second method of criticism consisted of charges directed against the intent or effect of the bill in general terms. It was sought to show at first that the influence of the measure would be to produce a very great contraction of the currency and hence a severe panic. In singular contradiction to this effort was the attempt to make out a case for an inflationary tendency on the part of the bill. The doleful predictions and hopelessly pessimistic forecasts thus put forward at first had a great effect upon the minds of the committee members, but as soon as it became evident that there was a contradiction between the inflation and the contraction schools of thought, members of Congress not unnaturally refused to be frightened.

And here we find a parallel in the consideration of the home loan bank bill before the Senate committee, for we see some mortgage bankers and insurance companies raising the scare of "inflation" of "over-building," while others charging that the terms of the bill are so restrictive that they could not possibly offer an expansion of credit that would be helpful to the institutions or to the homeowners.

Dr. Willis says further that—

Another effort to influence the situation was, however, set on foot in New York. The plan determined upon was that of arousing alarm about the price of United States bonds.

And, while I will not pursue this line of attack in detail, I merely call your attention to the remarkable similarity of argument here with the great concern expressed by one of the chief opponents of the bill, Mr. Hiram F. Cody, who attempts to make this same point against the home loan bank bill in his summation of arguments against it, being his point No. 4 of his testimony.

I want to give you a summation of this chapter of the history in Doctor Willis's own words:

There is the obvious indication that the bankers no more than other sections of the community were inclined to follow the public interests and that they did their utmost to defeat or emasculate a measure that was subsequently considered to be conspicuously sound and beneficial. Their opposition, moreover, was directed at the characteristic elements in the measure and had it been successful would entirely have deprived the bill of any effectiveness or

merit. This is an important fact of financial history, deserving to be carefully borne in mind. It effectually unmasked a hypocrisy, which had for long years maintained that the bankers of the country were seeking only the well-being of the business world or of the Nation, a view which had been very currently and very widely adhered to throughout the country.

The Federal reserve act was perhaps the first measure of broad international significance which was completed and eventually brought to passage with the direct, consistent, and steady opposition by the banking interests which were most materially affected by it, and which nevertheless within a comparatively short time proved its utility not merely to those interests, but to the Nation as a whole.

This is history that stands out boldly as persuasive proof that, having been wrong in their opposition to the enactment of a credit measure, with which details and effect they were, or should have been, more intimately familiar with than with the home-financing mortgage business, upon which subject their experience is narrowly restricted that they may be likely wrong in their present opposition to this measure.

It should be borne in mind by this committee that this bill is before you as a result of the recommendation of President Hoover to Congress in his regular message and in his later special message dealing with the economic condition, in each of which messages he urgently recommended the passage of a bill of this character. He stressed the need for such enactment as a permanent measure to take its place as a complement to the two great reserve credit systems already successfully and beneficially operating, namely, the Federal reserve system and the Federal land bank system. He also stressed the beneficial effect that would arise from the relief given under present emergency conditions to the home-financing institutions and to the hard-pressed home owner, who is being sorely tried and severely harrassed by threatened and actual foreclosing of homes by the thousands throughout the country, due to contracted credit conditions. He did not offer this measure as an alternative for the Reconstruction Finance Corporation or vice versa, but as a companion measure to it, and in his announced program suggested the use, if necessary, of \$150,000,000 of Government funds as initial capital for this banking structure.

We are for the home loan bank act because?

First. There is a distinct need for the completion of our credit structure that the requirements of the aspiring home owner may be properly met by the extension of home-financing credit to him at low costs. We should face the ugly and discomfoting fact that home ownership in the United States is falling sadly behind and that we are drifting into a Nation of tenants. The percentage of homes owned and occupied by the owners has been slipping now for 30 years. The percentage figures for the year 1900 census for the entire United States were 46.1 per cent of families owning their own homes; by 1910 it had fallen to 45.8 per cent; and by 1920 it had again been reduced to 45.6 per cent—not such a great loss, but any loss in this wealthy and growing country is too much.

The facts released from time to time by the Census Bureau since January 1, 1932, bearing upon this subject of home ownership and giving the 1930 census figures, are even more startling in their significance. Only about one-fourth of the States have had their figures completed, but a few typical ones from different sections of this great country will evidence even greater losses in percentage of

home ownership in these States in the period from 1920 to 1930—that 10-year period of our greatest prosperity.

To illustrate, and I have taken States from different sections of the country: In Maine the loss was 4.9 per cent for the 20 years from 1900 to 1920; the loss for the years 1920 to 1930, for the 10-year period, was the same, 4.9 per cent, the same in one-half the time. In Wisconsin, Mr. Chairman, your State, your loss in home ownership from 1900 to 1920 was 2.6 per cent, and in this great period of prosperity your loss in home ownership from 1920 to 1930 was 6 per cent in one-half of the time.

In North Dakota the loss was even greater. From 1900 to 1920 the loss was 13.9 per cent, and from 1920 to 1930, 10 years, in one-half the time, the loss was 10.6 per cent.

In Alabama, in the South, the gain from 1900 to 1920 was 1.1 per cent, and the loss from 1920 to 1930 was 1.03 per cent.

In Utah, the Far West, the loss from 1900 to 1920 was 7.5 per cent, and in half the time, from 1920 to 1930, they had a loss of 4.6 per cent.

The main reason for this loss in home ownership, when there should have been a distinct gain under the conditions prevailing the past 10 years, is an insufficient amount of the proper kind of home-financing credit, the long-term, amortized, low-cost credit without the discouraging and costly features of short-term, commission-burdened, and second-mortgage type of promotional home financing. The home loan bank bill is offered for the purpose and is designed to serve the purpose of proper home-financing needs, and will, if enacted into law, in our judgment convert the steadily decreasing percentage loss of home ownership in the urban towns and cities of the country into an increasing percentage.

Second, because it forms a part of—and an important and integral part of—the President's comprehensive program for economic recovery. The investment in the homes of the country is a significant and imposing portion of our national wealth. The paralysis which has overtaken values due to credit conditions which this bill is designed to relieve must be removed before business conditions can recover. I want to commend this committee for the important part which it played in so quickly passing the Glass-Steagall bill to broaden the eligibility provisions of the Federal reserve act. At the same time I desire to emphatically express the opinion that it is just as important that the life savings of millions of people, that were put into equities in small homes throughout the Nation, should be preserved from total loss. The prevention of further deflation in values upon these modest homes due to contracted credit conditions should receive similar consideration by the enactment of the Federal home loan bank bill to that accorded banks and their customers, which dictated the speedy passage of the Glass-Steagall bill. All credit to you for doing what you could to save the savings of people invested in margins of stocks and bonds, by preventing enforced further liquidation of these securities; now, let us have similar consideration for the savings of families invested in homes.

Third, the next 10 years will see a further drift of capital formerly employed in the home-financing field away from such fields. The sad experience of private individuals holding mortgages on

homes, who, under present conditions, find themselves unable to use such notes as collateral and unable to find a market for them will prove sufficient to discourage a future investment of this nature. The closing of banks by the thousands, at least half of them ascribed to "frozen conditions" due to inability to turn into cash mortgages held in their portfolios, has removed millions of capital that had been employed in this field, and the lesson of these banks will not be lost upon other banking institutions, who will not follow such a hazardous course of investment with the demand funds of their customers unless some reserve agency of this character is set up to give liquidity to mortgage investments. Life-insurance companies are facing the possibility of largely reduced income by reason of the enormous lapsations, which will naturally follow the stupendous totals of policy loans that have rapidly mounted to imposing percentages upon their balance sheets. This will reduce their lending facilities in this field. Building and loan associations, which have had to disappoint their millions of investors when, due to present extraordinary conditions, they have been unable to maintain a reputation of 50 or more years of returning the investment within a reasonable notice, will find their incomes reduced and their lending abilities materially reduced unless they can establish a credit agency that will bring new funds such as would reach them through the beneficent effects of the home loan bank bill. There have been hundreds of mortgage companies that had developed during the "easy times," which received their funds from the sale of mortgages and bonds, which are no more, and whose sorry records will prevent for years to come the development of other corporations of the same character.

Fourth, because thousands of men now unemployed can again be gainfully employed if the credit facilities of the home loan bank bill are speedily put into action to furnish money for needed repairs and additions and modernization of homes already erected. Thousands of other citizens having jobs and having saved for years with the intention of building when conditions were "right" would build now, when labor and materials are the cheapest they have been for years, if they could secure assistance in credit channels without bonuses and without incurring the dangers of short-term financing.

Fifth, because through the mobility of credit afforded by this bill and the continuous supply of available credit upon proper terms, interest rates upon the best security of proven experience—the security of the home of the family—will be reduced and funds will be available through local lending agencies that are attuned to the sympathetic consideration of their own fellow citizens.

Sixth, because the millions of investors in building and loan associations and policyholders in life insurance companies are entitled to have the safeguard of a credit reserve system to which these corporations may go and use the mortgage securities into which the customers' funds have been placed and secure, by the assignment of such mortgages, upon a safe and workable reserve credit basis, the cash with which to return them their investment when they need it.

Seventh, because having induced thousands upon thousands of good honest citizens to undertake home ownership the wrong way—by a short-term mortgage now coming due—it is incumbent upon the mortgage brokers and life insurance companies to lend every

assistance in the establishment of a system whereby these citizens may save their equities by finding credit upon a proper basis through amortized long-term loans.

Eighth, because the experience through which thousands of homeowners are going in the loss, by foreclosure, of their homes, home ownership will be permanently injured as a national objective unless through the establishment of a credit system designed to prevent the recurrence, the public may know that such conditions can not again prevail.

Ninth, because unless there be a restoration of confidence in realty values hundreds of towns and cities having heavy bonded indebtedness and which depend upon the collection of ad valorem taxes upon real estate, principally homes, for the repayment of their debts and interest, will have their credit permanently destroyed. Property owners are failing and refusing to pay taxes under the present demoralized conditions of realty values, and the home-financing institutions are unable to advance the money for them for the simple reason that they do not have the surplus funds with which to make any loans even as necessitous as they may be. The millions of people who have placed their all in the purchase of a home must once again feel secure in their investment and have the courage to continue towards the full accomplishment of home ownership.

Tenth, the home-mortgage bank system will eliminate the costly and burdensome second mortgages. Assuming intelligent purchases of a home by a sturdy and reliable person, the moral risk being high, advances up to 70 and 80 per cent of sound value will become the practice of local lending institutions, in order to obtain such preferred loans and to keep their funds employed. The necessity of high-cost second mortgages will be thus eliminated.

Now, in the hearing before the Senate committee, an attack was made by representatives of the Mortgage Bankers' Association. I think it is but fair to this committee that you understand that a mortgage banker is not what we ordinarily call a banker in the commonly accepted sense of the term. In Texas no one is permitted to use the word banker, or bank, unless they are really a bank, and the Mortgage Bankers' Association are mortgage loan corporations representing largely life insurance companies of America. I state that authoritatively because I have here a pamphlet containing the roster of members of the Mortgage Bankers' Association of America under date of August 1, 1931, and I find listed the membership, first and foremost at the top of the list of the classification of insurance company members, which are as follows: The Aetna, the Massachusetts Mutual, the Metropolitan, the Equitable, and about 30 others, and the Union Central, and then we find affiliated and local groups, of which there are about 15 or 20, and there follows by cities a list of the mortgage bankers, most all of them listed as security companies and bond companies and mortgage companies, and individuals. There are very few of them that are banks in the commonly accepted sense of the term. Now, naturally, this bill undertakes, as I said before, to decentralize home financing credit. The only agency that we have to-day that is doing intersectional home financing from one city, where the home office is located, throughout the country, are the life insurance companies, and it is very easy to see that if funds be placed in the hands of your local banks and your

local trust companies and your local building and loan association, the power existing in a few institutions in the United States to control largely the policies and the rates of mortgage loans will be broken through the passage of this act, and, of course, these gentlemen representing those life insurance companies, and receiving commissions again and again on those loans and the commissions on the renewals of those short-time loans are vitally interested in opposition to this measure.

I have referred to the interim committee report of the American Bankers' Association. I have nothing to add to what I have said there. Now, I think it is sufficient to note that they fought long and stubbornly in opposition to the Federal reserve act. Whatever any critic may say about that act, the Lord only knows what would have happened in this country had we not had it during this time.

I just want to add this, that I do not believe the interim committee, and I do not know who composes it, but I do not believe they are representative of the thought of the United States even among the bankers. That is evidenced by the fact that Mr. Luce has introduced into the record replies to the questionnaires received from the bankers of the country, showing a ratio of 3 to 1 of those who replied in favor of the relief of this character. I have not looked over the tabulation of States, but I will venture to say that those replies come from the highways and byways of this nation, from the little towns, where, after all, about the only credit facility that is offered for home financing in those crossroad towns are the local banks.

Now, then, I am going to take up I think the principal argument made by the principal antagonists of this bill as Mr. Clark, the vice-president of the Mortgage Brokers' Association, and, I believe, chairman of the legislative committee, summed up their opposition in numerical terms. He states first, in discussing our contention or the contention of the proponents of this bill, that we say it would decrease foreclosures. His answer to that is: "On the contrary, it would increase foreclosures, due to the lack of any sympathetic interest in local communities, as best evidenced by the fact that the Federal land banks, organized on a basis similar to the one proposed, have foreclosed and taken from the owners millions of dollars' worth of farm homesteads."

Now, the Federal farm loan act does not need any defense at my hands, but what are the figures? The mortgage loans on December 31st, of the Federal farm loan or land banks amounted to \$1,162,000,000, and the real estate judgment and foreclosure amounted to \$38,000,000, which is approximately three per cent, and I want to tell you that the Federal land banks must have shown a great deal of consideration for the farmers of this nation, because I went over a few statements of the life insurance companies which deal in mortgage loans and few show a very much smaller percentage of property on their statement than 3 per cent.

The joint-stock land banks have \$530,000,000 in loans. I do not have their figures as to foreclosure, but I want to answer that statement by saying that evidently Mr. Clark has not read this bill, because, had he read the bill he would not have made such a silly objection to it. The bill does not take away that sympathetic

interest on the part of local financing institutions. We do not propose, under this Act, as Mr. Luce explained to you this morning to send money down to a town and lend it direct to an individual. The building and loan association or life insurance company, and the bank continues to function just as it did before, and when it discounts a mortgage note the original bank or building and loan still is under the obligation to pay that obligation. The bank only uses that man's note as security and there is no change in the relationship or contacts existing between the man that borrowed then and the man that borrows from institutions now. So, there is nothing to that argument.

The second claim attributed to we proponents is that it would help home borrowers to get mortgage credit not now available. [Reading from Clark testimony:]

On the contrary, mortgage credit not based on sound business judgment is as dangerous to the borrower as it is to the lender. Overlending on mortgages means inability to refinance at maturity.

Now, the inference there is that there is plenty of mortgage money available, and if you just want money you can borrow it. This is that inflation argument. As a matter of fact, the criticism made by the Ohio bankers and others to this bill was that the limitations put into that bill of holding down the credit to twelve times the amount of stock and the limitation of 40 per cent of the value of the property and limitations of that character which with respect to the lending were too restrictive. Further, as a matter of fact, there is no mortgage money in this country to-day. You will note in going through that testimony submitted to the Senate committee hearings, you will find reports from all over the country, and you will find some reports stating that there is a surplus of houses. Well, now, we are not advocating the building of any more houses unless there is need for them, but if there is need for them in any community in this country there should be a source of credit supply ready for the man who needs a home, to take advantage of the present prices to build that home and to get it at a fair price.

Mr. Clark, in his testimony, stated that there was plenty of money available. I have a newspaper clipping from New Haven, where he comes from, a statement that of the building and loan association published, stating that they have applications for loans on file now for \$150,000 without any money available for home financing, and I believe the record will show that another gentleman followed Mr. Clark and also made some statements to show about how much money is available even in New Haven. The fact of the matter is I want to discuss that testimony just a minute. I believe he said that his company is a mortgage company, and had an authorized capital of \$300,000, and that they only had \$80,000 paid in. I believe those were the figures. The record on that will bear me out. He says we have loaned millions of dollars.

Now, you gentlemen are on the Banking and Currency Committee, and if he has loaned millions of dollars on the basis of \$80,000 in capital, he has had a source of credit, and he has had a source of credit that was more elastic than we put in this bill. In other words, he has been operating under conditions, gentlemen, that so far as inflation is concerned, would make your bill, Mr. Luce, look insignifi-

cant. He has used credit of millions, upon \$80,000 of capital. Building and loan associations can not do that. They have no place to go. Evidently it was insurance company money.

Now, then, next it is claimed that it would release vast amounts of frozen funds invested by savings banks and building and loan associations in mortgages for the mortgage brokers, Mr. Clark said:

We claim that the Reconstruction Finance Corporation was created for the purpose of releasing present credit assets and affording other assistance to savings banks and building and loan associations, as well as other institutions needing financial relief, and no additional legislation is necessary.

That, gentlemen, may be out of confidence in the directors of the Reconstruction Finance Corporation, I can't judge, but I do know that the Reconstruction Finance Corporation can not begin to solve the small mortgage problem in America. A questionnaire and credit survey made by the United States Building and Loan League shows that there is needed at this time to unfreeze and to put into normal condition the home financing institutions in this country nearly one-half of the total amount which Congress appropriated for the entire Reconstruction Finance Corporation, and, of course, they have the railroads to look after, and they have the banks to look after, and they have the commercial companies to look after, and they have the depositors in closed banks to look after.

Now, then, if those gentlemen can show us that the Reconstruction Finance Corporation is going to take one-half of the total of \$2,000,000,000 authorized by Congress and put it into all the home financing institutions, then I will tell you they can help the emergency situation, but that will still leave the necessity for a permanent institution to prevent the recurrence of the same thing. There is another thing, too, about the Reconstruction Finance Corporation. They have adopted a policy of not making a loan for more than six months. I want to tell you, gentlemen, that the building and loan associations do not need for their use any six months credit. They can not afford it, because, at the end of six months they will be in the same shape that they are in now.

I will tell you something else, that word has gone out that the money which is being loaned to building and loan associations by the Reconstruction Finance Corporation is money to pay back banks. They do it to pay the banks back and not the building and loan associations. They are no better off and their customers are still waiting to get a loan or to make a withdrawal if all of the money that they can get goes to pay back the bank they have borrowed from.

Fourth, it is claimed that such a system would tend to restore public confidence in home buying, thus giving support to a depressed real estate market, and the Mortgage Brokers say:

We claim that confidence in home buying can be restored only by proper selling and sound loaning methods, neither of which would develop from the proposed plan.

Well, no need to discuss that. We agree with him on sound selling, but we do state that where there is known credit and finance, certainly the sale of a piece of property or the purchase of a piece of property, that certainly the extension of that credit will not further depress prices. It certainly will help to stabilize them.

Fifth, it is claimed that it would create a central credit system for mortgage finance which ultimately would bring about standard practices, stabilize conditions and protect home owners' investments. The Mortgage Brokers and the insurance companies say—

We claim that the plan will not provide a workable central credit system for mortgage financing. Its stated purpose is to loan funds to building and loan associations and other institutions.

Now, then, as to whether it would be workable or not workable, we have the word of the building and loan association experts that will appear before you that the plan is perfectly workable. It is modelled after the Federal reserve system and the Federal farm loan bank system, both of which have proved very feasible and workable, and it is true that there are no direct loans. The fact of the matter is that we have a better set-up here than the Federal land bank, because there you had practically making a direct loan to the farmer. Congress had to create a type of building and loan association in the country districts through which to put into effect cooperative financing. You have already got building and loan associations organized and operating, and you have got billions of dollars of assets back of this system, ready to use this system, and for that reason it is workable.

Mr. HANCOCK. May I ask a question at this stage?

Mr. REILLY (presiding). Probably you had better let him finish his statement, Mr. Hancock.

Mr. FRIEDLANDER. Further than that we will state it is perfectly workable in New York State where State land bank reserve system was created and set up by and for building and loan interests and has proven successful now for about 14 or 15 years.

Mr. REILLY (presiding). I think I made a mistake on this ruling. In view of the fact that the gentleman is taking up different points I think if Mr. Hancock has a question he might ask him now.

Mr. HANCOCK. It is perfectly all right to wait. I have been very much interested in the impressive statement made by the gentleman and I am interested to know what his view is with respect to the difference between the operation of that system of banks as proposed by this bill from that of the Federal land bank system, and especially, on this point: What is there about the system proposed in the home loan discount bill that will insure a continuous flow of funds to be used in the financing of homes? I ask that question because you referred just now to the fact that the Federal land banks and joint-stock land banks had more than \$530,000,000 of outstanding mortgages. You did not state, however, the percentage of foreclosures. I think you stated with respect to the Federal land bank that only about 3 per cent were under foreclosure or had been foreclosed.

Mr. FRIEDLANDER. That is correct.

Mr. HANCOCK. Now, you have both systems. You have the Federal land bank system to-day, and you have the joint-stock land bank system, and both are frozen up. Neither one can operate in the interests of agriculture and neither one has a dollar, so far as I understand, available for new loans to farmers. Irrespective of the assurances that they have given us that their policies during this crisis would be liberal, they are continuing daily to put into effect foreclosures, wiping out life savings with its inevitable devastation. Now, what is there about this system, and of course you should know

more about it than I do, and that is the reason I am asking you for information and constructive help—What is there about this system that would insure us against the condition that exists to-day with respect to the Federal land bank system, which you and Mr. Luce claim this system is partially fashioned after?

Mr. FRIEDLANDER. In the first place, the system is partially fashioned after the Federal land bank, and also principally fashioned after the Federal reserve bank system.

Mr. HANCOCK. Yes.

Mr. FRIEDLANDER. The Federal land bank system, as you recall, is one that is composed only of borrowing associations created for the purpose of borrowing money. There is no operating institution with substantial assets. With the Federal land bank system there are only the joint stocks operated there and borrowers, that is, individuals put in 5 per cent and take out an additional 95 per cent in place of it as a loan. Now, we say this is different because it is patterned after the Federal reserve bank. We are operating in this institution upon a base of building and loan associations which intend to use this institution as a reserve credit institution, for both long and short time credit and placing our money there on deposit when we have no need for it in loaning operations.

Mr. HANCOCK. May I ask a question right at that point?

Mr. FRIEDLANDER. Yes.

Mr. HANCOCK. Up to this present crisis, due to restrictions in banking credit and to degeneration in values and as a result of one cause or another, has there ever been a time up to this day, this hour, when a good building and loan association could not secure from its local bank all the funds that it needed at reasonable rates of interest?

Mr. FRIEDLANDER. Yes; I imagine those conditions have existed many times every year when they could not do it, depending entirely upon local banking conditions. However, building and loan associations for business reasons ought not to have to depend solely upon rival systems of credit into which there sometimes creeps the danger of competitive feeling, and we do not feel that the home owner should be subjected to that character of feeling.

Mr. WILLIAMS. Let me ask you in that connection if that is not true in our land bank system with reference to the farmer?

Mr. FRIEDLANDER. With reference to what?

Mr. WILLIAMS. Being subjected to a competitive system, about the land banks getting into various competition in the country, getting into competition with the local banks and local loan agencies?

Mr. FRIEDLANDER. Yes; but they have to depend more or less upon the Federal bank in many respects. The question asked me was whether or not the building and loan associations could not get from the local banks all of the money they need.

Mr. WILLIAMS. Your answer is that the building and loan associations ought not to be dependent upon them?

Mr. FRIEDLANDER. Yes, sir. The home owner is dependent there upon the building and loan association.

Mr. WILLIAMS. That is not exactly the same situation as the farmer.

Mr. FRIEDLANDER. I can not see where the farmer gets tied in with the local bank.

Mr. WILLIAMS. I will tell you where he gets tied in with it, from the fact that the local banks carry 88 per cent of the farm loans of the country. That is where he gets tied in with the banks.

Mr. FRIEDLANDER. Then the Federal land bank has not put the banks out of competition.

Mr. WILLIAMS. And the fact is it has not relieved the situation at all, materially, has it?

Mr. FRIEDLANDER. I would say that it has. I am not a critic of the farm land banks.

Mr. WILLIAMS. Are you willing to place the reputation of this institution upon the record, or are you willing to place it upon the record made by the farm land banks and the Federal joint-stock land banks?

Mr. FRIEDLANDER. You have gone a little beyond it when you talk about the joint-stock land banks. The joint-stock banks were associations made up of private capital at the time of the passage of the farm land bank, and I would not at all want to place it upon the record of the joint-stock land banks. As far as the Federal land bank is concerned, I am quite an admirer of it. Of course, we know agriculture has gone through a grievous session in the Federal land bank case. The Federal land bank is not responsible for that. I call your attention, also, to the fact that Congress has set up a system of intermediate credit banks to relieve the farmer of the necessity of depending upon the local banks. That does not come in in connection with our situation.

Mr. WILLIAMS. I want to ask you about the intermediate credit system, are you familiar with that?

Mr. FRIEDLANDER. Somewhat.

Mr. WILLIAMS. What happened to them after that, that is, to the farmer now?

Mr. FRIEDLANDER. Of course, I am not an expert on farm relief.

Mr. WILLIAMS. You referred to that as one of the agencies of the Government for relief of the farmers of the country.

Mr. FRIEDLANDER. I am talking purely about legislative relief. I want to say that I think the security of the home owner in a city or town is probably superior to the type of security which is behind your Federal land bank bonds. I also want to make this point that in this act you have got behind the bonds that will be issued not only the mortgage security, which is all you have got behind your farm loan bonds, and the capital of the bank itself, but you have in addition the obligation of the borrowing institution which makes a great big difference.

Mr. WILLIAMS. Getting back to the credit agency, do you know at present that the intermediate credit banks are not able to furnish farmers of this country loans on an interest rate below 9 per cent?

Mr. FRIEDLANDER. I knew they were limited under the law.

Mr. WILLIAMS. They are in some States, and they can't furnish it, for the reason that they can't furnish it except by violating the usury laws.

Mr. HANCOCK. Do you know that the farm land banks charge 8 per cent on extensions upon loans to all their borrowers now?

Mr. FRIEDLANDER. I do not know about that, but I venture to say the farmers would be worse off but for its establishment.

Mr. HANCOCK. Do you think that system has encouraged him to borrow more money than he would have borrowed otherwise?

Mr. FRIEDLANDER. It may have in cases. I think that is the vice of the short term.

Mr. HANCOCK. The reason I propounded my question is not to leave the impression that I am unfriendly to the idea incorporated in this bill, but I would like to have you distinguish, if you can, and tell us the difference between the operation of this proposed system and the Federal land bank system and the joint-stock land bank system, because, in my humble opinion, if you have any hope in the world for the success of this bill you had better divorce it from those two systems as quickly as possible. Reference to them would not be calculated to inspire faith in the value and need of the home-loan bank system proposed in this bill.

Mr. FRIEDLANDER. The Federal land bank system, as stated a few moments ago, could not get under way until Congress had passed, of course, at the same time, a bill which provided for the incorporation of national farm loan associations. National farm loan associations are nothing in the world but a group of farmers who want to borrow money getting together and agreeing to put in a nominal sum of money, having agreed to put in a nominal sum of money, which is 5 per cent of the amount they expect to borrow, and if they borrow \$2,000, they put in \$100. That is all the stock they take, and that is all of the additional collateral that is behind those bonds, is that stock. They come to your Federal land bank and borrow the money. Now, any of these bankers around here will tell you that 5 per cent is not a very high amount to make safe a loan, and they are perfectly willing to borrow just as much as they can get, but when a man comes into this he does not go to the home loan bank and has nothing to do with the operations of that bank. He comes to the building and loan association, he goes to the country bank or the life insurance company, and he borrows \$2,000. This law here has nothing to do with that except the effect that it might have upon interest rates by reason of competition. That man has to make a loan with the local loan institutions, just as though this home loan bank system never existed, and it only produces reserve credit by which that institution may borrow 50 per cent or 60 per cent of the face of the note, providing the amount is not in excess of 40 per cent of the value of the security.

Mr. HANCOCK. Is the system as proposed here intended primarily for service to building and loan associations and kindred organizations?

Mr. FRIEDLANDER. We think it is.

Mr. HANCOCK. Your argument may be applicable to the joint-stock land banks in response to Mr. Williams's question, but what about the intermediate credit banks; there is something more behind that?

Mr. FRIEDLANDER. In the intermediate credit banks they have bonds behind them—

Mr. WILLIAMS. Pardon me, but do I understand you to say that these Federal land bank loans have not anything but 5 per cent of the stock back of them?

Mr. FRIEDLANDER. Plus the mortgage security.

Mr. WILLIAMS. Undoubtedly; and the Government inspects that and approves it.

Mr. FRIEDLANDER. Yes; the Government has a right to inspect the security. The point I am making is that in addition to the security which the Government has in the land bank it has also all of the assets of the borrowing association back of its obligation to repay this loan. That is the point I make.

Mr. WILLIAMS. That ought to make it all the stronger.

Mr. FRIEDLANDER. That is it.

Mr. WILLIAMS. It ought to make the loan all the better.

Mr. FRIEDLANDER. Yes; that is the point I make.

Mr. WILLIAMS. Can you account for the fact that those bonds are selling for 75 cents on the dollar?

Mr. FRIEDLANDER. The Federal land bank has not—

Mr. WILLIAMS (interposing). Has not what back of it?

Mr. FRIEDLANDER. Has not anything back of it except the intrinsic security itself and the small amount of stock of the local association.

Mr. WILLIAMS. It has the mortgages and the stock of the association back of it.

Mr. FRIEDLANDER. Yes. Now, then, here is the difference. Take a merchant who goes to, let us say, the First National Bank of this city and borrows \$100,000, and the First National Bank takes a note of that merchant and of the Federal reserve bank borrows the money upon which that note of \$100,000 is paid. The First National Bank has got to take up that obligation and pay the Federal reserve bank. There is the main difference between this system which is set up upon that basis and the Federal land bank system. There is no intermediary force in between there that will safeguard that collateral.

Mr. REILLY (presiding). Mr. Friedlander, as far as I understand the law, under this bill the bank only loans 40 per cent on the mortgages.

Mr. FRIEDLANDER. Yes.

Mr. REILLY (presiding). And the securities?

Mr. FRIEDLANDER. Yes.

Mr. REILLY (presiding). So, it ought to be 40 per cent better off than the farm land banks.

Mr. FRIEDLANDER. Yes.

Mr. REILLY (presiding). I do not think there is any question at all but what securities issued by this bank will be better than in the farm land bank, as far as that is concerned.

Mr. FRIEDLANDER. I want to state this about the matter of the decrease in the bond market. Let us not charge that up to the Federal land bank system. It has probably enough faults of its own to take care of. Even direct Government obligations have gone down to \$85. Let us not say it is because the Federal land bank has been a success or has not been a success. Certainly it is not any argument because Liberty bonds have gone down to \$85 that the United States Government should adopt some other way of financing itself.

Mr. WILLIAMS. It is some indication of the price that these bonds may bring if put on the market, isn't it?

Mr. FRIEDLANDER. Yes; if they were floated right at this time, it might be, although I think they would command the highest price because they have security back of them.

Mr. WILLIAMS. What do you think they would bring on the market now?

Mr. FRIEDLANDER. That would be purely a guess.

Mr. WILLIAMS. I understand that; that is the reason I am asking you.

Mr. FRIEDLANDER. Yes.

Mr. WILLIAMS. You have to raise the funds that way. I am asking you, for the reason that you must raise the funds in that manner.

Mr. FRIEDLANDER. Yes.

Mr. WILLIAMS. You must loan those same funds back to the home owners.

Mr. FRIEDLANDER. Yes, sir.

Mr. WILLIAMS. What do you figure as the spread between the interest paid on your debentures and the loans made to the home owners?

Mr. FRIEDLANDER. These banks should operate on a basis of one-half to 1 per cent.

Mr. WILLIAMS. One-half to 1 per cent?

Mr. FRIEDLANDER. Yes.

Mr. WILLIAMS. Don't you know that none of these other banks operate on that narrow a margin?

Mr. FRIEDLANDER. They have a different type of bank.

Mr. WILLIAMS. Yes, sir.

Mr. FRIEDLANDER. You will find the testimony before the Senate hearing shows a very small cost of operation in the Land Bank of the State of New York. I think it runs \$22,000 per year.

Mr. WILLIAMS. I do not understand what you mean by the land bank.

Mr. FRIEDLANDER. The Land Bank of the State of New York is a reserve credit bank for building and loan associations in that State, created by State law and has operated there for 13 or 14 years.

Mr. WILLIAMS. Purely a private institution?

Mr. FRIEDLANDER. No; a public institution. It has a special State act creating it and its securities are accorded preferred tax status in New York.

Mr. WILLIAMS. Do I understand the State of New York has put its money into the operation of that bank?

Mr. FRIEDLANDER. I do not think the State of New York has directly put its money in there, although, I understand the State of New York is probably the largest purchaser of the bonds of that bank with State funds.

Mr. WILLIAMS. That is not in the sense in which I mean a public institution. From the standpoint of the government of the State, is it putting its funds into it for the purpose of operating it? I am asking the question whether it is or not.

Mr. FRIEDLANDER. No; I do not think it is endowed or subsidized by the State.

Mr. WILLIAMS. Not subsidized?

Mr. FRIEDLANDER. No.

Mr. WILLIAMS. It is simply an institution authorized under the laws of the State of New York.

Mr. FRIEDLANDER. To do certain things. It is subject to examination and inspection by the State Banking Department and in that respect it is a public institution.

Mr. WILLIAMS. Undoubtedly, as is every other bank in the State.

Mr. FRIEDLANDER. Yes.

Mr. WILLIAMS. In that respect it is like every other bank.

Mr. FRIEDLANDER. Yes.

Mr. HANCOCK. Mr. Reilly referred to the fact that the security behind one of these loans would probably be better than the security behind the loans of the Federal Land Bank, and that under this act not more than 40 per cent of the appraised value could be loaned, is that right?

Mr. FRIEDLANDER. Yes.

Mr. HANCOCK. Now, do you know what per cent of the appraised value on farms is usually the basis of loans?

Mr. FRIEDLANDER. I understand about 50 per cent is the way they operate.

Mr. HANCOCK. And, in the last analysis that would, of course, depend upon the competency of the appraisal, would it not?

Mr. FRIEDLANDER. There is a big difference in appraisals. I am sorry I have not yet been able to make it clear, but if you will permit me, I will try to.

Mr. HANCOCK. Just let me ask this question: You have this difference, that a farm is supposed to be a piece of property that produces income. Your home does not produce income, does it? It rather saves rents.

Mr. FRIEDLANDER. No; the people that live in it produce the income, but the property itself does not.

Mr. HANCOCK. Of course, I know that a farm without a good man on it to work it would have little value.

Mr. FRIEDLANDER. Yes. The main point of difference in the matter of security, Mr. Hancock, is the difference in the intermediate borrower. In other words, let us say, that your security is exactly the same as between two pieces of property. Let us say that a man on the farm has a \$10,000 farm and the man living in the city has a \$10,000 home. There is no dispute about the absolute value of either one of them and that the man on the farm borrows 50 per cent, which is \$5,000, which he borrows from the Federal land bank. The Federal land bank has \$5,000 security for its \$5,000, plus \$250 in stock, which that gentleman puts up in his local association. All right. Now, let us take the other case, that of the man living in the city. He has a \$10,000 piece of property. Let us say he borrows \$5,000. He does not borrow it from the Federal Home Loan Bank at all. He borrows \$5,000 from the building and loan association. Now, the building and loan association if they want to get any money on that note they have got to go and give this note of the building and loan association to the bank for \$5,000.

Mr. HANCOCK. That is a very satisfactory and clear distinction. Now, let me ask you another question.

Mr. FRIEDLANDER. They can borrow \$5,000. They have that much more security.

Mr. HANCOCK. As I understand it, these banks are supposed to be Federal instrumentalities, aren't they?

Mr. FRIEDLANDER. Yes.

Mr. HANCOCK. Why are they called Federal instrumentalities? Is not that just a casual circumstance?

Mr. LUCE. May I answer that question?

Mr. HANCOCK. Yes, sir.

Mr. LUCE. Only as they are established to be public agencies or instruments.

Mr. HANCOCK. I was thinking, Mr. Luce, if there was not some deeper reason for that denomination.

Mr. LUCE. May I finish, please, Mr. Hancock. The Supreme Court supported the constitutionality of the Federal farm loan act by reason of the fact that its banks were instrumentalities of the Government. My recollection is that it was the Supreme Court itself that coined that phrase in supporting the constitutionality of the Act, and while I am on that subject it might well be made a matter of record that this was the reason also for making them depositories of public funds.

Mr. HANCOCK. I understand that, but I thought the main purpose was to secure special tax privileges.

Mr. LUCE. That exemption from taxation could not be sustained, unless, as the Supreme Court held, they were instrumentalities of Government.

Mr. HANCOCK. As soon as the Government has been refunded the amount of money it has advanced to set up these banks, the banks become, for all purposes, private enterprises, do they not?

Mr. FRIEDLANDER. There is no provision in the law that I recall which makes any change in the organization set up of the bank, even after the retirement of Government capital. In other words, the board at Washington still functions in the supervision.

Mr. HANCOCK. Does not the board have more authority as long as the Government has money in the bank than it does after the Government's money is withdrawn?

Mr. FRIEDLANDER. I do not see any distinction in the bill of that character at all except when members have less than \$1,000,000 invested in one of the 12 banks.

Mr. HANCOCK. Do they not have more authority with respect to the appointment of directors?

Mr. FRIEDLANDER. The board at Washington, for the first year, in order to get the system into immediate operation and take care of the emergency, has the right to appoint, I believe, all the directors, and where the capital of the members falls below \$1,000,000 in each bank.

Mr. HANCOCK. I am not anticipating any situation like that which I have in mind, but I want your reaction to this. You probably are aware of the fact that there are some joint stock land banks to-day in this country that are engaged in purchasing their own securities at depreciated prices. They are using their funds, which we believe they should take to serve agriculture, and are in effect compromising with their creditors.

That does not apply to all the banks, but the testimony adduced before our committee showed conclusively that there were some banks to-day, joint stock land banks, that are using the funds which they derive from the resale of lands acquired under foreclosure, with which to purchase their own securities at between 30 cents and 40 cents on the dollar.

Do you think a situation of that kind could possibly arise in connection with the proposed home loan bank system whereby the bank would operate to protect the private stockholders in the banks

against the interests of those who had borrowed, and especially in a crisis, an economic and financial crisis as we now unfortunately face?

Mr. FRIEDLANDER. I would say that if you felt that a situation of that kind could arise under this act, and I do not think it could, that it ought to be safeguarded before the bill is passed.

Mr. HANCOCK. That is exactly what I am concerned with, and only in the interest of the bill if this legislation is needed and can be worked out on a sound basis.

Mr. FRIEDLANDER. I think that that could be taken care of if you have a fear of that kind.

Mr. HANCOCK. Have you any suggestion to make about that?

Mr. FRIEDLANDER. I would like to give that a little thought, Mr. Hancock, and I would be very glad to discuss it with you.

Mr. CAMPBELL. Is it not a fact that the building and loan association applying for a loan from the bank created under this act would have to put up two for one security?

Mr. FRIEDLANDER. I intended, before I got away from that, to make the point a little bit clearer. I first wanted to get that situation clear in your mind. Under the terms of this act, only \$3,000 of \$5,000 notes could be advanced to the borrowing institution, instead of having a \$5,000 in notes against \$10,000 worth of property, you would have \$10,000 notes on city property against a \$3,000 obligation.

Mr. WILLIAMS. Let me ask you this, to see if I understand this: As I understand this bill, there is no established percentage of ownership between the Government and the member institutions.

Mr. FRIEDLANDER. I beg your pardon, Mr. Williams; I did not quite understand you.

Mr. WILLIAMS. You are setting up an institution here which provides for stock subscribed by the Government and by member institutions.

Mr. FRIEDLANDER. Yes, sir.

Mr. WILLIAMS. Is there anything in the bill which provides the percentage of ownership which each one of them shall have in the institution?

Mr. FRIEDLANDER. The bill provides that the Federal board at Washington shall fix the minimum capital stock of any bank, which shall be at least \$5,000,000, and that then they shall open their books for subscription in the same manner in which the Federal land banks and the Federal Reserve Bank system were set up, and that part up to \$150,000,000 that was not subscribed by the institutions that desired membership, that that would be subscribed by the Government, and that as these other institutions came in later on, as they needed the facilities of the bank, or as they found the bank was successful, and came in, that one-half of their stock payments should go in retirement of the Government stock subscriptions, but there is nothing in the bill that sets up any relation or related percentage as between the stock ownership of the Government and the stock ownership of the individual institutions.

Mr. WILLIAMS. In other words, if the member institution should subscribe \$100,000 each of the stock, the Government would be obligated to subscribe for \$4,900,000 remaining.

Mr. FRIEDLANDER. Yes, sir; and the Government would have that money right there in its Treasury, or in the treasury of the bank, that

could not be put out or used unless these affiliated institutions came in with the proper security.

Mr. WILLIAMS. But in that event it would be practically a Government institution.

Mr. FRIEDLANDER. It would, but under the \$100,000 which you suggest being put in—

Mr. WILLIAMS (interposing). I have used that merely as an illustration.

Mr. FRIEDLANDER. Under the terms of this act, those members owning \$100,000 could not get more than twelve times in loans, no matter how much collateral they put up. In other words, the amount they can borrow is based upon their stock subscription. In the first place, their stock subscription is based on the assets of the company which comes into membership. In other words, it is not left entirely up to them. It is not left entirely to the individual bank or building and loan association as to how much they will subscribe for in the way of stock of this bank and get membership privileges in it. They must subscribe for \$2,500 worth of stock in the first place, plus a sum equal to 1 per cent of their eligible mortgage notes subject to discount under this act.

Mr. WILLIAMS. I understand that; yes. Suppose the whole amount amounted to \$100,000?

Mr. FRIEDLANDER. Then the total amount of borrowings of those institutions would be \$1,200,000, for which they would have to put up practically \$2,000,000 worth of mortgages on their note obligation to repay the amount.

Mr. WILLIAMS. Now, do I understand that these member institutions, in order to get membership in it, have to put up security not to exceed—well, the security they put up is determined now? I am not clear on that.

Mr. FRIEDLANDER. Their membership; in the first place, let us divorce their borrowings from their membership.

Mr. WILLIAMS. I am doing that.

Mr. FRIEDLANDER. They apply for membership and they must subscribe and pay in within the period of a year—they all get a year in which to make their full payment—they must put in, let us say, an association of \$1,000,000, having all of its assets in mortgage loans on homes of individual amounts not in excess of \$15,000 apiece. Now, that concern must subscribe to \$2,500 plus 1 per cent.

Mr. WILLIAMS. I understand that.

Mr. FRIEDLANDER. One per cent of the million dollars.

Mr. WILLIAMS. What do they put up as security for that subscription?

Mr. FRIEDLANDER. They put up cash.

Mr. WILLIAMS. They pay for it?

Mr. FRIEDLANDER. They pay for it; yes, sir. They must pay one-fourth in cash, and then they have three other payments, but they must put up the \$2,500, plus one-fourth of the other amount in cash, and the stock must be paid for at stated times.

Mr. HANCOCK. Let me get one thing further; because your argument is very interesting to me and very helpful.

The CHAIRMAN. Mr. Hancock, let him finish, and then we will take that up.

Mr. HANCOCK. I thought you said we would take those matters up at this time?

The CHAIRMAN. We will take them up on his arguments.

Mr. FRIEDLANDER. No. 6 of the opposition points, I believe, is next.

It is claimed that by encouraging long-term home financing, it would tend to eliminate the short-term 3 and 5 year loans which now prove so costly and dangerous to the home buyer. "We submit that long-term home financing on a semiannual or monthly payment basis for periods ranging from 5 to 16 years is, and has been, available for many years for home owners desiring to take advantage thereof."

Now, that is just a matter of fact, whether it has been or not. We contend that there is no fund at this time for home-mortgage financing for the average citizen of this country. We do say that there has been, up to a very recent time, some funds for home financing in some selected communities upon some selected property from selected persons. The property has to be a new home, just erected. It has to be on certain streets. It has got to have certain facilities. In some instances, it has to have two bathrooms. It has got to conform to modern architecture. It is this type of a loan which the life-insurance companies say, "We will take this loan for about 40 per cent of the actual value of the house and the lot."

Now, then, if that is adequate financing, we will admit that probably there is some of it to be had, but that does not touch the rank and file of the people of this country. There is a limitation, a minimum limitation, which they will even accept. They say they do not want any loans under \$4,000 or \$5,000. Why, the average income of the citizens of this country will not permit them to own homes that would stand a \$4,000 or \$5,000 loan at this time, and we say to you that there is a very, very divergent opinion, we make an overwhelming opinion, on the part of those who believe they know that there is not at this time adequate home-financing funds.

Mr. LUCE. Will you not enumerate the restrictions set up by the big life-insurance companies on the nature of their loans?

Mr. FRIEDLANDER. I just mentioned a few of them.

They will not take an old home. We can not all have new homes every year. If some of us do get new automobiles every year, not me, but we can not get new homes every year, and unless you have a brand new, spanking home, they will not loan the money on that while it is being built. They will not take that risk. Some of their mortgage-banker friends will have to take that risk for them while it is being constructed and, after it is constructed, and after they have passed upon the individual and the architecture, then they say they will not take less than \$4,000 or \$5,000, and it has to be on this street, and then they say, "We will loan you 40 per cent to 50 per cent of the value of the property."

Mr. LUCE. And did you mention the fact that they will not loan in places of less than 50,000 inhabitants?

Mr. FRIEDLANDER. They do not loan in places of less than 50,000 inhabitants, and, as we say, that does not constitute an ample, sufficient, available supply of home-financing funds, and that is a situation that this Congress ought to be interested in.

It is claimed that if all home-financing institutions become members of the system, funds for home financing would be increased by from 30 to 40 per

cent. We submit that home-financing institutions that have been properly managed will not need membership in the system. Institutions that need funds can not afford to purchase membership in the regional bank under the terms specified.

As to whether or not a well-managed institution would need the system at this time, I think that we have a pretty well-managed institution down home. I am egotistical enough to believe that, and our institution is a \$10,000,000 institution.

After a loan is made, some things occur which force the institution to take back the property—a family breaks up, or something of that kind, but I think the percentage of mistakes in our balance sheet will measure up very well with the mistakes in the balance sheets of institutions very strongly opposed to this bill. I will say this, that our institution at this time needs the home loan bank bill very much, and that although it would call for an investment of \$100,000 in the stock of the bank, we stand ready to-day to subscribe and put our money up and go into the system in order that our customers, people who have placed money with us, may get the advantages of the credit which they need at this time.

Mr. WILLIAMS. What is your reaction to the situation that exists here now, with the Government facing a deficit of two and a half billion dollars, as to appropriating \$150,000,000 more for this private enterprise?

Mr. FRIEDLANDER. Well, the answer to that is simply this: If the Government, through the investment, not the gift, of \$150,000,000 would have been the means of having saved the closing of half of the banks that closed in the United States last year, it would have been money well invested for the people. I think that is the answer, and I think you gentlemen have shown that there is the answer in the liberality with which you have advanced money here to cover situations which are not even as grave as these, which face the homes of America. I think your appropriation of \$125,000,000 to the Federal land bank at this time indicates that. I think your Reconstruction Finance Corporation advances and other appropriations probably reflect that sentiment in Congress.

Mr. WILLIAMS. If you heard some of the arguments over here on the revenue bill that are going on now, you would see the terrible straits we are in to raise money.

Mr. FRIEDLANDER. I know you are between the devil and the deep blue sea; I admit that; and yet, at the same time, I do think that presently the problem, inasmuch as it is not a gift, it is an advance, as Mr. Luce presented the matter to you this morning, the thought occurred to me, what are we asking the Government to do in this emergency, so far as the emergency feature of this act is concerned, and that seems to be, the opponents make the difference between the emergency and the permanent need.

As to the permanent need, we could take some time to develop these plans out of our own funds, but what are we asking the Congress to do to meet the emergency of the home owners of America? Two things: One, a speedy action, because it is a crisis, which the opponents admit, and we seek to solve it.

The second is that we ask the Government to appropriate so much of the initial capital as is necessary so that these institutions may get to working immediately, and to forbear dividend participation,

principally for this reason, so that these institutions will be self-supporting from the first, and attract other institutions into them so that the Government can get its money and get out that much more quickly that way than they would if they did participate in dividends.

Mr. WILLIAMS. To what extent have the building and loan associations of the country participated in the loans from the Reconstruction Finance Corporation up to date?

Mr. FRIELANDER. Of course, you understand that the Reconstruction Finance Corporation operations, I believe, are confidential.

Mr. WILLIAMS. I do not mean the individual at all.

Mr. FRIELANDER. The other day a statement went out over the press that the Reconstruction Finance Corporation had loaned sixty-eight and a half million dollars to banks and building and loan associations, and that is a very impressive figure, but I think I am safe in saying that, of the sixty-eight and half million dollars loaned to banks and building associations, less than two and a half million dollars of it was loaned to building and loan associations. In other words, it is sort of a proposition of having a chicken stew, one part chicken and one horse—that is, one chicken and one horse—and we happen to be the chicken end of it, very, very small, Mr. Williams, so far as relief is concerned.

The point I made a while ago is, if the only relief which the building and loan gets is to take money which goes to the bank, and instead of owing the bank, it owes the Reconstruction Finance Corporation, you have not given any relief to these people waiting for and needing the money, and to the people who will not borrow money from these institutions, you are not giving any relief by relieving the banks of an obligation and substituting the obligation to the Reconstruction Finance Corporation, and I understand that there has been a limitation made by the Reconstruction Finance Corporation; that is, to the extent to which building and loans can expect to receive aid from the Reconstruction Finance Corporation.

We do not blame them for it.

Mr. WILLIAMS. I do not know now if this is already in the record. If it is, I do not care to encumber the record. I have not read the Senate record as to the extent of the homes in this country now of the kind described in this act—3-family homes and dwellings. How many are there in the United States?

Mr. FRIEDLANDER. As described in this act, well, of course, that includes 1, 2, and 3 family dwellings.

Mr. WILLIAMS. Yes; up to that limit.

Mr. FRIEDLANDER. I think the last census return showed that there are something like 20,000,000 in the United States.

Mr. WILLIAMS. What percentage of them is now mortgaged?

Mr. FRIEDLANDER. The figures, I think, will show that more than 50 per cent of the homes are mortgaged.

Mr. WILLIAMS. And what per cent of that business is handled by the building and loan associations?

Mr. FRIEDLANDER. The building and loan associations' total resources are \$9,000,000,000. I think that the figures given by the Mortgage Bankers' Association are that there are \$27,000,000,000 invested in the homes of the people of the Nation, so that about one-third of the total is held by building and loan associations.

Mr. WILLIAMS. About one-third of 50 per cent—the building and loan associations would have, on that basis, $16\frac{2}{3}$?

Mr. FRIEDLANDER. About $33\frac{1}{3}$ per cent.

Mr. WILLIAMS. Of the loans?

Mr. FRIEDLANDER. Yes.

Mr. WILLIAMS. But there would be $16\frac{2}{3}$ per cent of the homes of the country being carried now by the building and loan associations of this character, I mean?

Mr. FRIEDLANDER. I would prefer to present to the committee those figures.

Mr. WILLIAMS. That is perfectly all right. Perhaps it is already in the hearings.

Mr. FRIEDLANDER. I think probably the figures are in there, but to make sure we will present the figures to the committee.

Mr. WILLIAMS. You have stated here, as I understand you, that you are simply here representing the unorganized folks. Whom do you represent here?

Mr. FRIEDLANDER. I did not state that I was here representing the unorganized folks.

Mr. WILLIAMS. I understood you to say that there were these great organizations opposing this, and the others were rather unorganized.

Mr. FRIEDLANDER. I stated that whenever a proposal is made before Congress that you will find groups opposing the wishes of the unorganized group. I will say this, that the building and loan association comes closer to really representing the home owners of America than any other group in America, for this practical reason: We do not sell any mortgages. If we make a loan, we retain those mortgages, and notes, until they are paid, from 10 to 12 years later. We have nothing to sell. We do not build any houses. The building and loan associations do not build a house. We are bound to be on the home buyers' and the home builders' side, because those homes represent our security. He is the man that I am talking about that is unorganized.

Mr. WILLIAMS. What percentage of the funds of the building and loan associations is used for building houses?

Mr. FRIEDLANDER. You mean for building new houses?

Mr. WILLIAMS. Yes.

Mr. FRIEDLANDER. I should say, judging from the statistics in our State, and in the Southwestern group, which your State is a part—I, last year, was the president of that group of building and loan associations, and I am familiar with conditions in Missouri, Kansas, Texas, Oklahoma, Louisiana, and Arkansas—that about two-thirds of the funds of the building and loan institutions are loaned upon homes that are already erected. In other words, about one-third goes into new loans.

Mr. WILLIAMS. The associations have considerable other activities outside of simply loaning on homes, have they not?

Mr. FRIEDLANDER. Not that I know of. That is their principal activity. They are not permitted to invest their money in any other way.

Mr. WILLIAMS. Do you not sell certificates and stocks?

Mr. FRIEDLANDER. Yes; that is where we get the money to loan.

Mr. WILLIAMS. That is what I mean, and you have stockholders who are not necessarily borrowers.

Mr. FRIEDLANDER. There are about four savers in a building and loan association to one borrower, and the association is a cooperative institution, and the men who save the money furnish the funds which the other one-fourth borrow, and they divide the profits.

Mr. WILLIAMS. Of course, the building and loan associations are put to a strain sometimes to pay off these certificates and stocks. I am not familiar enough to know just what you call them, the obligations.

Mr. FRIEDLANDER. The stock certificates.

Mr. WILLIAMS. The stock certificates that are held by the purchasers, whoever they are.

Mr. FRIEDLANDER. Yes, sir.

Mr. WILLIAMS. And that is one of the purposes, of course, of this legislation.

Mr. FRIEDLANDER. That is one of the needs of the legislation; yes, sir. A man having saved his money in a building and loan association, making his investment there, of which there are approximately 10,000,000 in the United States, under the present conditions finds himself faced with the necessity and need of recapturing some of those savings at a time when the association, having a pile of mortgage notes in its vault, can not do a thing in the world with them.

Mr. WILLIAMS. In other words, if he called on them now for it, the building and loan associations could not need it, just like the small banks, and it is to meet that emergency that you are asking this legislation.

Mr. FRIEDLANDER. That is one of the emergencies that confronts us.

Mr. WILLIAMS. Is not that the main one?

Mr. FRIEDLANDER. That is the acute emergency at this time, and that faces not particularly the building and loans. It is the building and loan customer, the community. As an illustration of that, I saw an editorial in the El Paso Times several days ago, just before I came up here, in which the citizens' committee, one of these community committees, appealing through the El Paso Times to the people who Mr. Luce described this morning as those who may want their money to hoard it or do not need their money for living purposes, to not take their money out of the building and loan associations, so that the building and loan associations could go out and lend more of that money to people who wanted to improve their property and to lend money to people who wanted the money to live by. Now, then, there is a community situation there! The demands upon those institutions are so great, and you understand when those demands are upon them, they can not make loans—all they can do is take every dollar that comes in there and pay it to these people as fast as they can give to to them. Some of them have been waiting 4, 6, or 12 months to get their money. You can not force the borrower to pay back the money any faster than his contract calls for, and the building and loan association can not use his mortgage for credit because there is no place to-day where they can turn to and get credit.

Mr. WILLIAMS. Do you recognize an overbuilt situation now, at least in some parts of the United States?

Mr. FRIEDLANDER. Yes, sir. I will say this, that I do not think the overbuilding condition is there as to the extent that is claimed by the opponents of this bill. Frequently overbuilt condition is due to the huddle condition, as pointed out by the President to the home ownership conference. The son-in-law to-day is living with his father, and you have two or three families huddled together, and there is an apparent overbuilding that does not really exist.

Mr. WILLIAMS. There would be very little chance for that kind of a fellow, with all due respect to him, to go out and build a home.

Mr. FRIEDLANDER. Absolutely, and you will not find the responsible lending home financing institutions of the United States claiming that they are going to misuse this bill for the purpose of building any new homes where the necessity is not there. There is no advantage at this time in doing that.

Mr. WILLIAMS. That is not even one of the primary purposes of it.

Mr. FRIEDLANDER. No, sir; it has been the bugaboo that has been brought out for the purpose of attempting to defeat this bill.

Mr. WILLIAMS. Let me ask you this question, and perhaps I will quit for a while, at least. What is your suggestion with reference to the building and loan associations in States whose law does not permit them to subscribe to this stock, or to put up their securities to obtain the loans?

Mr. FRIEDLANDER. Well, the bill attempts to take care of the situation with reference to the associations that are unable to subscribe to stock.

Mr. WILLIAMS. By putting up the money, of course, I understand.

Mr. FRIEDLANDER. By putting up the money equivalent to the amount of stock, or Government bonds.

Mr. WILLIAMS. After all, there is no difference between that and stock, is there?

Mr. FRIEDLANDER. Yes, there is.

Mr. WILLIAMS. I wish you would explain that. I can not see that difference.

Mr. FRIEDLANDER. Well, the difference, as I see it, is this, that if you have a law—a building and loan association—and we have that in Texas as well as in Missouri, that does not permit a building and loan association to invest its money in the stock of another enterprise, there is nothing in the law that prevents us from making a deposit in bank. Now, this is a bank.

Mr. WILLIAMS. I understand that situation, but in effect they are simply putting up the money, are they not, whether they get the stock or a receipt for it?

Mr. FRIEDLANDER. They are certainly making a deposit.

Mr. WILLIAMS. There is really no difference, is there?

Mr. FRIEDLANDER. Yes.

Mr. WILLIAMS. I do not see it yet, I confess, in practical operation.

Mr. FRIEDLANDER. I think there is a big difference. However, the broad answer to that is this—

Mr. WILLIAMS. Pardon me. That is not really the point I have in mind. It is the other.

Mr. FRIEDLANDER. The borrowing?

Mr. WILLIAMS. Yes. I see no difference in that, as far as that is concerned.

Mr. FRIEDLANDER. Well, probably not. Maybe that is only a technicality that will permit it. We will get to the other.

As I understand it, in some of the States there is a provision in the law that expressly forbids building and loan associations to pledge their collateral as security for a loan. I understand that there has been an amendment suggested to the Senate Committee. If not, there will be. They are, I think, taking amendments now in consideration of that matter. They will meet that condition. However, my personal opinion is that that condition should be met in the States where it arises. This Congress is asked to legislate for the entire United States. Now, after the passage of the Federal reserve bank act, which permitted the affiliation of State banks, it became necessary in many States to amend the State banking laws which permitted banks to affiliate with the Federal reserve system.

Now, if the building and loan associations in Texas or in Missouri or Arkansas or any other State feel that there is an advantage in belonging to this institution, then they certainly should not object to amending the laws of that State to enable them to come into this institution and make the institution a sound one for this reason. It is not fair, and it is not workable, to ask my institution in Texas to invest \$100,000 in the stock of this corporation which is going to lend money, and leave me up in the air as to where they are going to get security for that money. In other words, I do not think it is fair to the affiliating corporations to expect some of them in some States to put up security and not expect or demand of those in every other State to do the same thing.

And I say this, that the most far-reaching objection to it is that I do not believe you can sell your bonds if your prospective bondholders understand that in some States you are going to waive the requirement to put up security, because the building and loan associations or the banks or insurance companies of that State object to giving security.

Mr. LUCE. May I inject a statement on this point? In my opinion, in passing judgment upon the details of the bill, that consideration was uppermost, and it seemed to me of paramount importance that we should safeguard the institution in order that the bonds might be sold.

Mr. WILLIAMS. Let me suggest this. As I understand it, my State is one of those.

Mr. FRIEDLANDER. I think so; yes.

Mr. WILLIAMS. All building and loan securities or obligations rather are nonnegotiable. I will leave it as it was there—securities. You are, no doubt, more familiar with that than I am. They are nonnegotiable. I understand that the legislature of our State, after a very thorough consideration, decided that was one of the best safeguards that could be applied. I understand also that there are a number of States in the same condition. Do you think it is a wise public policy on the part of this Government to say to them that they must amend and change their laws notwithstanding the fact that it is not their judgment about it, in order to conform to a law passed by us here?

Mr. FRIEDLANDER. No. We, as I understand it, are not saying that to the building and loan associations of your State.

Mr. WILLIAMS. Either that or stay out.

Mr. FRIEDLANDER. Well, that is true.

Mr. WILLIAMS. Well, I would say that would be a rather unfair attitude. Let us get into the reason for that.

Mr. FRIEDLANDER. The building and loan association operating in a State that has a law of that kind, the reason behind it is that the shareholders of the association will have no preferred borrowings ahead of them. In other words, that all of the assets of that company will be there intact to pay the stockholders. Now, you must make up your mind in Missouri, and in any other place, that either that is going to be your policy, or that you are perfectly willing, if you borrow money, to put up collateral, because I do not see that there is any difference. If you borrow money in Missouri, what difference does it make whether you physically assign the security protecting it, or whether you do not. After all, you have to pay the obligation, and the assets are standing back of it, and after all is it not just a matter of whether you want to change your laws or not.

Mr. WILLIAMS. There is a difference in principle in it, I think, that I can see.

Mr. FRIEDLANDER. All right.

Mr. WILLIAMS. There is more or less of a trustee relationship in the building and loan association, and they have considered it a wise policy, as you say, to keep all those assets available for the payment of those people for whom they hold it in trust.

Mr. FRIEDLANDER. Yes.

Mr. WILLIAMS. Rather than to invest it in a fund where they would be compelled to come in on a level with the others.

Mr. FRIEDLANDER. That is an argument against their coming into the system at all.

Mr. WILLIAMS. Yes.

Mr. FRIEDLANDER. As I understood it, your argument was against their putting up collateral. It would seem to me that as long as they are borrowing money, if they are permitted to borrow money, it does not make any material difference whether they are required to put up collateral or not, so far as your associations and your State is concerned.

Mr. WILLIAMS. Are building and loan associations borrowers in Missouri?

Mr. FRIEDLANDER. Yes.

Mr. WILLIAMS. What security do they give?

Mr. FRIEDLANDER. They give their own notes.

Mr. CAMPBELL. What is back of that?

Mr. FRIEDLANDER. All the assets of the company. I think this can be safeguarded, though; I think I can see a reason for an amendment to your State law permitting the assignment of securities for collateral to either a State or the Federal reserve system, and then all the balance of your securities can remain nonnegotiable.

Mr. WILLIAMS. To what extent does that condition exist throughout the country?

Mr. FRIEDLANDER. I think the State of Nebraska is one State where they can not assign the securities. My personal opinion is that practically all States that have sessions of the legislature are going to change that in order that the building and loan associations may participate in the Reconstruction Finance Corporation act. I understand they are demanding securities before they make any loans,

and if they expect to get any of that money, I think they will change the law.

Mr. WILLIAMS. It exists to a wider extent than just two States, does it not?

Mr. FRIEDLANDER. I think Nebraska and I think Missouri, and there is some question about Pennsylvania. We had some discussion about it to-day, at noon. I do not know. There may be some other States, but it is not as general as probably you might believe. I think most of the States permit it. I think that it has been held that they are permitted, where the law does not expressly prohibit it.

If an association is permitted to borrow money, and nothing is said about collateral, it naturally follows that they would be permitted to put up collateral.

Mr. WILLIAMS. You would not take the position that they could put up collateral if the collateral on the face of it were nonnegotiable?

Mr. FRIEDLANDER. Of course, there is a difference between being nonnegotiable and being assignable. There are many building and loan notes which, upon their face, are not negotiable, because of the indefinite maturity date of those notes. In other words, they depend upon the maturing of the stock, and yet, at the same time, the courts have held that those notes are assignable.

Mr. WILLIAMS. If they are made payable directly to some individual or institution, of course, they would be nonnegotiable, and not to the order.

Mr. FRIEDLANDER. Well, there is some question about that in my mind.

Mr. WILLIAMS. There is no question about that in my mind, as a legal proposition, if they are made payable to the order.

Mr. FRIEDLANDER. That they could not be assigned?

Mr. WILLIAMS. They are then negotiable.

Mr. FRIEDLANDER. Yes.

Mr. WILLIAMS. If they are payable to John Jones, they are not negotiable.

Mr. FRIEDLANDER. Well, of course, that is getting into a legal question on this matter that I can not settle. It would seem to me that you would have to formulate a national policy. It seems to me that after all this system has got to be set up on a basis whereby when you seek to borrow the money for the purposes of the system, that the bonds which you offer are going to be salable. It seems to me that to be salable, they necessarily must have collateral back of them, and that those associations, whether they be in Texas or Missouri or New York or any other State, that except to avail themselves of the credit facilities of the institution, will have to amend their laws to do it. Now, then, if they do not do it, they are no worse off after the system than they are now without it. They still can borrow money from their local banks.

The CHAIRMAN. Are there any other objections you want to answer, Mr. Friedlander?

Mr. FRIEDLANDER. I think that just about covers it.

The CHAIRMAN. Mr. Hancock.

Mr. HANCOCK. Mr. Friedlander, I started to ask you just now a question applicable to subsection (d) of section 8 on page 17. The thought behind all of my questions this afternoon has been that I might bring out certain suggestions that would make this bill more

desirable. I am favorably impressed with the principle underlying the bill, and I believe in the worthiness of its objective. My experience here, however, makes me feel that it is necessary in legislation of this kind that we deal somewhat more in detail with the administrative features. Justifiably or not, I have been greatly disappointed with respect to the operation of several new governmental agencies.

Now, for that reason, I am wondering if some provision should not be included in the bill that will take care of the matter of unpaid costs when it comes to the payment of the subscriber to the bank, and also whether some provision should not be included in the bill that would permit the subscriber to pay his debts to the bank, from which he has borrowed, with the debentures of the issuing bank.

Now, I have recently been impressed with the situation here in connection with our joint-stock land banks that I mentioned just a few minutes ago. I understand that under the operation of the Federal land bank system, in the event of default in the payment of one of the members of the association, the association has the right to use the bonds issued by the Federal land bank in payment of the defaulted payment of the individual borrower, a member of the association. I am wondering whether it would be practical if some arrangement could be made in connection with this legislation that would enable the subscriber to the association, to whom an advance had been made, to use the debenture or bond of the bank from which the loan had been secured in payment of that debt at maturity. The main thing I have in mind is this. I am interested in seeing the borrower get the benefit of this legislation, and not alone the stockholder in the member bank whose earnings or profit are regulated and should be dependent on proper management.

Mr. FRIEDLANDER. You understand, of course, that in the event of the liquidation of any one of these banks, that any amount in the resources of that bank in excess of the paid-in capital by the subscribing member, goes to the Government. It would seem to me that there would be no motive behind, and I think I can see what you have in mind, there is no motive, as I understand it, in taking advantage of your borrower for the purpose of piling up the surplus in that bank and distributing it among the shareholders of that bank, because the surplus profits go to the Government.

Mr. HANCOCK. I do not know whether this is entirely applicable or not. Here is the situation. You have your local farm associations that are the medium through which the individual borrows from the Federal land bank.

Mr. FRIEDLANDER. Yes.

Mr. HANCOCK. And there have been so many foreclosures that my understanding is that a great many of those associations have gone out of business, closed shop.

Mr. FRIEDLANDER. Yes.

Mr. HANCOCK. That leaves the bank owning the bank, so to speak, instead of the association, which was the original purpose of the act.

Mr. FRIEDLANDER. Well, the vice of Federal farm loan act, as I said before, was the fact that you have a makeshift device, composed only of borrowers, with nothing back of them at all, making those loans in the first place, and turning them over to the Federal land bank. There is nothing of that kind here. In the first place, the

affiliating institutions, whether they are banks, or life insurance companies, or what not, have got to be qualified. To get in under this act, they have to be subject to examination. You have not got the same thing.

Now, as to the matter of policy of being able to take the stocks and use them in liquidation of the debt, I do not think that is permitted in building and loan circles in any State that I know of.

Mr. HANCOCK. I do not refer to the stock. I referred to the bonds or debentures.

Mr. FRIEDLANDER. Or the bonds or debentures.

As I understand it, you have a bill now in Congress that would permit that to be done. I do not believe it can be done under the present Federal land bank act.

Mr. HANCOCK. It is done under certain conditions with respect to the Federal land banks, but not with respect to joint stock banks. Is not that right, Mr. Reilly?

The CHAIRMAN. Yes.

Mr. FRIEDLANDER. I am not familiar with that subject. I do not care to express an opinion on that without giving it some thought.

Mr. HANCOCK. I am presenting it so you can give it some thought.

The CHAIRMAN. Did you have anything to do with the preparing of this bill?

Mr. FRIEDLANDER. Only in making some suggestions with reference to it.

The CHAIRMAN. How was \$150,000,000 selected as the sum that the Government should put up?

Mr. FRIEDLANDER. That followed the suggestion of President Hoover.

The CHAIRMAN. Do you think that sum is necessary?

Mr. FRIEDLANDER. I would think that it would be; yes.

The CHAIRMAN. Well, the Federal farm loan banks have issued eleven hundred million dollars of bonds on a sixty-five million dollar capital.

Mr. FRIEDLANDER. Yes.

The CHAIRMAN. Up to the time the last one hundred million was appropriated for it.

Mr. FRIEDLANDER. That may account for one of the reasons why the bonds are selling below par. Maybe they oversold bonds in proportion to the capital of the bank. You see, they can, under the Federal land bank act, sell bonds up to twenty times their capital. This bill limits it to twelve times. In other words, it is more contracted than the other in the matter of security.

The CHAIRMAN. Is it necessary to the working of this act that they should be tax-exempt bonds?

Mr. FRIEDLANDER. I would say that it would be necessary in order to sell the bonds. About the only bonds that can be sold these days are that type of bond.

The CHAIRMAN. What would be the difference, supposing this bill was passed without a tax-exemption provision, what would be the difference in the sale price of the bonds that way and with the tax-exempt provisions?

Mr. FRIEDLANDER. It would probably cost about 1 per cent more.

The CHAIRMAN. One per cent more because the income is taxed?

Mr. FRIEDLANDER. Yes. I think it has as much to do with the prestige of the bonds as it has to do with the actual difference in the cost.

The CHAIRMAN. There is a great deal of sentiment to-day among people against the issuing of any more deceptive governmental instrumentalities by any banking institutions. Several people I know bought land-bank bonds who thought they were Government instrumentalities, and they find out they are not Government instrumentalities. Why should the National Government any longer through any institution carry on any more deceptive financing?

Mr. FRIEDLANDER. My opinion is that the Government at no time should deceive its citizens, and I do not think that it did so in the matter of the Federal land-bank bonds. People may have bought them with that idea in mind, but certainly the Federal land banks did not say that they were guaranteed by the United States Government.

The CHAIRMAN. What does the statement, "Government instrumentality," mean to an ordinary buyer?

Mr. FRIEDLANDER. I do not know. You know people have bought a lot of things they would have been better off if they had not bought, and I think they are more fortunate in the investment in Federal land-bank bonds than lots of other things.

The CHAIRMAN. What do you think about the proposition of the banks being obligated to pay the interest on the \$150,000,000?

Mr. FRIEDLANDER. As I said, in presenting the matter, it is not intended, of course, for the Government to permanently own stock in these banks. The object of limiting the Government, or, rather, exempting the Government stock from earnings is as a means of having these banks earn money from the start so that you can get the institutions in here and get the Government out, which I assume you gentlemen want.

The CHAIRMAN. That is all true, Mr. Friedlander, but could not they do that if they only pay 2 per cent interest on the loan?

Mr. FRIEDLANDER. They might. Of course, after all, the bill follows the precedent established in the Federal land banks. That is all. It may be a bad precedent. I am not debating that with you.

The CHAIRMAN. The question is, can we not start something now, and not follow a precedent?

Is it a necessary part of this bill, to make it workable, that the Government shall donate \$150,000,000 free of cost for many years to this bank?

Mr. FRIEDLANDER. My judgment is that it is not necessary. I so stated in my testimony before the Senate committee.

The CHAIRMAN. What is your judgment, then? What would be a reasonable interest?

Mr. FRIEDLANDER. I would say 2 per cent would be a reasonable interest.

The CHAIRMAN. Why should the stockholders of this bank draw any interest until the Government was paid up?

Mr. FRIEDLANDER. Well, that is a matter of policy. The Federal reserve act, I think, put a limitation of 6 per cent on. The stockholders receive 6 per cent and all over that went to the Government. I think that is a matter of policy.

The CHAIRMAN. In the Federal reserve banks, the Government got a lot of money out of it, but the Government will get nothing out of this bank except that \$150,000,000 back. The Government has drawn more than \$150,000,000 out of the Federal reserve bank.

Mr. FRIEDLANDER. Yes.

The CHAIRMAN. Why should not this bill provide that before paying any dividends to stockholders, the Government be paid back?

Mr. FRIEDLANDER. Well, I assume if the Congress passes this bill the object of it is, of course, to provide mainly a source of home financing funds for the people of the country that need it, and I would say that the Government contribution, which is a forbearance of return on \$150,000,000 for a few years, is a very small contribution to make to the setting up of a permanent reserve system of that character.

The CHAIRMAN. Well, I am asking these questions for information. I will ask you another one.

Under the terms of this bill, the capital stock would have to be \$300,000,000 before anything would come back to the Government, would it not?

Mr. FRIEDLANDER. No; I do not so understand that.

The Chairman. I think by the terms of the bill the Government can be obligated immediately to put in \$150,000,000 and there is no money to be paid back to the Government until the contributions of stockholders equals that sum.

Mr. O'BRIEN. That does not mean the Government needs to put in the \$150,000,000.

Mr. WILLIAMS. It is a matter of the excess over what the member banks themselves put in.

The CHAIRMAN. I know, but the board of directors have the right to fix the capital stock. The minimum shall be so much.

Mr. FRIEDLANDER. The board has that right.

The CHAIRMAN. Who fixes it?

Mr. O'BRIEN. The Federal board in Washington.

The CHAIRMAN. All right, it fixes \$5,000,000 as a minimum.

Mr. O'BRIEN. Yes.

The CHAIRMAN. They get \$150,000,000.

Mr. FRIEDLANDER. If nobody subscribed anything, they could call upon the Government for \$150,000,000.

The CHAIRMAN. I do not so understand that. The Government has got to subscribe the excess.

Mr. FRIEDLANDER. Over that which is subscribed by the affiliating institutions. The excess between what they subscribe and the \$150,000,000.

The CHAIRMAN. Under what conditions, under this bill, would the Government be obligated to put in \$150,000,000?

Mr. FRIEDLANDER. Only if there were no institution in America that subscribed to any stock. In other words, if nobody took any advantage of it at all.

Mr. WILLIAMS. I do not understand it that way.

Mr. O'BRIEN. That is not right, either. I can explain it.

The CHAIRMAN. All right, Mr. O'Brien, explain it.

Mr. O'BRIEN. The board in Washington fixes the minimum capital of each bank—fixes the capital, rather, not minimum capital, of each bank. That capital may be not less than \$5,000,000. The books for

stock subscription are opened. Members subscribe for stock. Now, the Government pays into each bank the difference between the capital fixed by the board for the bank and the amount which is subscribed by members, but the Government does not pay in more than \$150,000,000. The Government stock begins to be retired at the time when the stock subscriptions of the members equal the amount of the capital fixed by the board for each bank.

The CHAIRMAN. Then, if the board should fix the capital stock of the banks so as to require the Government to put up \$150,000,000, you would have to wait until the total capital stock was \$300,000,000, before the Government would be paid back a cent, assuming the Government is going to put in \$150,000,000.

Mr. O'BRIEN. Yes.

The CHAIRMAN. Then there is no money goes back to the Government until the stockholders have subscribed another \$150,000,000?

Mr. O'BRIEN. That does not mean that the capital stock need be \$300,000,000.

The CHAIRMAN. Assume they have put in that much money, what they are allotted under this bill; nothing will come back to the Government until \$300,000,000 total has been subscribed.

Mr. O'BRIEN. If it is true that the capital stock of all the banks is \$300,000,000.

Mr. CAMPBELL. Suppose the capital stock is fixed at \$5,000,000, and half of that is subscribed after six months lapses. At the beginning, only \$1,000,000 was subscribed, and the Government had subscribed for the other \$4,000,000.

Mr. O'BRIEN. You are assuming a case. In each of the 12 banks, the minimum capital is fixed.

Mr. CAMPBELL. I am taking one for an illustration.

Mr. O'BRIEN. \$5,000,000 is the capital fixed.

Mr. CAMPBELL. Yes.

The subscribers within 30 days subscribe for a million dollars, and the Government put up \$4,000,000.

Mr. CAMPBELL. Suppose more associations come in and subscribe for more stock. They can not exceed \$5,000,000.

Mr. O'BRIEN. No.

Mr. CAMPBELL. The Government then would be retired out of it.

Mr. O'BRIEN. Just as soon as \$5,000,000 is paid in by members, the Government goes out.

Mr. CAMPBELL. Then they could not have \$150,000,000 out at any one time.

Mr. O'BRIEN. They might.

The CHAIRMAN. The point is this, they may not use \$150,000,000. I think there ought to be some way that that could be brought out. They might only use \$65,000,000.

Mr. CAMPBELL. If there was a probability that none of the stock would be subscribed for, then the legislation is futile.

The CHAIRMAN. I do not see why the \$150,000,000 was put in there, because that is one of the objections that the members have to this bill, and there is a probability it would never be more than \$5,000,000 to a bank.

Mr. WILLIAMS. What is your judgment as to the amount it will take?

Mr. FRIEDLANDER. I stated a few minutes ago that to meet the need, so far as the needs of the emergency are concerned, the unfreezing of the home financing institutions of this country would take at least half of what the Reconstruction Finance Corporation have had appropriated to its credit and capital. The chances are the very establishment of these banks would so give confidence to these institutions that would come in that you would never need it, but I do not believe they would be overcapitalized on the basis of \$150,000,000.

Mr. WILLIAMS. If they were organized and the minimum of \$5,000,000 was established, it would do really very little good.

Mr. FRIEDLANDER. The object, of course, of the \$5,000,000 was this: There are some sections of the country where the needs are greater than others, where there are larger amounts invested in homes than in others. Take in your larger cities and areas, and where the authors of the bill did not want the Federal bank at Washington to be in a position to say: "We will establish a million dollar bank up in Wisconsin to take care of four or five States," and "We will establish a \$50,000,000 bank in New York City," so they put a minimum so that this would be widespread throughout the United States, and its effect be given to all sections of the country.

Now, then, they have that difference between the \$60,000,000 and \$150,000,000, which they can use if they find a necessity in certain sections for a higher amount than \$5,000,000. That was the object of the bill.

Mr. CAMPBELL. How much money that is loaned out would have 2 to 1 security?

Mr. FRIEDLANDER. Three to one security.

Mr. HANCOCK. Do you think that our best thought and effort now should be directed toward some permanent long range economic planning rather than the continuation of so much psychological legislation? I notice you referred to the psychological effect. I believe that word has been overplayed lately. It has been worked to death according to my notion.

Mr. FRIEDLANDER. At least, we have not seen much benefit flow yet from that psychology.

Mr. HANCOCK. I do not mean to reflect upon anybody at all.

Mr. FRIEDLANDER. That is the reason we are presenting and insisting upon this plan as a permanent matter.

Mr. HANCOCK. Would it not be better to start on a smaller scale, contemplating increasing the structure, if necessary, rather than for merely psychological effect? Should we not begin now to consider the possible harmful effect that further remedial legislation will have on Government securities?

Mr. FRIEDLANDER. Well, we certainly want to unfreeze the institutions, because otherwise you destroy confidence before you begin, and that, of course, is the emergency feature.

The CHAIRMAN. Mr. Friedlander, how many institutions are there that you think would take advantage of this law? That would be a kind of an estimate.

Mr. FRIEDLANDER. That would be speculation. I would say that the building and loan associations where they would be permitted under the law to take advantage of it, would very largely take advantage. Now, in New York State, they have the State land bank

system up there, which has worked very well for New York State, and yet we find the largest institutions in New York State for this bill. That is true all over the country. I could not give an estimate of it, but so far as the building and loan associations are concerned, they are for the bill. So far as the banks are concerned I understand of those who have replied, they are three to one for the bill. The insurance companies, I understand, are about fifty per cent for the bill. I think you will find the smaller life insurance companies throughout the country are for the bill. I know that in our section, the National Standard Life Insurance Co., of Houston, has gone on record in telegrams to their respective representatives here, asking support of the bill. The Life Insurance Co., of Beaumont, which is just about 50 miles from Houston, is for the bill and have so wired their representatives. A smaller insurance company at Houston, Tex., is for the bill. I think you will find that there is a pretty wide participation in the bill when it is passed.

Mr. WILLIAMS. In that connection, concerning the questionnaire that was sent out, I have not had a chance to look at it, even. The institutions that have answered that questionnaire—did they have the bill before them at the time?

Mr. FRIEDLANDER. I do not think they did. I think the questionnaire was on the basis of the need for an institution of this kind, and whether they would like to see one set up.

Mr. WILLIAMS. Preceding it was a statement from the President?

Mr. FRIEDLANDER. Yes; the statement of the President as to its purpose.

Mr. WILLIAMS. I understand now from your statement that they did not have this particular bill before them when they answered the questionnaire.

Mr. FRIEDLANDER. I do not think they did, no. That is my understanding. Is that correct, Mr. Luce?

Mr. LUCE. Yes, the nature of the questions, did not call for a knowledge of the details of the bill.

Mr. WILLIAMS. It can hardly be considered an answer to this bill, then.

Mr. FRIEDLANDER. I do not say it was, no.

Mr. WILLIAMS. The reason I am asking is because I did not have an opportunity to read it.

The CHAIRMAN. I presume it is an answer to what they thought of the necessity for this legislation, in their judgment.

If that is all, Mr. Friedlander, thank you very much for your testimony.

We will adjourn until 10.30 o'clock a. m.

(Whereupon, at 4.30 o'clock p. m., the subcommittee adjourned.)

CREATION OF A SYSTEM OF FEDERAL HOME LOAN BANKS

THURSDAY, MARCH 17, 1932

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE OF COMMITTEE ON BANKING AND CURRENCY.
Washington, D. C.

Hearings were resumed on H. R. 7620 at 10.30 o'clock a. m., Hon. Michael K. Reilly presiding.

Mr. REILLY. The subcommittee will be in order.

The subcommittee will hear Mr. Stevenson now for a few moments.

STATEMENT OF LAWRENCE T. STEVENSON, OF PITTSBURGH, PA., PRESIDENT NATIONAL ASSOCIATION OF REAL ESTATE BOARDS

Mr. REILLY. Give your name, please.

Mr. STEVENSON. L. T. Stevenson, president, National Association of Real Estate Boards, Pittsburgh, Pa.

Mr. Chairman, I have a short statement on behalf of my organization which I would like to present at this time.

I am the president of the National Association of Real Estate Boards. I appear before you as the spokesman of this association and by authority of its duly appointed delegates, directors, and officers, to advocate the early passage of the Federal home loan bank bill.

Our association consists of 543 local real estate boards, united in one nation-wide organization. Our local membership includes 16,000 firms and individuals engaged in the real estate business, and 24,000 firms and individuals, who because of their interest in real property and home ownership have affiliated themselves with us, making a total of 40,000 members. In connection with our local real estate boards, we have created property owner divisions in 119 cities, which are working with the real estate boards in protecting the interests of the home owners, especially in tax matters. In these local property owner divisions, there was in 1931 a total enrollment of 14,000 real estate and home owners. Our association, with its local and State units, is representative, therefore, not only of the real estate business, but of those who own real estate and the home owner.

For years we have sought, through the simplification of archaic State legislation, to reduce the cost of home acquisition. Through tax research conducted by able men at the University of Chicago, who are accumulating facts concerning State and local tax systems and through activities of our 32 State organizations, we have tried

to reduce the unfair tax burden. We have tried to reduce the tax burden which to-day everywhere penalizes home ownership, and which is generally admitted to be unfair. Through the development of real estate license acts, we have sought and in a measure succeeded, in eliminating those who prey upon the home buyer.

Our association has long recognized that methods of home financing throughout the country have been cumbersome and costly. The home buyer has had to pay excessive interest rates in many communities. Home financing funds have been badly distributed throughout the country. Too many home owners have had to borrow money for short terms without the assurance that their loans could be renewed or extended. As a consequence, the ownership of a home, which we and many others have been advocating, has proven in many cases a source of difficulty and insecurity instead of peace of mind and security.

We believe that the home loan bank bill is the most constructive measure for the development and encouragement of home ownership in the United States which has ever been brought forward, for the following reasons:

It will meet present emergency needs, first, by stopping foreclosures. The fragmentary figures which we have been able to gather from 84 cities indicate that probably 150,000 families lost their homes last year through foreclosures occasioned largely by the inability of home financing institutions to function normally, and give the necessary extensions or renewals for home loans. We believe that the reserve system set up by the home loan bank bill will go far toward correcting this situation.

Second, if foreclosures can be checked, the demoralization of the home market will be checked. Thousands of properties offered for sale at the amount of the mortgage throughout the country, depress all real estate values. In my city of Pittsburgh 60 homes were recently offered for sale in one day by one company at the amount of the mortgage, and the disastrous effects of this action were felt throughout the city.

I would like at this time to give you a picture of the foreclosure situation in my own city. These are actual facts pertaining to foreclosures over a period of six years. In other words, starting in 1926, in the county of Allegheny, in which the city of Pittsburgh is located, with a population of a million and a quarter people, there were foreclosed in 1926, 406 mortgages. In 1927, there were foreclosed 605 mortgages; in 1928, 759; in 1929, 909; in 1930, 1,279; and, in 1931, 1,555. In January of this year, there were foreclosed 156; in February, 221, and the present list which is out, which was printed last Saturday, carried a total of 230. In the last two months, February and March of this year, out of 221 in February, there were 171 homes of the character of the property we are talking about in this bill. This present list which was published for the first time last Saturday shows that of our March foreclosures, a total of 230, there were 194 homes. Giving you a complete summary of this March situation, there were 194 homes, 9 apartments, 16 stores, 7 vacant lots, 1 listed as a building, 1 as a stable, and 1 as a storage house; making a total of 230 right at my home.

Our city is only a normal city, probably above the average of cities as we see them, but there are many cities that I find in my travels

where the foreclosures are even greater in number than they are in the city of Pittsburgh, and I know I am giving you the actual facts concerning what we would all agree must be a normal city, or one a little above a normal city.

Third, this measure, if adopted, will enable millions of depositors in banks and building and loan associations to once more draw upon their savings in home financing institutions, which they can not now do, thus restoring purchasing power, which will be helpful to the entire business community and aid in restoring normal conditions.

Fourth, by aiding home financing institutions to function normally, we believe this measure will stop the rising interest rates on home financing funds which are now everywhere prevalent throughout the country, and which are providing an added obstacle and difficulty for the home buyer.

I would like to add here that I had a letter from Johnstown, Pa., where a writer told me that he had been endeavoring to get some mortgage money and he had finally located a man that they claimed had \$700,000. They agreed they would lend on homes, on the condition that the interest rate was to be six per cent, one per cent extra charge for service, and three per cent brokerage fee for one year; in other words, ten per cent first mortgage money for one year.

I honestly believe that were this bill not pending, we would find much more of a "racket" in the mortgage field to-day than we are actually finding.

The proposed system will meet permanent needs, first, because it will facilitate better distribution of home financing funds throughout the country. The bill wisely provides that the regional home loan banks may do business with one another, thus enabling funds to be transferred from regions where there is a surplus to regions where funds are needed. This would correct a present great injustice. There seems to be no good reason why a home buyer in one State, who is a good and sound credit risk, should be compelled to pay two per cent or three per cent higher interest than a similar home buyer in another State, merely because of greater geographical distance from financial centers. Funds accumulated in financial centers are derived from all parts of our country and credit, especially for home buyers, should be made equally available in all parts of the country.

Second, the home loan bank system will at all times stabilize the operations of home financing institutions which are members, thus preventing recurring emergencies.

Third, the reserve system provided would create confidence in home financing institutions, thus encouraging depositors and savings which would provide at all times a more adequate supply of funds.

Fourth, through the supervision provided by the bill, first mortgage financing for homes would tend to become more uniform throughout the country and sound and conservative practices could be developed.

Fifth, the establishment of a sound basis of first mortgage financing for homes would simplify very greatly the problem of junior financing, whenever it may be necessary. If the first mortgage loan has been made upon a fair valuation and prepayments are distributed over a long enough period of time, so as to not be burden-

some, it will be possible for the home owner who needs additional aid to obtain it without the risks which now lead to excessive and usurious charges. The present widespread practice is that too many home buyers assume a short-term first mortgage and a short-term second mortgage, simultaneously, and the burden is often more than they can bear.

Thousands of our members have spent their entire business lives in home financing, and in home development. It is our deliberate judgment that the home loan bank system is more sorely needed as a permanent measure than as an emergency measure. Home ownership throughout the country is receding. We believe that if Congress enacts this measure, it will turn the tide.

We do not feel that the type of credit offered by the Reconstruction Finance Corporation can appropriately be used for long terms, which are necessary to aid home owners. We have also heard it frequently stated that the funds of the Reconstruction Finance Corporation will hardly be adequate to meet the many demands from railroads, banks, and other large institutions whose solvency must be maintained.

Every day's delay in the passage of this bill and the creation of the home loan bank system, which it provides for, will mean additional homes lost to their owners and additional discouragement on the part of the substantial average American. Congress has been wise and expeditious in helping to stabilize measures designed to aid the big banks—the great financial institutions. Here is a measure which is designed to help the great masses of our people—the home owner.

Our association asks respectfully that you consider it favorably and that you act upon it as quickly as possible.

Mr. REILLY. That is all you have to offer?

Mr. STEVENSON. Yes, sir.

Mr. REILLY. Thank you.

STATEMENT OF NATHAN WILLIAM MacCHESNEY, GENERAL COUNSEL NATIONAL ASSOCIATION OF REAL ESTATE BOARDS

Mr. MACCHESNEY. Mr. Chairman and gentlemen of the committee, my name is Nathan William MacChesney, of Chicago. I am a lawyer by profession, and am a bank, trust company, and life insurance company director and counsel. I am here representing the National Association of Real Estate Boards, as its general counsel.

Mr. REILLY. Did you appear before the Senate committee?

Mr. MACCHESNEY. I did not. I was there, but I did not appear before them. However, Mr. Chairman, I have been over all of the testimony that was offered before the Senate committee, and have been over the various drafts of the bills and the various statements and pamphlets that have been issued with reference to them. It is my purpose to briefly state to you what I regard as the constructive suggestions and criticisms that were made in that testimony, under about 15 or 18 headings, and to suggest to you where we think perhaps the bill might properly be modified to meet those constructive suggestions and where we think the suggestions, as a matter of fact, would harm rather than help the bill.

Mr. REILLY. That is what the committee would like to hear.

Mr. MacCHESNEY. I would like, for the purpose of the record, to call your attention to the text of President Hoover's statement, under date of November 13, in which he stated the four purposes of the act as—

1. For the present emergency purpose of relieving the financial strain upon sound building and loan associations, savings banks, deposit banks, and farm-loan banks that have been giving credit through the medium of small mortgage loans upon urban and farm properties used for homes, thereby to relieve pressures upon home and farm owners.

2. To put the various types of institutions loaning on mortgage in a position to assist in the revival of home construction in many parts of the country and with its resultant increase in employment.

3. To safeguard against the repetition of such experiences in the future.

4. For the long-view purpose of strengthening such institutions in the promotion of home ownership particularly through the financial strength thus made available to building and loan associations.

Now, those four purposes we think are served by this proposed legislation, and just a word as to one or two aspects of them.

In the first place, as to the need for strengthening the financial institutions and giving them relief, I think no one will deny that in the light of conditions obtaining throughout the country there is a very large number of financial institutions in distress. There is Ohio, with its 90 or 91 building and loan associations taking notice, and Cook County, where I came from, in Illinois, where Chicago is situated, with 105 or 106 small banks having closed their doors, a very substantial portion of them because they had frozen assets based upon real-estate securities, and that is not in many cases because they have not been soundly managed, as some of the opponents of this proposal would state, but because people have not been in a position to do their normal investing in securities of any kind, so that these institutions, some of which paid out as high as 60 or 70 per cent of their deposit liability before closing their doors, had on hand perfectly sound mortgage securities which in any ordinary times would have been passed onto the investors through purchase by customers of the banks.

With reference to the foreclosure situation, may I state—because I take it you gentlemen prefer to have a man talk about something he knows something about, rather than guess at it—that even in our own county the number of foreclosures in the city of Chicago exceeds that which has ever been known before. The history of foreclosures in Cook County is rather typical, so far as I have been able to check it, of the other communities where our organization has offices, and we have coming through our office, because of our representation of certain communities, mortgage foreclosures very widely scattered over a group of some six or seven States.

The first situation in Cook County was that the speculative buildings got into trouble, the buildings which were built with a very narrow margin, large buildings. Then, in the second year of the depression, the soundly financed, large enterprises of the new type, like office buildings and buildings of that type, where the demand for space had fallen off so that they could not meet their fixed charges, even though soundly financed, got into trouble, and that spread to a point where most of the hotels, for instance, in the city of Chicago, due to a lowered occupancy and operating income, are to-day in trouble—I would hate to say how large a percentage.

I would not claim that our city is in better shape than others, as Mr. Stevenson has with respect to Pittsburgh. I think perhaps that Chicago, due to a variety of circumstances, is in a somewhat worse position.

The large number of foreclosures being filed are with reference to the class of properties dealt with in this bill, of the small-home owner, because the banks where they normally did their financing are out of business. Their securities are being liquidated. For instance, if I may give one case, the State Bank of Chicago, which was a large institution, we will say with \$40,000,000 worth of mortgages on hand, was affiliated through the usual arrangements with a series of small banks. The State Bank of Chicago was consolidated with the Forman National Bank, and the Forman National Bank merged with the First National. As a matter of fact, they went out of business between twilight and dawn, but in order to save a catastrophe the bank which took it over guaranteed \$12,500,000. They were largely in the mortgage business. When the woman who made her little mortgage at the small bank, or the State Bank of Chicago, or the Forman, now goes into the First National, she is referred to the liquidating agent at one of the other trust companies, and the usual response is, "We are sorry, but we can not renew the loan," and that is going on all over the country with reference to foreclosures, because the source of credit has been absolutely frozen up.

It is my observation that the statement that was made that there is plenty of credit money available is absolutely untrue under present conditions. I say that because I know, as a life insurance counsel, that there is a considerable number of life insurance companies in this country where their policy loans have reached a point where they absorb their premium incomes, and they are out of the market. There is another group of companies as to which that is so nearly true that they have practically withdrawn from the market. There is a third group of companies, and I imagine the Metropolitan Life Insurance Co. is one of them, where they have a very large surplus still available for investment, but there are many companies where they recognize that even though they are not in such a position, the demand for premium loans has reached a point where, if it continues, they will be in a position of having to sell their securities in order to realize the money to loan to their policyholders, and under those conditions they realize that if they were mortgage loans they would have to be sacrificed.

I was discussing this question with one of the companies with which we are associated, a life insurance company, with large investments, within a week, and their average policy loan has risen within a period of 24 months over 500 per cent. I think that is rather significant as to the background of need.

One of the other questions covered by the President of the United States in his statement was the question with reference to the promotion of home ownership. It has been claimed that there is no need for the promotion of home ownership at this time, and that the sole effect of this legislation would be to increase still further a bad condition of inflation and of overbuilding. Well, God knows, perhaps what we need to-day is a little moderate inflation, under strict control, to overcome an abnormal deflation; and I am not a

radical when I say that. The finance commission of the House of Lords of England, under the leadership of Lord McMillen, one of the ablest judges of all England, stated that that was the absolute *sine qua non* in England of a recovery of economic stability, and that is the feeling in many places, but there has been misrepresentation as to the actual conditions with reference to home ownership and occupancy before the committees and in public statements. The fact of the case is that the actual provision for individual family occupancy is not so great as has been contended. I understand that the Department of Commerce states that there are about 30,000,000 families in this country, with 25,000,000 residential units, and about 13,500,000 home owners. The President has called attention to the fact which we know in our own experience that throughout this country there is a huddling of families, so that if the opportunity for employment were to come back shortly, there would be a positive shortage, but the national association had a survey made of the actual present conditions, not based upon hope, but upon the conditions as they exist, and it is stated that—

In measuring the present supply of residential space the survey shows that "doubling" of two or more families in units intended for a single family is practically counterbalancing the effect of the present practical cessation of residential construction. It is thus masking what other conditions would in many cities be an undersupply of desirable single family dwellings. With this counterbalance, 84 per cent of the cities report the normal supply or short, 71 per cent showing an equilibrium of supply and demand, 13 per cent an actual present shortage, and 16 per cent an oversupply.

You will find that survey, which I think you would like to examine, at page 550 of part 3 of the Senate hearings upon this bill.

Now, gentlemen, there are two or three headings under which I desire to take this matter up with you, if I may, and in view of some of the questions raised yesterday I should think that if any of the gentlemen have some particular question to ask, it might be well to ask it as we go along, as I am going to deal with certain specific sections of the bill.

May I turn first to one or two queries that were made by the chairman of this committee? I would like to answer them, as I take it that they represent some of the things that the committee is thinking about. I would like to give our impression of this matter first. How will the bill help private mortgagors and mortgagees?

Now, first, it will help the private mortgagor because he will be able to go to institutions like the banks or the building and loan associations and renew his loan, because those institutions under this bill will have an outlet and therefore they can without further freezing their assets, and with due regard to their other obligations, renew that loan. That is the way it helps the mortgagor.

As to the private mortgagor, and I assume that that means the man who lends his own money to the so-called mortgagor, I think the bill as written perhaps is not as broad in its terms as it should be, and I want to discuss that in a minute, if I may.

The so-called mortgage banker, as denominated by that term, is not really a banker. Under the laws of various States, he would not be allowed to use the term "bank." He performs a useful function, and is really a broker or jobber. He is a middleman, but he does business mostly upon other people's money. The ordinary mortgage

broker does not have a large amount of capital. He makes loans from the limited amounts of capital on hand and sells those loans, or, in the old days, he used to go to the bank and borrow money on his notes, putting up the mortgages as collateral for his notes, and as he sold the mortgages he was able to pay off his notes. But under present conditions the banks are not making such loans to the extent that they used to do it, and they probably will not again do it until they have overcome the present situation, which makes it very difficult for the private mortgage broker of limited capital to do business.

The fact of the case is that under the Federal reserve system the banks have become less inclined to make real-estate loans rather than more inclined. I had the privilege of coming down here and representing Mr. Hurlburt of the Illinois Bank of Chicago, the Marshall Field Bank, at the time that bill was under consideration as the Aldrich bill originally, and later when it actually went through, and one of the arguments that was made was that because the banks would be able to rediscount a considerable amount of collateral notes secured by collateral they would feel freer to make noneligible loans because they knew at least part of their assets were thoroughly liquid.

In practice that has not proved to be true. The banker, having been enabled by the Federal reserve act to rediscount a substantial amount of his paper, instead of being inclined to make more real estate loans to people than before, has practically taken the position, as every borrower knows, that they want eligible collateral, and the banks generally in my city, and I know that is true in New York, are refusing to make loans except on eligible collateral, that is, collateral eligible for discount at the Federal reserve banks. Under the Steagall bill, which has just been passed, it is provided in section 10 that in certain cases, until March 3, 1933, with institutions of less than \$5,000,000, where there is no other collateral available, that they may loan on promisory notes secured to the satisfaction of such Federal reserve bank, which apparently enables a bank to regard notes secured by mortgage paper as eligible under those provisions, but there is no reason why sound mortgages should be relegated to the cat and dog provision under the Steagall Act. They are a sound investment, and there should be an institution where they can in normal times continuously be rediscounted. Personally I see no reason why the mortgage broker, and this represents the views of the officers of the National Association of Real Estate Boards, but I have not had time to discuss it generally—I see no reason why a provision should not be made in this bill by enlargement to take care of the mortgage broker under this bill by a provision, for instance, that there should be eligible for rediscount at this bank, in addition to mortgages, notes taken by member banks secured only or exclusively by eligible home loan mortgages. If that were done, it would mean—and this is in reply to your question, Mr. Chairman, as to what this could do for the individual mortgagee—it would mean that the individual mortgagee or the mortgage broker could take his mortgage for \$10,000 to his bank, a member of this institution, and he could borrow \$5,000, so that on that \$10,000 mortgage, if the amendment that I suggest were made, that bank in turn could rediscount it with the Federal home loan bank for the sum of \$5,000, because it would be not less than 50 per cent of the underlying collateral. The bank would have all of its money back, instead of

half of it, and the Federal loan bank would be secured as contemplated by the act now, and the broker would have gotten out 50 per cent of his investment as contemplated by the act.

Mr. REILLY. His bank would have to be a member of this organization.

Mr. MACCHESNEY. And, in turn, the Federal loan bank that we propose to set up would have 3-name paper instead of 2-name paper, namely, the signer of the mortgage, the broker, and the banker, so that it would increase the strength of the collateral and at the same time widen the base and give relief to the individual mortgagee which you spoke of yesterday, and I make this suggestion in order to meet that view, and you will find that suggestion following the Chairman's suggestion that something of that kind perhaps ought to be considered.

I checked through the Senate hearings, and I find at page 626 of part 3 a statement submitted by John A. Cutchins, of Richmond, Va., in which he says:

On pages 14 and 15, under the heading "Advances to members," it seems to me that there are several amendments which might well be considered, especially from the viewpoint of the home loan bank as a permanent part of our financial structure. Without attempting to supply the language necessary to carry into full effect the suggestions I shall make, it would seem to me advisable that instead of the original term of eight years or more, as indicated in line 5, on page 15, that there should be an original term of not more than 15 years, and I feel that there could be added to that paragraph a clause somewhat as follows: "or 90 per cent of the amount of the mortgage, should such amount be less than 60 per cent of the unpaid principal of the home-mortgage loan."

Then he says, skipping two or three paragraphs that are not material to this point:

I think there should be added, to the class of paper eligible for rediscount, short-term credits to banks on customer paper, based on real estate holdings, and it might be well to consider whether or not, even at this time, an enlargement of the scope of this rediscount privilege should not be provided; that is to say, it might be most helpful to business generally and to the operation of commercial banks to enable them to rediscount paper on small stores, say upto \$10,000 of mortgage loan, which might not be in the class that would appeal either to the large insurance companies or to similar investors.

So far as an enlargement of the paper secured exclusively by home loan mortgages eligible for rediscount under the terms of the bill is concerned, we are prepared to say that we favor that enlargement in order to take care of the mortgage broker under those conditions.

Mr. REILLY. Will you submit an amendment to the committee?

Mr. MACCHESNEY. In exact language?

Mr. REILLY. Yes.

Mr. MACCHESNEY. Yes; I will be glad to do so.

With reference to the question of tax exemption, which is the second notation I have here as to the inquiries that you made, the language of the bill, of course, provides that there shall be tax exemption, and in order to bring that about there are two statements made, first that they shall be regarded as instrumentalities of the Government, and, second, that the bank shall be a depository.

In response to an inquiry from Mr. Monks, of the Guardian Trust Co. of Cleveland, objecting to the fact that it was to be made an additional depository, Senator Watson called attention to the fact that it was necessary in order to justify the statement that they

were to be governmental securities, instrumentalities of Government, and that he did not think that the banks would be harmed by that provision.

Of course, as to whether these securities should be tax exempt or not is a matter, first of policy, and second of practical fact. As to the policy, that policy was determined, so far as the public announcement of the bill was concerned, by the President of the United States, who favored tax exemption because he felt that as a practical matter, as I understand it, that without tax exemption at this time the bonds could probably not be sold in sufficiently large quantities. Mr. Luce can perhaps give the background of that better than I can, but I understand that it was fully discussed and it was felt that in order to float these securities and to make them attractive it was necessary at this time to make them tax exempt, and that inasmuch as we are faced now with a great emergency in a crisis, and inasmuch as we are setting up an institution which, private in form, is public in nature, the Government would be justified in giving this aid.

There was a question that was raised in the Senate hearing which I perhaps ought to dispose of here, and that was the question under section 11, which was dealt with on page 39 of part 1 of the Senate hearings, as to whether this carried with it exemption from taxation of the mortgages rediscounted. I do not understand that that is true. Certainly there is no intention on your part that it should be true, and I do not believe from the reading of the bill that it is true, because these mortgages are discounted and not sold and therefore the title does not pass, and I can not see how the tax-exemption profit would carry over.

Of course, the whole question of tax exemption leading to probably somewhat extravagant expenditures because of the large amounts of money available for public purposes has been discussed widely, and one of the things that everybody has to consider these days is the cutting down of public expenditures, municipal, State and Federal. Nevertheless the essential thing is to get this under way and establish this situation, and the tax exemption for securities of this kind, it seems to me, is much more justified than tax exemption of securities issued, for instance, for public works or things of that kind which carry securities in large amounts, municipal, State and Government, whereas this goes into an operating bank and the plan itself contemplates a gradual retirement by the Government of its money, so that the only support the Government is going to continue to give to it will be this tax-exempt privilege.

Mr. REILLY. This bill is based upon the Federal reserve act, I take it?

Mr. MACCHESNEY. Yes.

Mr. REILLY. The Federal reserve act provides that the Government gets some profit?

Mr. MACCHESNEY. I am going to deal with that next, the return on the Government's capital. So far as I know, and I speak for the officers of the National Association who are here, and we have discussed this matter very carefully—personally I see no reason, if the Government is going to advance up to \$150,000,000, why the Government should not receive precisely the same dividend returns while that money is in there as the private investor. Personally I favor

it, and I think our people would have no objection to it, and I certainly would not quarrel with the committee if they were to strike out the provision which provides that no dividends shall be paid to the Government but that dividends shall be paid on all other stock. You will find that in section 5, subsection (k), on page 10 of the bill, reading as follows:

No dividends shall be paid on stock subscribed for by the United States, but all other stock of any Federal home loan bank shall share in dividend distributions without preference.

As far as I am concerned, as I say, I would not quarrel with the committee if they should amend that section to provide that all stockholders, including the United States Government, shall share in dividend distributions without preference.

I think that answers your question, Mr. Chairman.

Mr. REILLY. Yes.

Mr. MACCHESNEY. The fourth question of which I made a note is that the language with respect to the instrumentalities of Government is put in there to specifically lay the foundation for the tax exemption which I have already discussed.

Mr. REILLY. Have you given consideration to the fact that there might be something written in on that point after that to apprise the buyer as to just what that means?

Mr. MACCHESNEY. Well, now, let me say this. Of course, the people in this country have suffered terribly in depreciation of securities. I happen to be a trustee, among other institutions, of an institution that has approximately \$1,000,000 of endowment. That endowment was invested by a finance committee consisting of a member of one of the leading investment houses of the United States, a leading banker of Chicago, a leading stock broker, and the head of one of the great industrial corporations of America, as well as a lawyer of some experience. Those investments show that the stocks have depreciated in value over a 24 months period of 75 per cent, that the bonds bought for that endowment fund have depreciated 42 per cent, and that the average depreciation of the investments of that fund of approximately \$1,000,000 is 40 per cent under that kind of management.

I can take one of the great universities of the country, with approximately \$75,000,000 of endowment, and point out to you that its shrinkage of investment prior to 1929 was less than 1 per cent, that on January 1, 1930, the shrinkage of investment was 3.5 per cent, that on January 1, 1931, the shrinkage of investment was 8.5 per cent, and that on January 1, 1932, its investment had shrunk 39.5 per cent.

Now, gentlemen, under those conditions, the fact that people have invested in Federal land bank securities and something of that kind and that those securities have shrunk in value is not surprising, and I do not think it necessarily shows that there is something wrong about that.

Mr. REILLY. But that is not the question. Certainly they have shrunk, but the fact is that bankers have sold these bonds by particularly calling to the buyers' attention that they were Government instrumentalities, and by giving the people the idea that the Government was back of them.

Mr. MACCHESNEY. My experience has been, and I have had a good deal of it, that the average bond salesman does not know much about the bonds he is selling, and does not know what the language of the bill is upon which the securities are issued.

Mr. REILLY. What impression would an ordinary buyer get from an inscription or a legend, "Governmental instrumentality?"

Mr. MACCHESNEY. That does not ordinarily show on the bond.

Mr. REILLY. I think it does.

Mr. MACCHESNEY. I think not. Anyway, Mr. Chairman, may I say this, that the word "Federal," if you get down to that, used in those cases, and here also, gives much more of an impression to the uninitiated and uninformed buyer. As a matter of fact, no honest banker, no intelligent bond man would pass these on as Government securities.

Mr. REILLY. Could not something be written in that bond, so that the man who reads it would know what he was getting?

Mr. MACCHESNEY. I would want to consult with the very competent draftsman who drafted this bill, but it might be possible to say—may I turn to that section there?

Mr. O'BRIEN. I do not think that, if you are going to do that, you ought to put it in the instrumentalities provision.

Mr. MACCHESNEY. Section 11, page 23, lines 16, 17, 18, 19, and 20, reads:

The bonds and debentures issued by each Federal home loan bank shall be deemed and held to be instrumentalities of the Government of the United States, and as such they and the income derived therefrom shall be exempt from Federal, State, municipal, and local taxation.

I have not considered what the effect would be upon the constitutionality of the tax exemption, but waiving that question for the moment as between lawyers, it might be possible to add a phrase there that they are not guaranteed by the Government and do not carry the direct obligation thereof. I do not think that that would affect it; I do not believe a statement that such is the fact would affect the constitutionality of it, but I have not gone into it. Have you, Mr. O'Brien?

Mr. O'BRIEN. If you wish to carry out Chairman Reilly's suggestion, why do you not put a provision in the section which deals with the issuance of bonds, prohibiting there being, on the face of the bond, any statement to the effect that the United States does guarantee the bonds or any statement reasonably calculated to convey that impression?

Mr. MACCHESNEY. That can be done, although I do not like the "reasonably calculated to convey that impression," because that is a very dangerous thing.

Mr. REILLY. Is it necessary to put that on the bond at all?

Mr. MACCHESNEY. No. You can provide—

Mr. REILLY. I may be mistaken, but my information is that that is right on those bonds, Federal land bank bonds and other bonds.

Mr. MACCHESNEY. It is not on the outside of the bond.

Mr. REILLY. But, Mr. Witness, the sellers called the buyers' attention to the fact that they are Government instrumentalities in order to sell them. I have in mind one case where a man bought several thousand of these bonds from his bank and he was given the impres-

sion, from his attention being called to that fact, that the Government of the United States was back of them.

Mr. MACCHESNEY. The interests that I represent are in thorough accord with you on that; we do not want these bonds passed on under any misrepresentation, and we are perfectly willing that there shall be added something to negative that.

Mr. REILLY. I raised the question so that you could consider it, and if it is possible without defeating the intent, I think it should be put in.

Mr. MACCHESNEY. I make the suggestion, and I think it would accomplish the purpose, that you could go so far as this: "That if any part of this language with reference to instrumentalities shall be used, the entire section shall be quoted" such as auditors sometimes use to protect themselves, by saying that "no part of this shall be used separate from its text."

Mr. Williams asked a question with reference to banks and building and loan associations and in some States not being able to subscribe to stock in other institutions. That was discussed quite fully yesterday. Of course, there are States in which they can not do that. I must say that I agree with Mr. Friedlander, that people who borrow money from this institution should go in on a parity and that therefore if the majority of people who borrow must re-discount the collateral and therefore put the Federal home loan bank in the position of a preferred creditor as against the other creditors of those institutions, that everybody should be compelled to do so as a basis of the use of the institution.

Mr. WILLIAMS. Have you information as to the extent to which that applies in the various States, and how many States are affected by that law?

Mr. MACCHESNEY. I attempted to make a check of that, but did not have time; but, as I understand it, about seven States, Mr. Williams, unless you take the position that a previous authority is required. I mean to say, as I understand it, that this applies to about seven States, where there is a negative dealing with it, that is, they are prohibited from doing it. I should say, in the absence of a prohibition, they probably would be allowed to subscribe. The question has been raised whether or not, in the absence of a permissive right to subscribe, some affirmative legislation would be necessary, but I do not believe that is true.

May I now, in passing from those specific inquiries, pass to two or three questions that were raised yesterday by members of this committee?

Mr. WILLIAMS. Before you proceed, and while I am thinking of that, you say that there are seven States to your knowledge that are affected by it?

Mr. MACCHESNEY. I understand so; yes.

Mr. WILLIAMS. Would you care to put them in the record?

Mr. MACCHESNEY. I would not want to without checking it, but as I understand it, they are Missouri, Nebraska, Kansas, New Jersey, and there is one other eastern State and one western State. There may be somebody here that has that exact information. We would be glad to get it for you, and furnish it to the Committee.

I am just told that Texas is one. That would be the other western State.

Mr. FRIEDLANDER. Texas has the right to assign the mortgage.

Mr. MACCHESNEY. There was a question of difference raised here yesterday between the right to assign and the right to put them in the channels as a negotiable instrument.

Mr. WILLIAMS. It has just been suggested that Connecticut is perhaps one of the States.

Mr. MACCHESNEY. It seems to me that it is perfectly apparent that under this law, where it is provided that securities may be put up, that, when the securities are put up, the institution putting them up shall be regarded as the same as a member, and that that privilege shall cease whenever the law is passed permitting subscription or at the end of 42 months.

With reference to questions asked by members of the committee yesterday, Mr. Hancock asked, "Why is this system better than the Federal farm land bank system?"

I should say that there are two things that might be involved in that question, from my understanding of it. The first is that it does not make direct loans. It rediscounts the loans, which means that it is a safer institution, that its bonds, therefore, are safer, and that it has that sympathetic knowledge and personal contact, nevertheless and notwithstanding that it is so removed, because it works through the local institutions and not direct. It was criticized because it was said it lacks a sympathetic contact. My observation is that the average money lender is not a philanthropist, but jumping over that point of view for the moment, it does maintain the local relationship, because it operates as a bank of rediscount and not a direct lending institution.

With reference to safety, it is a better system than the Federal land bank system from the standpoint of the investor. Without taking your time to read the provision, the land bank system securities provide for joint and several liability on those bonds, but they only provide for that after complete liquidation and ascertainment of liability, which is so postponed that it does not maintain the price, whereas this legislation provides for a joint and several liability. That you will find in section 9 (f), on page 19. You will find that the language there is as follows:

The Federal home loan banks shall be jointly and severally liable for the payment when due of all bonds and debentures, and of notes and other obligations issued by any Federal home loan bank, and interest thereon, in accordance with their terms.

This would apparently make them a much more desirable investment. So it is better for the investor from that point of view.

Mr. REILLY. What effect on the desirability of these investments is the fact that the borrowing institution only gets 60 per cent at the most on its bonds? Does that increase the value?

Mr. MACCHESNEY. Yes; very much indeed.

Mr. REILLY. The farm loan banks get 100 per cent.

Mr. MACCHESNEY. Yes; with a security of stock.

Mr. REILLY. With a security of mortgages.

Mr. MACCHESNEY. Yes.

Mr. REILLY. This bank, I understand, would only sell bonds to the extent of 50 or 60 per cent.

Mr. MACCHESNEY. With a 90 per cent of margin. So that, as a matter of fact, these securities are very much better from that point of view. They are better secured. They are sure of prompt payment, and they have all the elements that pretend to make a sound investment.

Mr. Chairman, you also asked, what spread must there be between the interest on the bonds issued by these proposed banks and the rate charged the borrowing institution. Well, it is provided, of course, in the act itself, for a spread, as you probably know—this is on page 19, subsection (e), commencing with line 14—

And (the board) shall provide such margins between interest rates received upon advances made to members and interest paid upon obligations which the Federal home loan bank may issue as will cover expenses of operation and reserves and, under such regulations as may be provided by the board, some part of such reserve may be devoted to retirement of the stock subscribed by the United States.

I do not know what the chairman had in mind. Of course, he may have had in mind the situation that has arisen with reference to farm mortgage rediscounts at the Federal reserve banks. I know that the Governor of Iowa was in Chicago recently at a conference with some of us with reference to a question as to whether something could not be done for the Iowa farmers to lower the rate that they were paying. He said that they were paying, under the guise of interest, a commission in one way or another of from 8 to 11 per cent for their money, and he came to discuss with the Federal reserve bank in Chicago the possibility of something being done to lower the cost of those funds to the farmer. He was shown all of the Iowa investments in the Federal reserve bank, and was shown that the money was loaned to the Iowa institutions at something less than 3 per cent, and that the spread occurred in Iowa, due to the fact that the institutions were small or inefficiently operated or were gouging or whatever you want to lay the cost to.

It would seem that the question of necessary spread that would be fixed in this case, which in this case would be fixed and not left to discretion, would depend somewhat upon the volume of business. There is a suggestion here by a banker from Cleveland, Mr. Monks, that it could be operated for less, probably; that it would not need so much money. I should say that one-half of 1 per cent should cover it.

Mr. REILLY. What spread have the farm loan banks?

Mr. MACCHESNEY. I think it is the same as this bill.

Mr. REILLY. Many of the friends of the farm loan banks state that the trouble with the banks originated when they were not given sufficient spread to start with; that there should have been a larger margin to provide a fund.

Mr. MACCHESNEY. These Federal reserve banks are supposed to be sufficiently large units. They are not like a small bank.

Mr. REILLY. I mean the land banks; they claim that the Federal land banks were not permitted a sufficient spread.

Mr. MACCHESNEY. But we are talking about a spread for the district loan bank here, and the spread would not have to be so large, because it is a large institution, because it would be a sufficiently large unit to get a low operating cost, which is not true of a smaller institution.

Mr. Hancock asked if there was any provision in this bill that would prevent the banks from using funds derived from the sale of foreclosed properties to purchase their securities? I understand that the Federal land banks are doing this in some instances. Of course, that situation does not arise here at all. That question, I think, grew out of a misrepresentation in the pamphlet issued by the Mortgage Bankers Association with reference to the foreclosures, intimating that this was going to put the Government in the foreclosure business, which was an undesirable position for the Government of the United States to occupy with reference to its citizens.

In the first place, it is not going to put the Government in the foreclosure business, and, in the second place, the provisions of this bill provide for substitutions and empowers this institution to call upon the discounting institution to substitute, so that if a mortgage was defaulted they would immediately call upon the borrowing institution member to replace it with something else and it would go back to the borrower and that borrower would have to substitute good collateral for it.

Mr. HANCOCK. Does not that same situation exist with the Federal land banks?

Mr. MACCHESNEY. Not as I understand it.

Mr. HANCOCK. They are required from time to time to substitute and to keep their reserves up to the limit.

Mr. MACCHESNEY. Yes; but they do the foreclosing.

Mr. HANCOCK. That is true.

Mr. MACCHESNEY. The difference there is that they do the foreclosing, whereas here this gets outside of the system. That is the point that I am making. This goes back to the building and loan association or to the local bank, where it is just where it is now. What I am saying, so far as the foreclosure situation is concerned, is that this bill, in contradistinction from the land bill, does not change the situation at all, because if the layman defaults it goes back to where it is now.

Mr. WILLIAMS. But, after all, if your member institution was not able to put up the solvent security, what shape would it be in?

Mr. MACCHESNEY. That is a long question, but it is a fair question. However, it takes some time to answer it.

In the first place, this gives a right to examine that institution, its solvency and position, and presumably if this bank is on the job it does not wait until a borrower gets into that situation before taking action. In the second place, they would hold these mortgages by way of collateral, and their first action would be brought against the institution, and under those conditions, under the laws in most States, the foreclosure would take place in the name of and on behalf of the borrower and not the institution.

Mr. REILLY. Is it not a fact, that these Federal home loan banks would never have to start a foreclosure proceeding unless the borrower went broke?

Mr. MACCHESNEY. That is absolutely true, and even then I doubt if they would start it.

Mr. REILLY. To protect themselves they might have to do it.

Mr. CAMPBELL. Would not the borrowing institution have additional collateral or interest in the bank making the loan, inasmuch as

they owned their securities and had subscribed their money to these banks?

Mr. REILLY. They might have borrowed so heavily and gone broke so that this bank might be holding the bag.

Mr. CAMPBELL. But all of their mortgages would not be out. They have \$2,500 for a membership fee, and 1 per cent of their capitalization.

Mr. MACCHESNEY. As the chairman says, it could not happen unless the borrowing institution went broke. The probability is that they would have ample warning of it and the substitution would occur probably before that. But I want to call your attention to the fact that under the process of liquidation ordinarily the collateral is sold to satisfy the note as a banking proposition, and the foreclosure would take place by the purchaser of the collateral under the note and not by the bank which held the rediscount. That is the way we do it now in banking circles. I can not see where it would ever get to a point where this bank would foreclose, because the bank does not take title to the collateral itself. In fact, under the normal form of collateral now, a bank can not buy the collateral, but must offer it for sale and the purchaser of the collateral would foreclose.

Mr. REILLY. I think it is very remote, too, when the bank would have to foreclose.

Mr. MACCHESNEY. I think it is impossible. As I think of the process under which collateral notes are made, they are made on a note which requires not that the bank shall forfeit, but offer for sale.

So much for the questions that were asked yesterday, but there are a few questions that were asked by the Senators which I think it might be illuminating to discuss for a moment, because they have a direct bearing upon the matter.

I have first a notation with reference to interest to the United States. We have covered that, because we are prepared to favor the participation of the Government in the profits while the money remains, upon precisely the same basis as other investors.

Mr. REILLY. I think that is a very fair proposition.

Mr. MACCHESNEY. Second, Senator Couzens raised a question with reference to the \$15,000 limit in the bill, and I want to discuss that. You will note the distinguished Senator's suggestion with reference to that matter. Senator Couzens said that originally it was his understanding that this rediscount privilege should be limited to homes not worth more than \$30,000, and where the mortgage should be not more than \$15,000. Now, that bill is not so drawn, and we do not think it should be. We think the bill is right as it is. In other words, if the extent of the mortgage is \$15,000, it ought to be possible for the home owner to get that relief, and for the institution which holds the mortgage where that is the unpaid balance, even though the original mortgage might have been beyond the limit, and that is the way it is now. In other words, the unpaid balance should determine, and not the original amount of the mortgage. There are many such cases right now, and in that event, of course, the loan would be that much stronger. In other words, it would be a much better loan as the bill is now written, and we see no reason why a man who

had a house that cost \$35,000 or \$40,000 when the prices were high and where the mortgage was originally, say, \$20,000, and he had paid down, say, about \$10,000 why he should lose his \$40,000 home for failure to get a \$10,000 mortgage when, if his house had only cost \$20,000, he would have been given relief.

So, in reply to that, we want to say that we favor the bill as written, which makes the unpaid balance at the moment determinative of its eligibility for rediscount.

Mr. WILLIAMS. On page 2, a home mortgage is defined.

Mr. MACCHESNEY. Subsection 6.

Mr. WILLIAMS. Is there any limitation there as to the amount of land involved?

Mr. MACCHESNEY. Not as to the land.

Mr. WILLIAMS. On which the dwelling is located?

Mr. MACCHESNEY. No.

Mr. WILLIAMS. Then, under the bill here, they may restrict collateral to a home standing on 1,000 acres of land?

Mr. MACCHESNEY. Yes.

Mr. WILLIAMS. And on any farm land throughout the Nation?

Mr. MACCHESNEY. Yes; if the home as such is worth it, I suppose.

Mr. WILLIAMS. Is that it?

Mr. MACCHESNEY. What?

Mr. WILLIAMS. Is that the intention of this act, to make it apply to dwellings regardless of the place where located?

Mr. MACCHESNEY. This act primarily is intended to give relief to urban homes, but, as a matter of fact, it covers farm lands as well, but it would have to be on the home.

Mr. WILLIAMS. You mean the home independent of the land upon which located?

Mr. MACCHESNEY. That could not be done, but may I call your attention to the general situation? The average farm mortgage is a mortgage of the farm as such, and, generally speaking, includes the improvements thereon, but it looks primarily to the land. This mortgage would be a mortgage on the house as such, and would incidentally include the land.

Now, there is no limitation as to how large the yard should be. The gentleman from Texas might regard 1,000 acres as a reasonable yard, but we would think that was rather large in Illinois.

Mr. REILLY. These mortgages are going to be regular home mortgages.

Mr. MACCHESNEY. These mortgages are going to be regular home mortgages.

Mr. REILLY. Yes; but it takes in the home and the land.

Mr. MACCHESNEY. Certainly it would take the land under it, but the point is that the average building mortgage is different from the average farm mortgage. That is what I am getting at. The farm mortgage, in language, usually covers the land, and, incidentally, the improvements; whereas this covers the improvements and, incidentally, the land.

Mr. WILLIAMS. Let me ask you what kind of a description you would put in a mortgage under this act if enacted?

Mr. MACCHESNEY. Of course, you would have to describe it by legal reference the same as in any other mortgage.

Mr. WILLIAMS. If it involved 1,000 acres of land, you would describe that land?

Mr. MACCHESNEY. Mr. Williams, I suppose that if I were in the money-lending business, I might. I hope not; not on the ordinary home loan, we would not expect to cover 1,000 acres of land, if it had any value. That is a possibility, I admit.

Mr. WILLIAMS. Just as a practical proposition, how else could you do it unless you had a separate survey?

Mr. MACCHESNEY. I should say, if this loan were made, in the normal course of business on the farm house as a house there would have to be a substantial showing of value, in the house itself, and it would be unlikely—it is possible—that there would come under the terms of this bill a mortgage on 1,000 acres of land, including a house on a \$15,000 maximum home loan mortgage.

Mr. LUCE. May I interrupt at this point?

This question arose in the conferences preliminary to the redrafting of the bill. I suggested the question by reason of the fact that I happen to have a summer home which is surrounded by a considerable area of land, indeed about 200 acres, but the land is the unimportant part of the property. The house is worth three times as much as the land, and in trying to think of such a definition as you and Mr. Williams have in mind, I could not succeed, and thought it might be better, instead of attempting to put a limitation in the act, to leave it to the central board to handle by regulation.

Mr. MACCHESNEY. I think that answers the question. Now, another question that was raised, of course, was the question of tax exemptions. We have already discussed that. Paragraph fourth is the question of appraisals—as to who is to make the appraisals. I think the bill as written is adequate on that matter. It provides for appraisals by the borrowing institution, which a certification of value, with the right of inspection and check-up upon the part of the discounting bank. It is all the authority that is necessary; and that is comparable to what an insurance company does in the checking up of loans offered by its correspondents without the necessity of an initial appraisal and the expense of it.

Mr. REILLY. These banks, you feel, will take no securities that are not good?

Mr. MACCHESNEY. No.

Mr. REILLY. You think that they have good judgment?

Mr. MACCHESNEY. Yes. Absolutely.

Mr. CAMPBELL. There is no need of their accepting any until they have been proven as sufficient.

Mr. MACCHESNEY. No. Proven securities.

Section 9 (e) was one section discussed with reference to reserves. "Some part of such reserve may be devoted to retirement of the stock subscribed by the United States."

The question was raised as to whether these notes should be designated as reserves or profits. I don't quite know what the gentleman had in mind who raised that question. I rather thought the question was not very clear. I thought that the gentleman who asked it had in mind the practice of banks in transferring certain earnings to surplus where it would not be available perhaps for distribution; and that what he had in mind was that the reserve was used or was equivalent to a fixed surplus which could not be borrowed. I don't

so read the bill. The bill gives authority to use the reserves for the retirement of the Government interests, as I read it in section 9.

There was a question asked as to subsection (g), section 9:

Each Federal home loan bank shall have power to accept only such deposits as are made by members of such bank, or by other Federal home loan banks. Such deposits shall not be subject to check, and no rate of interest in excess of 3 per cent per annum shall be paid thereon. No Federal home loan bank shall transact any banking or other business not expressly authorized by this act.

With reference to that question, Mr. Chairman, there is some difference of opinion which I am going to discuss in connection with the statement of Mr. Monks, who, as his statement clearly indicates, is the vice president of the Guardian Trust Co., of Cleveland, Ohio. The question was whether it should be a depository or not.

I feel that in view of the fact that we are trying to meet a public situation where there has been a breakdown of the financial system of this country, this bank should be a bank of deposit; but that perhaps, in fairness to the banking interests of the country, assuming that they are going on to function, as, of course, we think they are, there should be placed some limitation upon their deposit capacity and perhaps also that an interest rate should be fixed which would not be too hard a competition for the banking institutions in normal times.

With that in view, we would not object—we would not urge it—but we would not object to a modification which would limit the deposit. In the first place, leave it as it is as a gross depository for the Federal home loan banks themselves. But then we would not object to the right of the members to deposit in the bank if that right to deposit were limited to the obligations of such member to such bank, with the idea that if they had an obligation there, they would not be put in the position of depositing to meet it as a reserve and having that other bank fail and then being unable to meet the obligation. They should have a right to deposit their funds in this institution up to their obligation to pay so as to meet it when due.

Also we would not object, it seemed wise to the committee, in the light of the Senate hearings, and the discussions which have taken place, that they should cut the interest from 3 per cent to 2 per cent on the ground that 2 per cent is more nearly the Government rate, as evidenced by savings banks and the so-called confidence or baby bonds that are being issued and so forth because perhaps 2 per cent is a fair rate under those conditions, because the Government while paying 3—their last loan was $3\frac{3}{4}$ per cent—that however is on a bond which may go to 80, and which has gone to 82 and 85 in the past, whereas this is a guaranteed interest rate, and therefore is more in line with these bonds which were just issued by the Government, which guaranty, upon 60 days' notice, to repurchase the bonds at par. Those bonds only draw 2 per cent, so it would seem that the 2 per cent rate might perhaps remove the objection of the bankers of the country to creating a rival deposit system.

Mr. REILLY. Is it necessary for the working of the bill in your judgment that these banks should have the right to receive deposits from their members?

Mr. MACCHESNEY. Mr. Chairman, you will get me into trouble.

Mr. REILLY. I don't care to get you into trouble at all.

Mr. MACCHESNEY. If I were permitted to talk to you over the table, I would say, "No," personally.

Mr. REILLY. Who is back of this proposition?

Mr. MACCHESNEY. As I say, many of the institutions feel that, in order to meet their own financial obligations as financial institutions, they ought to be in a position where they have an assured depository certainly up to the amount of their obligations.

In other words, the necessity for this, as I see it, is based upon two factors: First, the fear of the solvency and ability of the banking system as it now exists; and, second, a desire perhaps in the rivalries between different classes of institutions to have a separate line of depositories distinct and different from commercial banks.

Now, as far as we are concerned, we are not insisting that it be a bank of deposit. We think it would add to the attractiveness of the system if it were. I am saying that, I think, from the standpoint of bankers, that they would not be hurt, but that the other people would get the benefit if these deposits were limited to obligations and the interest rate were put more nearly at the Government rate.

Now, there are two very important factors, before I get into Mr. Monks's testimony, that I want to call attention to, and perhaps a third suggestion with reference to the bill.

Section 4, subsection (c):

The original stock subscription for each institution eligible to become a member under section 4 shall be not less than \$2,500, plus an amount equal to 1 per centum of the aggregate of the unpaid principal of the subscriber's home mortgages.

Mr. Friedlander, in his testimony yesterday, and one or two other gentlemen, referred to that as the unpaid principal of the eligible mortgages. "Eligible," you know, appears on line 7, but line 2 of subsection (c) does not carry over to mortgages.

It is very clear to me that this language should be amended, Mr. Chairman, to carry out its thought. In the first place, Mr. Monks, of the Guardian Trust Co., suggested that that 1 per cent be cut to one-half of 1 per cent so as not to make it too onerous on small institutions. The point involved is, for instance, take an institution that holds thirty-six million. The institution that I represent holds about sixty million in mortgages. But take the thirty-six million. Under this they would pay \$2,500 plus \$300,000 in order to become a member. It might be that of that thirty-six million only ten million would be mortgages of less than \$15,000.

Now, it seems to us that that must have been the intention. But subsection (c) of section 4 does not cover it. Nor is it covered by the definition of home mortgages in subsection (6) of section 2. This was to be based upon the unpaid principal of the subscriber's home mortgages.

We would insert the words for the moment to cover that, following the word "mortgages" in line 10, "having not more than \$15,000 unpaid balance."

In other words, we don't believe that for the purpose of determining the question of eligibility to membership in the system, they should go in advance into the question as to whether the particular mortgage is eligible or not; that is, as to whether it is the character

of improvement that they want to take or it is the nature of moral security* that they want, or under or over 40 per cent of appraised value, or whether it is more than 50, or whether it is an amortized or an unamortized mortgage. In other words, there are certain questions in the rough and ready fixing of the member's eligibility which would be gone into in advance, but that where an outstanding institution like the one which I represent, which holds thirty-six million of mortgages, for them to say, "We hold thirty-six million of mortgages, of which so many, representing so much money, represent mortgages upon which the unpaid balance is less than \$15,000," and for them to show that it can meet the other conditions, then it would be theoretically eligible.

Mr. O'BRIEN. Would you also ignore the 20-year provision of section 8 which fixes the life of the loan? Take lines 17 to 19, page 15.

Mr. MACCHESNEY. No. I think that might be also inserted, in other words, be amended. Later we are going to suggest that we think 20 is correct. A suggestion has been made that it be changed to 15. We think 20 is the correct figure.

We also suggest that this provision that only mortgages of less than \$15,000 shall be eligible be changed to mortgages less than \$20,000.

Mr. O'BRIEN. That is the standard of eligibility at present?

Mr. MACCHESNEY. Yes. We think that is desirable because of institutions which have forty or fifty million dollars' worth of mortgages, but the main bulk of them are not eligible at all, where the cost of belonging to the system would exceed any possible benefit. I am sure that is not the intention.

The other suggestion is that section 4, subsection (g), page 8:

After the amount of capital of a Federal Home Loan Bank paid in by members equals the amount paid in by the Secretary of the Treasury under subsection (f), such bank shall apply annually to the payment and retirement of the shares of the capital stock held by the United States 50 per centum of all sums thereafter paid in as capital until all such capital stock held by the United States is retired at par.

We agree that this language needs clarification, because from that it might well be that whenever it reaches the amount of the Government—for instance, the illustration you suggested was that if the private subscription be a million and the Government subscription be a million, that repayment would start at four million instead of five, whereas that was not the intention. The language can be very easily clarified.

Mr. REILLY. Why should not the board have power, the governing board to be provided in Washington, when in its judgment the bank did not need all of its money, to provide for the payment back of some part of it to the United States Government, and not wait until the bank had paid in what the United States Government had paid in, assuming that the bank did not need the money?

Mr. MACCHESNEY. The trouble with that is that if you create this institution, I suppose it ought to have the minimum pool upon which it can stand. You don't know when an emergency is going to arrive. This institution is filled up. Say it becomes stabilized on its own capital from its own members and the Government retires—I think the modification that is suggested is that the Government shall get

a return. The Government is not penalized because the Government will get the same return as the members. It is going to be to the interest of the people to retire the money; whereas, before that suggestion was made, it would be to their interest to get the Government's money in an unnecessary amount.

Mr. REILLY. I think that if we have equality of interest the banks would retire Government money when they find that they don't need the money.

Mr. MACCHESNEY. I think so.

Section 5 (k), page 10, line 8. We have already discussed that. That was a question of equality to the Government with the other depositors.

Gentlemen, that covers the questions that arose in the Senate. Now, except for one matter that I want to cover, which I think is important and which perhaps is the most illuminating testimony that was given—the testimony is all interesting, of course, to you gentlemen, and it is valuable; but this is absolutely essential to the committee, because it sets out in a nation-wide way the need for this in the various communities.

After all, the proponents of the measure, their views, were very largely embodied in the legislation as presented; and the criticisms were of three kinds: First that it was not needed, and, second, it was so badly needed that it would put everybody out of business because it would grow so rapidly; and third, criticism by the mortgage bankers, so called, or mortgage brokers, which I think is a legitimate criticism. That is, they are in the position of a jobber who is being hard pressed everywhere and being driven out of business, or the individual banker.

But it so happens that their private business interests may be in conflict with the public and social interests; and under those conditions I think they have got to yield, however unfortunate it may be. But with the suggestions I have made here this morning I think they will be in a better position than they ever were, if they are allowed to rediscount their notes secured by these mortgages. Their position will be strengthened, and they can go ahead and render the very valuable service that they have been rendering in the past.

The fourth line of criticism came from the bankers of the country. The most constructive of these came from Mr. Thomas Monks, of Cleveland, the vice president of the Guardian Trust Company, representing the Ohio Bankers Association, found at page 347 for his first hearing and page 355 for his second hearing before the Senate, part 2. I am going through those, if I may, somewhat in detail, for your benefit.

First, as to membership, Mr. Monks suggested the rewriting of subsections 1, 2, and 3 of section 4, which you will find his suggestions on page 248 of his testimony. You will find the section that he proposes to amend on page 4 of the act.

He proposes to amend it so that it will read as follows:

Subsection (1) Building and loan associations, cooperative banks, and home-
stead associations.

(2) Savings banks, trust companies, national banks, and other banks; and

(3) Insurance companies.

(4) Other financial institutions whose time deposits and financial condition
in the judgment of the board warrant making home-mortgage loans.

We favor that amendment, but we see no reason why the second subsection to it should limit it in the way that it does. In other words, Mr. Monks proposed striking out the following language:

(2) Any of the following whose time deposits and financial conditions, in the judgment of the board, warrant their making such home-mortgage loans as, in the judgment of the board, are long-term.

In other words, they have given no right under this bill as of right to savings banks and trust companies and other banking companies to go into this system, whereas the absolute right is given to building and loan associations and to the insurance companies.

I understand the reason for that is that there are some irresponsible small banks that perhaps ought not to undertake this obligation. It seems to me that is more or less a gratuitous insult, as I think it over. On the whole, banks and trust companies are as soundly and ably managed as building and loan associations and insurance companies. There is no reason why under the inspection system and all that it pertains to, why any institution that is a properly assured bank should not have a right to come in.

Mr. LUCE. May I say that in considering that matter I called attention to the fact that in our large cities there are numerous banking institutions of a petty nature, largely conducted in the interests of foreign-born residents for the transmission of funds to their home countries. In my own city they have caused a deal of trouble; more trouble than any other class of banking institution. It was wholly with that possibility in mind that that was worded in that way.

Mr. MACCHESNEY. We will concur with that. But the class of institution which this language is sought to deal with is on the wane, like the irresponsible private banker. Legislation which is now pending in this Congress, which has passed the committees, fixes the minimum as \$50,000, I believe; and the general tendency all over the country is to feel that the very small institutions ought to go out of business. In other words, the institutions such as you are now discussing can not exist on a legitimate banking business, because the overhead exceeds any legitimate profits that it may make; and they are not properly in the banking field.

Mr. HANCOCK. What would you define as a small institution that you say ought to go out of business?

Mr. MACCHESNEY. Well, where the capital is, as we used to have in our State, \$5,000. We now require a minimum of \$25,000 in the country and \$50,000 in the city of Chicago. I think that is small enough.

I am not now advocating the big octopus absorbing institutions. The point is that institutions with sufficient capital which are doing a legitimate banking business can earn a return, which varies in different communities depending upon what the president of the bank thinks that he ought to have, and a lot of other things.

Mr. WILLIAMS. What is the change in that amendment that is suggested over what is written here?

Mr. MACCHESNEY. It strikes out lines 6, 7, 8, and part of 9, so as to make savings banks, trust companies, and other banks eligible without their being prepared to make long-term mortgages in the judgment of the board. It gives them the absolute right to join.

It takes that language and drops it down into a new subsection (4) under the heading "Other financial institutions whose time deposits and financial conditions, in the judgment of the board, are long-term loans."

In other words, if they are institutions which do not qualify as banks, maybe some of the institutions that Mr. Luce had in mind, would be qualified in your State as banks, under your law. That would not be true in our State, where the word "bank"—no institution can use the word "bank" unless it is incorporated as such either under the National or State law and has certain minimum capital requirements. These other institutions which are largely ticket-purchasing agencies and immigrant forwarding agencies, are not banks. They might be financial institutions. These institutions would still be subject to the restrictions provided for by this bill under section 4, which limits it to such institutions but removes regular banks and trust companies from its limitations. Does that make that clear?

Mr. HANCOCK. Yes.

Mr. MACCHESNEY. Point 2 is stock subscriptions. You will find that suggestion on page 349 of his testimony, where he suggests that the subscription should be limited to one-half of 1 per cent instead of 1 per cent. You will find that dealt with in subsection (c) of section 4 of the act on page 5. His thought being that what we want to do is to get institutions into this system; and that the small institutions putting up \$2,500 for membership, feel at present that that might freeze that much capital to the detriment of the little institutions.

I think we have removed that somewhat by the proposed language which will limit the assessment to the unpaid balance.

The second proposal is that inasmuch as we are going to provide for a return of dividends, that we are not going to postpone that indefinitely, and perhaps the bank can afford to go along. But I think the committee should consider that suggestion for the benefit of the small institutions, where it will be freezing a certain amount of its capital by way of membership fees, which might not be needed.

Mr. REILLY. Why should not the bill be provided with a sliding scale for the initial payments? Why should a small bank be required to put up \$2,500 when a big bank would not be required to put up any more, and make the payments based largely upon their mortgage securities?

Mr. MACCHESNEY. You could do that instead of cutting the percentage, if you wanted to.

Mr. REILLY. Yes. Make it for the small bank \$500 or \$1,000.

Mr. MACCHESNEY. I would say \$1,000.

Mr. REILLY. And make those big institutions put up more.

Mr. MACCHESNEY. From \$1,000 to \$1,500, say.

Mr. REILLY. Yes.

Mr. MACCHESNEY. That is a way of getting at it. I was just calling attention to it, because I think, gentlemen, if you will devote your time to this particular statement in the testimony, you will find most of the criticisms and the constructive suggestions there.

Now, Mr. Monks makes a suggestion on pages 349 and 350 with respect to pages 11 and 12 of the act, being subsection (d) of section 6, where it is provided that there shall be three groups of directors—and I think this is important, gentlemen, and I favor the

change—which provides for three groups of directors to be nominated by the membership and shall classify themselves into three classes—large, medium, and small.

Mr. Monks suggests instead of that, the board shall divide the members of each of the Federal home loan banks into two groups which shall be designated as A and B, which would represent respectively, and as fairly as may be, the large and small members, the size of such members to be determined according to the net value of their holdings of home-mortgage loans; I should say, “holdings of home-loan mortgage loans” which as to the unpaid balances and period of maturity are eligible for discount.

“The class A and class B directors, whether appointed or elected, shall be chosen from the officers and directors of the member institutions. Class C directors, whether appointed or elected, shall be chosen from among persons actively engaged in commerce, agriculture, or some business, or industrial pursuit.”

I think that is a great improvement. I have discussed it with our people, and they favor it. In other words, instead of having three classes of directors, all of them from financial institutions, you have two classes of directors from the financial institutions, the large and the small, and the medium which goes both ways; and we have a third class derived from business itself.

Now, we all know that men in the financial business after all have a special slant. Banking is a business. It is not a public institution. It is not an eclectic business. Bankers know very little about the productive forces of the country. It is only in very exceptional cases that they do. No bank would make up its board of directors that way. If it did, no man who was not a fool would put his money in the bank, if its board of directors was composed of the vice presidents of the bank. What they do is to get men from different lines of business; and naturally they reflect these different actual business conditions in the board. That is what this is supposed to be—to apply the same banking principles of any sound bank in making up its board of directors; and we favor it.

Mr. LUCE. I may point out generally that whatever change will be made in this regard will not satisfy everybody. We have had the subject repeatedly under discussion in the Committee on Banking and Currency in connection with the Federal Reserve and Farm Loan systems. We have made some revisions that we thought were improvements. Whenever we make a change then somebody wants another change made. Personally, I never thought it was worth the attention that we have had to give to it.

Mr. MACCHESNEY. Well, it is a difficult problem; but I think the present financial conditions show that on the whole banker management of industrial institutions is not sound management. I am willing to stand on that—that a banker should be a man who thinks first and always of safety rather than of progress or initiative. And if he is sound to the extent of being a sound banker, he may not be the man to develop a business; and I think we have got to have that other type on the board.

This suggestion comes from a banker, so I don't think it is an unfriendly statement.

Mr. CAMPBELL. Is he fairly conversant with building and loan operations?

Mr. MACCHESNEY. I imagine he is.

Mr. CAMPBELL. Where would he acquire this knowledge if he confined himself to this banking institution?

Mr. MACCHESNEY. I don't mean that. There is nothing here to prevent a building and loan man from getting on the board.

Mr. CAMPBELL. Except his suggestion with respect to the building and loan associations; that you are going to ignore the building and loan associations.

Mr. MACCHESNEY. No. This does not propose to ignore them, Mr. Campbell. Perhaps you didn't catch what I said.

Mr. CAMPBELL. You say his suggestion is more weighty than that coming from any other source?

Mr. MACCHESNEY. No. I didn't say that. Don't misunderstand me. What I said was that this was not an unfriendly statement to the bankers, because it came from the bankers.

In other words, normally you would think that a banker would favor having three bankers on the board instead of two bankers and a business man. But this suggestion that one be a representative of business and commerce, came from a first-class banker, which indicates that it is not an unfriendly thing toward the bankers. That is what I mean.

There is nothing about this to prevent a building and loan association, in which we are very vitally interested, in which I think you are vitally interested, nothing unfriendly toward the building and loan associations. I do think you should bring a man from other lines of business in on the board in order to get the point of view as to questions of building and development.

Mr. CAMPBELL. Mr. MacChesney, pardon me, but the building and loan associations have a history of over a hundred years?

Mr. MACCHESNEY. Yes.

Mr. CAMPBELL. Without any great disaster ever overtaking them?

Mr. MACCHESNEY. Yes.

Mr. CAMPBELL. The banks have been in existence only since 1863, and see how many depressions we have had and what they are responsible for to-day.

Mr. MACCHESNEY. Let us understand each other. I am not a banker. I am here representing the real-estate interests of this country, and I am here representing the group of people who, including building and loan associations, favor this bill.

Now, my statement was merely a statement to show you that I am not a Bolshevik, appearing here against the bankers; but that this originated from an eminent financial source.

Mr. CAMPBELL. The real-estate men of the United States have indorsed this bill.

Mr. MACCHESNEY. Yes. We are making——

Mr. CAMPBELL. You have said that the suggestion from the banker in Cleveland with respect to the amendment will alter the bill very materially; change it from its original purpose?

Mr. MACCHESNEY. Not at all, Mr. Campbell.

Mr. CAMPBELL. You are making a suggestion there that would affect all the banks in the country.

Mr. MACCHESNEY. We think it is in their interest. Let us understand each other. I have been general counsel for the real-estate interests of this country for more than 20 years; and I represent their

point of view. It is not a narrow point of view. It is the point of view of endeavoring to make this the soundest legislation possible; and if a suggestion that we think meets the requirements came from the devil himself, we would incorporate it.

Mr. CAMPBELL. We don't mean to bring the devil into this, but we mean to bring in the building and loan associations, who have a history of over a hundred years.

Mr. MACCHESNEY. Nobody is attacking their position.

Mr. CAMPBELL. But the proponents of the bill have not been consulted with respect to these amendments.

Mr. MACCHESNEY. I beg your pardon. I am here representing some of the principal proponents of this bill.

Mr. CAMPBELL. My understanding was that this came from the President after conference with men throughout the country.

Mr. MACCHESNEY. That is the very reason we are here. I take it that this is not something that was conceived on Mount Sinai and handed down.

Mr. CAMPBELL. No; but it is just as sacred coming from where it did as being offered by a banker in Cleveland.

Mr. MACCHESNEY. I have always had a profound respect for anything originating from the President. So don't misunderstand me.

Mr. CAMPBELL. This bill was drafted after consultation with the best authorities that he could get in the country.

Mr. MACCHESNEY. I happen to be one of those authorities that were consulted, so I think they were good.

Mr. CAMPBELL. You are sticking to your original idea, aren't you?

Mr. MACCHESNEY. Mr. Campbell, I believe this committee is sitting here to try to perfect this bill and make this the best bill possible. These are suggestions coming from people who are somewhat opposed to the bill. We are going through it and indicating to you gentlemen how far we think you can go without damaging the original features of this bill or improving them.

There are some suggestions that he makes that we are very much opposed to. Don't misunderstand me. If you will give me a chance, you will find that we don't adopt all of the suggestions that he makes, by a good deal. But when he makes a good suggestion, we adopt it. I would say, for instance, that we would adopt a good suggestion coming from a Democrat if I thought it was a good suggestion in spite of the fact that I am a Republican; and I take it that the Democratic members of this committee would take something from our side that had merit.

Mr. REILLY. Your statement indicates very good judgment on your part.

Mr. MACCHESNEY. Mr. Monks on page 351 suggests striking out lines 3 to 7 on page 15 of the bill, and substituting the following:

(1) If secured by a home mortgage given as security for an amortized home-mortgage loan having a maturity date not exceeding 10 years, the advance may be for an amount not in excess of 60 per cent of the unpaid principle of the home-mortgage loan.

Now, we think that the term of 8 years in there is better than the suggested change of Mr. Monks, because, generally speaking, the so-called short-term mortgages are made for 3, 5, or 7 years. I don't know where they got eight, but it comes up above the short-term mortgage; and we see no reason for changing it.

I am taking Mr. Monks as a basis, Mr. Campbell, because he did cover all the objections coming from those sources. Therefore it gives you a compendium for you gentlemen to consider.

Suggestion No. 5. Mr. Monks on page 352 of his testimony suggests striking out line 23 on page 16 of the bill, which reads as follows, commencing with line 21:

At no time shall the aggregate outstanding advances made by any Federal home-loan bank to any member exceed twelve times the amounts paid in by such member for capital stock subscribed for by it.

He suggests striking out entirely the part that limits it to twelve times.

As a matter of fact, the limitation in the other case for the Government is twenty times. Certainly it would be to the interests that I represent and be to the interests of building and loan associations, which we also represent here—we are allies if not a consolidated army—to have the advances increased above twelve times; and I don't see myself why it should be limited to twelve times.

The fact of the case is that advances made upon this basis are really in fact sounder than advances made under the Federal reserve system as far as recapture of the actual capital is concerned. And therefore Mr. Monks's suggestion that they be wiped out entirely. Our suggestion would be that it be put on a parity with the Federal reserve, under which they can borrow up to 20 times the amount. We see no reason for discrimination against a sound security of this kind. We think it should be on a parity with the other act.

Mr. LUCE. Wasn't it 12 years in the farm loan?

Mr. MacCHESNEY. Twelve years in the farm loan, but 20 years in the Federal reserve.

There is a distinction, may I say, with reference to the farm loan. I am a farmer, and I know something about it. A farm loan is made on the theory that the farm will produce money and make that a sound mortgage. And unfortunately it has got to a state in this country where to a very large extent that is no longer true.

But you can not say that same thing is going to occur with these urban mortgages, unless you are going to assume that the country has gone to the dogs and we are not going to get back to a normal industrial basis again. Because here the earnings will be independent of the property, whereas there the earnings are dependent upon the property. Here you have the property plus the earnings in the urban mortgages. In the farm loan you have the property and its earnings.

Mr. LUCE. As far as that 12-year provision goes, are you in favor of wiping it out entirely?

Mr. MacCHESNEY. We think there is merit in Mr. Monks's suggestion; but we are not prepared to advocate going to the extent of wiping it out entirely and making it unlimited. We suggest that the figure be 20 instead of 12.

No. 6 on page 356 of his testimony. Mr. Monks suggests striking out on page 20, beginning with line 16, the following:

(g) Each Federal home loan bank shall have power to accept only such deposits as are made by members of such bank, or by other Federal home loan banks. Such deposits shall not be subject to check, and no rate of interest in excess of 3 per centum per annum shall be paid thereon.

Our position is a position of disagreement with that. That is to say, we think the deposit feature should be retained. I have already expressed our views in full on that. At least up to the extent of the obligation, in order to make a sure source of revenue. Also that the rate should be lower so as not to make it unduly competitive.

No. 7, page 356 of his testimony. Commencing on page 23, line 21, he suggests striking out "This shall be depository of public money."

Of course, we think that is necessary as a basis for the statement with reference to the instrumentality of the Government, and that the President favors and the proponents of this bill favor as necessary to put it into operation, a tax exemption; and therefore it is a necessary feature.

He suggests as point No. 8 on page 357, with reference to page 24, line 15, that the word "reserve" be changed to "surplus."

Now, as a matter of fact, I have explained, as I understand it, the difference between a reserve and a surplus. Perhaps some of you gentlemen have a different view about that. But this reserve was intended to be available for the retirement of the Government obligation, the obligation to the Government, and so forth. But a surplus, as I understand it, in banking parlance, becomes a fixed surplus, which can not be used. It would seem that certainly under our general laws much of an operation than is given a mere reserve, which is set up on the books and is usable for any purpose. Under our banking law a surplus becomes a fixed part of the capital and can not be used after it is transferred to surplus. It becomes fixed.

Question 9 on page 357. Mr. Monks suggested that on page 24, line 19, beginning on line 18, be added "10 per cent of net earnings" to "reserve" or "surplus" instead of 25 per cent after the reserve has reached 100 per cent of the paid-in capital as per the Federal reserve system.

That is a question of judgment. We have no opinion one way or the other. It would seem that 10 per cent as provided in the Federal reserve act would be adequate. But we think it gives an additional margin of safety; and the bill as written is satisfactory to us in that respect.

Question No. 10, page 358. Mr. Monks suggested that on page 33, line 4, we should strike out lines 4 to 8, inclusive, reading:

or relating to persons whose obligations are offered to or held by any Federal home loan bank, and to make through their examiners or other employees, for the confidential use of the board or any Federal home loan bank, examinations of such institutions.

We favor the striking out of those words, Mr. Chairman. There has been some discussion of that before the Senate. That seems to be the view point of some of the Senators on the committee also.

It would seem this is security for a collateral loan. It comes upon a piece of property that has been appraised not to exceed 40 per cent, secured by a home occupied by the borrower and the mortgage signed by him. It is rediscounted with the Federal institution as collateral to a note or obligation by that institution.

Now, section 20 gives full authority under such condition. Commencing with line 22, page 32—

under such conditions as they may prescribe, to make available to the board in confidence for its use and the use of any Federal home loan bank such reports, records, or other information as may be available, relating to the condi-

tion of institutions with respect to which any such Federal home loan bank has had or contemplates having transactions under this act.

That is all right. They can examine building and loan associations in my town or your town or the individuals of the bank or trust companies; and they can examine the property. But I can see no reason why they should go back of that and ask to make an examination relating to persons whose obligations are offered.

In other words, I see no reason why they should examine the confidential income tax returns and other information of the Government of the customers of those building and loan associations or banks. That sort of thing is disturbing. It is apt to become a snooping process, and is wholly unnecessary. We don't see that it adds anything to the act. I don't want to be misunderstood about that. Apparently this man, who is in the banking business, does think that it is a necessary safeguard.

No. 11, page 358. Mr. Monks desires to eliminate the use of the term "bank" on the ground that nonbanking members could not properly use it in certain States.

Mr. Chairman, I don't know what he has in mind except that he may be thinking that building and loan associations could not use that term. I don't agree with him. I think the bill is perfectly all right. In other words, there is no reason why a financial institution which is not itself a bank, but is a member of this system, can not use the statement "Member, Federal home loan bank system." It does not designate itself a bank. I would undertake to say that in our State, where the use of the word "bank" is limited, that it would not have any application to this situation. And we think it is right as written.

No. 12, page 359 of the testimony. He suggests eliminating on page 3, lines 10 and 11, as follows:

but no such district shall contain a fractional part of any State.

If you will turn to that, I want to say just a word on that. He calls attention to the situation in Kentucky, where the Federal reserve system splits the State in two. We think that is very undesirable. We think that building and loan associations and banks having charters under the laws of the State, should be kept as a unit. In other words, we stand on the good Democratic doctrine of State unity and rights. We don't think the States should be broken up under the system.

Mr. REILLY. You and your organization are assuming to be good Democrats right through.

Mr. MACCHESNEY. No. 13, page 359, which is in the second part of his testimony. Mr. Monks asked the question as to where institutions doing interstate business would discount.

What he had in mind there—I am bringing this out, gentlemen, because these questions will arise. I think it will be helpful to dispose of that thing—he raised the question about the Metropolitan Life Insurance Co., for instance, where it would belong to the discounting bank in New York City. I assume that it is in New York City. I imagine that they make loans all over the country. They make loans in Chicago, Los Angeles city, or Saint Louis. Where will they discount their mortgages? Will it be in the district bank where

the property is located, upon which the mortgage is held, or will it be in the district where the principal is doing business?

Now, the act contemplates that the discounting shall take place in New York under conditions such as that.

Mr. REILLY. The home of the owner?

Mr. MACCHESNEY. The home of the lender, the lending institution.

We think that while there may be some advantage about being able to discount in another place, the act is right as written, because the examining institution some on reserve bank, should have the necessary credit facilities to make the investigation and see whether that mortgage is all right and not have the investigations scattered all over the country and perhaps run the risk of improper inspection.

No. 14, page 360. Mr. Monks suggested that on page 5, line 4, having to do with the price at which the stock is issued, subsection (b) of section 5.

The capital stock of each Federal home loan bank shall be divided into shares of a par value of \$100 each. The minimum capital stock shall be issued at par. Stock issued thereafter shall be issued at such price as may be fixed by the board.

Now, Mr. Monks raised the question "but not less than par." There was some discussion as to that—as to whether the right should exist to allow subsequent members to purchase stock at less than par.

We have no conviction on that point. The question asked by one of the Senators about that was that perhaps people would not buy at par. But it was pointed out that the stock—and I would like to get the reaction of Mr. Luce on this as to whether there was any discussion on that—Mr. Monks suggested that it should be added "but not less than par for subsequent stock."

Mr. LUCE. In the conferences that I have attended there was no discussion of that.

Mr. MACCHESNEY. He raised a good point about this—that this was not a security offered to the public. Under this bill the building loan associations and banks are going to go in initially and they have to pay par for their membership. Under this it would be possible for the board to let in a subsequent member at less than par. His point is that these assets are built up by this initial membership, and they certainly should not have them shared with other people by selling below par. It was not for investment purposes that this stock was issued, but by way of membership.

I think there is some merit to that suggestion. It is not vital one way or the other. But it would seem fair to the building and loan associations and banks which go in there and subscribe \$100 a share for the purpose of being eligible for the rediscounting of their paper; and they build up resources there that they should not be subjected to the possibility that the stock will later be sold at less than par. If the right is given to the board to fix the price, it should be a right to fix the price above par so as to take into consideration the building up of the reserves by the original members.

Mr. LUCE. Mr. Chairman, that is taken from one of the other laws. I was studying this, Mr. Monks' suggestion; and I reached the same conclusion that he did in the matter.

Mr. MACCHESNEY. May I say, Mr. Luce, it was written very long ago, but it had reference in that case to stock to be sold to the public;

where, as in this case, there is a differentiation. It is not investment stock. It is membership stock. So it does make a difference.

Mr. REILLY. So the only question on that was as to whether they should have a right to sell it for more or less.

Mr. MACCHESNEY. More, not less.

It ought to be a fixed membership. The only question there would be that if these people by the use of these facilities may build up a substantial reserve, instead of distributing it in dividends, if they want to allow subsequent members to come in at par—and I don't think that is the conduct of an institution of that kind—they should make a complete distribution of the earnings as dividends, because there was no building up of savings, because subsequent to the earnings of the reserve, it has been built up at your expense.

Mr. REILLY. Your idea is to leave it to the board to fix it any place above par?

Mr. MACCHESNEY. Yes.

Mr. REILLY. But not below par?

Mr. MACCHESNEY. So as to take care of the building up of the earnings by the members already in.

No. 15, page 361 of Mr. Monks' testimony, which relates to page 5, (c) of section 4. He suggests that that be redrafted as follows:

The board shall, from time to time, adjust the amount of stock held by each member so that, as nearly as possible, such member shall at all times have invested in the stock of a Federal home loan bank 1 per cent of his home mortgages plus \$2,500 entrance fee.

Now, that is merely a reframing of the language; and I think we have agreed that that would be preferably changed.

Mr. O'BRIEN. I don't see any difference between them.

Mr. MACCHESNEY. There is no difference in meaning, but I think the language is clearer. The language in the present act is—

shall be not less than \$2,500, plus an amount equal to 1 per centum of the aggregate of the unpaid principal of the subscriber's home mortgages.

Taking that with the language of the act, "having not more than \$15,000 unpaid principal," it does seem to us that the language suggested makes the meaning clearer, although the meaning is exactly the same.

No. 16, page 361 of his testimony, relating to page 6, subparagraph (e) of the act. He says it should be clarified and rewritten to read:

The board shall prescribe terms and conditions under which such deposits are made so that the obligations of the institution to the bank would be adequately secured.

That commences in line 7, which now reads:

The board shall prescribe terms and conditions under which such deposits are made so that the obligations of the institution to the bank will be adequately secured.

He goes into that question there and suggests a modification of it. He says:

If their stocks or bonds that they pledge are put in escrow, or something of that sort, temporarily, until the law of the State is changed so that they can become a member, there ought to be some specific way of taking care of that written in there.

But he also has in mind there the question of the liquidation, which he has under point 17 on page 362. He thinks first that if securities are put in in lieu of cash, there should be an escrow department built up for their protection; and under his point 17 with reference to page 5, subparagraph (i), he raises the question as to what becomes of bonds in case the member withdraws from the system.

As it is now written, it provides for the return in cash. He suggests that there should be a specific provision for the return of the specific securities that were put up in lieu of cash in case there is a withdrawal pending the passage of an act permitting subscription.

That would be an ordinary and orderly business principle to which I can not see any objections. It is an administrative principle. In other words, the language of the act with reference to the repayment of the member is based upon the supposition that the member has paid cash, whereas for the first 42 months he may have put up securities and they hold them to his account and return them to him if he does withdraw.

No. 18 on page 362 of his testimony relates to page 10, line 8, subparagraph (k). We have already discussed that. We favor putting the Government upon the same basis. That is a question of whether the Government should be put on a different basis as to dividend distribution. We think not.

No. 19 is his statement with reference to his position. At page 363 of his testimony, I want to call your attention to what he says. In response to a question by Senator Watson, he makes this suggestion:

Well, if these suggestions are adopted, or many of them adopted, that you might consider vital suggestions, would your group then favor the measure?

Mr. MONKS. I think I am justified in saying to you that if everybody goes in on an equal basis—

That has reference to section 2, with reference to these banks and trust companies—

and everybody is taken care of, no preference is shown—yes, sir.

Now, gentlemen, we think from our standpoint, representing the interests who believe this bill is vital legislation, it is worth while your giving consideration to the various suggestions so that the people back of them may cooperate in its passage and in its operation, and everybody will feel that they have been fairly treated in a great constructive measure of this kind.

I want to thank you on behalf of the interests that I represent for this very courteous hearing.

Mr. LUCE. I suppose that the gentleman may not want to come back here later. If I could ask him two or three questions before we adjourn, it may suit his convenience.

In the matter of instrumentalities and deposits you have, of course, made it clear that under the decisions of the Supreme Court provision for them is necessary.

Mr. MACCHESNEY. Yes.

Mr. LUCE. In the matter of taxation, however, I would ask your judgment as to whether, when the system has been declared an instrumentality of the Government, assets or debentures could be taxed by any State or local government, no matter what we do here?

Mr. MACCHESNEY. Whether they could be taxed?

Mr. LUCE. Whether they could be taxed.

Mr. MACCHESNEY. My judgment on that question, which was raised by Senator Couzens, in the Senate, with reference to the tax-exempt feature of the securities—whether that carries with it the tax exemption of the mortgages. Is that it?

Mr. LUCE. No, I am not driving at that. Suppose we should say that the securities shall be exempt from taxation, could we thereby compel States, counties, or municipalities to forego taxation?

Mr. MACCHESNEY. No. You could not.

Mr. LUCE. That is, then, the tax-exempt matter would relate only to taxation on the part of the Federal Government?

Mr. MACCHESNEY. Oh, no. You misunderstood me. If they are an instrumentality of the Federal Government, they are not taxable. If the Government left them taxable as far as it was concerned, it could not make the communities declare them tax exempt. But if the Government declares them to be tax exempt, that carries all down the line.

Mr. LUCE. But can we deprive the States or the municipalities of the power of taxing?

Mr. O'BRIEN. Isn't the proposition something like this: That the law of tax exemption in the case of State taxes and Federal instrumentalities is derived from the Constitution; and if Congress creates a Federal instrumentality, without permission from Congress, the States can not tax the Federal instrumentality. With permission from Congress the States can. But there is nothing to prevent Congress from taxing its own instrumentalities, while the Constitution prevents the States from taxing the same instrumentalities. Have I made that clear?

Mr. LUCE. Yes.

Mr. MACCHESNEY. If it becomes a Government instrumentality, then the States can not tax it.

Mr. O'BRIEN. Unless Congress permits it.

Mr. MACCHESNEY. There is another way that this could be done if it is desired. This could be made tax exempt over a certain amount. For instance, they could provide that it would be tax exempt up to a given amount from any one holding or for a certain period of time. I haven't seen it passed on as to time, but the amount has been passed on specifically by the courts.

Mr. LUCE. Many of the persons who wrote to me—my name having been attached to the bill, I have a great mass of correspondence—protested, and some of the witnesses at the Senate hearings have protested, against the Government's going into business. Now, if we required the system to pay interest on our advances, would that not be charged to be as an investment and not a governmental as distinguished from a commercial proposition?

Mr. MACCHESNEY. It is provided, of course, by the same act by which you do that that the money shall be repaid.

Mr. LUCE. Shall be repaid, but the act does not put the Government in the attitude of an investor?

Mr. MACCHESNEY. May I answer that?

Mr. LUCE. Certainly.

Mr. MACCHESNEY. I think that putting the Government on a parity with private investors would be considered, generally speaking, fair. There is no reason why it should put in your money and mine and give all the profits to somebody else. That is what they are doing—from what the Government puts in, unless it is essential to accomplish a public purpose; and I can not see that it is essential to accomplish a public purpose.

I am not very much impressed by this argument that it is to the best interests of the country that the Government shall not go into business, which is from commercial people as a whole and not from the banks and real estate and insurance companies. I don't see why it should be limited to big institutions, and should not filter down the line to those who are being squeezed out because of lack of mortgage financing under these pressing conditions.

Under this the Government is going on the theory that we are in a world-wide panic, the worst that the country has ever seen; and that this is not any time for passing out a dole or for helping individuals; but a time to reestablish the solvency of our institutions; and that those ought to be the solvencies of institutions who are taking care of the little man as well as the big man. That is what this bill does. It takes care of the home owner under \$15,000.

Mr. LUCE. I quite agree with you. But as regards that situation, when we created the Federal Farm Loan System, we took the attitude of being a bountiful, helpful, eleemosynary institution, so to speak; that we put the resources of the Government temporarily at the command of the farmers of the country through interest in them.

Mr. MACCHESNEY. That is true.

Mr. LUCE. Would not that spirit be destroyed by taking the position of the money lender and demanding interest?

Mr. MACCHESNEY. I think it would, if you demand the interest on the Government obligation ahead of everything else. But if you say, "We are putting in our capital to help you do this thing, and don't ask anything that you don't get," I don't think it applies. I think that if you would demand that the Government get its interest first and that the other people wait, that would be one thing. But if you go on an equal basis of partnership to help, that is another.

Of course, the farm-mortgage situation, I think, is reaching rapidly in this country a condition where the urban situation is quite desperate. The report from the Iowa Tax Commission shows that taxation on farm lands was very largely reaching a point where it absorbed about 21 or 22 per cent of the income; and that the urban situation is about the same.

Now, it has been perfectly apparent that the actual value of the farms of this country has gone through a process of gradual destruction. Unless we can reestablish confidence in the farm and enable these people, through normal financial institutions, to hold on to their homes we are going to wipe out the savings to an extent that the country is going back fifty years in its economic conditions.

I think that on the one hand the Government has to be as generous as it can afford to be, because the situation is desperate. But I think also that it should temper that generosity with the fact that it is in desperate need of revenue to meet its obligations; and therefore any-

thing that does not fix the burden upon the other fellow but merely puts the Government on a parity, is fair to them.

Mr. REILLY. There is a difference between the Federal farm loan act and this act. There are no private investors reaping the benefit under the Federal farm loan act. That goes to the borrowers. Here the private investors are reaping the benefit. They put in \$130,000,000, and there is about \$6,000,000 tribute to private investors. Am I not right?

Mr. MACCHESNEY. Well, I would not call it tribute.

Mr. REILLY. Then it is a gift? It is a gift of at least \$6,000,000 interest a year.

Mr. MACCHESNEY. I think if it is necessary in the social and public interests for the Government to make it successful, it would be justified in putting in their capital. I would dislike very much to see it put in any other interest obligation which would have to be met.

But, personally, I would see one objection to that. I know that this Congress is going to be under pressure both to get appropriations and under criticism for failure to hold them down. It seems to me that this is the fair middle ground.

Mr. REILLY. You take the Federal reserve act. The Government made money out of that. It made \$150,000,000 out of the Federal reserve act.

Mr. HANCOCK. And got private capital to do it.

Mr. REILLY. That is one of the best investments that the Government has ever made—the Federal reserve act.

Mr. HANCOCK. And I don't think they are entitled to a nickel of it.

Mr. REILLY. They never should have made it.

Mr. MACCHESNEY. Of course, you have the other side of the problem, where you have an increasing income tax, faced with the sales tax which may reach down into the cost of living of the people; and you have got to balance one thing against the other.

Mr. REILLY. We are very much obliged to you.

Mr. LUCE. Where would be the flaw in an allegation that the more interest you take, the longer it will be before the principal is repaid?

Mr. MACCHESNEY. There would not be any flaw in it if you provide the thing that we have considered quite seriously. We thought of suggesting the possibility that the Government could be repaid its capital without a participation in the interest prior to the distribution of dividends to private investors. Theoretically that would be absolutely the fairest way to do it—that the Government would put its money in to start it out, and will get its money back and leave the institution to get a return. The objection to that is from our point of view that these institutions are putting up this money for the purpose of getting increased liquidity. What they need is economic resources. If they put up this money—\$2,500 plus 1 per cent—and they could not get it back for from 1 to 10 years, until the Government was paid, then they would have a frozen asset that is frozen.

Mr. WILLIAMS. I would like to ask a question. What, if any, effect has the Glass-Steagall bill on the home loan activities of the country?

Mr. MACCHESNEY. It has not had time as yet.

Mr. WILLIAMS. What in your opinion will be the result of it?

Mr. MACCHESNEY. From a reading of the provisions of that bill, House 9203, section 2, subsection 10 (b), and section 10 (a), it would seem that that means that the home owner who has his mortgage to renew could never get another accommodation, because this bank can only use that once as collateral when it has got less than \$5,000,000 capital; and when it is in such a desperate situation that it has no eligible collateral whatsoever, and when a majority of the board are willing to vote that it is in that condition, that they ought to accept his collateral.

Now, what this ought to be, this ought to be a collateral, not a preferred collateral, but it ought to be a collateral in view of its real value, in fact, substantially greater, where the building and loan association and the bank, and under my suggested amendment the mortgage broker will be able to discount his notes at the bank; will be able to come in and get that discounted when he needs it in order to save disaster.

This Glass-Steagall bill does not help the mortgage owner one iota. It does not help the building and loan association. It does not help the individual mortgagee. It simply saves that institution, the bank, which has exhausted all its available assets, from disaster.

Mr. WILLIAMS. What about liberalizing that law and making it take care of your situation?

Mr. MACCHESNEY. It would seem, Mr. Williams, that what is needed in this country is what they have in every other civilized country in the world; and that is alongside of your commercial bank a long-credit reserve system.

Now, this system is a very limited system. It is limited to homes occupied by people, not more than three families, and not exceeding \$15,000. Now, there are no such limitations in other countries. This country is short—every financier, every political economist and every public man who has studied the question will tell you that this country is woefully short on long-term credit facilities as opposed to commercial facilities.

We have developed on the one hand the great commercial banks to an extent that has given us confidence in them. But we have not developed on the other hand the great international banking houses which we need. We began to have doubts about it, but this situation has shown us that they were not as smart as we thought they were. They let the people of this country into terrible losses.

What we need in this country are great long-term legitimate commercial-banking institutions. My judgment is then when this bill is put into effect, the time will come when no sane man will say but what it ought to be enlarged, and that no sane man will ever say it ought to be repealed.

(Whereupon at 1.05 o'clock, p. m., a recess was taken until 2.30 o'clock p. m.)

AFTER RECESS

(The subcommittee met at 2.30 o'clock p. m. pursuant to recess taken.)

Mr. REILLY. We will first hear Mr. Sherlock, and he may proceed if he is ready.

**STATEMENT OF CHESLA C. SHERLOCK, MANAGING EDITOR
LADIES HOME JOURNAL, PHILADELPHIA, PA.**

Mr. REILLY. Please give your full name, your address, and the position you occupy.

Mr. SHERLOCK. My name is Chesla C. Sherlock; I am managing editor of the Ladies Home Journal; Philadelphia, Pa.

Mr. Chairman, may I say in the beginning—

Mr. REILLY. Just a moment. Did you appear before the Senate hearings?

Mr. SHERLOCK. Yes, sir; I did. May I say this for the purpose of the record, that after I testified before the Senate committee I took the pains to make a trip across the country again, to check up and verify on some of the points that were brought out by the opponents of this bill. I was as far west as Minneapolis. I conferred with 15 or 16 of as outstanding leaders in the building industry, in finance and in business generally as I could find and reach, in order to review and to assure myself on points brought out by the opponents of this bill, and I am here, Mr. Chairman and gentlemen, only to present new material, if I may do so.

Mr. REILLY. Very well.

Mr. SHERLOCK. May I say something in rebuttal? And I might say for the purpose of the record, that since the Senate hearing I have had two letters from Senator Couzens asking information on one or two points which he himself is in doubt about, and I assume all the Members of Congress will be in doubt on those points. I refer particularly to page 603, of part 3, of the hearings before the subcommittee of the Committee on Banking and Currency hearings, on which Senator Couzens makes this statement [reading]:

During the whole growth of the Nation, the greatest growth that we have ever seen—

This latter meaning home ownership and home financing—

this has been taken care of before.

What I do not understand is this. I think these people—

Meaning those who are in favor of this bill, as I assume—

have gone off on a tangent, because we are in a depression.

Now, Mr. Chairman, if I may say this, that we have not taken care of home ownership in this country during the past 87 years, because the percentage of home ownership has constantly decreased; and, so far as I have been able to find from the governmental agencies here in Washington, we have no records behind 1850 on the percentage of home ownership. We have shown a constant decrease all the way down, and the Senator from Michigan and those who are minded as he seems to be over this question are in error when they say this has been taken care of all through these years, because it has not. The cold facts are there.

Mr. Chairman, in 1920—and, so far as I know, those are the last statistics we have on home ownership in this country—we had only 40 per cent of the families of the country owning their own homes.

Mr. REILLY. Just there, do you not think, as it has been suggested, that the coming in of the automobile and the attractiveness of the

apartment house and the disinclination of some women to busy themselves with the household duties are responsible for a decrease in home building?

Mr. SHERLOCK. Mr. Chairman, I can not agree with you.

Mr. REILLY. In home owning?

Mr. SHERLOCK. As editor, in close contact with the women of this country for the past 11 years, I can not agree with you. The woman was never born who started out as the head of a family that did not want a home of her own.

Now, the competition for the family dollar has been so easy and every other thing that we can buy under God's sun—

Mr. REILLY. Don't you think the automobile has been a very strong competitor of the home?

Mr. SHERLOCK. I do not agree with you, Mr. Chairman. I think that the automobile has contributed more to home ownership than anything has that has come along. Take 10 or 15 or 20 years ago we thought it was a competitor. It is not. Why? It provides easy transportation out to the suburbs, if you please, so that more people can live up to the old Anglo-Saxon idea of a detached house for every family. And I tell you, if I may say so, emphatically, Mr. Chairman, the automobile has contributed more to home ownership in the last 10 years than anything that has ever happened in this country.

There are other things that have detracted from it; I am frank to admit that, but, as sure as I stand here, I am sure of that fact.

Mr. REILLY. My belief is, Mr. Sherlock, that years ago before the coming of the automobile people used to put their money into a home, and now the automobile and the garage has absorbed that money.

Mr. SHERLOCK. I do not agree with you, Mr. Chairman. It has provided cheap transportation for the second third, if I may so characterize it, of our family population, so that they could go out a distance of 2 or 3 miles where they could afford to have a home of their own; and without transportation you can never put this Nation on a basis of home ownership. The automobile has contributed that. It has opened up vastly more land for homes which people can get out in the suburbs where they can live up to this old Anglo-Saxon idea of the detached house for every family.

I want to say this—and this is repeating what I said before the Senate committee—that we have got to get back to that basis or the American market is going to constantly diminish and be contracted down until this whole Nation is in tenantry; and then where do we stand?

I am surprised that Mr. Cody over here and so on, and the interests that he represents, absorbing only the top third of our family population, and I would like to lay a wager with him right now that if this bill is enacted and easier credit is afforded to the second third of our family population, that 15 years from now the Association of Mortgage Bankers that he represents will be doing a bigger volume of business than they have ever done before. Yet the very gentlemen who come here opposing this act come here because they are afraid of limited competition, and they do not see over into the years ahead.

Mr. Chairman, I have been diverted, and I am sorry, on that point. As I said in the beginning, I am here representing 3,000,000 women immediately now.

Since I appeared before the Senate subcommittee, I also took pains to send out under cover that nobody could ever attribute to the Ladies Home Journal, to find out whether mortgage money was available or not. That questionnaire went to 117 communities, and with the exception of two—Hartford, Connecticut, and Providence, Rhode Island—the evidence is that there is no first mortgage money available to-day anywhere in the United States.

On the point of second mortgage money, it is available only in one community, according to this questionnaire reaching 117 cities, and in that community they are asking a discount of 60 to 80 per cent, Mr. Chairman.

Mr. LUCE. What do you mean by that? I do not understand you. What do you mean by "discount of 60 to 80 per cent?"

Mr. SHERLOCK. That is the way the questionnaire came back, Mr. Luce, worded that way.

Mr. LUCE. That is one of your technical phrases of which, as a layman, I do not understand the meaning.

Mr. SHERLOCK. I would assume, being a layman myself and not being a statistician or a banker, however, if you want to borrow on a 1,000 second mortgage you probably get \$400 or something like that.

Mr. LUCE. I see. I understand now.

Mr. SHERLOCK. \$400 or maybe \$200, depending on what they thought of you as a risk. But the point is there is not any money available.

Mr. LUCE. That was second-mortgage money?

Mr. SHERLOCK. Second-mortgage money, which I was talking about. In other words, one segment of finance has completely collapsed.

As I made this trip around the country—and I would like to put these names into the record, if I might, Mr. Chairman—I talked to many of these leaders I mentioned a little while ago: Mr. Fred Weyerhauser, of the Weyerhauser lumber interests in St. Paul, Minn.; Mr. B. G. Dahlberg, of the Celotex Co., in Chicago; Mr. Henning, of the United States Gypsum Co., in Chicago; Mr. Wade Leach, of the General Motors Acceptance Corporation, in Detroit; Mr. Frederick H. Ecker, president, Metropolitan Life Insurance Co. in New York City; Mr. George B. Cortelyou, president, Consolidated Gas Co. and director in some 25 other corporations, according to his statement, and member of the finance committee of the New York Life Insurance Co.; Mr. Lewis Brown, president of the Johns-Manville Co., in New York City; Mr. Q. T. Stevenson, National Association of Real Estate Boards; Mr. William E. Best, president of the United States League of Building and Loan Associations; Mr. William H. Mason, vice president of the Masonite Corporation; Mr. W. N. Upson, of the Upson Co., Manufacturers of Wallboard, at Lockport, N. Y.; and Mr. Putnam, of the John Hancock Mutual Life Insurance Co.; and others who do not occur to me now.

With the exception of two on that list, I found that they are all in favor of the enactment of this bill. Mr. Ecker and the other insurance gentlemen are opposed to it, I think for obvious reasons.

Mr. CHAIRMAN. I have said one or two times I was here representing 3,000,000 women. Yesterday, before I left the office to come down here in response to your invitation, a letter was put on my desk in

the day's mail, from a subscriber to the Ladies Home Journal. She said—and it is so vividly burned in my mind that I am quoting it verbatim to you, I am sure:

We have worked for the past five years for our home. We have squeezed on clothes and everything possible, and by doing that we were able to pay off the second mortgage fully this year. But, now, they have told us, as the first mortgage is coming due also, that we may pay \$750 down now, reduce the principal that much, and add service fees and costs, which means that we must raise a total of more than \$1,000, and we can not do it. We are going to lose our home. What can we do about it?

In the same mail, Mr. Chairman—and I may say there were seven other letters in that one mail, and being minded of the rule about the record and so on, I brought just one. Having told you that, I would like to insert this letter in the record, if I might.

Mr. REILLY. Without objection it may go into the record.
(The letter referred to is as follows:)

SUBURBAN HOME BUILDERS Co.
New York City, March 15, 1932.

MR. CHESLA C. SHERLOCK,
Ladies Home Journal, Philadelphia, Pa.

DEAR SIR: A fortnight ago you made an interesting broadcast in which you urged building, in view of the recent enactment of Congress, which is calculated to help prospective home builders.

Just at this time we are experiencing considerable difficulty in securing first-mortgage loans for people owning lots in Westchester County.

If you have any information on the subject of obtaining loans, would you be kind enough to forward it to us? It would be greatly appreciated, and we thank you in anticipation of an early reply.

Very truly yours,

SUBURBAN HOME BUILDING Co.,
C. A. LEE.

That is from New York City.

The point is that Senator Couzens is in error when he says that this has been taken care of splendidly in the past 87 years. I am surprised that so many of our people have been able to pay for a home under all the hurdles that have been raised up.

Mr. Chairman, I do not know your profession, but if I might divet here a moment and point out to you that the reason why there are so many other things in the world that families can buy and buy easily is due to the fact that our legal base and thinking towards the partial-payment idea was changed away back there about 18 years ago, so far as any purchase under chattel mortgage is concerned.

Once upon a time the law profession, as I understand it, was absolutely united that the buyer should be protected whether he bought chattel or bought real estate, although he had more protection thrown around him if he bought real estate. Then the automobile came into the picture, and so many of us wanted automobiles that it was made easy for a buyer to buy and easy for the seller to protect himself in case the buyer defaulted.

The point I am getting at is this, that we must make it as easy for a person to buy a home, if we have to change the entire legal base, Mr. Chairman. And the people who are out here in this second third of our population, which represents the big American market, have got to have the opportunity to realize that ambition, which means more to this country and means more to industry and more to the

future all over this country than anything else, and the way to start is right here with this bill, and that is why I am here.

I do not want to put anything else in the record—that is, on the other side—but that one fact that Senator Couzens is in error when he made the statement that it has been abundantly taken care of in the past.

The fact that greater numbers of people own their homes to-day than they did in 1850 is irrelevant, because there are more families in the country to-day than there were then.

Mr. REILLY. The next name on our list is Mr. La Roque, and we will be glad to hear him.

STATEMENT OF O. K. LA ROQUE, DEPUTY INSURANCE COMMISSIONER, IN CHARGE OF BUILDING AND LOAN BUREAU, RALEIGH, N. C.

Mr. REILLY. Please state your full name, the position you occupy, and your address.

Mr. LA ROQUE. Mr. Chairman, my name is O. K. La Roque. I happen to be the deputy insurance commissioner for the State of North Carolina, in charge of the building and loan bureau of that department; address, Raleigh, N. C.

I appeared before the Senate committee and shall promise you to make my statement very brief. I will not touch on matters touched on there, if possible, and my testimony is printed in full, of course.

I would, if I could have permission, suggest the possible insertion of an article which appeared in the United States Daily of issue January 30 on the subject of Supervision of Building and Loan Associations in the State of North Carolina, which gives some explanation of their workings and their supervision that may be of some assistance to you gentlemen who may not be building and loan men. I think it might be of some interest to have this in the record. It is not a long article, but I do not want to insist upon that.

Mr. REILLY. I do not see what the supervision of the building and loan societies has to do with this hearing.

Mr. LA ROQUE. It is entirely for you to say.

Mr. REILLY. You might give us the substance of the article, giving us a statement of things within your own knowledge about the building and loan associations in your own State.

Mr. LA ROQUE. I was only suggesting the insertion of the article, and I would be glad to do as you say.

The building and loan association is a cooperative organization purley and simply. It is a non-profit organization. Something has been said about making profits for the private organizations. The building and loan associations' profits are divided equally among their shareholders, borrowers and nonborrowers alike. Something has been said about the stock of the building and loan associations, the stock certificates. In my hearing before the Senate committee, at the bottom of page 533, Exhibit 1, is a copy of the stock certificate in use, which shows its absolute mutuality. The organizations are absolutely in my State solvent and safe, but as thoroughly nonliquid as it is possible to get.

Mr. REILLY. Right there, do they function in the way of making loans at this time?

Mr. LA ROQUE. No, sir; they can not function and make loans at this time.

Mr. REILLY. Is there within your knowledge any demand for loans?

Mr. LA ROQUE. Yes, sir; there is considerable demand that cannot be supplied.

In addition to that, Mr. Chairman, may I not say that they are right hard put at this time, for the reason that their borrowers are unable to keep up the payments on the loans on the stock pledged to secure the loans that have previously been made. That automatically makes it hard to get the money to mature stocks, and when they mature, and, of course, the maturity of the stock is dependent upon the receipts, and if they mature this stock on time all of their receipts must be used for that purpose, thus retarding the growth of the associations and the service they are rendering in the community in which they are operating. It is to get the funds to provide this relief, in order that the associations may use their receipts for maturities and use this additional funds for making loans where necessary.

Mr. WILLIAMS. May I ask a question?

Mr. LA ROQUE. I am delighted to be interrupted at any moment by members of the committee, of course.

Mr. WILLIAMS. I have not been able to get much information on this, and I am satisfied you have it.

Mr. LA ROQUE. I will be glad to give it to you, if I have it.

Mr. WILLIAMS. Just in connection with what you are saying, how, if at all, will this institution help those who are already borrowers from you?

Mr. LA ROQUE. In this manner, may I suggest?

Mr. WILLIAMS. Yes.

Mr. LA ROQUE. An association in North Carolina loans money on real estate and requires additional collateral stock the par value of which is equal to the amount of the loan when it is matured. In other words, the payments are made on the stock and not on the loan.

Mr. WILLIAMS. Your loans are amortized?

Mr. LA ROQUE. Yes, sir.

Mr. WILLIAMS. Extending over a period of how long?

Mr. LA ROQUE. It is an indefinite maturity in reference to the maturity of the stock; it runs from 7 to 12 years.

Mr. WILLIAMS. It is based on monthly payments?

Mr. LA ROQUE. It is based on weekly or monthly payments.

Mr. WILLIAMS. Of so much?

Mr. LA ROQUE. Yes, sir.

Mr. WILLIAMS. That has been running, we will say, for some time?

Mr. LA ROQUE. Yes, sir.

Mr. WILLIAMS. How will the borrower, I will call him, get the benefit of this act?

Mr. LA ROQUE. I think I can show you in just a moment.

Mr. WILLIAMS. All right.

Mr. LA ROQUE. I will use \$4,000 as illustration of the loan. Say you borrowed from the association \$4,000, and have given a mortgage. You subscribed for and got 40 shares of stock. On that stock you pay \$40 a month and \$20 per month interest on the loan, and 6 per cent is the rate of interest in our State. That is a total of \$60 a month payments on the stock and interest as long as that loan runs. You receive back, of course, your pro rata share of the earnings, and therefore in that manner reduce your interest in the long run.

You have made payments on that stock to the extent, I will say, of \$2,000. You have now reached the point where you can not keep up those payments, and in order to protect the other shareholders in the associations who are not borrowers, the associations must necessarily secure some funds from some place or foreclose your mortgage.

If they can not get the money from some source to help them mature their stock, they can credit your loan with the \$2,000 paid in, withdraw the stock, make a new loan, and you are paying them \$30 per month instead of \$60 per month.

Mr. WILLIAMS. You mean refinance it?

Mr. LA ROQUE. Exactly.

Mr. WILLIAMS. With the loan you get from this home loan bank?

Mr. LA ROQUE. That is refinancing for smaller amounts, thus reducing your payments and taking the money from that source to take the place of that \$60 matured and maturing and nonborrower stock.

Mr. WILLIAMS. It is not clear to me. What difference would it make? In what way would that help them to refinance?

Mr. LA ROQUE. Well, it would mean this difference, Mr. Williams—

Mr. WILLIAMS. They have already the indebtedness there, have they not?

Mr. LA ROQUE. The borrower?

Mr. WILLIAMS. Yes.

Mr. LA ROQUE. As the indebtedness to the association?

Mr. WILLIAMS. Yes.

Mr. LA ROQUE. Yes, sir. He has a credit in the association on his stock of \$2,000 in that particular case that they can not deliver to him unless they can get some funds to retire this matured stock, this "free stock," we call it.

Mr. WILLIAMS. How will we finance him and put him in any better shape than he is now?

Mr. LA ROQUE. It will reduce his payment to \$30 instead of \$60 a month.

Mr. WILLIAMS. And extend it over a longer period of time?

Mr. LA ROQUE. It will extend it over a longer period of time; yes, sir. He will start over with a new loan of \$2,000 instead of the original loan of \$4,000.

Mr. REILLY. What becomes of the other \$2,000?

Mr. LA ROQUE. The other \$2,000 is credit, credited, and the stock withdrawn, and the credit applied on his loan. In order to do that, Mr. Chairman, the associations must have some funds to use to

mature free stock, the nonborrowing stock, when it reaches its maturity date.

Mr. WILLIAMS. The primary object is to get money to pay off the obligation that comes due?

Mr. LA ROQUE. That is correct, and at the same time relieve those borrowers who can not keep up their present payments. If those borrowers could keep up their present payments, Mr. Williams, in this particular case it would not be necessary to borrow money from any source to take its place, for the reason that his payments coming in automatically every month would automatically come in to help pay the man who has not borrowed. It is a rather complicated explanation, I will admit.

Mr. WILLIAM. I do not see yet how the borrower is benefited. Suppose he can not meet his obligation, as you say. What is done with him?

Mr. LA ROQUE. We are refinancing and cutting the loan in half, and reducing the payments so that they are instead of \$60 per month \$30 per month.

Mr. WILLIAMS. Under the present plan, without this aid, what do you do with him?

Mr. LA ROQUE. We have to foreclose on that property.

Mr. WILLIAMS. To what extent are you foreclosing?

Mr. LA ROQUE. Our real-estate holdings in North Carolina in building and loan associations has increased approximately \$1,000,000 last year. It was \$2,000,000 the year before, and it is \$3,000,000 now.

Mr. WILLIAMS. Your real estate?

Mr. LA ROQUE. Our real-estate holdings which the building and loan associations have.

Mr. WILLIAMS. As the result of foreclosures?

Mr. LA ROQUE. As the result of foreclosures; yes.

Mr. WILLIAMS. What per cent of the business does it represent?

Mr. LA ROQUE. Our total real-estate holdings represent about 4 per cent of the total resources of the associations.

Mr. WILLIAMS. Running about on a par with the Federal land banks?

Mr. LA ROQUE. I presume so. I understand it is about 4 per cent.

Mr. WILLIAMS. I am honestly and earnestly inquiring about the aid.

Mr. LA ROQUE. I appreciate you are.

Mr. REILLY. That is very important.

Mr. LA ROQUE. I fully appreciate your question and the interest you have in it.

May I ask that I make one explanation that does not go into the record, because it is a matter entirely within our State?

(Informal conversation thereupon took place which the reporter was directed not to record.)

Mr. LUCE. Following along in the line of the questions which have just been put by Mr. Williams and the chairman, you have spoken of the cutting off of your income by the present crisis. I have been told that about four out of five of the members of the building and loan associations are investors, and one out of five borrowers. Those proportions may not be exact, but, using them for the time being,

let me ask how far, by reason of withdrawals, has the investing wing of the business diminished?

Mr. LA ROQUE. I can give you one or two instances. I have in mind one association whose normal income is about \$38,000 per month. Their income has dropped to \$20,000 per month. Some of those payments come from borrowers who have been unable to keep up their payments. But I do not want to mislead you on that—a great number of the nonborrowing members have necessarily stopped because they did not have the money, and now the rainy day they have been saving for has come and they need the money. The bank closes; their money was in the bank, and the only thing they have left was this rock, this building and loan association. So they had to go there to ask for some money to pay their taxes, and buy food. That is not an unusual instance. There are numbers of those.

I have in mind one association that has borrowed from the Reconstruction Corporation \$400,000 in North Carolina. I do not think that the Reconstruction Corporation has a better-secured loan in their entire portfolio. That has saved that organization. But here is what the organization is up against now: They have got to pay that money back within three years. We speak of six months. That is true that they make loans for six months, but undoubtedly they may be renewed from time to time. But the reconstruction act fixes three years, of course, with the privilege to extend it to five years. Now, that association which borrowed that \$400,000 must repay it monthly as they make collections from their members on the collateral pledged, and that is a very proper provision, of course. The Reconstruction Corporation must have security for their advances. In order to do that in three years, to pay back \$400,000 plus the interest on it at 5½ per cent, it will require, I would say, from \$12,000 to \$14,000 a month. The total income of that association is between \$20,000 and \$25,000 a month, and you take \$12,000 to \$14,000 out and it leaves very little to take care of the withdrawals and maturities every six months and other necessary expenses and disbursements of the association.

You can readily see their business will begin to stagnate. If that same organization, however, had been able to go to the Federal home loan bank and borrow \$400,000, put up as collateral with that bank \$800,000 of unpaid balances on home mortgages, which it says were valued at \$1,200,000, your home loan bank would have as security for that \$400,000 a potential value of \$1,200,000, and an additional lien on all other assets of the concern, of course, as a creditor, and it would enable that association to go along, and its payments would be extended over a period of 8 or 10 years rather than 3 years, and that organization could continue to function because a small part of their income would necessarily be used to retire this indebtedness with the home loan bank.

That brings us to the question of security on the bonds of the home loan bank.

We have in North Carolina—I speak more of North Carolina because I am familiar with it. I have been over the Southeast pretty well, but North Carolina is home—this situation: I have worked out an instance in round figures—and you gentlemen are interested in facts and figures and not in sentiment. In North Carolina we have a

limit of 30 per cent that an association may borrow—30 per cent of its outstanding installment stock. They can not borrow any more than that, and then only for the purpose of making loans in the regular course of business to members, or paying matured stock. They can not borrow to meet withdrawals. They can only borrow to make loans and borrow to mature stocks; and they have used their receipts, of course, to meet withdrawals.

We will assume that association has \$100,000 worth of loans in its portfolio, mortgage loans, and outstanding stock \$100,000. That properly value would be \$135,000, based on 75 per cent. They could borrow under our law \$30,000—or 30 per cent of the outstanding stock. They would have to pledge with this bank \$60,000 collateral on those loans. That would repay a property value of \$80,000, which is three-fourths, of course.

The bonds would be issued to the extent of \$30,000 to protect that loan. Those bonds would be secured not only by that \$60,000 collateral, with a value of \$80,000, by all the assets of that association, because the only creditors the association has is its holders of its bills payable. They would actually, in addition to their \$80,000 value in property on the \$30,000 bond issue, \$100,000 assets of that association, along with the potential value of \$135,000 in the property. All of that fixes to some extent, I think, the value of the bonds.

Mr. WILLIAMS seemed surprised when the suggestion was made about one-half of 1 per cent covering expenses. I think I worked that out, Mr. WILLIAMS, to some extent. In North Carolina bills payable averaged for 10 years about 4 per cent of the total resources. Assuming that that would apply to the United States in general, it would mean \$320,000,000 of building loans the country would use. Assuming that other organizations—savings banks, trust companies and insurance companies—would use an equal amount, it would be about \$600,000,000. Divide that into 12 banks would give \$50,000,000 per bank, and \$5,000,000 minimum capital per bank. On the \$50,000,000 capital one-half of 1 per cent profit would be \$250,000. Then notice your capital of \$5,000,000 minimum at 3 per cent Government bond return will give you \$150,000 income from that source, making \$400,000 total income.

Then pay your dividends of 6 per cent to your stockholders. The member banks, building and loan associations on their investment of \$5,000,000 capital would give \$300,000 for dividends, which would leave \$100,000 for expenses of operations of each of those banks. I think that is very liberal. I had no idea it would cost anything like that to operate. Those are maximum figures, Mr. WILLIAMS, I think.

Mr. WILLIAMS. Do you mean that to be the operating expenses?

Mr. LA ROQUE. Yes.

Mr. WILLIAMS. Spread between the cost of the bonds and the cost of operating expenses?

Mr. LA ROQUE. I mean the spread between the interest payments on the bonds and the interest received from loans made by the banks. In other words, you are paying 5 per cent on your bonds and you are loaning to the associations at 5½ per cent.

Mr. WILLIAMS. In that connection, I would like to get these facts if I can: How much do you figure on being used alone for the operations of this bank, \$50,000,000 to each one of them?

Mr. LA ROQUE. A minimum of \$50,000,000 to each bank; yes, sir.

Mr. WILLIAMS. That would mean how much?

Mr. LA ROQUE. \$600,000,000.

Mr. WILLIAMS. \$600,000,000 throughout the United States?

Mr. LA ROQUE. As a minimum figure.

Mr. WILLIAMS. That would be, of course, to all the member institutions scattered out?

Mr. LA ROQUE. Yes, sir.

Mr. WILLIAMS. Could you give us your own judgment as to how many of those institutions would be in this set-up?

Mr. LA ROQUE. There is no way I could tell that.

Mr. WILLIAMS. Let us have your opinion about that.

Mr. LA ROQUE. Frankly, I suggest this: There are 230 building and loan associations in North Carolina, and I think I can safely say—I am in very close touch with them, though my own is a supervisory capacity—I could safely suggest that 150 of those associations would want to be in this bank system and would be delighted to become stockholders.

In addition to that, there are several banks and trust companies in North Carolina who will also be delighted to become stockholders—how many, of course, I do not know.

Mr. WILLIAMS. Would you think as many as half of the institutions of that kind throughout the country would come into this organization?

Mr. LA ROQUE. I would think so. But that statement, of course, is simply an opinion, Mr. Williams.

Mr. WILLIAMS. I understand that. But from your experience you would probably have a better idea about it than we would.

Mr. LA ROQUE. I would be delighted to recommend it to every single one of them.

Mr. WILLIAMS. How many building and loan associations are there in the United States?

Mr. LA ROQUE. I do not know. I think I have heard it said there were between 11,000 and 12,000. I am not certain as to that.

Mr. WILLIAMS. Do you know the number of other eligible members?

Mr. LA ROQUE. No, sir; I am sorry I could not tell you. The bank reports would give that information—savings banks and trust companies.

Mr. WILLIAMS. Do you know whether or not that is contained in any of these reports or hearings anywhere?

Mr. LA ROQUE. I do not know that it is.

Mr. WILLIAMS. Can you get that information for us?

Mr. LA ROQUE. I presume I could in the office of the Comptroller of the Currency. I assume they would have that information.

Mr. WILLIAMS. I, for one, would like to have some facts, and so far as I can find we have not yet had any.

Mr. LA ROQUE. I think Mr. Pole could give you that information. I would be very glad to ask him for it in your behalf.

Mr. WILLIAMS. What are the extent of the home loans throughout the country? I believe we asked that yesterday. Do you know that?

Mr. LA ROQUE. No, I really do not. I can only give you the amount in North Carolina and give you the percentage, and it might apply to other parts of the country.

Mr. WILLIAMS. Then I will ask you to state the entire amount of home loans in North Carolina.

Mr. LA ROQUE. In building and loan associations, \$76,000,000 out or \$85,000,000 total resources. Applying that to the building and loan, seventy-six-eighty-fifths is about 90 per cent of our resources which are invested in home mortgages, and if there were \$8,000,000,000 in building and loan in the country, 90 per cent would be about \$7,500,000,000. When we get into those big figures I do not know exactly what I am talking about anyway.

Mr. WILLIAMS. Do I understand you would say that the loans of the country would amount to \$8,000,000,000?

Mr. LA ROQUE. The building and loan resources of the United States are about \$8,000,000,000.

Mr. WILLIAMS. The question is the extent of home loans.

Mr. LA ROQUE. Yes, sir.

Mr. WILLIAMS. Not only in the building and loan associations, but the amount of home loans in the entire country, was the first question.

Mr. LA ROQUE. I could not tell you.

Mr. WILLIAMS. Have you that information as to North Carolina?

Mr. LA ROQUE. I have that only as to building and loan associations in North Carolina.

Mr. WILLIAMS. Do you know what percentage of the home loans of North Carolina is carried by your building and loan associations?

Mr. LA ROQUE. I have not got that percentage, Mr. Williams, but I will say that the great majority of the small home loans in North Carolina are in the building and loan associations and savings banks; the insurance companies have the larger ones, fortunately for us in these times.

Mr. WILLIAMS. You can not give us the percentage?

Mr. LA ROQUE. No, I could not. I am sorry.

Mr. WILLIAMS. And, of course, you can not do that as to the country?

Mr. LA ROQUE. No, sir; I am sorry I am not informed on that particular point.

Mr. REILLY. Why would not all of your building and loan associations go into this system?

Mr. LA ROQUE. I think they would, with the exception of a very few, very small ones. We have some few in our State of \$8,000, \$7,000, or \$12,000 resources. Of course, they are too small; they have just begun to operate, and it would not be of any particular interest to them to come in yet, until they grow some.

Mr. HANCOCK. Mr. La Roque, may I ask you this? Is your advocacy of this based upon its need at this time as an emergency measure or as a permanent plan, finally?

Mr. LA ROQUE. Upon both. It is especially urgent now and, for instance, Mr. Hancock, our building and loan associations for a number of years have been from 6, 8, 10, and 15 months behind in making loans. A man has to apply for a loan, and it takes him sometimes a year and a half before we can reach it and get the money to make that loan with—

Mr. HANCOCK. Let me ask you a question at this point: Before this financial crisis came on did our building and loan associations

have any trouble in borrowing up to 30 per cent, the limit they are able to borrow under the law, as a general rule?

Mr. LA ROQUE. As a general rule, no. But it was for a short time, of course.

Mr. HANCOCK. Just a minute or two ago you referred to the question of refinancing, that is, permitting a man to retire his stock and to make another application and apply for whatever balance he owed in the form of a new loan. That is not ordinarily a proper function of building and loan operations, is it?

Mr. LA ROQUE. No.

Mr. HANCOCK. That is extraordinary.

Mr. LA ROQUE. That is an extraordinary situation to meet an extraordinary condition.

Mr. HANCOCK. And, of course, it is the fact that as the average borrower's income has been gradually reduced it is necessary that some arrangement be made to enable him to reduce the monthly payments upon his obligations?

Mr. LA ROQUE. Exactly so.

Mr. HANCOCK. And if a measure of this kind went through and funds were available, it would have the practical effect of making him a 9-year loan instead of 6-year loan?

Mr. LA ROQUE. Exactly so. There are some exceptions where it would be 12 years instead of 6 on account of extending the loan.

Mr. WILLIAMS. Can you give us the extent to which they are in default now?

Mr. LA ROQUE. I can give you one instance, Mr. Williams, of one of the larger associations in the western part of the State. We found last June that 60 per cent of their total loans were past due from 60 days to 9 months.

Mr. WILLIAMS. Involving how much capital, would you say?

Mr. LA ROQUE. \$1,500,000 out of \$12,000,000.

Mr. WILLIAMS. In one institution?

Mr. LA ROQUE. In one institution.

Mr. WILLIAMS. Can you give us the figure over the State, if not all over the Nation?

Mr. LA ROQUE. I could not give it all over the State, I have not got that information. I did not get it altogether on that. We have in our annual report the amount of accrued interest and the amount credited to the borrowers, but I did not consolidate it for our annual statement.

Frankly, Mr. Williams, if I might generalize on that: In practically every single examiner's report we get now the long list of exceptions is delinquent loans. We list every loan delinquent 60 days or more and then with a star 6 months or more, and we do not apportion in our profits the interest due over six months, and it is an enormous amount, comparatively speaking.

Mr. WILLIAMS. Have they generally matured stock in your State for which funds are not available to pay off?

Mr. LA ROQUE. Yes; in the past they have been able to borrow that money from the banks to mature that stock, if necessary.

Mr. WILLIAMS. To what extent does that exist now?

Mr. LA ROQUE. Our bills payable are \$2,500,000 at this time against \$3,400,000 a year ago, and we need money more now than then.

Mr. WILLIAMS. You mean the building and loan associations would require that amount of money to put the balance—

Mr. LA ROQUE. To pay debts; this \$2,500,000. That, of course, is not an enormous figure in an association of \$85,000,000—\$2,500,000 is not big.

Mr. WILLIAMS. I understand that. I was wondering where we were going to get with this \$600,000,000 throughout the United States.

Mr. LA ROQUE. As a matter of fact, we have only got 3% now of bills payable. So with that we would not use the whole \$600,000,000, but under the bill we could run a billion, eight hundred thousand, that is, twelve times the \$150,000,000 capital.

Mr. WILLIAMS. But I understand you need how much in North Carolina?

Mr. LA ROQUE. \$2,500,000 will meet our bills payable.

Mr. WILLIAM. That is building and loan associations?

Mr. LA ROQUE. Yes, sir.

Mr. WILLIAMS. To say nothing about the other home loans?

Mr. LA ROQUE. Yes, sir.

Mr. HANCOCK. How far behind are the building and loan associations at this time in respect to new applications for loans?

Mr. LA ROQUE. Oh, they are two years behind, generally speaking. There are one or two instances, Charlotte, for example, that has no demand for loans practically. But that is the only place I know of where they are up.

Mr. HANCOCK. How much do those applications involve, would you estimate?

Mr. LA ROQUE. I would not know how to estimate that, Mr. Hancock. I think it would be a big amount.

I will tell you one reason, Mr. Williams, on that—one advantage of having money now. Something has been said about overbuilding and surplus property. Now is the time that a man wants some money to buy some surplus property at a discount, and if the building and loan associations had the money many a poor devil could be buying himself a home for \$1,000 or \$1,500 that would easily cost \$2,500 or \$3,000 or \$3,500, and if he could get the money he could buy surplus property and begin immediately to build up the values of that real estate in the community.

Mr. WILLIAMS. Then it is more for the purpose of taking vacant houses in than for the purpose of building new ones?

Mr. LA ROQUE. I think, as a matter of fact, it is very proper to take vacant houses in before building new property.

Mr. WILLIAMS. What is your opinion as to the necessity now for starting a building program in this country?

Mr. LA ROQUE. In some cases it is very necessary, that is, in some localities; that depends entirely on the community. I might cite in North Carolina that up to 1930 the building and loan associations in North Carolina financed an average of 6,000 homes per annum. In 1930 they financed 4,500, and in 1931 they financed 3,000—the figures show 3,444 homes financed in 1931, but, as a matter of fact, over 500 of those were refinances of my own knowledge so that I speak of 3,000.

Mr. WILLIAMS. Have you any figures showing the vacant dwelling houses in your State?

Mr. LA ROQUE. No; I have not. The vacant dwellings, except in some localities, is a negligible quantity. Asheville, for instance, has a good many vacancies. The building and loan association owns a good deal of property in Asheville. Fortunately for the building and loan associations in Asheville, during the boom period the big insurance companies came in there and took all the large loans, \$40,000, \$50,000, or \$60,000, and the building and loan association loans were confined to \$2,000, \$3,000, \$4,000, or \$5,000 homes. Now they have those \$2,000, \$3,000, \$4,000, and \$5,000 homes and are selling them every day, while the insurance companies are trying to keep somebody in their \$50,000 homes to take care of them. We were very fortunate.

Mr. WILLIAMS. I was just wondering about the purpose of this bill. I have been deluged by communications from material men. They seem to think if this bill establishes a home loan bank they will get a pretty big part of it.

Mr. LA ROQUE. Now, I should think, in the first place, they are probably under the wrong impression, to a certain extent. It is also true in some instances they are probably not, because in some places there is demand for new buildings—I do not know just where, but this country is a big place, and, of course, there are some places where there is demand for new construction, but not particularly in North Carolina, though in some parts of North Carolina we do need new construction, while in other parts we do not. But we need this money to help them take up the vacant property that is appreciating the value of that property, because the minute the house is being occupied the value goes up, and when you overbuild you depreciate the value of the security that you already hold. That was one reason I do not think the building and loan associations will attempt to overbuild.

Mr. WILLIAMS. Primarily it will assist the man who already has a loan and his obligations to the building and loan.

Mr. LA ROQUE. Yes, sir; that is, during the emergency. When this emergency is over—and I hope it will be some day—

Mr. WILLIAMS. We all hope so.

Mr. LA ROQUE. We are bound to reach that corner sometime, but when we do it is going to be necessary to have a building program, for the very reason that when a man loses his job he immediately goes and lives with his mother or father or mother-in-law or father-in-law and two or three families mix up in one little house, and as soon as they begin to get work and move out they are going to move back as they wanted to live in the beginning.

Mr. WILLIAMS. Necessarily they will have to get a job and have some kind of an income before they start to build a home?

Mr. LA ROQUE. Yes, sir; that is true. May I get back to one question of the strength of those bonds? The difference between this and the farm loan act and the others, and particularly the joint stock—I am not going to discuss that, because I am not altogether familiar with all its workings, and I know if the system is sound, assuming it is sound, a great many places it fell down on the job. In this case we have a greater security for bonds than the Federal land bank. The Federal land bank makes those loans for 33 years; our loans are made for 6, 8, 10, or 15 years and the payments are made weekly or monthly, that is, self-liquidating. Any

depreciation on the property is more than offset by the weekly or monthly payments. The land bank payments are usually made every six months, and the loans, in this instance, are made to sound and solvent financial institutions, with additional assets greatly in excess of the amount borrowed, whereas the national farm loan associations have only 5 per cent of the stock as additional margin, in addition to the value of the property.

May I suggest—I am not going to get into the legal field, Mr. Williams, particularly with you gentlemen who are lawyers, but you brought up the point of the right to pledge mortgages in your State. I heard the gentleman say there were States. I happened to have a conversation with a gentleman from your State, a Mr. Hall, on that subject, and he told me that his attorney general had rendered an opinion that while papers in your State of building and loans were nonnegotiable that they did have a right to pledge as collateral those papers. That is, of course, the legal opinion, and the difference between those two gentlemen that I will not bring out at this hearing.

Mr. WILLIAMS. Did he tell you what he thought of that opinion?

Mr. LA ROQUE. He did not think much of it.

Mr. WILLIAMS. Neither do I.

Mr. LA ROQUE. I want to suggest this: In North Carolina we have no specific right to pledge, but there is no prohibition against pledging, and the right to borrow carries with it the right to borrow on such terms and conditions as the board of directors may deem proper, and they have the rights of corporations generally—the general corporation law applies when not in conflict with the building and loan, and they have the right to pledge under that.

In your case, however, your banks and trust companies and insurance companies do have the right to pledge, I will assume.

Mr. WILLIAMS. I am not sure.

Mr. LA ROQUE. I just assume that, of course, because they are members of the Federal reserve system.

Mr. WILLIAMS. You mean to put up their securities to borrow money?

Mr. LA ROQUE. Yes.

Mr. WILLIAMS. There is no question about that.

Mr. LA ROQUE. This act applies to savings banks, trust companies, and insurance companies as well as buildings and loans, and my judgment is that our mutual friend, Mr. Hall, before long will be perfectly willing to arrange some provision in his law by which they would be collateral for this particular bank.

Mr. WILLIAMS. You understand the positions of the States where they passed that law and the principle back of that idea, of course?

Mr. LA ROQUE. Yes, sir.

Mr. WILLIAMS. They seem to think their principle is sound?

Mr. LA ROQUE. Yes, sir.

Mr. WILLIAMS. But that is a matter about which difference of opinion might exist.

Mr. LA ROQUE. That is a legislative matter, of course; that is entirely up to the general assembly to change or not change.

Mr. WILLIAMS. But do you think it is in a way holding a club over the legislatures in the various States?

Mr. LA ROQUE. Oh, no; I would not suggest that, of course.

Mr. WILLIAMS. That is a rather strong term, of course, but it is rather trying and is to a large extent dictating the policy of the State on that question.

Mr. LA ROQUE. That same situation was used and that same club was used and dictation was used in the establishment of the Federal reserve act, by which the States had to pass legislation enabling State banks to become members. It was a club, but not in the obnoxious sense of the use of the term "club."

Mr. WILLIAMS. It is, after all, the central government controlling the policy of the State government.

Mr. LA ROQUE. That is good democratic doctrine, sir. I am with you and the associations do not need to come in. Membership is purely optional.

Mr. WILLIAMS. That is good doctrine.

Mr. LA ROQUE. Good doctrine of State rights. But we have about forgotten about what State rights means anyway.

There are a good many things they could discuss, but you gentlemen are interested in and know those things.

Mr. REILLY. You heard the discussion this morning on the proposed amendment to this law. Have you anything to say on these amendments?

Mr. LA ROQUE. I can not agree there should be anything done to let down the bars to any and every institution that wants to come into it. My judgment is, Mr. Chairman on that, that this bill is intended to help and to serve the little men, the small home owner. He is the backbone of our Nation. When our country went to war with Germany we found over there those old Frenchmen fighting, and we did not find Frenchmen living in apartments and tenements. They were fighting for their homes; they were no fighting for tenements and apartment houses or boarding houses. We want to establish that same situation in our country, where all of our people have homes for their own, and they will fight for them against other Nations. Of course, we will fight for them anyway, for that matter. We will fight for somebody else's home now.

But we want to fix this so that the little man will be protected, in my judgment if you let down the bars to any and every institution that wants to come into this thing, you are going to fix it so that the big institutions are going to jump in and gobble everything up and the little fellow will get very little after all.

Your judgment is this with reference to the amendments to those sections: I suggested to Senator Morrison in the Senate hearing an amendment to one section there, which provides for the naming of the institutions which are eligible. That section provides that certain institutions are eligible for membership. It says on page 3, Mr. Williams, section 4—

Mr. WILLIAMS. I think I know what it is.

Mr. LA ROQUE (reading):

Such of the following as are duly organized under the laws of any State or of the United States, and are subject to inspection and regulation under the banking laws, or under similar laws, of the State or of the United States, shall be eligible to become a member of the Federal home loan bank.

I do not think any concern ought to be allowed in which is not subject to examination and supervision of the State authorities.

Here are the ones which are eligible:

Building and loan associations, cooperative banks, and homestead associations;

Any of the following whose time deposits and financial condition, in the judgment of the board, warrant their making such home mortgage loans as, in the judgment of the board, are long-term loans.

I think that is a good provision. I think, however, if there is any question raised—the only question raised in that connection, as I recollect it, in the Senate hearing, was about the discrimination under which the building and loans could come in without being subject to the judgment of the board. I think it is entirely proper to add that same provision as to building and loan associations and add to insurance companies.

Mr. REILLY. You propose an amendment to the bill providing that all members or organizations joining the system are to be subject to approval of the board of directors?

Mr. LA ROQUE. That is, such whose time deposits, as in the judgment of the board warrant their making such home mortgage loans. I do not think a commercial bank without time deposits ought to make mortgage loans. The bank failures we have had in North Carolina come very largely from the banks without sufficient time deposits who made too long real estate loans and could not keep them up.

Mr. REILLY. What are the banks going to do with their money?

Mr. WILLIAMS. Where is the home owner going to get the loan?

Mr. LA ROQUE. Mr. Williams, I said not every commercial bank. The home mortgage is not a commercial banking proposition. You gentlemen fully agree on that, I know. The commercial bank without time deposits and all demand deposits, certainly should not be allowed to make mortgage loans to any extent. The national-bank act provides that national banks can make only mortgage loans to a certain percentage of their time deposits or capital and surplus, which is a very wise provision, in order to keep them in such condition that they would have short-time paper that could be convertible into cash more quickly than a mortgage loan.

Those banks that have such time deposits as enable them to make these mortgage loans, then they would have this as a reservoir from which they could draw in time of need.

Mr. WILLIAMS. What do you mean by "time deposits?"

Mr. LA ROQUE. In savings banks they have a provision for 30 or 60 or 90 days for notice for withdrawal.

Mr. WILLIAMS. They have to be subject to withdrawal on notice?

Mr. LA ROQUE. Subject to withdrawal on notice.

Mr. WILLIAMS. That does not mean that is necessarily a permanent fund extending over a period of ten years?

Mr. LA ROQUE. No. But as a matter of fact, we know that savings banks—

Mr. WILLIAMS. And may be drawn out the same as demand deposits.

Mr. LA ROQUE. That is true, after a time. The National Government recognizes that and permits the banks to make real-estate loans under certain conditions up to a certain percentage of those time deposits. I was formerly a national-bank examiner and am somewhat familiar with that end of it.

Mr. WILLIAMS. I had more in mind the State banks.

Mr. LA ROQUE. Of course, what is good for the national banks would be good for the State banks.

Mr. WILLIAMS. I mean by that, the ordinary, every-day commercial bank in the State that transacts the business, and especially the country banks in the small towns must have and does have home loans and farm loans.

Mr. LA ROQUE. Yes, sir; time and again; and they also have, Mr. Williams, those savings deposits. The small town bank builds up a nice little savings account.

Mr. WILLIAMS. But they are comparatively small, in most cases, at that.

Mr. LA ROQUE. The percentage is fully as good as in the larger cities—the percentage of time deposits to demand deposits.

Mr. WILLIAMS. I am not entirely satisfied that that part of it makes a great deal of difference.

Mr. LA ROQUE. I do not think so. My suggestion in that connection is instead of taking out that provision which gives to the board the right to decide whether they should come in or not, whether their condition is such that they should be allowed to come in, instead of taking that out, just let it apply to everybody, building and loan as well.

The amendment I suggested is as follows:

In section 4, page 4, strike out lines 4 through 11 and insert in lieu thereof:

“(1) Building and loan associations, savings and loan associations, cooperative banks and homestead associations, which in the judgment of the board make long-term home mortgage loans and whose financial condition is satisfactory to such board.

“(2) Any of the following whose time deposits and financial condition, in the judgment of the board, warrant their making such home mortgage loans as, in the judgment of the board, are long-term loans—savings banks, trust companies and other banks;

“(3) Insurance companies, which in the judgment of the board, make long-term home mortgage loans and whose financial condition is satisfactory to such board.”

Mr. HANCOCK. Mr. La Roque, what do you think of the suggestion that has been made to amend the act so as to enable mortgage brokers to become members?

Mr. LA ROQUE. I do not think much of that. Now, I do not want to be understood there as casting any reflection on mortgage brokers. I do not mean it in that sense. A mortgage broker is in business, and a legitimate business for personal gain, and a very open business, of course. Then his business as a rule is that of making loans and very often building homes himself. They buy vacant lots and build houses on them and sell those houses at a good profit. If they do not, they are foolish, of course, and then, in addition to that, they make those loans and they sell those lands to insurance companies and other concerns. If they cannot sell them for the full amount, they sell them for what they can get, and take a second mortgage for the balance. The second mortgage, Mr. Williams, has been one of the worst things that ever happened to this country, wherever it has been used, because we all know that the second mortgage borrower has to pay an enormous rate of interest through commissions and discounts.

Mortgage brokers, as a rule—I am speaking generally—their capital invested of their own is very small in comparison with the amount of business that they do. And, for that reason, I do not think that they should be classed with the banks, savings banks, trust companies, and building and loan associations. If they want to dispose of their mortgages, and they are good mortgages, they can sell them to the banks and to the other concerns that have a right to membership under this bill, who are in the legitimate business of financing home owners on a reasonable basis.

Mr. WILLIAMS. Is not the main trouble we are in now the fact that these commitments were made on a very much inflated market?

Mr. LA ROQUE. What commitments?

Mr. WILLIAMS. These obligations to pay were made at a time when earnings were much higher than they are now, and it has found us where we are.

Mr. LA ROQUE. There is no doubt about that.

Mr. WILLIAMS. Whether it was inflated then or is deflated now, that is the trouble.

Mr. LA ROQUE. Senator Vandenberg used a new word in the Senate the other day. He said "reflation." Status quo, so to speak. Status quo has another meaning as well.

Mr. WILLIAMS. In our country it does.

Mr. LA ROQUE. In mine, too.

The CHAIRMAN. Have you anything further to offer?

Mr. WILLIAMS. I want to ask just one question in seriousness here. This bill provides for a member institution, in order for a member institution to come in, a flat fee of \$2,500.

Mr. LA ROQUE. That is not a fee. It is a subscription to stock.

Mr. WILLIAMS. Well, all right, that is what they have to pay to get in.

Mr. LA ROQUE. Yes, sir.

Mr. WILLIAMS. What do you think about graduating that?

Mr. LA ROQUE. I do not think that would be necessary for this reason, Mr. Williams: In the first place, a bank can only borrow, I mean a building and loan or a savings bank can only borrow from the regional bank at twelve times the amount of their subscription, and the more stock he subscribes, the more he is going to be able to borrow from that bank, and it is to his advantage to have his subscription to stock as high as he can get it, so that he can get additional funds. Do you not think so?

Mr. WILLIAMS. On the other hand, is not \$2,500 a rather large fee, initiation fee, to get into this institution, rather large for a little fellow, and it is intended to help him primarily, as you say. Do you not think that is just a little high on him?

Mr. LA ROQUE. I do not think so. In the first place, let us get away from that initiation-fee idea. It is an investment in stock.

Mr. WILLIAMS. It does not make any difference what you call it. He has to pay that much to get in.

Mr. LA ROQUE. Yes, sir.

Mr. WILLIAMS. That is it.

Mr. LA ROQUE. But he should get interest on it just the same as making a mortgage for a \$2,500 loan at 6 per cent, and it is assumed that this will pay him 6 per cent interest on his investment, just the same as interest on a mortgage for an equal amount.

Mr. WILLIAMS. But it withdraws that much money from his institution.

Mr. LA ROQUE. It withdraws it from direct loans to individuals, and puts it in an organization so that he can loan \$30,000 to those people.

Mr. WILLIAMS. But it takes that much to start on.

Mr. LA ROQUE. Yes; but that \$2,500 investment, rather than intiation, in addition to getting 6 per cent interest on that, he will borrow \$30,000 with that as a basis, and I think, as a matter of fact, he had better make it \$2,500 so as to help increase his borrowing capacity. The average association which does not need as much as \$30,000 would not need this bank anyway.

Mr. WILLIAMS. What is your idea as to the necessity of appropriating the entire \$150,000,000?

Mr. LA ROQUE. I think the greater the amount of capital, the greater good will be accomplished. Now, I frankly do not believe the Government will ever have to put up half of that. I have in mind the calculations that are made to-day on North Carolina. North Carolina building and loan associations themselves will subscribe for \$1,000,000 of that fund. The savings banks and other concerns in that State will subscribe for almost, I would not say quite that much; probably a half million. But, applying that generally throughout the country, building and loan associations throughout this country would subscribe to \$100,000,000 of that amount, not within the first 30 days but I would say within six months at the outside. I do not really believe at the present time that the Government will ever have to put up over one-half of it. It is a good thing, and the associations are going in it, and if it is not a good thing it ought never to be started anyway.

I am assuming those members of the building and loan associations would have good common sense and my judgment is not any better than theirs, and that they would be delighted to come into a thing of this kind to provide the funds for their cities and their communities, and God knows they need it. I speak reverently when I use that expression, of course.

The CHAIRMAN. Thank you, Mr. La Roque.

Mr. LA ROQUE. I thank you gentlemen for the opportunity.

STATEMENT OF WILLIAM C. ERMON, PRESIDENT EQUITABLE HOMESTEAD ASSOCIATION, NEW ORLEANS, LA.

Mr. ERMON. My name is William C. Ermon, of New Orleans, La. I am president of the Equitable Homestead Association of New Orleans, having served as president for 23 consecutive years. I am also president of the New Orleans Homestead Clearing House Association, an organization of homesteads in New Orleans which exchanges credit information and other data for the benefit of all of the homesteads in New Orleans, and I am here after a meeting of three hundred homestead men in New Orleans who indorse this bill in toto.

I also represent at this hearing the Louisiana Homestead and Building and Loan League of the State of Louisiana.

At page 504 of the proceedings before the Senate Committee is an exhibit presented by Mr. Clark in which the information is given

regarding various States, and the replies indicate whether the different States and cities are overbuilt.

In the exhibit, shown as New Orleans, is the name of Mr. J. P. Hogan, and Wilfred G. Gehr. I have been in New Orleans 52 years, and I never heard of either of those gentlemen. Two of the Congressmen from New Orleans—neither of them know them. One United States Senator does not know them. The managing editor of the Times-Picayune, our newspaper, was not acquainted with them. I am at a loss to know how men unknown in the home building and financing industry could have gotten information that New Orleans is overbuilt.

There is one other corporation used in the exhibit, the Canal Bank & Trust Co. The Canal Bank & Trust Co. has not, to my knowledge; taken a loan on a home in its whole existence. At least, their vice president recently told me they never had, and, as far as official records go, I never have noticed any.

I claim New Orleans is not overbuilt, and I am fairly active in the affairs of New Orleans. Perhaps, if you make a measurement building for building, we have too many buildings, but a great many of them are not modern, and a great many need modernization, and, Mr. Williams, if you have gotten many letters from the building supply men in New Orleans, you have gotten them because those gentlemen, I have information, are endeavoring to arrange for the modernization of those buildings, and we had encouraged that all we know how, primarily in an effort to assist the unemployment situation.

I visited recently the office of the welfare committee and there it was found that of the men that the welfare is aiding, that a majority consists of carpenters, tinsmiths, paperhangers, and plasterers, and men employed in the building trades of our city, and for that reason we made a special appeal to the building supply men to take as part payment on any orders for building supplies, and in some cases as full payment on orders for building supplies, all homestead stock, which represents stock—in most cases it is on the withdrawal list, and which the holders of the stock who desire to make improvements to their buildings can not get the money for. I make that explanation in justice to the building supply men. If they have asked you to support this bill, they have done it at our urging, and after our efforts to get them to start the wheels of commerce going again.

In our town and in our State the question of a State loan bank, which is similar to the legislation you are now considering, has been the live issue for several years. We have watched closely the operation of the New York State land bank, and our legislature in 1930 gave us affirmative authority to subscribe for stock in either a Federal or a State loan bank similar to what we are now urging. A Federal home loan bank is needed to prevent a recurrence of our present situation where the building and loans find themselves in a position of being called upon to pay interest to the commercial banks as high as 8 per cent per annum, and this only after a 10 per cent deposit is maintained, making the interest charge $8\frac{8}{10}\%$ per cent. Much can be said on that feature, which approaches dangerously close to a violation of the usury law.

Now in our State, we are operating under the Napoleonic code, and a notary public is quite an important individual under that code;

in fact, next to the mayor of the town. They are limited in number and heavily bonded, and are, in a large measure, what you would call trust officers, I imagine, in a common-law State. They make investments, examine titles, and act as general trust officers, and many of those men handle millions of dollars. In the past one of our notaries has handled considerably more mortgages than any building and loan association has. Now, the time has been reached when his clients, because of the failure of business and because of the failure of the sugar crop, and I suppose you are familiar with that, these men, clients of this notary, want their money, and the notary publics and others similarly situated are making demand on the people who have had straight mortgages. Daily, and I mean that literally, daily I have from 3 to 10 people who approach me in my capacity as president of the New Orleans Homestead Clearing House Association and ask me to get loans for them, and of the 55 associations in our town I am unable at this time to find one that can accommodate these people.

Mr. Williams asked a question as to how the borrower is benefited by this thing, and I think Mr. LaRoque answered that fairly well, but let me tell you of a condition that has come under my personal observation before I left home, when I was at the home of a friend whose home is worth \$15,000 in normal times, and who at one time had a \$6,000 mortgage, which has been paid down to \$4,500. Now he says, "I see you are advocating to help the unemployment situation by urging us to modernize." He said, "I need \$1,500 worth of repairs to this home." It is a beautiful home, in the so-called garden district. He said, "I need modernization, but where am I going to get the \$1,500? Why do you not provide the means of getting that for me? If I go to a loan company such as the Morris plan, you make me pay it back in 10 months to a year. I can not stand that." A few homesteads will open up, and that is synonymous to a building and loan. "If you make me a loan of \$1,500 and bring back my loan to \$6,000 where it was originally, I can very easily spend \$1,500 and start \$1,500 in the channels of trade."

We were unable to accommodate that man. It was simply out of the question, and there are literally thousands of people like that in our town.

Now, in the district where I was born and raised, the old part of New Orleans, there are literally thousands of houses that have no baths, and no plumbing connections whatever. If we could accommodate those people with a few hundred dollars in each case, we would start the wheels of commerce going, and they would be made happy, and we would begin to start a pay roll going around our town.

I heard some reference here to the Reconstruction Finance Board. I came up here especially to appear at the Reconstruction Finance Board and to protest against the personnel of the local advisory committee.

Where do the homestead men come in? I have not yet been able to get a blank to apply for a loan. Only after I reached Washington did I learn of a loan made to a homestead in North Carolina. Up to this moment we have not been able to get substantial consideration at the Reconstruction Finance Board.

I am going back to-morrow to do some more fighting. Perhaps we will get somewhere. Up to now we have not gotten anywhere.

Mr. HANCOCK. How long has an application been filed with them?

Mr. ERMON. We have had no blanks up to this good minute.

Mr. HANCOCK. Have you tried to get application blanks?

Mr. ERMON. Yes, sir. They are not printed yet. They have not left Washington yet. They had not left at midnight last night. That is a banker's party.

Mr. HANCOCK. You say it is what? I do not quite understand you.

Mr. ERMON. It is a banker's party. It is all for the bankers. Excuse my slang, but that is what I mean. It is controlled by the bankers in our town, and I would like to be particular to say this, that not every man on the advisory committee is unfriendly to homesteads, but the head of the thing is not only unfriendly but unfair to the homesteads. He was not even fair in an explanation of the meaning of the Reconstruction Finance bill when he made an address in New Orleans recently. I protested against his being on the board at all.

Mr. WILLIAMS. Just a question for information concerning that. Are they getting out a special form for the homesteads or building and loan associations to make the applications on? Is that what you mean?

Mr. ERMON. Yes, sir. We were not in it at all. We sent a wire of protest immediately to President Hoover, then.

Mr. WILLIAMS. They are specifically mentioned in the act.

Mr. ERMON. They are positively, but we might just as well not be in the act. There is no building and loan man on the boards anywhere in the country. The five men in my county are tarred with the same brush, and the head of the thing is unfriendly. I am a responsible citizen of New Orleans, and I am not telling it secretly. There are four generations of my family there.

Mr. HANCOCK. Was your name suggested for the committee?

Mr. ERMON. It may have been.

The CHAIRMAN. What is that organization you are talking about there, the Electric Bond & Share?

Mr. ERMON. That is the parent company that controls all the street railroads in a great many cities in the South. They control our street railway, electric company, and gas company, and the man who is the head of our committee is chairman of the city board of liquidation. He is the chairman of the Electric Bond & Share public service corporation. He is chairman of the bankers' clearing house and is chairman of Uncle Sam's committee. He has his foot on our necks in every organization there, and I am jealous. I want to distinguish between jealousy and enviousness. I propose to have a part in the management of things in my town.

Mr. WILLIAMS. Do you have any fear that if we set up this organization it might get in control of that kind of men?

Mr. ERMON. I guarantee you that it will not.

Mr. HANCOCK. We were assured that this new organization—the Reconstruction Finance Corporation—would take care of the little fellows in distress as well as the railroads and big banks, though we knew they would come in as secondary beneficiaries.

Mr. ERMON. I wish I had been sworn as a witness, so that it would carry more force, if that would be possible.

Mr. WILLIAMS. I am not doubting what you say, not a bit, because I have heard it from other sources.

Mr. ERMON. We were not asked to publish it in the newspapers, because publicity would not do either of us any good, but that is not my way of doing business. I slammed it all right in the newspaper, his letter and my reply—excuse me for digressing that far.

To us a mortgage broker is no different than a merchandise broker. They do very little business down there. They make some few residential mortgages, but they limit them to a certain section of the city. They limit them as to the character of construction. They limit them as to their age, and, as one man facetiously remarked very recently, you can not get any money from the large life insurance companies unless it is on the shady side of the street between the hours of two and four.

I have seen some correspondence since coming here which shows how utterly impossible it is to get a loan from a life insurance company, and, with your permission, I will file this in the record. The man involved in here has very recently been elected a State senator.

The CHAIRMAN. What is there in that that is of value to the committee?

Mr. ERMON. Just simply that they turned down the loan.

The CHAIRMAN. Your statement goes just as far as that.

Mr. ERMON. A \$4,200 loan was applied for on a house worth \$11,000, as I recall it. There was a homestead loan originally of \$9,300, paid down to \$4,200, and the life insurance company turned it down.

The CHAIRMAN. Well, why did they turn it down? Is there any evidence?

Mr. ERMON. It just says:

We regret very much to advise you on account of the age of the security offered for the loan, that it is rejected by the Metropolitan Life Insurance Company, to whom we submitted it. We thank you for referring this business to us.

The CHAIRMAN. Then the life insurance company limits their loans as to size, age of buildings, and its location in the city.

Mr. ERMON. That is correct. They will make no loans whatever below Canal Street in the old quarter, absolutely none, and the place where they will loan is an entirely new section in the upper part of the city.

Mr. WILLIAMS. You are representing what you call the homestead association?

Mr. ERMON. Yes. There are 55 of them in New Orleans.

Mr. WILLIAMS. Can you speak for the whole State?

Mr. ERMON. Yes, sir; I am authorized to speak for the whole State.

Mr. WILLIAMS. How many have you in the State?

Mr. ERMON. I think maybe I can tell you. We probably have a hundred and fifty. I would not be certain about that. I can give you the figures, I think you are driving at, \$115,000,000 in the city and \$170,000,000 in the State, are their resources.

Mr. WILLIAMS. What per cent of the whole loans of the State does that represent?

Mr. ERMON. That is very difficult to answer. I have never seen any calculations on that basis, and I understand the Federal Government has issued none since 1920. I will make this statement, Mr. Williams, that 90 per cent, certainly 80 per cent, of the homes in New Orleans were at one time or another in the homesteads.

Mr. WILLIAMS. What other institutions are engaged in the home loan business?

Mr. ERMON. So far as New Orleans is concerned, it amounts to nothing. It is negligible. The life insurance companies have a great many commercial loans, however.

Mr. WILLIAMS. I am speaking purely of home loans.

Mr. ERMON. They have next to none. I should say certainly not as much as 2 per cent. Now, in the State, it is a different situation.

Mr. WILLIAMS. What about your local banks?

Mr. ERMON. The local banks have next to none, so far as I know.

Mr. WILLIAMS. Then your homestead associations practically control the home loans.

Mr. ERMON. Oh, unquestionably, certainly 98 per cent.

Mr. WILLIAMS. Of your State.

Mr. ERMON. Of the city. Now, of the State, there is insurance competition in Shreveport, active insurance competition, and I should say in our State, I guess the homesteads control 90 per cent.

Mr. WILLIAMS. What per cent of your loans are in arrears now?

Mr. ERMON. I can give you the exact figures. That was given in my previous testimony.

Mr. WILLIAMS. If it is already in, do not bother.

Mr. ERMON. It is in the record. We have about 66 $\frac{2}{3}$ per cent up to date, about 15 per cent or 16 per cent that are three months behind, but uniformly behind, and 15 per cent to 16 per cent we have taken over and are carrying in the property account. My concern is a \$2,000,000 concern, and I believe is representative of the situation in New Orleans.

Mr. WILLIAMS. Do I understand from that that about 35 per cent of them are in arrears?

Mr. ERMON. Yes, sir.

Mr. WILLIAMS. And about 15 per cent of them have been taken over?

Mr. ERMON. We have taken them either by foreclosure or otherwise, and they are carried in our property account.

Mr. WILLIAMS. And that represents the loan, in dollars, of how much?

Mr. ERMON. In our case it would run around a little over \$300,000 and probably behind is a little over \$300,000, and the amount of good loans is \$1,300,000. Our homestead did not have a foreclosure for fourteen and a half years, and never had a bad debt for fourteen and a half years, until this depression hit us.

Mr. HANCOCK. How long do you permit a loan to be delinquent?

Mr. ERMON. Under our contract, the borrower has six months. Other homesteads have three months. I want to come to a particular question of yours of yesterday.

Mr. HANCOCK. Yes.

Mr. ERMON. Under our contract with the borrower, our stock is considered as cash, and we accept it at one hundred cents on the dol-

lar as cash in the settlement of our loans. I believe for that reason our company is probably a little bit better.

Mr. HANCOCK. Is that paid-up stock?

Mr. ERMON. Whether it is paid up or not, we can make it paid up. We can momentarily borrow the money from another source and mature it and get it back in a short time, get it back the same day. Ours operates quite differently from yours in North Carolina. It is dollars and cents which are turned over to us, and which we apply on the pledged stock, and ultimately liquidate the loan in that way.

Is that clear?

The CHAIRMAN. Do you not have in New Orleans quite a few partnerships and persons who make, so to speak, mortgage loans?

Mr. ERMON. The notary publics I spoke of, Mr. Chairman, have handled that business in the past. When I was a boy, the notary publics controlled about 90 per cent of that business, but the homesteads have gradually taken away that business from the notary publics, and these notary publics have become associated with the homesteads. We are a real homestead city.

As I stated in my previous testimony, there are not two dozen prominent men or institutions in our town not connected with the homestead movement in one way or another.

The CHAIRMAN. In my State we have a great many commission and real estate men who make loans and have loaned millions of dollars.

Mr. ERMON. Not outside of 2 per cent, in our judgment, on homes. They have been active in commercial property, where we do not enter. My association has one commercial property. We are limited, as we interpret the law, to making loans on dwellings. Other homesteads have interpreted the law to permit them to loan on business places, and have so done, much to their sorrow. We have mostly small houses. A 3-family house—I know of only one in New Orleans. The duplex is a new thing with us. It has not yet gotten popular. Our climatic conditions are quite different.

Mr. WILLIAMS. How does your definition of dwelling compare with what is in this act?

Mr. ERMON. I know personally of only one 3-family home, and there are a relatively small number of duplexes or so-called 2-family homes. It does not mean anything to us. Its relative volume is nothing. The majority of the homes in the poorer section are double houses. A thrifty man usually goes in and buys a double house and lives on one side and rents the other side, and when he has paid for it ultimately, he gets a single house.

The CHAIRMAN. Is that all you have to offer?

Mr. ERMON. No, sir; I would like to make some other observations, if you please.

The CHAIRMAN. Proceed.

Mr. ERMON. I am a traffic man by profession, a traffic specialist, a rate expert, as you probably understand it. I know something of the Interstate Commerce Commission and the Shipping Board, and so forth, and I just want to call your attention to the fact as to how generous the Government has been with the rail carriers in maintaining the Interstate Commerce Commission, much to the help of the railroads, maintaining proper rates, and so forth, en-

abling the rail carriers to pay interest on their bonds, and dividends on their stocks, and how the Government has put up money by advancing millions of dollars for the Shipping Board.

Now, the Government is lighting the airways in order to facilitate commerce, and all we are asking here is for the Government to loan us for a short time \$150,000,000, in order that the biggest industry of all, representing \$100,000,000,000, as I see it, shall start something which is going to be a help to the average poor man. There are 120,000,000 people in the country, and if there are four to the family that means 30,000,000 homes, and if you say \$3,500 is a fair average price for a home, you have \$100,000,000,000, against which we are asking you to loan us for a short time.

In my State I am satisfied that the Government will have to put up little money, because practically every homestead will avail themselves of this home-loan bank.

I would like to make this observation, that I am no more in favor of Government ownership than anyone here. I am glad to call your attention to the fact that the inland waterways, the act creating that, provides that when it has been demonstrated that transportation on the inland waterways can be feasibly and economically done, that the Government shall retire from that.

We are asking for exactly the same thing here. Incidentally, it might be well to remark here how much the Government has spent to maintain these waterways, how much they have spent on the St. Lawrence project, investigating, and how much they will spend on the Florida canal. There never was anything more worthy than that canal.

We are asking that the same practice be followed here, and it will get the Government out of it as quickly as possible.

Mr. Williams asked whether we ought not to pay the Government for the money that is in there, and of course, the off-hand answer is Yes, but you are going to embarrass us at the outset if you charge us. In order to make certain that the Government gets out of it, why not give it to us for a limited number of years?

The CHAIRMAN. How many?

Mr. ERMON. Well, I do not know. I will develop that in a moment.

The CHAIRMAN. How long, under this bill, would you like to have the money without cost?

Mr. ERMON. Forty-two months.

The CHAIRMAN. Is it not a fact that under this bill the Government might be in there 20 years?

Mr. ERMON. No, sir; I can not say that at all. You are complaining of the operations of law, not the law itself. Let us get at this thing properly. If you put up the \$150,000,000, remember that is a maximum.

The CHAIRMAN. Yes, it ought to be.

Mr. ERMON. Well, too, it is so provided in the bill. By no trick of the imagination can I see that much going up.

Mr. WILLIAM. We had a maximum in the Federal land banks also, but they increased it, \$125,000,000, here in this Congress.

Mr. ERMON. I have only one answer for that, and that is that it is a vast operation. We can not be blamed for that. You might just as well stop all legislation if you say one bill was not properly op-

erated. If my section is representative of the situation, I am certain that you will never get as much as half of that much money up. If you have any doubt about it, why not scale it down, and say if you do not pay it back within a certain time, whatever time is reasonable, that you will pay a certain interest.

May I respectfully suggested, however, that after 42 months it should be graduated. It should begin at 2 per cent, which is what you are paying on the baby bonds, and after one year it could be 3 per cent, 4 per cent, 5 per cent, or 6 per cent, until it gets to a point where it is to the interest of the building and loan associations to pay back this money.

I am anxious to get the Government out of business and not in business.

The money that we will get from this home loan bank, when we get it, will be used to pay bills payable, to the commercial banks. We are reducing them every day. Nevertheless, they will have some of those loans on their hands quite a little while. My concern only owes the bank \$6,000. But we owe \$150,000 to a large insurance company of New Orleans, the Pan American Life Insurance Co. who are really homestead people.

I can not think of anything else that would be helpful.

Mr. HANCOCK. Have you yourself made any effort to borrow any money from the R. F. C.?

Mr. ERMON. Yes, sir; I am up here fighting for it now. We have made an effort in the past to borrow money in Chicago, and I went to Chicago as a representative of the New Orleans homestead interests, and canvassed the situation, and while I can not prove what I am going to say to you, I have a strong suspicion that the banks at New Orleans has discounted us before we got there, and we came back without the money.

Mr. WILLIAMS. Are the banks of your city against this bill?

Mr. ERMON. There is no record on it. I imagine they would like to keep the homesteads in debt to them.

Mr. WILLIAMS. I am asking for my information.

Mr. ERMON. I should say every institution has indorsed this bill, the board of trade, the association of commerce, and other kindred organizations, but the bankers have not indorsed it, but, to be fair to them, I should say that they have not opposed it. I know the two Congressmen from New Orleans are whole-heartedly for it, and I know one of the Senators is for it, anyway.

The CHAIRMAN. Who else wants to appear here?

Mr. LA ROQUE. May I ask the committee to offer that amendment in writing, to be inserted in my testimony?

The CHAIRMAN. Yes; you may file the amendment.

Who else of the building and loan people wants to appear?

Mr. FRIEDLANDER. Mr. Williams yesterday asked me to try to ascertain some figures as to outstanding mortgages or loans in the United States.

Mr. WILLIAMS. I made that inquiry, yes.

Mr. FRIEDLANDER. The best information I can get, Mr. Williams, is the census report of 1920, and that is, of course, pretty old. The census figures of 1930 are not yet available. I can give you their figures. In 1920, and, by analogy, you might be able to apply them—in 1920 the number of homes, not on farms, in the United States, was

17,604,072. The number rented, not occupied by owners, was 10,188,111, and those occupied by owners was 7,041,283, or 40.9 per cent. The value of the homes occupied by owners was \$14,099,000,000 and the mortgage carried against those homes amounted to \$6,000,000,000.

Now, at that particular time the building and loan association volume of mortgage loans against the homes in the United States amounted to approximately two and one-half billion dollars. At this time the amount of building and loan mortgages amount to approximately \$8,000,000,000. I have no idea that the general number of homes has increased in the same proportion, or that the mortgages have increased. If they have, there would be about eighteen to twenty billions of dollars of mortgages against the homes of America at this time. I believe I used that figure yesterday, somewhere approximately \$20,000,000,000, but that is the nearest figure I can get.

Mr. WILLIAMS. Thank you for that. The fact is that it has very materially increased since 1920.

Mr. FRIEDLANDER. I think so. I think the proportions have increased. In fact, the census figures from 1900 to 1920 showed a corresponding percentage of mortgages on homes which was out-running the increase in the percentage of actual homes. In other words, the mortgages were getting bigger.

I believe that there were more homes built and sold on a basis of a smaller margin of actual equity than there were prior to that time, so I believe that would bring about that general situation.

Of course, you understand that that \$6,000,000,000 outstanding in 1920 had no reference whatever to any mortgage on any dwellings, but that were not occupied by the owner. In other words, any rental property is not included in that figure. That is as close as I could get it.

The CHAIRMAN. Thank you, Mr. Friedlander.

STATEMENT OF EUGENE W. LEWIS, DETROIT, MICH.

Mr. LEWIS. I do not know as I can contribute anything to the sum total of human knowledge on the subject.

The CHAIRMAN. Who do you represent, and what is your business?

Mr. LEWIS. I am in the manufacturing as well as in the banking business, and the suggestion that I come here has come to me from several quarters, the National Real Estate Association, as well as some of our banking people over there in Detroit, and probably originates in the fact that in 1925 I set up a financing plan for revolving funds for house building. I was one of the eight delegates appointed from the United States by Secretary Kellogg to appear at the International Congress on Public Works and Building Industry in Paris. At that time we took up this sketch which we find somewhat in accord, quite in accord, with what is proposed today, and that probably accounts for my presence here.

My contribution to your subject can, perforce, only be along certain general lines, as I am not actively engaged in this business at this time, and, with your permission, I will just touch some of the places which I have marked here, while listening this morning. That constituted my reasoning at the time we made this proposition, and which I believe are pertinent to-day in this matter.

The reasons for such an enactment as you gentlemen are discussing here, are, first, to make working capital at a fair rate of interest available to the builder—available at the time he most needs it. That is something that is most important, as I found in my own experience.

Second, to furnish a plan whereby it may become possible for the prospective home owner to have the use of accumulated savings of his own and of others over a fairly long period of time, and against which he may credit his future earnings.

Third, to supply a safeguarded form of investment security that will be sound, elastic and more liquid than the present form of securities arising from house building operations.

It is singular that the building of homes, as such, has not, up to this time, been actually regarded as an industry. A sign of the times, however, is present in the action taken two years ago at the session of the International Chamber of Commerce in London, in which by formal resolution, such recognition was demanded.

Commercial banks make loans today to corporations engaged in fabrication of various materials into fixtures, machinery and commodities, many of them consumable. In other words, it is possible to obtain loans against the production of things which do not exist and against that which may be consumed and out of existence before maturity of the loan and before the obligation of credit is extinguished.

We even have a form of credit established in the United States based on the raising of livestock, where, up to 75 or 80 per cent of the appraised value of the livestock is loaned under certain conditions. Again, we have discount corporations whose paper is accepted for rediscount on a basis of 80 per cent of sale price, the obligations arising from retail sales of motor cars.

Yet, we know of no building corporations engaged solely in the business of building and selling homes that are regarded in the same light as the manufacturer and, as such, eligible for similar form of credit, even though such corporations are dealing, not in consumable commodities nor in perishable equipment, but on the contrary have as initial security the very foundation of our wealth—"land." This is singular when it is considered that the building industry of any country bulks well at the top with the greatest of its industries, and yet is not regarded as an industry and has no "bulk" or volume financing available for the prosecution of its business, but must depend entirely upon its individual building units and upon local conditions and opportunities for supplying funds for its sustenance.

The financial pages of the newspapers are filled daily with news regarding all phases of industrial financing, railroad financing, public utility and municipal financing, but we read practically nothing relative to financing the construction and ownership of the home.

We must facilitate the flow of capital to the point of this great need and there make it available, under the varying conditions that may exist in any portion of the country, irrespective of those conditions. The financial machinery that exists to-day with respect to this important industry presents a very backward condition with its antiquated methods, frozen credits and unwieldy units of time

and denomination. At least this is the situation in the United States.

It would seem, therefore, that an industry that balances so finely such desirable economic and industrial essentials should have a national center of gravity.

In the United States practically all of the small homes are built from the sum which represents the difference between the amounts received for wages or salaries and the amounts spent for living; this amount then represents the thrift of the Nation. These savings are found in savings banks, trust companies, building and loan associations, postal savings banks, and similar depositories and are, only to a limited extent, available for individual building-construction loans and mortgages.

General practice and good banking suggests that the bulk of these deposits be loaned at short maturities in order to keep a stabilized liquidity rather than tie them up in frozen loans over the longer periods necessary to accommodate the builder and the owner of the small home; therefore, when the demands of commerce and industry are urgent these funds flow quickly and regularly to meet this short-time demand, to the disadvantage and detriment of the great industry, which, probably more than any other, caters to the upbuilding of our economic assets. Moreover, this situation arises just at the time of greatest demand for housing, as that need is coincident with industrial expansion.

Should there be demand for such funds in any particular sections of the country, beyond the ability of that section to supply, the home builder's ambition in that section is very greatly curtailed if not actually made impossible of consummation. There may be ample funds and credit in other section, but completely unavailable because of lack of the intimate knowledge necessary to the establishment of such credit and utter lack of proper financial machinery or organization through which to present proper form of investment security instrument, as will convey to all of us, in terms of common understanding, that this form of investment for our funds is just as secure and profitable in one section as another.

In the aggregate our savings deposits represent a huge amount, which it is believed would be more completely available for home building when invited into investment in properly secured form under national enactment and supervision. It is plausible to think that this may be done in a manner that does not involve Government outlay or liability, but would only contemplate its activities in a supervisory manner. Obviously, it is desirable that the National Government should not be put into the building business or other private business enterprises having to do with the matter, our Government should engage in no practice that would slow up or destroy private initiative or make private capital indifferent, but it can, through a proper department, act as a clearing house and directing or supervising medium for presenting protected forms of investment in the shape of bonds to the nation's savers, collectively, and assist in circulating the proceeds back to the prospective home builder and owner. Such a plan, clearly, should be so devised as to aid and supplement existing agencies rather than handicap or destroy them.

The independent building groups I have not heard touched on here this morning. Through Michigan we have a great many large incorporated building concerns that make a specialty of building and financing. Now, they buy lots in a city like Detroit, and build a considerable number of houses, 15, 20, 30, or 40 at a time.

Now, obviously, such effort is only designed and only prosecuted when there is a demand for homes.

Therefore, such building of a speculative character for profit is only done at the time when the demand exists.

Now, another thing that I did on this subject in 1925, if you are interested in this thought, I had four general groupings of membership provided for. They were not thrown together. There was a group that contained all building and loan and other mutual associations, and group No. 2 had all the savings banks, trust companies, and so forth, and group No. 3 had mortgage companies, or land contract companies, and such groupings that were obviously not under the banking department, and Group No. 4 contained regularly organized and capitalized and responsible building enterprises which had to do with both construction and financing. There are many such in various parts of the country. I find that that varies in different sections, in some sections you find none of it and in others it is quite extensively engaged in. As I said, they have produced a large number of homes, in fact, the majority of them.

It would seem that some provision, perhaps, might be made for the membership of that element in organized form.

I am skipping along here in the high places.

The moment we recognize that construction of houses with its correlative problem of financing is an industry and give it a national center of gravity as such, through an enabling act that will at once stabilize, equalize, and standardize its values and practices—that moment there will flow to it and become available the same executive and administrative ability in corporate and organized form with consequent financial stability as is found in competitive effort in other leading industries, such as steel, lumber, etc.

So-called "bulk financing" will be possible as soon as it is established as an industry and the practical eye of the banker and the investor are attracted to it because of its stabilized and liquid features. The house as a single unit for financing, necessarily must be put on an appraisal value as a basis of loan, that will not, even under the most adverse financial conditions, offer the slightest chance of risk.

This provides the plan in detail here.

Some of the general methods of the plan, as I saw them at that time, were brought out here.

A résumé of the benefits that might be derived from institution of the regional banking idea might be said to include the following:

1. Acknowledgment, financially, of an industry, of an activity that in a financial way ranks near the top of the leading industries of any country.

2. A great step in stabilization of government by assisting the majority of our peoples to become satisfied home owners, thus making more secure our economic foundation.

The conversion of frozen long-time credits with their unwieldy units as to time and denomination, into stabilized and standardized form of security with consequent liquidity and marketability.

An advanced step in a plan to make funds continuously available in any locality where housing need exists irrespective of local financial conditions.

The aiding, abetting, and assisting of every legitimate agency now engaged in the business of catering to this need in any form, that may qualify under the enactment and the augmenting of their facilities.

The inducement and encouragement to organize new corporations, new agencies, and groups to engage in the work.

The inducement to private initiative and private capital to lend itself to this effort, and we all agree these are two of the outstanding and necessary requisites to national growth.

The abandonment of the old single building unit basis of appraisal for mortgage valuation, the collective use of these units with added values behind them, and the raising of this appraisal value to a point more consistent with its real worth, as collateral.

The facility and ability to originate and dispose of a stabilized and commercial form of investment security that is understandable to all possible investors, many of whom would not under present conditions think of investing their funds in home building enterprises.

The making available of a safe form of investment which will make a strong bid for funds of such institutions as Postal Savings banks, some of the large insurance companies, trust funds, and similar deposits which have not heretofore been available for this purpose.

It will be understood that in setting up the plan as suggested that all figures wherever used are merely for purposes of illustration and that no attempt has been made at definite calculation, as financial, local, and other conditions as they exist in our different countries would make this impossible in a general presentment of a subject of such magnitude and importance. Rather the desire has been to roughly sketch and outline the idea in skeleton form for what it may be worth as a basis for developing further thought on the subject.

The crying need for housing is always met with a series of retarding influences which begins and ends with a lack of funds and a lack of liquid equities, due mostly to the long maturities involved and with no satisfactory manner provided for revolving funds, once they are invested.

Now, your proposal here, I have not read clear through. I read half way through it this morning while sitting here listening. There were two or three things brought up by some of the gentlemen that were talking here that it occurred to me that perhaps you would want to give considerable thought to before you presented them for public criticism.

One was the problem of making these banks banks of deposit. I would question very much the desirability of doing that. We have already plenty of banks. We have plenty of competition in a banking way. There are too many banks in some sections right now, and

it would hardly seem desirable, as I see it, to inject another chain of banks into the picture. It might be in order to require deposits of those who had contracts with your banks, to a certain amount, to cover their possible extended liabilities to that regional bank, but it would not seem desirable to go further in that field.

There was also something said about the fee for joining, as Mr. Williams puts it, the dues or membership fee, or whatever you care to call it, and I believe that your bill here provides that there shall be an additional sum of 1 per cent of the outstanding balance of all mortgages that institution holds. It would seem that whatever percentage you use should be applied only to the face value of mortgages up to your limit of \$15,000, not outstanding balances, but the face of mortgages up to \$15,000, if that is your sum. Personally I had a notion that \$15,000 was a little high, and that probably \$10,000 would be a little better.

Another point I heard discussed here this morning was the desirability of raising your bonding ratio up to 20 to 1, and the thought was expressed that the Federal reserve act is so based. I would draw your attention to the fact that your Federal reserve act deals entirely with our most liquid form of credit, 30, 60, and 90 day commercial paper, whereas these proposals here deal with the lowest and most extended form of credit that we can have to apply in our banking transactions. A 12 to 1 ratio, as I would figure it out, is a conservative ratio. Certainly 20 to 1 would be the maximum, as I see it.

I have a note here, "Small banks." I do not know what it meant. I think there was some question someone raised as to the desirability or eligibility of a small bank to participate.

Now, clearly, if these privileges are not to be obtained by small banks, or are not extended to them, you will miss a great deal of the prime objectives of the enactment. How they should be tied to you by membership, and by what groupings and how much it would cost them, of course, I am not prepared to discuss. That is the technique of the thing, but this thing has two real objectives for its being a legitimate proposal, and a helpful constructive thing, or not. One is to extend to the greatest number of people, our average people, the protection and privilege and opportunity to own a home.

Now, we must go just as far as safe banking and good practice will permit us to do in making that possible.

The other is to make possible a revolving fund for the liquidation of those funds, for no average man can, out of the difference between his income and what it costs him to live, possibly hope to save enough in a very few short years to buy a home. It necessarily means a long-time credit operation and, as I have said here, gentlemen, the time that the building demand is the greatest is at the time that our industry and commerce is going at full pace.

Now, as a plunger, you are sitting at your desk and a man comes in and wants to borrow \$100,000 for 90 days, and over at the other end of the desk are gentlemen who want to borrow \$10,000 apiece for 10 years apiece. Which loan are you going to take? It does not take you long. You have liquidity here and turnover, and you are going to make your big loan, but any progressive banker knows that in so far as he helps his town and helps the people to

lay solidly their economic foundations, he is certainly doing something for himself and his institution.

Now, if he knew that he could take these 10 loans, or any given number of them, and could discount, rediscount, those instruments, and had the facilities for doing it, why, it is obvious that he would be found making more of such loans than he would at the height of his building time, which is the exact time that the average man or woman has the opportunity to build a home or own one. So, I think, by and large, that you gentlemen here can do but one thing, furnish a machine through and by which we will for the first time have a positive and a continuous place where we can discount from time to time these loans that now are troublesome to look after. Banks make them because they feel that they should. They would prefer many times to make other kinds of loans, but they must make so many of these loans. Then, again, if I can refer to the sore place that a lot of us have been sitting in in the last couple of years with mortgages out, payments in arrears, and depositors on the other hand thinking you are running a cash institution and not a credit institution, and wanting to withdraw their money, you have the alternative of foreclosing mortgages, which you can not do without forever shutting your front gate. Now, clearly, with such machinery as this, if this plan had been going since 1925 or 1926, we would have avoided a great deal of the grief that we have all had to go through.

There is no reason at all why the United States Government, if it makes a contribution, should not receive dividends or interest on its investment, just the same as any other investor, and he sits in a preferred position and will be retired as you reach a certain stage of development in your business.

The thought is that it is pretty easy to regulate the other fellow's money and legislate the other fellow's money and spend the other fellow's money, but I have always found when you put up a similar amount yourself alongside the other fellow's that you all have a pretty keen interest in how it is going to be handled.

Now, as I said in the beginning, I do not believe that I can contribute anything to human knowledge on this subject, and I hope I have not detracted anything from it.

The CHAIRMAN. That is all you care to state?

Mr. LEWIS. That is all, thank you.

The CHAIRMAN. We will adjourn now until 10 o'clock to-morrow morning.

(Thereupon, at 4.45 o'clock p. m., the committee adjourned until 10 a. m., of the following day.)

CREATION OF A SYSTEM OF FEDERAL HOME LOAN BANKS

FRIDAY, MARCH 18, 1932

HOUSE OF REPRESENTATIVES.
SUBCOMMITTEE OF THE COMMITTEE ON
BANKING AND CURRENCY.

Washington, D. C.

The subcommittee met, pursuant to adjournment, in the room of the Committee on the District of Columbia, House Office Building, at 10 o'clock a. m., Hon. Michael K. Reilly (chairman of the subcommittee) presiding.

Mr. Reilly. The committee will be in order and we will hear first this morning the statement of Mr. Bodfish.

STATEMENT OF MORTON BODFISH, EXECUTIVE MANAGER UNITED STATES BUILDING AND LOAN LEAGUE, CHICAGO, ILL.

Mr. REILLY. Give your full name, address, and state whom you represent.

Mr. BODFISH. My name is Morton Bodfish. My home is in Chicago. I am executive manager of the United States Building and Loan League. Mr. Best spoke at some length concerning that organization. It contains practically all of the leading building and loan associations in the country and parallels in the building and loan field the American Bankers Association in the banking field. At the outset, Mr. Chairman,—

Mr. REILLY. Let me ask you this question: Did you appear in the other hearings before the Senate committee?

Mr. BODFISH. Yes, I appeared in the other hearings and presented some figures concerning the nature and extent of building and loan operations only.

I want to address myself this morning particularly to amendments to the bill, Mr. Chairman. The bill, (H. R. 7620) in the judgment of the building and loan people, is excellent in form. It is well drawn and we would be absolutely satisfied with the measure just as it was introduced. We feel that it achieves all of the purposes that were set out in the President's statement. At the time the original bill was introduced, the old 5090, we had a number of our building and loan people study that measure, and we submitted to this committee and to the Banking and Currency Committee in the Senate a number of amendments that we thought were essential to make the bill useful from a building and loan point of view. I am happy to state that the principles and policies of those amendments have been embodied in the redrafted bill, which is now H. R. 7620 and which is before you.

In suggesting amendments to 5090, Mr. Chairman, we kept before us continuously the sound and comprehensive statement that had been made by the President, November 14, as we wanted to only make suggestions that were in keeping with his proposals and not to make suggestions that were selfish to our particular interests alone.

I might say that the building and loan people have been studying this matter of reserve credits and banking relations for many years. As Mr. Luce indicated at the beginning of the hearing, a proposal was developed back in President Wilson's administration. At that time a number of our building and loan leaders were called into conference; a bill was drafted and introduced, which gained rather wide support in building and loan circles, although it never became a law.

Since there has been an intimation that legislation of this kind might wisely be enacted, we have had our building and loan people assembled a number of times. We have discussed just what points would be essential in a reserve structure that would serve our home-financing institutions that are advancing one kind of credit. And, by the way, we are only interested in one kind of credit, and that is a monthly repayment, long-term installment mortgage.

There are something over seven and three quarters billion dollars of building and loan funds loaned on this type of mortgage and this type of mortgage alone. I want to impress upon the committee that we have no foreclosure problems excepting those that grow out of a borrower being unable to meet his monthly payments. In other words, building and loan mortgages are all drawn on a monthly-payment basis, and when the borrower has fulfilled his contract the debt is completely extinguished. Therefore, we have no mortgages in building and loan associations that run for one year or two or three years, in which, at the end of that period we say "Mr. Borrower, you must pay this debt off completely; you must take it to some other institution and have them refinance it," as is being done by commercial banks and other financial institutions at the present time.

I think the important problem in the foreclosure situation is the fact that we have permitted unsound banking and financial principles to develop in banks. We have loaned people of modest income money on their homes on a one and two year basis in this country, and then the economic situation changed and the institution which made these loans said, "Well, we must get more liquid," and we have banks that are priding themselves in being 60 or 70 per cent liquid, and when it said to Mr. Home Borrower, "Regardless of your collateral, regardless of the fact that you have a perfect payment record for two years, your mortgage is now due and you must pay us the \$2,000, \$3,000, or \$5,000." That sort of thing does not happen anywhere under any conditions in the building and loan associations. It is discouraging home owning ambitions to a tragic extent.

The amortized or installment mortgage has characterized building and loan advances for over 100 years and much of the approval which our associations enjoy grows out of our rigid adherence to this type of advance. I further believe that this type of home financing which the President desires to encourage in the long run.

I would like to mention another thing about building and loan associations. Our institutions are local and with few exceptions are operated without the usual incentives of profit. The building and loan association is essentially a cooperative enterprise, Mr. Chairman. It is probably the greatest example of successful cooperative financing in the world. The profits are completely distributed to the participating members; and when I say "participating members" that means all of the members.

Let us first comment on the Senate hearings with regard to amendments. In my judgment there was a remarkable absence of criticism of the details, policies, and principles of these measures during the Senate hearings. By and large, its fundamentals were unquestioned, except by some groups that, in my judgment, do not have a point of view of the long-term financing that you gentlemen are interested in encouraging.

A number of the witnesses spoke emphatically of the excellence of the measure and a number of them that were from building and loan circles are men who have given a great deal of time and study to legislation affecting home financing.

Now, as we see the objects of the measure, they are two. You gentlemen have brought them out: The immediate situation and the permanent need, and I want to emphasize the fourth point in the President's statement regarding this measure. He said:

For the long-view purpose of strengthening such institutions in the promotion of home ownership, particularly through the financial strength that is made available to building and loan associations.

Now, why do I emphasize that? I think the reason the President made that statement is that he had his eye focused upon the needs of the home buyer and the home owner, namely, that the building and loan association is the one type of home financing institutions which for a hundred years has been making long-term monthly repayment installment mortgages. And, gentlemen, that is the only kind of credit which the man of small means, of low income, should use in making a home purchase, and I think it is very clear from the President's statement that what he wanted to encourage was the increase of the supply of funds available for that kind of a loan, feeling that an increase in that kind of credit would increase home ownership on a sound basis.

I am a little sorry that Mr. Williams is not here, because I was going to adopt one of his statements as more or less my text in discussing amendments. At one point in the hearings yesterday he said:

Well, look what has happened with our Federal farm loan system. Look what they just came to us and asked for.

Now, we would like to take that statement for our text, and when I say that I mean the building and loan associations. We want this structure erected in a sound, conservative way, in which it will function without coming down here 5 years later or 10 years later, or the first time we have another depression, or before we get out of this one, and say to you gentlemen—well, to quote Shakespeare, "Save me, Cassius, or I sink."

Building and loan is not here asking a hand-out in any sense of the word. We merely feel that there should be set up a reserve structure—a banking system, if you please, which will serve the home financing institutions of the country; and the comments I am going to make on the amendments proposed are going to be from the point of view of taking care of the immediate situation, the permanent need and keeping this structure conservative and sound enough so that it will not be a “white elephant” on the hands of you gentlemen who create it and so that it will never come back to plague you later.

Mr. REILLY. Just a second there.

Mr. BODFISH. Surely.

Mr. REILLY. Do you know how many building and loan associations you have in the country?

Mr. BODFISH. We have 11,767.

Mr. CAMPBELL. How many have you as members of your organization?

Mr. BODFISH. We have as members of our league, through individual associations and affiliated State leagues, something over 6,000, which represent something over 80 per cent of the assets in the country.

Mr. REILLY. How many of those, in your judgment, would take advantage of this law?

Mr. BODFISH. It is my judgment that institutions whose assets total over half and probably three-fourths of the total resources, if, Mr. Chairman, it is drawn in a conservative fashion so that it will be a sound banking system. We do not want to mingle our sound and safe building and loan associations with unsupervised institutions, that is, institutions that are not subject to public inspection, and we do not want to mingle our sound building and loan associations with semisolvant banks or anything of that kind. We want you to make the standards high, and you can not make them too high for us, because we can meet them.

Mr. REILLY. How many individual members have you got in your association?

Mr. BODFISH. In the organization?

Mr. REILLY. Yes.

Mr. BODFISH. There are some 6,000 associations.

Mr. REILLY. I do not mean that. I mean how many mortgages or loans have you?

Mr. BODFISH. I will give you three figures: We have 10,000,000 investing members, members merely saving from week to week and month to month. We have 2,000,000 people who are buying their homes and paying for them today in the building and loan associations on the monthly repayment mortgage installment plan. These mortgages total \$7,760,000,000.

Mr. REILLY. Then there are 12,000,000 people affected by this bill?

Mr. BODFISH. Absolutely, as far as building and loan associations are concerned.

Mr. REILLY. And 10,000,000 are affected sometimes by their inability to get the money out when they need it?

Mr. BODFISH. That is correct.

Mr. REILLY. And the other 2,000,000 as borrowers from your associations?

Mr. BODFISH. That is correct. Now, speaking of the question of the eligibility of institutions, we consider it a matter of prime importance that no institution be permitted to participate in this system which is not subject to regular inspection and examination on the part of public authorities. I do not believe that any savings thrift institutions should have the savings of the common people of this country unless the officers of that institution are subject to periodic check. We have enough defalcations in our banks and that sort of thing with examinations, and we feel that is an essential principle in erecting this structure.

Now, General MacChesney yesterday—and, by the way, I do not bring to your assistance any of the legal skill or excellence of legal scholarship the General has—spoke to the proposals that had been made by Mr. Monks, of Cleveland, Ohio, representing the large Guardian Trust Co. there. Mr. Monks had raised the question in his testimony that there was discrimination between the institutions. He said that the building and loan associations were permitted to come in without being subjected to the “judgment of the board” as to whether they were an institution worthy to participate in the benefits of this system, while, when it come to the banks, the banks were subject to the qualification of passing the review of a board and being subjected to the judgment of the board as to whether they should participate.

Mr. REILEY. Right on that proposition, what difference would it make to this organization when the bank has the right to pass upon the character of the securities presented by a home loan bank for rediscount?

Mr. BODFISH. As participants?

Mr. REILEY. What difference would it make whether those were inspected or not?

Mr. BODFISH. Just this, Mr. Chairman: I am a saver in a number of building and loan associations. The fact is all my modest savings are in building and loan associations and I do not want the associations in which I have my modest savings to be affiliated with a system in which there are institutions of, let us say, questionable management. In other words, if you get two rotten apples in the barrel, I do not know but what the rest of them are rotten; and it seems to me this is the place where you should follow rigorously the parallel of the Federal reserve system. The Federal reserve system permits membership of no institution that is not subject to examination and inspection, both by State banking examiners and officials and by national banking examiners and officials.

When the question of discrimination came up in the Senate hearing, we immediately concurred that we have no desire for any privileges with regard to memberships that are not extended to other institutions. Following the suggestion of Mr. La Roque, who proposed an amendment making all of the institutions who become members subject to review by the board, the United States Building and Loan League adopted Mr. La Roque's amendment to the membership clause which applies examination and judgment of the board to the admission of every eligible institution, and we heartily endorse it. I have several copies of that amendment here, and as it is a fundamental of the bill I would be glad to have you gentlemen look at it just for a moment [submitting same to the committee].

I. Some comment has been made regarding the portions of the bill describing the institutions eligible to become members. It is assumed that sound principles of finance and banking should be observed in this important section (section 4). Real-estate loans to home owners and home buyers should be long-term loans. Further, banking institutions should have a reasonable amount of time deposits to warrant their making loans which can not be called in times of distress or periods of contraction to attain liquidity. Their second line of defense should be the Federal Reserve System. Commercial banks which have no time deposits should use the Federal Reserve System entirely rather than the home loan bank system.

Building and loan associations make nearly all their investments in long-time home mortgage loans. Insurance companies, to be eligible, should similarly be such as make home mortgage loans.

In section 4, page 4, strike out lines 4 through 11 and insert in lieu thereof:

"(1) Building and loan associations, savings and loan associations, cooperative banks and homestead associations, which in the judgment of the board make long-term home mortgage loans and whose financial condition is satisfactory to such board.

"(2) Any of the following whose time deposits and financial condition, in the judgment of the board, warrant their making such home mortgage loans as, in the judgment of the board, are long-term loans—savings banks, trust companies and other banks; and

"(3) Insurance companies, which, in the judgment of the board, make long-term home mortgage loans and whose financial condition is satisfactory to such board."

In the bill as originally drafted, in section 4, the item, "which in the judgment of the board make long-term mortgage loans and whose financial condition is satisfactory to the board" applied only to banks. We think it is desirable that that apply also to the building and loan associations, and especially important that it apply to insurance companies. You will notice insurance companies appeared in the old bill just as "insurance companies." I think scrutiny by the board is particularly important in the case of insurance companies, because what is an insurance company? We have fire, life, casualty, fraternal, title, and even some matrimonial insurance companies in Chicago.

We feel that this system should put its stamp of approval only upon highly creditable and well managed enterprises, and we are very willing to subject ourselves to any examination of the board.

I might say that our proposal, Mr. Chairman, follows the principle set up in the Federal Reserve Act, which in section 322 says that the Federal Reserve Board may prescribe the rules and regulations upon which applications are made and members admitted to the system.

And the section goes on further to say:

In acting upon such applications, the Federal board shall consider the financial condition of the applying bank, the general character of its management, and whether or not the powers are consistent with the purposes of this chapter.

And we feel that that is a principle that should be paralleled in the home loan bank system, and we strongly urge that the amendment proposed by Mr. La Roque should be adopted in the bill.

We want this board to have some power. We feel it can have a real influence on the mortgage practices around the country; that to a certain extent it is going to represent the public point of view as to what is sound and proper and reliable in the whole home-financing field and, as such, we want it to be in position to say:

Mr. A, your institution is not serving the best interests of your community and its home owners, and we do not care to extend to you the benefits of this

system any more than we admit a pawn broker into the Federal reserve system merely because he is a money lender.

I think it is the traditional point of view of building and loan associations, Mr. Chairman, that safety is the first consideration, and we will be very glad to match the record of our institutions when it comes to safety with that of any other financial institutions, and we want that principle of absolute safety extended into this measure.

I think, in connection with the participation of banks in this measure, it is particularly important that they have scrutiny by the board, as I know many of our building and loan associations would hesitate to participate if they felt that any appreciable number of the banks that are similar to the 2,200 that went by the way this past year were going to be placed in the same financial system and made more or less partners in a general enterprise.

Mr. LUCE. Mr. Bodfish, before going on to the next suggestion, will you tell us whether you had any particular reason for repeating three times that restriction, instead of placing it in line 2 on page 4; thus covering all of the powers—I can not really see any difference in the application of the idea—and whether you did that for emphasis, or was there some special reason in your mind?

Mr. BODFISH. Mr. Luce, there was no special reason in mind. It was originally in No. 2, and I suppose the processes of our minds were “if we want to make it apply to all, we will just put it in No. 1 and No. 3 also.” There was no particular purpose except that the “time depositor” qualifications apply only to banks.

Mr. LUCE. It would be all right, then, to make it read, beginning at the bottom of page 3, line 24, “subject to inspection and regulation under the banking laws, or under similar laws, of the State or of the United States, and which in the judgment of the board make long term home mortgage loans, and whose financial condition is satisfactory to such board.

Mr. BODFISH. Yes. We do not feel that this system should be in any way, Mr. Luce, a dumping ground for weak banking assets or semisolvent institutions and that sort of thing. You are creating a great and important bank structure, and I think your suggestion would be very much better draftsmanship, and we would, of course, be quite willing to approve and follow it.

Mr. LUCE. You did not mean to make quite clear any difference in the application of that class by reason of scattering it?

Mr. BODFISH. Absolutely not. It is practically identical in language all the way through.

I should like to invite your attention to one other addition, which is an incident. You will note in No. 1, which enumerates the different titles under which building and loan associations operate—they are generally known as building and loan associations, but in Mr. Luce’s and a couple other States of New England they are known as cooperative banks, in Louisiana they are known as homestead associations. We said “building and loan associations, cooperative banks and homestead associations,” and we failed to mention savings and loan associations. In the States of New York and Washington these institutions are known entirely as savings and loan associations, and in this amendment, Mr. Luce, we merely included the term “savings and loan associations.”

Mr. LUCE. I have received from some title and guaranty companies expressions to the effect that they wished to be included. How about that? They are in some localities essentially banking institutions or part banking institutions.

Mr. BODFISH. I think, Mr. Luce, the test is entirely whether they are in a position to extend long-term mortgage credits to home owners, which, after all is the permanent objective of this bill. They would be included now either as banking or as insurance corporations.

Mr. WILLIAMS. Mr. Bodfish—

Mr. BODFISH. I have one additional thought in that connection, if I may finish, Mr. Williams—that in some States the title companies are subject to absolutely no inspection and examination. They are classified as insurance companies and as such they make their annual reports, but they are not subject to inspection and examination in the way in which savings banks or building and loan associations and the cooperative banks are examined. I think within those limitations it would be perfectly proper to include them.

Mr. LUCE. Would it be better to specify it here or could that be saved by an omnibus clause in here—"and other institutions"?

Mr. BODFISH. I am afraid of omnibus clauses, Mr. Luce. I think that the participants in this institution, just as in the Federal reserve system, should be named "building and loan associations, etc.," "banks, etc.," and "title companies," if necessary. You might put title companies in the category of banks if they are exercising banking functions, and make them subject to the restrictions applying to banks, in the capacity of making long-term loans.

You asked a question, Mr. Williams?

Mr. WILLIAMS. Yes. I was just wondering what your standard of measurement is in determining whether or not one of these financial institutions is warranted in making long-term home mortgage loans.

Mr. BODFISH. The banking principle involved there, Mr. Williams, I think, is as follows: It is a question of, Does this financial institution which is making application for membership have time deposits? We know in banking that you have what are called commercial or demand deposits and time and savings deposits. We know as a matter of banking experience that savings or time deposits are much less subject to frequent withdrawal. When a man puts money in a savings account he puts it there because he intends it is going to stay there for awhile; and, as a matter of banking management, you can lend that type of funds on longer term collateral than you can the funds that are in the commercial department or subject to check. I think that is the banking principle involved and it is recognized in several places in the Federal reserve act. And, by the way the Comptroller of the Currency in compiling his statistics differentiates in describing the assets of national banks between commercial funds and time and savings funds. Most country banks, for example, Mr. Williams, the small banks, which are the banks that should participate in this rather than the large banks that have access to the Federal reserve system, have a majority of time and savings deposits and in fact only pay interest on time and savings deposits.

Mr. WILLIAMS. I appreciate that, of course. But, after all, in the period over a long term of years the balances do not vary a great deal, do they, as long as it is a good financial institution? It may vary during the different seasons of the year, but covering a long period of time it does not make much difference, does it?

Mr. BODFISH. I think it does, Mr. Williams. I think what we are getting at here is the difference between a savings bank and a commercial bank. We have found out of years of banking experience that a savings bank can invest a larger portion of its funds in what are known as nonliquid securities or in investment securities than can a commercial bank.

Mr. WILLIAMS. What I mean to suggest is, if you are going to try to include a bank just because it has got the major part of its assets in time deposits—

Mr. BODFISH. I do not think the purpose is that at all.

Mr. WILLIAMS. If you do, you will exclude most of the country banks, at least in my part of the country.

Mr. BODFISH. I do not think, Mr. Williams, that the purpose is exclusion. The purpose is to include in this measure a sound banking principle. We have found in this past year that where a bank that had primarily commercial money, subject to check completely, it should have its investments or its assets, if you please, in absolutely liquid securities. That is fundamental banking and where banks have taken and balanced checking account funds versus three, four, or five year real estate loans they have gotten into difficulty. Where they have balanced a savings account funds which are put in the bank with the expectation of leaving it. That is my savings, not my week-to-week balance, with which I am going to pay the grocery bill and gas bill—where they have such balanced time-deposit accounts against, say, three, four, or five year mortgage loans, it will function all right. I think that is a problem of bank management; and, in my judgment, the objective here is not exclusion. As I see it, this measure should invite and include the majority of small country banks and should exclude to a large extent the large commercial banks in the cities which, as I say, have no place in this picture, and should rely upon the Federal reserve system, for their reserve credits.

Have I satisfactorily answered your question?

Mr. WILLIAMS. Well, of course, I do not know that I am convinced on that subject, because I can not, as I say, covering a period of years—I recognize the fluctuations at various seasons of the year—I would object, it seems to me, to making that the main test, whether or not a bank could come in, because I think that will exclude a great many banks in my section of the country, if you are going to apply that test simply of time deposits, and I was wondering why that was out in there. It seems to me it would make no difference to the member if the board determined that the bank was in position to make long-term loans, why, of course, that is all right. But, then, to specify long-term deposits may be questionable.

Mr. BODFISH. The objective, as I comprehend it, is entirely one of carrying out the sound principle of bank management. You know for decades the national banks were not permitted at all to make real estate loans, and the reason for that was not a question of the soundness of the loans, but it was a question of their putting commercial

deposits subject to check in relatively non-liquid securities, and the purpose is certainly not, so far as we are concerned, that of exclusion of the small country banks, because we feel a certain partnership or kinship to the small country banks. They make loans in the small towns and cities quite similar to the loans the building and loan associations make in small cities.

Mr. REILLY. Mr. Bodfish, are you satisfied with the bill as written?

Mr. BODFISH. Absolutely.

Mr. REILLY. You are satisfied with the limitations?

Mr. BODFISH. Yes, sir.

Mr. REILLY. What particular institutions would this proposed amendment let in?

Mr. BODFISH. The amendment proposed by Mr. Monks?

Mr. REILLY. Yes.

Mr. BODFISH. I think it would let in anything and anybody practically who cared to consider themselves money lenders on mortgage security.

Mr. REILLY. Regardless of the kind of a mortgage they made?

Mr. BODFISH. Regardless of the kind of mortgage. We think the small home owner, of limited means—and we are very emotional about this, if you please—should never borrow money on his home on the 1-year mortgage which he may be called upon for payment a year later.

I was amazed by this testimony before the Senate committee, in which one of the leading opponents of this bill, Mr. Clark, of New Haven, made the statement that his mortgage company made demand mortgages; in other words, that home borrower is subject to the judgment of the money lender as to when he will have to make the payment of that mortgage.

Mr. REILLY. If you are in favor of small home owners having the advantage of this bank, why do you favor \$15,000 limit for the mortgage in there?

Mr. BODFISH. There is just one reason, Mr. Chairman, and that is this: Out in our part of the country and in other parts of the country, we have quite a lot of home ownership that grows out of the ownership of a 2-family house. A man will buy a "two-flat," as we call it. He will live in one part and rent the other half, and we think that it is just as worthy a type of home ownership to encourage as is the single-family detached house, although the single-family detached house should be the principal objective of this bill. Were it not for taking care of some of those cases probably the \$15,000 unpaid principal limitation could in all propriety be lowered. Our mortgages averaged, Mr. Chairman, for the whole country, some \$3,700. That is the class of people which we deal with, who buy and build \$5,000, \$5,500, and \$6,000 homes. There are some localities in which land values are considerably higher than in others. You take, for example, Chicago, and a little 5-room brick bungalow will represent \$11,000 or \$12,000 real estate value, where in Columbus, Ohio, a similar structure would be worth \$6,000 or \$7,000.

Mr. LUCE. Mr. Chairman, may I put in at this moment the statement that when the bill was under study I suggested the change from 2-apartment to 3-apartment houses, and I take the whole responsibility for it. I did it because in my locality a large number of what we call "three-decker" or "three-flat" apartment houses are built.

Often a man will build such a house, occupy one apartment and rent the other two, and in time pays for his home. I made that change with the expectation that the committee would consider it and, if in its judgment it was thought the limitation should be for 2-apartment houses, I should not demur at all. That was thrown into the basket for consideration.

Objection having been made on that score in the Senate hearings, I thought it would be well to have the situation before you as I have stated it.

Mr. REILLY. My question comes from my thought that the small home owner could not very well put up a \$30,000 building.

Mr. LUCE. That, too, is a matter for the committee's judgment. Of course, in any event I have no prejudice in the matter. It occurred to me that the volume of mortgages that would be let in under that provision would not be extensive and would not be a serious factor. Very likely I was wrong in it. You will remember I told you that I had to make many decisions of a snap-shot variety, and undoubtedly erred in some of my own conclusions. I said I would lay it before the committee.

Mr. REILLY. I am just asking for information.

Mr. WILLIAMS. I would like to ask for my information as to the plain meaning of the beginning of section 7. I confess I do not understand what that means. I would like some man to explain that.

Mr. BODFISH. What page, Mr. Williams?

Mr. WILLIAMS. It is on page 14.

Mr. BODFISH. May I defer the explanation to a little later in my statement?

Mr. WILLIAMS. If that will not be too long. So far as I am concerned you can defer it altogether. I do not care whether you explain it or not.

Mr. BODFISH. I will be very glad to take it up.

Mr. WILLIAMS. Use your own pleasure about taking it up at all.

Mr. BODFISH. I am very anxious and willing to discuss it with you as we interpret it.

The second major proposal in regard to the structure of the bill advanced by Mr. Monks was this so-called entrance fee of \$2,500 and 1 per cent capital subscription which you discussed yesterday, Mr. Williams. Mr. Monks suggested a half of one per cent capital subscription or participation on the part of the members, instead of the 1 per cent as now written in the bill. General MacChesney, speaking for the National Association of Real Estate Boards, confirmed that suggestion made by Mr. Monks.

Now, in some ways we are perfectly willing, gentlemen, to have the capital to be furnished by members placed as low as \$500 or 500 cents. But our suggestion in this matter is to keep vividly in mind that one of the important things was to have members put in capital in order to get the Government out. We are perfectly willing, with our nine billions of assets, to ask our institutions to put in 1 per cent of their home loan mortgages.

I would call to your attention the fact that in building and loan associations we have over 88 per cent of our assets or resources in residential mortgages. It is not like a bank which may have \$10,-

000,000 resources and only a million or two in mortgages. It means we are making a major capital contribution, and we question the wisdom of the policy of reducing the capital subscription. We are perfectly willing to make any concession in point of view which you gentlemen suggest, but if the objective is to get the Government out, let us not get the participation down to where it is too nominal.

There are several other points in that connection. The original bill as introduced carried $1\frac{1}{2}$ per cent. It has already been reduced one-half of one per cent. A committee of our United States Building and Loan League, called the committee on reserve credits and banking relations, which has been studying this problem in principle for some two years recommended to our group that the participation be $1\frac{1}{2}$ per cent or more. In the case of the Federal reserve system, as I recall, it is 3 per cent of the capital and surplus, and a required reserve deposit, which must be 7 per cent of commercial deposits and 3 per cent of time deposits—must be maintained. I think the essence of the thing there is we want to cooperate in getting the Government out of this picture after it has started the bank system and we are perfectly willing to put in substantial capital into the whole proposition, if it continues to be built on strong conservative lines so that our best institutions, as well as the ones that are in immediate need of borrowing will feel they want to come in immediately and participate.

I would like to call your attention also to the question which was raised by one of the members of the committee yesterday, as to the repayment of capital to the Government, and I would like especially to direct your attention to the provisions on page 8 lines 20 to 24, which reads as follows:

Stock held by the United States may at any time, in the discretion of the Federal home loan bank, and with the approval of the board, be paid off at par and retired in whole or in part; and the board may at any time require such stock to be paid off at par and retired in whole or in part if in the opinion of the board the Federal home loan bank has resources available therefor.

That is an unqualified power on the part of the Board to retire Government capital from these banks and we urge that it remain in order to facilitate withdrawal of Government funds.

There is another important point in this proposition; it seems to me that what you are starting to create here is this banking system. The President asks for 12 home loan banks; and if they are going to function as banks and steady and stabilize and build public confidence and create standards of eligible collateral and mortgage practice in the home-financing field, they have got to have enough capital to function as banks. It can not be done on just a few dollars from the participants and a lot of dollars from the Government. We do not want this thing to be like some of your national farm associations, if I may speak in slight criticism, merely little borrowers' mutual, in which a bunch of folks who want to borrow and nothing else get together to pull out a lot of money without putting in anything in particular.

Mr. REILLY. Would you be able to estimate the amount of capital put in by your associations, the number that you claim would join and the amount paid.

Mr. BODFISH. In the first place, Mr. Chairman, we want to keep in mind that a building and loan association is a sort of local cooperative enterprise. It does not move with the quickness and rapidity of a large banking institution, and you will not find the building and loan associations with one fell swoop moving into this system. But give us a period of three years—make this system strong and conservative, put the best banking principles into it, and within three years it is my judgment that the building and loan associations will have contributed at least \$100,000,000 of capital to these banks, if not more. That is, assuming you do not cut the participation to where it is only one-half of 1 per cent or less. And, of course, the measure must be kept strong and vigorous. Otherwise our best-managed institutions might not care to participate.

Mr. REILLY. What do you consider the participating margin ought to be?

Mr. BODFISH. That is, the percentage of capital that a member should put into the bank?

Mr. REILLY. What will the local building and loan association make by discounting with the bank?

Mr. BODFISH. Of course, Mr. Chairman, in contrast with banks, building and loan associations do not make anything. We are not profit institutions; we are cooperative institutions, distributing all our returns to our participating members, both borrowers and investors.

Mr. REILLY. Well, then, would your organization take advantage of this law if they made nothing by putting up their bonds to get money in order to become more liquid?

Mr. BODFISH. It is my judgment that our institutions would use this system if they could get additional funds to refinance short-term mortgages that are being brought to them, to finance remodeling and to finance home building, if this system can lend us the funds at the rate we get them from our participating members or investors.

Mr. REILLY. Without any extra profits?

Mr. BODFISH. I am not interested in profits in our institutions. In practically all of the building and loan associations in this country, the officials—the men active in the management et cetera—will not profit in any way by the fact that their association has one million in assets, a million and a half in assets, or two million in assets. They are on salaries. It is not like a capitalized bank, where it is a question of making dividends for a few shareholders and that sort of thing. We have a form of cooperative enterprise, and a form that in the past has received encouragement at the hands of Congress and legislative bodies, and we hope it will continue to be encouraged. It is not perfect, but we think it is pretty fine so far.

Mr. WILLIAMS. You do not mean to say that you do not hope to make dividends?

Mr. BODFISH. We absolutely hope to make dividends.

Mr. WILLIAMS. What is the difference, after all, between that and a stock concern?

Mr. BODFISH. There is a lot of difference, Mr. Williams, in who gets the dividends; that is a few as compared with all participants.

Mr. WILLIAMS. That is all right. You have to make dividends if you are a going concern.

Mr. BODFISH. If we are going to continue investments or savings.

Mr. WILLIAMS. You hold that out to certificate holders that they will receive dividends on them?

Mr. BODFISH. Yes, sir.

Mr. WILLIAMS. Then you evidently intend to make something out of the investment. You are not running on hot air, are you, and you are not running without receiving a profit on the business? You get a profit on the investment, do you not?

Mr. BODFISH. Yes; absolutely.

Mr. WILLIAMS. That is what I understand the chairman's question to be. What do you expect to make out of the investment?

Mr. BODFISH. But, Mr. Williams, the difference in the investment we are talking about is where the profit goes?

Mr. WILLIAMS. That is not what I am talking about. I am talking about how much profit you make, what you anticipate making.

Mr. BODFISH. We want to continue—

Mr. WILLIAMS. There is no difference who gets it, but what do you make out of it?

Mr. BODFISH. Out of the building and loan associations?

Mr. WILLIAMS. Yes.

Mr. BODFISH. The shareholders around the country by and large receive $4\frac{1}{2}$, 5, to 6 per cent on funds invested in the associations, all proportioned to the profits of the association.

Mr. WILLIAMS. Absolutely. It depends upon how much the cooperative efforts make as to how much each man gets out of it?

Mr. BODFISH. Absolutely.

Mr. WILLIAMS. The question is, What does that amount to? You say 4, 5, or 6 per cent.

Mr. BODFISH. From $4\frac{1}{2}$ to 6 per cent, I would say. Have I answered your question, Mr. Chairman?

Mr. REILLY. I just wanted to find out this: Under the Federal reserve system there are a whole lot of figures on the banks participating in the privilege. Evidently the banks will not participate if they do not make something. That has been the incentive for the banks to rediscount with the Federal reserve banks. I want to get your views as to how your institutions would look upon that.

Mr. BODFISH. I think our institutions would use this system more extensively if they were able to get funds from these banks, let us say, at 1 per cent less than they can get them from investing members.

Mr. WILLIAMS. What would be your hope as to what rate you could get the funds from this bank, or what is your idea about that?

Mr. BODFISH. It would be my judgment that the bonds can be sold on probably a 4, $4\frac{1}{4}$, or $4\frac{1}{2}$ per cent basis. I base that judgment, Mr. Williams, on the experience in the land bank of the State of New York, and many of the suggestions that we made in our previous amendments grew out of the 18 years' experience of that State institution, which has carried on many of the functions that you contemplate in this Federal home loan bank system.

Mr. WILLIAMS. Then you expect to get the money at somewhere between 5 and 6 per cent?

Mr. BODFISH. I would think we would get it at 5 per cent. These banks, if the experience in New York State is worth anything at all, can operate on less than one point margin. The whole thing is very

simple—the operation of this sort of a bank. There are no uniformed doormen, no marble pillars or anything of that kind. The land bank of New York, which has about \$16,000,000 outstanding loans at the present time, is housed in office space in New York City that costs \$1,700 a year. That is the whole physical plant.

Mr. WILLIAMS. If this money cost you 5 or 6 per cent and you would only get 4½ to 5 per cent back on it, you would not be on a very sound operating basis, would you?

Mr. BODFISH. From our borrowing members we get interest usually around 6 per cent. Probably the typical loan rate of building and loan associations all over the country is 6 to 6½ per cent, some of them 7 per cent.

Mr. HANCOCK. Mr. Bodfish, it takes a pretty well managed building and loan association to earn 6 per cent for its stockholders, does it not?

Mr. BODFISH. It does.

Mr. HANCOCK. You have to keep all of your money working all the time?

Mr. BODFISH. Every dime of it, practically.

Mr. HANCOCK. Do you know what is the average operating expense or overhead expense of a building and loan association?

Mr. BODFISH. From one-half to three-quarters of 1 per cent.

Mr. HANCOCK. Is it not much less than that of most of the other financial institutions?

Mr. BODFISH. I would say it is less than other financial institutions, with the possible exception of the mutual savings banks, which I think operate on about the same cost or overhead as the building and loan associations.

Mr. HANCOCK. Outside of the necessary clerical assistants, as a general rule an association has only one or two paid officers; is not that right?

Mr. BODFISH. That is true.

Mr. HANCOCK. Usually the secretary is the only salaried officer?

Mr. BODFISH. Practically the only one.

Mr. HANCOCK. Here is what I would like to have in the record. Would you mind taking a concrete case, beginning with the application and going right through and explaining just exactly the practical way that a man would secure money by utilizing a bank of this kind and the advantages involved over those which now exist?

Mr. BODFISH. When you say "a man," you mean a member?

Mr. HANCOCK. I am talking about a man who goes to the building and loan association and assuming that the building and loan association cannot lend him the money at the time, what would be the procedure?

Mr. BODFISH. Of course, that man can have no direct dealings with the bank system no more than the grocerman can deal direct with the 12 Federal reserve banks. But, let us say that this Mr. Brown comes to the building and loan association, say, The Gates City talking about one we both know about, and his home, let us say, is worth \$6,000, fair market value. He wants \$4,000 to \$4,500 on a monthly repayment loan, and he places an application with the association. Two or three members of the board of directors of the association go out and look at the property, and, as a rule, they know the man. They want to know something about his character and

his job, because the successful building and loan plan has grown out of lending money to people that had little cash but a whole lot of character—usually the institutions are very familiar with the conditions in their cities and the people—some of the directors will know the man's wife and what priced hat she buys and all this, that and the other thing.

They will say: "Fine, Mr. Brown, you ought to have a loan, but we do not have the money. However, we have here in our association \$2,000,000 worth of mortgages that we have already made. If you can just wait about two weeks or three weeks or four weeks, we will take some of our prime mortgages, and we will take them to the Federal home loan bank of district No. 3, of which we are a member, and we will put up mortgagets two for one. We will take, let us say, \$100,000 worth of mortgages and we will come back with \$50,000, which we will then be ready to loan to you and a number of other men who are equally deserving citizens of our community."

It seems there is the simple mechanics of it. Then, with those mortgages deposited as collateral at home loan bank No. 3, that bank is going to issue bonds against those mortgages assuming that it does not have immediate funds on hand. The association is going to pay back the loan that the bank has advanced to them over a long period of time, probably a period of time proportionate with the duration of the loan they are going to make Mr. Brown, maybe over a period of 8 or 10 years.

You see, one of our great problems—

Mr. HANCOCK. Here is the point I want to clear up: From your knowledge and observation of home finance plans, how does the rate of interest charged by a building and loan association compare with the rate of interest charged by a mortgage company?

Mr. BODFISH. The rate of interest, Mr. Hancock—

Mr. HANCOCK. I am talking about on the loan to the borrower

Mr. BODFISH. The rate of interest—this is going to be a comparative statement, probably—is frequently higher. The nominal cost is almost always less. I received a telegram this morning from Portland Oreg., in which the mortgage banking group there who advertise 6 per cent interest have apparently set their commissions on construction loans at 7 per cent, but that does not mean it would give a man a 6 per cent interest rate. If you take an advance discount of 3, 5, or 7 per cent at the beginning, it makes his actual cost of money anywhere up to 7, 7½ 8, or 8½ per cent.

Mr. HANCOCK. Mr. Bodfish, are there any safeguarding provisions in this bill that would protect the borrower against the payment of large brokerage commissions? What I had in mind was just this: Most of the homes built in my community have been built through the building and loan associations. However, I know of a number of borrowers who had resorted to financing through a mortgage company doing business in my State. I had occasion to work out the comparative rates of interest between those two loans. The building and loan association received a rate of interest of 6 per cent, payable weekly or monthly, at the option of the borrower. The borrower from the mortgage company, according to my best estimates, was paying between 11½ and 14 per cent. He made his payments semiannually, on a plan like the Federal land bank.

The difference in the rate of interest was anywhere from 5 to 7 per cent.

Now, what I am concerned with is, could this system be used in any way that would prevent the member bank, say, or a savings bank, from saying to John Brown or Henry Jones, "Well, I can arrange to get you this money, but you will have to pay a brokerage of \$250."

Mr. BODFISH. We do not think that the bill, Mr. Hancock, would permit that.

Mr. HANCOCK. What is there in the bill that would protect the borrower in this respect? If such a restriction is provided I haven't run across it.

Mr. BODFISH. Of course, the suggestion was made by the witness for the National Association of Real Estate Boards yesterday that the brokerage function be encouraged.

Mr. HANCOCK. I know the paper would speak in terms of the legal rate of interest but that affords no protection against a brokerage charge or fee.

Mr. BODFISH. Yes.

Mr. HANCOCK. But there is a way, when you borrow \$5,000 you give the borrower the check or \$4,750. Now, that \$250 spread over a period of years increases the interest rate so much. However, that is not actually reflected in the bond trust security. I want to know if there is any provision in this bill to protect against that practice?

Mr. BODFISH. I think there is a provision, Mr. Hancock, in that the board is given very broad powers to prescribe rules and regulations and the character of mortgages that may be presented for rediscount. They can take a very positive position as to the terms of those mortgages, probably the interest cost and that sort of thing. I refer particularly to section (b), on page 18.

Mr. HANCOCK. I looked at that.

Mr. BODFISH. I want to say this unqualifiedly, that if there is anything that can be put in the bill that will stop this brokering of loans, to the ultimate great increase of cost to the home owner and home buyer, we are all for it, because you know we do not have that sort of thing in building and loan and we do not want it.

Mr. HANCOCK. You referred a minute ago to "demand" mortgage. I never heard of that before you mentioned it; and you referred to Mr. Clark as having stated before the Senate committee that his company made demand mortgages. Such a system would encourage refinancing, would it not?

Mr. BODFISH. Upon what does the mortgage banker-broker live? First, from making loans; second, renewing commissions; renewed every 1, 2, or 3 years.

Mr. HANCOCK. In other words, every time you can make them come due it means a refinancing, and with a refinancing it means an additional commission?

Mr. BODFISH. Precisely. We think that thing is absolutely undesirable. From the point of view of the home owner and as sound public policy, I think the Government, in setting up this institution, should take every practical step possible to discourage and eliminate, if possible, that sort of thing. I am very unqualified in my statements to that effect.

Mr. HANCOCK. If that should occur frequently and the rate of interest which some of the mortgage companies have charged in the past were to be applied to the loan, the original borrower would be about as bad off as the frog who got up 1 foot and went back 2 feet, would he not?

Mr. BODFISH. I think so, or worse; I do not know. He would probably live in a home and have a decreasing equity for a while, or until he gives up.

Mr. HANCOCK. That would amount really to a transfer of ownership rather than a loan, would it not?

Mr. BODFISH. Yes. There is another point here that I think merits consideration of the committee: There is a decided difference between the banker's point of view with regard to mortgages and the building and loan point of view. How does the banker or, let us say, the insurance company also, look at a mortgage? They look at it purely in terms of investment collateral. The shorter term it is the better it is from the point of view of their investments and their kind of funds; and I am going to come to that later.

Mr. Monks proposed the distinction between long-term and short-term mortgages be absolutely eliminated from the bill as drawn, and that these discount banks be in a position to rediscount 1-year and 2-year mortgages, or any kind of mortgages; and when he proposed the elimination of that clause, Senator Couzens asked him, "Does this mean you want to discount one and two year mortgages?" And Mr. Monks did not answer, but went on to another point. That is one of the things that is harassing the home owner to-day. He made a one or two year mortgage. Now, the banks have had withdrawals and difficulties, and they say, "We want our money. You go somewhere else and get it," and thousands of worthy home owners are coming to the doors of building and loan associations wanting long-term installment mortgages to-day and, of course, one of the reasons we want this bill is that we want to be in a position to serve those people on a sound basis.

Mr. WILLIAMS. When you say "we," you mean the building and loan associations?

Mr. BODFISH. Yes.

Mr. WILLIAMS. Will not that have the effect of forcing the banks out of this business entirely?

Mr. BODFISH. Absolutely not.

Mr. WILLIAMS. Why not?

Mr. BODFISH. Because the sort of banks you have out in your community, Mr. Williams, small country banks, are making 3-5-year mortgages. I do not object to that at all. The thing I do object to is the kind of mortgages Mr. Monks has in his institution—\$16,000,000 of one-year maturity, callable at the end of one year, at the option of the lender. He says "We extend them. We carry them on. That is the practice in the community." But the option as to carrying them on is with the big banks and not with the borrowers.

Mr. WILLIAMS. Referring to the little ones: To what extent do the banks of Missouri loan on 5-year mortgage home loans?

Mr. BODFISH. I think if we would take the small banks in the State of Missouri—I do not care anything about the great big ones, because they are in the Federal reserve system—

Mr. WILLIAMS. That is what I am talking about.

Mr. BODFISH. I think you would find at least 30 per cent of their assets are in 3-5-year real estate mortgages.

Mr. WILLIAMS. I do not think there is one in my district of that kind, and I say that having had considerable experience.

Mr. BODFISH. What term are they made for?

Mr. WILLIAMS. One year, as a rule.

Mr. BODFISH. I am surprised, and I think it is very unsound from the point of view of the home purchaser. Do they have them pay at the end of the year?

Mr. WILLIAMS. Oh, no; as the gentleman said, they extend them from year to year.

Mr. BODFISH. Oh, but is at the option of the banks?

Mr. WILLIAMS. Oh, yes.

Mr. BODFISH. I wonder what is happening to those mortgages in case those banks have heavy withdrawals.

Mr. WILLIAMS. They are taking care of them as well as anywhere else.

Mr. BODFISH. There is another point in connection with that one-half of 1 per cent capital subscription instead of 1 per cent that I think should come to the attention of the committee. As General MacChesney directed his attention to that of Mr. Monks, I want to direct your attention to the fact that Mr. Monks not only wanted to decrease the capital contributed by members, which would slow up getting the Government out of this; and, at the same time, he wanted to take the lid clean off as to loans. He said "Eliminate entirely the 12-times restriction on loans that is in the bill."

It seems to me that it is highly important that the borrowings in this system be limited so that when the sun shines again and we get into normal times, this system will not be used as a device for unbridled real estate inflation; and we consider that limitation one of great importance.

We do not object to the suggestion made by General MacChesney yesterday, in which he suggested 20 times. We lean over to the more conservative point of view, because if you have \$2,500 flat 1 per cent of the capital, and you permit the association to borrow 12 times that, that permits them to borrow about 15 per cent of their resources, and most of the State laws restrict our building and loan associations to borrowing to 15 to 20 per cent of their total resources. In your State, Mr. Hancock, it is 30 per cent of installment stock; in your State, Mr. Williams, it is 10, as I recall, and 20 per cent in Wisconsin, et cetera.

We think in those borrowing the present limitations to be retained in the bill, or certainly the lid should not be taken clear off.

There is another question in connection with that stock subscription: If a member puts in 1 per cent and borrows the maximum 12 times, he has contributed to the banking system, which stands back of the bonds, 8½ per cent of the amount that he had borrowed.

In the farm loan system that is 5 per cent, and apparently it has not put sufficient capital in the hands of the 12 land banks to have them maintain the market for their bonds and maintain public confidence in them.

I want to comment just a moment on the amendments that were proposed yesterday. We feel that there is somewhat of a kinship between the point of view of the real estate people and ourselves.

Mr. REILLY. Just a moment, Mr. Bodfish. How much more time do you expect to use? We want to give you all the time necessary to make your statement full and complete, but it is a question whether we can give all the time you will require to-day. There is a man here from Baltimore who wants to get back to that city to-day, and if you will suspend now we will permit him to go on, and then when we meet again Monday you can resume your statement.

Mr. BODFISH. I know the gentleman, and I will be very glad to yield to him.

STATEMENT OF HARRY E. KARR, GENERAL COUNSEL REAL ESTATE BOARD OF BALTIMORE AND ASSOCIATION OF BUILDING ASSOCIATIONS OF THE STATE OF MARYLAND

Mr. REILLY. Give your name in full, Mr. Karr, and state the name of your association and the position you occupy.

Mr. KARR. My name is Harry E. Karr. I am general counsel for the real estate board of Baltimore, and for the Association of Building Associations of the State of Maryland.

We have nothing to criticize in the bill. The only matter which we come before you for is in connection with two provisions in the bill: First, one provision which provides that no association or bank or building association can ask credit under this Federal home loan bank bill unless the State provides for supervision of those particular institutions.

In the State of Maryland we have no supervision of the building associations. That has never existed with us. There have been several attempts made to bring the building associations under strict State supervision, but our own experience has been such that we have proceeded better without the supervision.

I do not think that so far as the State of Maryland is concerned it will ever come under State supervision, so far as building associations are concerned. So that our first suggestion is to offer an amendment allowing us to have the benefit of this bill, but subject to such supervision as the board itself may lay down.

Mr. WILLIAMS. Would it interfere with you just at this point to explain briefly what you mean by "building associations?"

Mr. KARR. All building associations are all mutual building associations. They are more or less of the neighborhood type of building associations. They are not what are known as national associations, nor do they go out and sell stock and things of that sort. But they are an aggregation of individuals who get together and form these associations, and the most of them are run from the neighborhood standpoint.

Mr. WILLIAMS. Mutual affairs, but incorporated?

Mr. KARR. They are entirely mutual, and they are incorporated under our State laws.

Mr. WILLIAMS. Do they have stock?

Mr. KARR. They have paid-up stock only in this sense, that a subscriber will subscribe and, say, he does not want to borrow but wants to deposit. He will subscribe to so many shares. Most of the shares

are either \$100 or \$130. They pay in on those shares either at the rate of 20 cents a week or 25 cents a week. If it is a \$100 share, the rate is 20 cents a week, and if it is \$130 share the rate is 25 cents a week. They can allow their money to stay there until those shares are fully paid, and then they have the right to withdraw it at any time, subject simply to a notice that in event more people are trying to withdraw than what they have funds to cover, they take them in accordance with the way in which they come in and ask to withdraw. When one makes a loan they subscribe to so many shares. Say they want a loan of \$1,300, they will subscribe for ten shares. That would be paid back at the rate of 25 cents a week per share, until the loan was liquidated, and that would cancel the stock subscription.

Mr. HANCOCK. How long does it take to mature?

Mr. KARR. The \$130 share would take about eight and one-half to nine years; the \$100 share will mature a little bit short of that.

Mr. HANCOCK. What has been the success within the past seven years of the building and loan associations?

Mr. KARR. In what respect?

Mr. HANCOCK. So far as failures are concerned.

Mr. KARR. None, with the exception of one or two which have failed because of speculations.

Mr. HANCOCK. You say you have never had State supervision?

Mr. KARR. We have not.

Mr. HANCOCK. Then why do you say that you could get along better without it if you have never had it?

Mr. KARR. Well, I can only answer that in this way, that the record of the Maryland building associations is, I think, as fine, if not finer, than the record of practically every building association of any State.

Mr. HANCOCK. What is your chief objection to State supervision of building associations?

Mr. KARR. The first objection is because they are all operated on a mutual basis, and the most of the State making such supervision would practically mean they would have to be able to earn and pay an average of 6 per cent. These associations have averaged a little bit better than 6 per cent, up to $6\frac{1}{8}$ and $6\frac{1}{4}$ per cent, the money being paid back, and they pay to free shareholders 6 per cent on their money. They undertake to make no profit, however.

Mr. HANCOCK. Do you know how many States in the United States require supervision of building associations?

Mr. KARR. All of them, I think, with the exception of South Carolina or North Carolina, I do not know which, and Maryland.

Mr. HANCOCK. North Carolina does require supervision.

Mr. KARR. Well, South Carolina and Maryland are the only States.

Mr. HANCOCK. They are the only two?

Mr. KARR. Yes, so far as I know.

Mr. HANCOCK. It is then your judgment that those two have a better plan than the 46 States that do require supervision?

Mr. KARR. I did not say that at all. That is beside the question; that is not the test at all. The test is whether or not a community or State has been able to conduct its affairs and operate a certain line of business on the basis that is most successful to them. I do not say that supervision is not a very wise thing. In many respects it is. But I am simply saying from the standpoint of the State of Mary-

land we have found supervision is not necessary with us, so far as building associations are concerned.

Mr. HANCOCK. You represent your State association?

Mr. KARR. Yes.

Mr. HANCOCK. Are you speaking for all the associations of Maryland?

Mr. KARR. Yes, sir.

Mr. WILLIAMS. To what extent do they carry home loans?

Mr. KARR. You mean to what extent they pay home loans—investments of the building associations in home loans?

Mr. WILLIAMS. Yes.

Mr. KARR. I should say 95 per cent, if not more.

Mr. WILLIAMS. I mean with what respect to the entire home loans of the State, what per cent of it is carried by your institutions or building associations?

Mr. KARR. That, gentlemen, I will only have to give you a guess on, but I would say probably around 50 or 60 per cent, if not higher.

Mr. WILLIAMS. Do you think they carry the majority of the home loan mortgages of your State?

Mr. KARR. Undoubtedly. The building associations of Maryland, and especially of Baltimore City, are the institutions which have put Baltimore in the lead in so far as home ownership is concerned. Baltimore to-day and for many years has been the ranking city in the United States in the matter of home ownership, and that home ownership is traceable to two distinct things: First, our ground rent system and, second, our mutual building associations. Our mutual building associations have a record, to my personal knowledge, of 35 years. In that time I have never known of any building association in the State of Maryland to fail except under such conditions as amounted to absolute thievery, which State supervision or any other type of supervision you choose to have would not prevent.

Mr. WILLIAMS. I was going to ask you if those securities represent funds paid back?

Mr. KARR. You mean our mortgages?

Mr. WILLIAMS. Home owner loans.

Mr. KARR. Yes.

Mr. CAMPBELL. Mr. Karr, do you not consider your building association as receiving better supervision under the present system than they would be under the State?

Mr. KARR. I do.

Mr. CAMPBELL. Therefore, it is hardly correct to say they are not under supervision. The fact is they are under rigid supervision?

Mr. KARR. I think they are under very much better supervision than what we would have by State supervision, because all of our associations are, as I say, mutual associations in neighborhoods where the people themselves know more about that association and give it a better supervision than any State supervision you can have. It is absolutely a community proposition, and the community is alive, watching and knowing what is going on in respect to its neighborhood association.

Mr. WILLIAMS. Is that true all over?

Mr. KARR. No; that is not true. When you undertake to set up State supervision a lot of people rely upon that State supervision to protect them.

Mr. WILLIAMS. I mean as to the principle of mutuality as to these building associations throughout the country, the principal thing is State supervision. In what respect, in other words, is this different from the rest of the building and loan associations throughout the country?

Mr. KARR. I have not analyzed it yet, and I would not undertake to answer that question, except that I do know there are differences in the various States, depending on the manner in which associations are set up.

Mr. WILLIAMS. As to whether or not State supervision is a matter of opinion in the State; that is all there is in it?

Mr. KARR. Yes.

Mr. HANCOCK. One of the chief objections to State supervision, from your standpoint, would be the cost?

Mr. KARR. That is right.

Mr. HANCOCK. Can you give us any figures as to the cost of State supervision in the 46 States where it exists?

Mr. KARR. No; I can not do that.

Mr. HANCOCK. Then why did you say that would affect earnings when you admit you know nothing about it?

Mr. KARR. I only know that from the standpoint of going into the costs when we had an inspector investigate several times the matter of putting building associations under State supervision.

Mr. HANCOCK. You do not know that it is a fact that the cost of supervision in the States where it exists is negligible, do you?

Mr. KARR. I can only answer in this way, it is well known that where you have State supervision in a great many matters that your losses and failures in the various institutions is of a very high percentage, and you have here in the State of Maryland a percentage loss which is the percentage of loss which is negligible. In the next case we have had no losses except caused by absolute thievery. So when you have that situation and when you have banks and institutions of that sort where you have State supervision that are just going by the board one after another, you have too much supervision in this country in a great many matters. It is far in excess of what is needed, and what the people need to-day is what we do in the State of Maryland, and that is that we ourselves know what is going on.

Mr. WILLIAMS. Are your State banks supervised?

Mr. KARR. They are; yes, sir. We have about 12 or 15 of them at the present time in the hands of receivers, which far exceeds the building associations. At the present time I only know of three building associations which are in the hands of receivers.

Mr. HANCOCK. Do you think their failure is due to State or Federal supervision or related to it in any way?

Mr. KARR. You are getting over into the realm of a question that one could discuss all day. I think this, that very largely the matter of supervision gets itself into a set of rules and regulations and that sort of thing, and while it starts off just like a new broom, perfectly beautiful, it gradually becomes an old broom and a lot of things happen in this supposed supervision that finally, when you get down to it there is not anything left to it. There are too many cracks for things to seep through.

Mr. WILLIAMS. That is pretty well answered.

Mr. LUCE. What has been the most difficult and embarrassing situation that has confronted the Committee on Banking and Currency in the last seven years was presented by this very question of supervision. It has been most sharply brought to our attention and has puzzled us very much. When the land bank system was established and it was given out that its banks were instrumentalities of the Government, investors, relying upon that assurance and on the assurance by the brokers selling the bonds and stocks, that the system was under Federal supervision, put in large sums of money, and in one instance, at least, investors in my own district, relying upon this assurance, coming from one of the oldest and best established brokerage firms in Boston, invested and lost \$3,000,000, or \$4,000,000. Similar loss took place elsewhere.

One of my colleagues in previous years informed us that the savings of a lifetime on his part, \$30,000 or \$40,000 would completely disappear unless we came to the relief of the situation.

That was due almost entirely to the negligence of the United States Government in the inspection and supervision of Federal joint-stock land banks. The contemptible failure of the Kansas City joint-stock bank, due to the rescality of its president, who has since then been sentenced to Atlanta, was due to the failure of the United States to go through with its duty, and to supervise adequately. We on this committee, or rather those of us who have been here some time, sat idle, and my conscience has chided me ever since. Congress would not furnish money enough to provide proper inspection of these banks. We did not know about it; that is the only plea we can make as members of this committee, that we did not know what was going on. We assumed that the Federal Land Bank Board was able to do its duty and was supervising these institutions. It did not do that efficiently. Their plea of concession and avoidance was to the effect that they did not have the money to do it thoroughly. The fact of the disaster remains.

Now we are confronted with the question of whether in good conscience the Government ought to make good to the investors who assume that the implied promises of the United States in the matter of supervision would be carried out.

So we here are going to have some difficulty in persuading the older members of this committee to let down the bars. You come here and say: "Let us alone. Do not require States to do any supervising, but you do it." You put it on the United States Government to do it, and I tell you, sir, with this example before us of the misery caused by our failure to do it, we are going to be very reluctant to abandon any of the protection that the investors of this country have a right to expect. You are setting up your judgment against that of 46 other States, all of which believe that a man who buys a bond known as an instrumentality of the Government should have a right to expect every precaution that can be taken.

Mr. KARR. Yes. That is it. In the first place, I don't think the United States Government has any right to put out any security of any sort, kind, character, or description that is not a Government security in the fullest sense of the word; a direct obligation of the United States Government.

Mr. LUCE. I agree with you.

Mr. KARR. I do not think that the United States Government has any right to set up institutions of this character and delude people into the idea that they are being supervised by a Government board the same as government securities. I think if you allow the people themselves to judge whether the security is good or is bad, such as we do in the State of Maryland, where we don't have any supervision, and everybody knows whether or not our building and loan association is good when they deposit their money. They know there is not any supervision. It stands or falls upon the credit of its own institution, whatever it is.

And that is what it should do. When you undertake to supervise these things, you can not do it. It is utterly impossible. Unless the United States Government is divorced out of this bill, and every Federal loan bank in the matter of supervision will set up an inspection which is a Federal supervision, and will inspect every institution where the Government deals with it, only upon that being done, and divorced entirely from the Federal home-loan banks or from the Federal farm loans, that is the only way that you will ever get this character of supervision or any kind of supervision which the United States Government ought to let securities be put out under.

Mr. LUCE. You make a distinction between that and the corps of examiners of the Comptroller of the Currency?

Mr. KARR. I am not talking about the Comptroller of the Currency of national banks. I am talking about under your Federal farm-loan banks. In this case you are asking for State supervision, which may mean something or it may mean nothing. You are saying that the Government is going to approve that which is being done not by you, but by a different political entity—one of the States.

Now, some particular State may have the finest sort of supervision. It may have a man at the head who investigates these various financial institutions and knows what he is doing, able and capable of doing the thing correctly and properly. On the other hand, you may have set up a political system which will invite men in there who do not have the qualifications to carry on this particular work.

Mr. LUCE. Absolutely.

Mr. KARR. As I say, if the Government of the United States is going to stand back of these bonds, let them sell for what they are worth on the market in the way that the people will judge as to the proper handling of them; and let the board itself so handle its business that it will gain public confidence, and you will have no trouble with them.

But when everybody can hide behind this beautiful thing of State supervision and national supervision, which is not any supervision, that is the reason why your farm loan bank bonds are down where they are. That is why you have wrecks all over this country. But if you let it be known that they are not supervised or nationally supervised, the people themselves would find out what sort of a class of man was running that particular institution.

Mr. LUCE. How can an investor in Boston accomplish that?

Mr. KARR. The bonds are going to find their market according to just what they are worth and according to the class of men that are operating them.

We have in this country gone along hiding ourselves behind this idea of having supervision of this, having supervision of that, and supervision of the other thing; and everybody has a perfect alibi.

But people deal with you or with me because they happen to know the character of men we are, and they deal with some of the institutions that we are connected with, outside of the line of some of these State affairs, they deal with them upon what? Upon the credit of that particular house.

And there is no reason why that should not be in this instance, unless the Government itself is going to delude the people into believing, people who don't know. Many of them bought farm loan bank bonds, because they thought they were direct obligations of the United States Government; and you led those people into that very trap.

I say that is why you ought not to have all this supervision. If you are going to have supervision of all these various boards that you are going to set up, then set up in another separate bill a national supervision in addition to the department, that has a right to make an inspection, and that is not in the slightest way controlled by the board handling the funds, just as you have today with your Comptroller.

Mr. LUCE. That is an interesting suggestion. I thank you for it.

Mr. KARR. I mean, I think that you have got to do one of two things. You have either got to let these bonds stand on their own bottom and in accordance to what people know about those particular institutions, because anything that you set up here in the way of a State or national supervision is simply deluding the people into believing that they are buying a security of the United States Government, when they are not.

Mr. LUCE. Do you think it would be practicable to put on the market debentures with that uncertainty?

Mr. KARR. I don't think there would be any question. The market would find its level.

Mr. LUCE. The market might find its level; but if the level were below par, you wouldn't sell any bonds.

Mr. KARR. What have you already done? What have you done for the farm-loan bank bonds? You have had all sorts of supervision. You have State supervision and whatnot. What has happened to them?

Mr. LUCE. The farm-loan system itself is sound. The value of the land behind these securities is for the time being depressed.

Mr. KARR. Yes.

Mr. LUCE. But if this country is going to survive and we are not going to the bow-wows, I think——

Mr. KARR. I don't think we are. I think we are having a little struggle, but we are not going to the dogs.

Mr. LUCE. So the present situation is hardly instructive.

Mr. KARR. But you have supervision of your farm loan banks.

Mr. LUCE. We have had no trouble with the farm loan banks. The trouble was with the joint-stock land banks.

Mr. KARR. The joint-stock land banks? You have supervision there also?

Mr. LUCE. But I have just explained that we had it for some years in name only, and we got into trouble.

Mr. KARR. That is it exactly. You are coming back exactly to what I said a few minutes ago. All these things go beautifully when they start, because they are new brooms. But people don't make inspections because they fall into the habit of saying, "Oh, that is all right"; and they don't pay any attention to them. They say, "You have got a Comptroller up there to do that. Anything that is put out by the United States Government has got to pass his inspection first, and nothing can get through his office unless he is perfectly satisfied that it is in strict compliance with the law." Isn't that true?

Mr. LUCE. Oh, yes.

Mr. KARR. Now, many times he has held up monies going out that were not in strict compliance with the law. That is the reason why if you are going to undertake to set up and supervise these various boards and institutions that are going into this thing, you have got to do it under another separate department, which ought to be absolutely divorced from the institution itself that is set up.

Mr. LUCE. That is a consideration to which I have never given any thought.

Mr. KARR. I don't think the State supervision amounts to a thing. I think it is just one of those catch phrases that is only going to delude you and finally land you into trouble, because the men who sit on the board are going to rely upon the State supervision.

Of course, the board itself has power to go out and undertake a separate and distinct check-up and audit. But in 99 cases out of 100 you know and I know that this board is going to do like all other boards have done that ever existed. They are going to be controlled to a certain extent by the people at home who send down and say, "This institution is O. K. It has the State O. K. on it." There is not going to be much question about that.

Mr. LUCE. That is just why I wanted to get your distinction.

Mr. KARR. Yes. State supervision does not mean a thing. But Federal supervision by the board itself and check-up by the various institutions—that is all I have asked for. I am perfectly willing to stand on that. If the board says that any of our institutions can not show a clean bill of health that would entitle them to come in; all right, they have to stay out.

Mr. LUCE. I don't think I am quite clear on your position. We say there should be national supervision and State supervision. You say that there should be only national supervision or no supervision?

Mr. KARR. I say that to rely on the State supervision does not mean a thing.

Mr. LUCE. Then what do you think about national supervision?

Mr. KARR. You have national supervision in the sense that this board itself has a right to check up any institutions with which it is going to do business.

Mr. LUCE. The bill gives complete powers to the board.

Mr. KARR. To the board itself; yes.

Mr. LUCE. That is national supervision, isn't it?

Mr. KARR. That is the kind of supervision that we are perfectly willing to come under.

Mr. LUCE. Well, but your criticism against it was that it was no good.

Mr. KARR. I don't say that. I say that the board is supervising itself. I think that is where we are falling into the error.

Mr. LUCE. Then you would have national supervision under a separate agency?

Mr. KARR. I think if you want to protect the public of the United States; yes.

Mr. LUCE. All right.

Mr. KARR. If you want to have that. All I am asking you is not to do away with the national supervision as set up under this bill. We are perfectly willing to have that. But we are asking that you don't bar us simply because we don't happen to have State supervision.

Mr. HANCOCK. Your discussion of that, or, rather, your answers to the questions asked by Mr. Luce were very interesting and illuminating to me. I am just wondering whether you would be willing to say that the term "under Government supervision" to-day has any real meaning or value.

Mr. KARR. Well, ask your own constituents whether they feel that way.

Mr. HANCOCK. They are not here now. I want to get your opinion while you are here.

Mr. KARR. They will answer you.

Mr. HANCOCK. I have the pleasure of talking to them right much of the time. You do not get here often, you see—

Mr. KARR. Do you think it has?

Mr. HANCOCK. I want your judgment about it. You are the witness. You have come here and brought us an entirely new idea and fresh thought about the true meaning or no meaning of Government supervision—not so new either; but you have developed it a little differently from anybody else.

Now, every national bank in this country, when it issues a statement, it has at the bottom of it "Under Government Supervision." Do you think that carries any real weight or assurance of soundness and safety?

Mr. KARR. I don't think it amounts to a tinker's dam. Excuse the language.

Mr. HANCOCK. You certainly have answered my question in a straightforward manner.

Mr. KARR. As to this matter of State supervision, there are 1,000 or more building associations in Maryland, with a total capital of about \$200,000,000 are not under State supervision in the sense that they are subject to regular inspection and supervision by the State banking department or any State agency. They are organized and operate under the laws of the State and are recognized as mutual domestic building associations, entitled to tax exemption under both Federal and State laws.

Ninety per cent of all the home owners in Baltimore and a large percentage in other sections of the State have been dependent upon these associations to finance the purchase of their homes; and the fact that a larger percentage of the homes in Baltimore are owned by their occupants than in any other large city is due to the extremely economic financing facilities of these associations.

These associations have borrowed many millions of dollars from local banks, but no bank, so far as we know, has ever lost a penny on such loans.

The extremely narrow margin of profit on which these associations operate makes it almost, if not entirely, impossible for them to pay for the sort of State supervision which would have any effect in increasing the safety of funds invested in their shares. The record of the Maryland associations, extending over more than half a century, in so far as safety of funds invested in their shares is concerned, is far better than that of the State supervised associations in many other States—certainly far better than the record of banks subject to State and Federal supervision from the standpoint of losses to investors or depositors. Practically all of the very few failures of small building associations in Maryland have been due to causes which could not have been prevented by the sort of supervision provided in most States. More money was lost in the failure of a single small State supervised bank in Baltimore in 1931 than has been lost through all building association failures in the State during the past ten years.

In view of these facts and the fact that one of the proposed amendments gives the discount bank board unlimited power to inspect and supervise institutions applying for membership, it seems to us that the Government as well as all other stockholders would be justified in recognizing the existing laws of the various States as being adequate.

After this barrier comes another which, unless removed, would be just as effective in depriving most of the mortgage loan institutions of Maryland of the privilege of participating in the benefits of the proposed discount bank.

Ninety per cent of all the mortgages in Baltimore on small homes are subject to what are known as ground rents, and while we consider these mortgages as first mortgages, we are certain that from a technical standpoint these liens could not be construed as first liens under the provisions of the bill.

A ground rent is not a mortgage, but represents a lease for ninety-nine years, renewable forever; and all such leases made on residential property since 1888 are redeemable at the will of the leaseholder on 30 days' notice after a period of five years at a price arrived at by capitalizing the definite annual ground rent at 6 per cent.

The only practical effect of these ground rents is that they increase the annual carrying charges on the property. The same practical result would be presented if the city should at any time increase its tax rate to a comparable degree.

In loaning money on these leaseholds, it is the practice of building associations to deduct the capitalized value of the ground rent from the amount which would be loaned on the same property in fee simple. In addition to this, the associations require the borrower to include in his weekly payments a pro rata part of all taxes, public charges, and the ground rent.

This plan of financing the sale of small homes has proven safe and sound over a long period of years. It represents a local custom of long standing; difficult if not impossible to change.

Certainly in view of the splendid record which our building associations have made in loaning money on these mortgages and the

fact that the discount bank could not loan in excess of 60 per cent of the balance due on such mortgages, there would be no possibility of loss to the discount bank on such loans.

Mr. LUCE. I think there is a provision to take care of that in the bill.

Mr. KARR. I have studied over the amendments. I have not seen the new draft of the bill.

Mr. LUCE. I will ask Mr. O'Brien to assure you of that.

Mr. KARR. Mr. O'Brien knows my views, because I spoke before the Senate Committee; and I have sent over to Senator Goldsborough and to Mr. Goldsborough, our Representative.

Mr. LUCE. According to your statement you would not have much use for the bill at all as it is. We will certainly try very hard to fix that. Probably Mr. O'Brien can call your attention to that.

Mr. KARR. If the bill does not take care of that, may I have the privilege of putting into the record our views on that subject?

Mr. REILLY. Yes.

Mr. KARR. The proposed amendments as submitted on behalf of the Real Estate Board of Baltimore and the Maryland League of Building Associations. Their committee on home loan banks bills is composed of the following:

Robert G. Merrick, chairman, president Maryland Title Securities Co.

Robert Biggs, attorney Loyola Building Association.

Wm. S. Dubel, president Maryland League of Building Associations.

Charles C. Duke, president Provident Savings Bank.

Morris Macht, home builder.

Morton, Prentis, president First National Bank.

Chas. H. Roloson, jr., president Central Fire Insurance Co.

Maurice E. Skinner, attorney West Baltimore Building Association.

Karl F. Steinmann, attorney.

C. K. Wells, jr., home builder.

Anton Svejda, secretary Bohemian American Building Association.

Theophilus White, president the Continental Co.

(Whereupon, at 12 o'clock noon, an adjournment was taken until Monday, March 21, 1932, at 10.30 o'clock a. m.)

CREATION OF A SYSTEM OF FEDERAL HOME LOAN BANKS

MONDAY, MARCH 21, 1932

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE OF THE COMMITTEE
ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to adjournment, in the caucus room, House Office Building, at 10.30 o'clock a. m., Hon. Michael K. Reilly (chairman of the subcommittee) presiding.

Mr. REILLY. The committee will be in order. We will this morning hear Mr. Bodfish, to conclude his statement commenced last Friday.

STATEMENT OF MORTON BODFISH—Concluded

Mr. BODFISH. Mr. Chairman, on Friday, on behalf of the United States Building and Loan League, I covered some five or six points. Also I stated that: (1) The bill in our judgment, with the exception of some very incidental perfecting amendments which we had submitted, and we are urging, was in excellent form. (2) There was a desire on the part of building and loan associations to have the measure drawn on a conservative, sound basis, so that you would have none of the problems that you have had with one of the other financial systems. (3) We desire to emphasize the point of view expressed by the President in his point No. 4, in which he desired that this system be so set up that it would encourage home financing largely of the type that was now being done by building and loan associations.

Before speaking specifically to the bill, I do want to answer, for the benefit of Mr. Williams and the inquiry that he raised at the beginning of the testimony. He inquired as to the number of financial institutions in the country which would be eligible to participate in this system, and I have brought with me this morning the report of the Comptroller of the Currency, in which it is indicated that there are some 13,000 banks—State banks, savings banks, and institutions of that character.

By the way, for the benefit of the reporter, that appears on page 3 of the Report of the Comptroller of the Currency, 1931. On page 117 the number of mutual savings banks summarized, with supporting statistics, of which there 654. On page 143 of the report of the Comptroller of the Currency there is a summary table of building

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and loan statistics, indicating that there are 11,777 building and loan associations, and it shows their distribution by States as follows:

BUILDING AND LOAN ASSOCIATIONS IN THE UNITED STATES

Statistics relative to all building and loan associations in the United States have been obtained through the courtesy of the secretary of the United States Building and Loan League, with headquarters at Cincinnati, Ohio, and are published in the following statements:

Number of building and loan associations, total membership, and total assets, etc., for the year ended in 1930, by States

State	Number of associations	Total membership	Total assets	Increase in assets	Increase in membership
1. Pennsylvania.....	3,445	1,540,585	\$1,371,223,429	¹ \$28,776,571	¹ 109,415
2. Ohio.....	791	2,583,767	1,244,266,926	¹ 39,398,950	195,142
3. New Jersey.....	1,561	1,198,177	1,211,941,913	60,438,950	¹ 1,823
4. Massachusetts.....	227	513,431	562,718,248	19,063,250	¹ 5,767
5. California.....	209	600,000	510,520,490	33,294,374	162,416
6. Illinois.....	933	945,500	470,073,267	21,649,950	27,500
7. New York.....	307	595,865	440,729,014	18,587,734	2,767
8. Indiana.....	398	429,447	306,870,182	¹ 5,460,102	¹ 20,926
9. Wisconsin.....	188	304,861	290,625,985	7,844,583	1,454
10. Maryland ²	1,150	330,000	220,000,000	5,000,000	-----
11. Missouri.....	242	282,031	210,920,602	12,068,234	16,257
12. Louisiana.....	102	200,930	182,358,292	¹ 8,203,024	¹ 3,566
13. Michigan.....	67	210,722	167,199,813	6,094,556	¹ 1,950
14. Nebraska.....	83	225,000	148,706,763	¹ 14,753,601	¹ 27,638
15. Oklahoma.....	82	255,000	139,804,195	¹ 4,587	¹ 10,679
16. Texas.....	154	184,760	134,743,150	¹ 2,272,754	¹ 3,120
17. Kansas.....	155	210,283	132,362,649	175,901	¹ 1,655
18. Kentucky.....	161	182,900	118,928,259	8,122,553	12,400
19. Washington.....	73	298,844	108,261,370	2,944,412	5,028
20. North Carolina.....	235	95,915	92,192,374	¹ 3,655,683	¹ 9,143
21. District of Columbia.....	24	75,253	75,044,000	6,994,284	3,210
22. Virginia.....	92	66,730	60,439,644	1,561,002	1,730
23. Colorado.....	68	121,854	60,034,372	6,016,760	4,831
24. Utah.....	24	95,263	55,642,704	3,962,561	¹ 31,273
25. Iowa.....	74	65,343	49,708,190	662,541	922
26. Arkansas.....	66	72,717	44,737,088	1,135,722	¹ 2,554
27. Minnesota.....	78	106,038	42,514,855	3,092,436	13,484
28. West Virginia.....	63	58,800	36,252,147	¹ 5,575,338	¹ 8,500
29. Rhode Island.....	8	44,480	31,541,252	3,713,789	2,459
30. Oregon.....	31	52,000	30,569,103	2,248,436	1,000
31. Alabama.....	40	41,340	29,434,882	¹ 836,318	¹ 1,160
32. South Carolina ²	150	34,000	27,000,000	500,000	1,000
33. Connecticut.....	44	38,000	26,166,906	1,436,084	5,192
34. Maine.....	36	30,000	25,000,000	1,491,643	1,000
35. Montana.....	27	45,163	21,235,125	867,295	1,435
36. Mississippi.....	47	30,000	20,462,096	599,180	500
37. Tennessee.....	41	25,100	18,399,386	2,866,554	3,800
38. Florida.....	68	13,500	17,828,835	¹ 3,829,616	¹ 3,000
39. Delaware.....	43	19,700	15,488,721	1,457,674	200
40. New Hampshire.....	29	17,670	13,793,064	1,066,215	462
41. North Dakota.....	20	20,000	13,385,735	2,433,196	400
42. Wyoming.....	12	18,400	9,829,096	¹ 1,292,790	¹ 2,350
43. South Dakota.....	23	10,274	6,350,585	910,998	¹ 606
44. Georgia.....	37	16,731	6,039,453	890,007	1,648
45. New Mexico.....	18	5,350	5,111,330	305,818	303
46. Idaho.....	14	8,565	5,639,876	1,164,878	1,665
47. Arizona.....	9	7,250	4,838,421	423,555	550
48. Vermont.....	14	6,325	4,749,000	682,575	385
49. Nevada.....	4	2,890	2,076,372	1,256,702	1,530
50. Hawaii.....	11,767	12,336,754	8,824,119,159	128,964,939	225,545
	10	14,174	4,492,766	-----	-----
Total.....	11,777	12,350,928	8,828,611,925	128,964,939	225,545

¹ Decrease.

² Estimated.

Mortgage loan investments of building and loan associations, by States

States	Total mortgage loans out-standing		Increase of mortgage loans out-standing over previous year	Per cent mortgage loans to assets, 1930
	1929	1930		
Alabama.....	\$25,634,807	\$23,628,399	¹ \$2,006,408	80.3
Arizona.....	3,968,295	4,223,338	255,043	87.3
Arkansas.....	37,965,108	38,298,681	333,573	80.3
California.....	416,802,996	437,418,591	20,615,595	85.7
Colorado.....	4,117,257	48,083,886	2,966,629	80.1
Connecticut.....	22,752,873	23,885,216	1,132,343	91.3
Delaware.....	12,062,400	13,336,806	1,274,406	86.2
District of Columbia.....	65,163,001	70,894,000	5,730,999	94.0
Florida.....	17,074,400	12,494,954	¹ 4,579,446	70.1
Georgia.....	4,457,486	5,228,700	771,214	86.6
Illinois.....	415,190,738	432,685,967	17,495,229	92.1
Idaho.....	4,001,215	4,245,105	243,890	75.3
Indiana.....	282,837,023	275,644,799	¹ 7,192,224	89.8
Iowa.....	45,081,130	45,081,525	395	90.7
Kansas.....	107,956,918	110,102,244	2,145,326	83.2
Kentucky.....	108,611,540	116,012,235	7,400,695	97.6
Louisiana.....	173,887,938	161,525,736	¹ 12,362,202	88.6
Maine.....	22,048,158	23,300,000	1,251,842	93.2
Massachusetts.....	502,637,271	506,592,629	3,955,358	90.1
Michigan.....	147,942,994	144,208,587	¹ 3,734,407	86.3
Minnesota.....	33,234,090	35,652,466	2,418,376	83.9
Mississippi.....	17,891,290	18,410,000	518,710	90.0
Missouri.....	178,416,924	184,861,283	6,444,359	87.7
Montana.....	18,281,801	18,866,046	584,245	88.9
Nebraska.....	139,870,118	128,154,297	¹ 11,715,821	86.2
Nevada.....	745,974	1,686,236	940,262	81.2
New Hampshire.....	12,196,619	12,098,813	¹ 97,806	87.7
New Jersey.....	1,062,722,473	1,084,435,555	21,713,082	89.6
New Mexico.....	4,064,291	4,381,924	317,633	85.7
New York.....	380,170,540	388,561,119	8,390,579	88.2
North Carolina.....	88,585,047	84,166,336	¹ 4,418,711	91.3
North Dakota.....	10,384,000	11,863,386	1,479,386	88.7
Ohio.....	1,146,545,352	1,094,263,694	¹ 52,281,658	88.0
Oklahoma.....	127,719,842	126,838,296	¹ 881,546	89.3
Oregon.....	22,538,321	24,450,000	1,911,679	80.0
Pennsylvania.....	1,203,429,788	1,162,605,163	¹ 40,824,625	84.8
Rhode Island.....	25,915,049	29,380,561	3,465,512	93.5
South Dakota.....	4,793,245	5,350,585	557,340	84.3
Tennessee.....	(²)	15,686,774	(²)	85.3
Texas.....	122,886,727	119,681,266	¹ 3,205,461	88.9
Utah.....	42,716,239	41,688,060	¹ 1,028,179	74.9
Vermont.....	3,883,293	4,472,771	589,478	94.2
Virginia.....	52,837,266	54,259,081	1,421,815	89.8
Washington.....	83,864,584	80,293,571	¹ 3,571,013	74.2
West Virginia.....	36,954,310	32,181,472	¹ 4,772,838	88.8
Wisconsin.....	269,287,737	271,636,626	2,348,889	93.5
Wyoming.....	9,405,286	8,801,579	¹ 603,707	89.5
Other States.....	230,301,417	218,545,600	3,930,957	88.5
Hawaii.....	7,790,835,171	7,760,163,958	¹ 30,671,213	88.0
		3,870,716		91.6
Total.....	7,790,835,171	7,764,034,674	¹ 30,671,213	88.0

¹ Decrease.

² Included in other States.

Mr. REILLY. How many are there in your organization?

Mr. BODFISH. Our organization represents over half of these associations. We have some 44 State leagues affiliated with our national building and loan associations, which include in all over 6,000 building and loan associations. Practically all of the other institutions—

Mr. LUCE. What is the total of national and State banks?

Mr. BODFISH. National banks 6,805; State banks, loan and trust companies and savings banks 13,728, mutual savings banks 600, and private banks 284.

Mr. LUCE. About 20,000?

Mr. BODFISH. 22,071 on June 30, 1931.

Mr. REILLY. Just a moment. Are all those banks mortgage institutions?

Mr. BODFISH. No; a part of them are commercial banks which do not, and, in our judgment, should not do a mortgage loan business. I would say a majority of them numerically make some real-estate mortgages and some home loan mortgages. But it is primarily the savings banks, both the capitalized and the mutual savings banks, who make home loan mortgages, as contrasted with the larger banks who do primarily a commercial business.

There was some discussion also on Friday regarding the nature of time deposits, demand deposits, and savings deposits, and for the benefit of the record I would like to call your attention to the fact that the Comptroller of the Currency summarized these deposits in all of the banks in the United States on page 59. The pamphlet is entitled "Text of the Annual Report of the Comptroller of the Currency, December 7, 1931." His summary is as follows:

A classification of the demand and time deposits in each class of reporting banks follows:

Demand and time deposits in each class of banks, June 30, 1931

[In thousands of dollars]

	Number of banks	Demand deposits				Total
		Individual deposits subject to check	State, county, and municipal deposits	Certificates of deposits	Other demand deposits	
State (commercial) banks.....	12, 259	3, 963, 659	443, 450	100, 293	74, 088	4, 581, 490
Loan and trust companies.....	1, 469	5, 918, 088	242, 115	132, 429	200, 751	6, 493, 383
Stock savings banks.....	654	110, 007	103	3, 363	722	114, 195
Mutual savings banks.....	600	3, 463	200	55	-----	3, 718
Private banks.....	284	22, 943	1, 792	1, 741	1, 063	27, 539
Total.....	15, 266	10, 018, 160	687, 660	237, 881	276, 624	11, 220, 325
National banks.....	6, 805	8, 660, 076	1, 162, 450	132, 953	150, 406	10, 105, 885
Grand total.....	22, 071	18, 678, 236	1, 850, 110	370, 834	427, 030	21, 326, 210

	Time deposits						Total demand and time deposits	
	State, county, and municipal deposits	Deposits of other banks	Deposits evidenced by savings pass books	Certificates of deposit	Time deposits, open accounts, Christmas savings, etc.	Postal savings deposits		Total
State (commercial) banks.....	45, 356	1, 433	3, 698, 208	1, 287, 788	222, 351	19, 816	5, 274, 952	9, 856, 442
Loan and trust companies.....	67, 623	10, 282	2, 967, 771	268, 583	808, 989	33, 895	4, 157, 143	10, 650, 526
Stock savings banks.....	58, 188	85	933, 154	88, 931	2, 441	2, 209	1, 085, 008	1, 199, 203
Mutual savings banks.....	764	-----	10, 016, 799	426	13, 135	-----	10, 031, 124	10, 034, 842
Private banks.....	10	-----	17, 155	12, 285	2, 094	-----	31, 544	59, 083
Total.....	171, 941	11, 800	17, 633, 087	1, 658, 013	1, 049, 010	55, 920	20, 579, 771	31, 800, 096
National banks.....	372, 022	148, 149	6, 031, 314	1, 311, 535	509, 365	207, 205	8, 579, 590	18, 685, 475
Grand total.....	543, 963	159, 949	23, 664, 401	2, 969, 548	1, 558, 375	263, 125	29, 159, 361	50, 485, 571

On Friday we were discussing some specific amendments of the bill which had been proposed by Mr. Monks, of the Ohio Bankers Association, and which amendments have been commented upon by Mr. MacChesney, representing the National Association of Real Estate Boards. Now, the National Association of Real Estate Boards and our organization are one mind as to the need for this legislation, as to the ultimate ends to be obtained and as to the desirability of the present measure. We do not concur with them entirely regarding some of the details and suggestions that they have in mind. I think that a different point of view is perfectly proper, as they are interested entirely as beneficiaries in increasing the supply of loanable capital in the home-mortgage field. We are interested in that, too. But we are also in the position of being to a large extent the folks who are going actually to participate, put up the money, and bring our institutions into the system. So we are rather vitally interested in and affected by some of the details which I think they are not so interested in.

When we stopped Friday I was about to discuss the management of the banks. You will recall that some comments were made in the Senate hearing on the management of banks by Mr. Monks and here by General MacChesney. I want to point out first that the bill now provides that as long as the members of the system contribute only a minority of the capital, the control remains in the hands of the Federal board through its appointment of all the directors of the local bank, a policy to which we subscribe. We do not feel that members should substantially control the 12 banks, or, I mean, the members should not control the 12 banks unless they have made a substantial capital contribution. Both Mr. Monks and General MacChesney were rather disturbed, or adhered to the view that there should be more participation in the management of the 12 banks on the part of the public. There was the feeling that additional directors should be selected from other lines of endeavor rather than the home-financing business.

It seems to me that both these gentlemen have overlooked a very important provision in the act. The public interest is already represented on the board of directors of each of the 12 banks. The bill provides that two of the directors, without qualification as to their interest, activity, business experience, or any qualification whatsoever, are to be appointed by the Federal board to serve on each of the boards of the 12 banks; and, as I say, there are no qualifications on those two directors whom we had assumed were to represent the public interest.

Mr. Monks and General MacChesney proposed that three additional directors be selected to represent the public point of view. We are not so sure that that is desirable. We feel that the three groups that are now established are designed to distribute the management so that the larger institutions will have no more voice in the conduct of the affairs of each of these banks than the smaller or middle sized institutions; and for that reason the bill, in our judgment, very wisely provides that all the members shall be divided into three classes, and that three directors be selected from the larger institutions; and the larger institutions are determined entirely on

the basis of their home loan mortgages and their capital contribution to the banks without regard to whether they are insurance companies, banks, or building and loan associations; and then have three directors from the medium-sized associations or banks and three from the smaller institutions which are participating. This insures a voice to all members and the eleven directors would be as follows: Two representing the public and the Federal board; and three, three and three representing the large, the medium-sized and the small participants or members of the system.

Mr. Monks seemed to object to directors of necessity being chosen from the home-financing business. He said that he did not know what it meant to be in the home-financing business. Well, I submit that that is a very simple thing. A man is in the home-financing business if he is an officer or director in an institution that is making loans to home owners. It is all very simple, and I doubt if any question would be raised on that score.

Now, we absolutely disagree with their proposition that a representation of all pursuits of business on the board is desirable. I am not competent to discuss proper banking practice, but I am not so sure that the practice of our commercial banks or our savings banks in going out and picking up individuals from different business pursuits, and the building of a wonderful façade in the form of a directorate is entirely the best practice and policy. I am not so sure but what the banks that have moved most steadily through this depression were banks that were managed by excellent bankers rather than by indifferent directors who only attend meetings once a month. We feel that if this institution is to serve primarily the needs of the home owner and develop the type of credit he should have, which we believe is long-term installment credit, you can probably best do that by having all your directors, outside of those two who represent the public interest, selected from people who are familiar with the home-financing business. So much for that.

I want to comment for a moment on the advances that shall be made to members. There was quite a bit of discussion in the Senate hearing regarding the advances to members, and Mr. Williams asked a question about them on Friday. The first important thing in the question dealing with advances to members is the distinction between long-term and short-term loans. As we said Friday, there is a difference between the bank and the building and loan point of view when it comes to long and short-term loans. Judged from what I prefer to call the "banker point of view"—and I do not say it in disrespect—the shorter the loan the better the collateral. That is true from the point of view of good banking management, but that is not necessarily true from the point of view of the home owner or the home buyer, and building and loan associations without exception take the point of view that the sound and proper type of loan for the home owner and home buyer is the long-term, weekly, monthly, or even, in rare cases, quarterly repayable installment mortgage.

This bill, in the sections that appear on page 15, as I recall, sets up a distinction between long-term monthly repayment installment mortgages or amortized mortgages, as we call them, in the building and loan business, and all other mortgages. The bill says that when a member institution brings mortgages to its bank for discount that

on long-term monthly repayment mortgages the bank is to give them more money, a larger advance in proportion to the amount of collateral submitted than it is to give them on 1, 2, or 3 years term or straight mortgages.

Now, what is the justification for that? It seems to me that half of the justification for the participation of the Government in this type of enterprise, the justification for the Government setting up this sort of a banking system, to increase the credit in the home-mortgage field, is in order to encourage the long-term type of financing; and the way this bill attempts to encourage that is to say to the institutions that make that type of mortgage, "We will lend you—we will advance you a little more money per dollar of collateral submitted than we will lend to the institution that submits short-term or submits straight mortgages.

Now, the justification for that, gentlemen, is entirely a matter of social policy, and home ownership is concerned. We have found that the one way to turn out a man with his home debt free is to make him a mortgage that reduces a little bit each month. Make him a mortgage that the can just keep paying on each month, until finally he has absolutely cleared the debt. He can not do that in one year; he can not do it in two years, and he can not do it in three years, if he is a man of small and ordinary means. It takes a man of the get-rich-quick variety to buy a home and be able to pay for it completely within two or three years.

Mr. REILLY. Right there, is it not a fact that it is the policy of these building and loan societies to write the kind of mortgage that is most advantageous to the borrower?

Mr. BODFISH. Absolutely.

Mr. REILLY. Then, why do they write a short-term mortgage when it would be more advantageous to write a long-term mortgage?

Mr. BODFISH. The building and loan associations do not write any short-term mortgages, Mr. Chairman, but the banks do. Good banking practice indicates that the shorter the term of the collateral, or the shorter the term of the mortgage, the better it is from the point of view of the bank. But that is not true of building and loan associations. Our mortgages are made on the long-term installment basis, without exception. I think that is desirable public policy, and to a large extent justifies the system and practices that the Government is attempting to encourage through this bill.

Mr. REILLY. I have received a few letters from building and loan people protesting against the provision limiting the amount of money that they can get on mortgages to 60 per cent. In these writers' opinions that ought to be raised, and it can be raised safely with the set-up you have for this bill?

Mr. BODFISH. Yes. There are two things involved there, Mr. Chairman: In the first place, we want to urge that no limitation be placed upon the percentage of mortgage in relation to the value of the property; in other words, as the bill now reads, a mortgage is not eligible for rediscount if it exceeds 75 per cent of the value of the property. The 60 per cent applies, as the bill is now written, to the proportion of the unpaid principal that the bank can advance to a borrowing member. Now, it might be possible to raise that a bit yet, but in the main we feel that we want to keep the mortgage

collateral that is submitted and that underlies these bonds seasoned, prime collateral, so that as they are deposited with the trustee or registrar for the benefit of the bondholders, the bondholders will consider that their bonds are just as prime security as there is outside of the direct obligations of the Government. I think the success of the system will turn largely around the bonds being secured, beyond all measure of doubt, and consequently they will be very popular and very marketable.

With respect to that point, the men in building and loan circles who have been discussing this matter of the requirement of mortgages for rediscount to the 60 per cent have attempted to redraft page 15. As now written it seems to me a bit confusing in some ways, and we have attempted to clarify it by redraft. The redraft reads as follows, starting on line 3—this is, of course, advances that may be made by each of the 12 banks to any of their applying members [reading]:

limitations as the board may prescribe. Any such advance shall be subject to the following limitations as to amount:

(1) If secured by a home mortgage given in respect of an amortized home-mortgage loan which was for an original term of eight years or more, or in cases where shares of stock, which are pledged as security for such loan, mature in a period of eight years or more, the advance may be for an amount not in excess of 60 per centum of the unpaid principal of the home-mortgage loan; in no case shall the amount of the advance exceed 40 per centum of the value of the real estate securing the home-mortgage loan.

(2) If secured by a home mortgage given in respect of any other home-mortgage loan, the advance shall not be for an amount in excess of 50 per centum of the unpaid principal of the home-mortgage loan; in no case shall the amount of such advance exceed 30 per centum of the value of the real estate securing the home-mortgage loan.

(b) No home mortgage shall be accepted as collateral security for an advance by a Federal home loan bank if at the time such advance is made (2) the home-mortgage loan secured by it has more than 20 years to run to maturity; or (2) the unpaid principal of such home.

Those are the provisions that are in the bill at the present time, with this one exception. At the present time the bill says that no mortgage may be submitted for collateral that exceeds 75 per cent of the appraised value of the real estate. Well, it seems reasonable that when you are only advancing 60 per cent of the unpaid principal and the amount that you advance can not exceed 40 per cent of the value of the real estate, it does not make any difference whether the face of the mortgage is 75 per cent or 80 per cent or even 85 per cent, and we therefore suggest that rephrasing in order to eliminate that one particular restriction, which I want to say in all frankness was written into the bill at our suggestion, as we raised it in one of the amendments that we submitted to each member of this committee some months ago when the original bill was first advanced.

Mr. LUCE. That brings us back to the same thing that happened in the Senate; that shuts out all the mortgages that were in the Senate pointed out as to those people with big assets.

Mr. BODFISH. To go ahead: In section 2, in the suggested rewriting of page 15, we merely deal with all the other mortgages that might be discounted. That in the straight mortgages or amortized mortgages for terms of less than 8 years, if there be such. Beyond that we do not suggest change in any of the other provisions with regard to advances.

I wonder, Mr. Williams, if I have answered the question that you raised with me Friday regarding the eligibility of the advances? I want to assist all I can.

Mr. WILLIAMS. I do not now recall what I asked about it.

Mr. BODFISH. You referred to page 15 and raised an inquiry.

Mr. REILLY. At the present time, the Federal land bank advances money up to 95 per cent of the mortgage. The joint-stock land bank advances money up to 100 per cent of the mortgage. In this bill you have assets of the borrowing company equal to 8 per cent of the mortgage. That has been testified.

Mr. BODFISH. Invested in stock?

Mr. REILLY. You have the stock of the corporation. Now I can not understand why it was necessary to limit to 60 per cent of unpaid principal and 40 per cent of the value of the property on loans made to this bank to the home-loan banking institution. It seems to me you are crippling unnecessarily the loaning or the borrowing ability of the home loan banks, making it 200 per cent. Why is it necessary to offer securities for sale with 200 per cent of the property value behind them?

Mr. BODFISH. Of course, our objective and our approval of the two for one, which is what it amounts to practically, of collateral behind the bonds is our desire to contribute to making these bonds absolutely the primest security that there is. We are very zealous and proud of the safety record of the building and loan associations, and we do not want this system, which is going to be participated in broadly by building and loan associations, to ever have anything which will reflect upon it and cause its bonds to fall below par or anything of that kind.

I might say, that in the case of the land bank of the State of New York, which is a sort of example in this sort of banking has been operated for a few years. Those bonds have not had a broad market, but they have remained right at par all through this depression period, and they put up collateral, as I recall, on the basis of about one and a half for one, instead of 190 per cent; that is the minimum in this bill. We urge that you sin, if at all, on the side of conservatism in this enterprise. We do not want to use it as an instrumentality for permitting undue expansion. As a matter of fact, our building and loan associations, Mr. Chairman, in many States are restricted in their borrowing to 10 or 20 per cent, and in some cases 30 per cent of their resources.

Further discussing the long-term installment mortgage, we feel that it has a number of advantages for the home owner and home buyer. It gives him a chance to pay the mortgage without any renewals or renewal cost, and without any of the worries of having a one or two year mortgage refinanced or renewed. He does not have to shift his mortgage from one institution to another. As a matter of fact, we feel that experience has proven it is the only wise thing for the small borrower to have this type of mortgage.

And I want to point out one thing that happened in the Senate testimony: Mr. Monks, representing the Ohio Bankers Association, I think, asked that this preference between long-term and short-term mortgages be entirely eliminated from the bill, and Senator Couzens asked Mr. Monks, "Do you want to discount 1 and 2 year mort-

gages?" And he did not answer the question. We think it would be somewhat aside from the ends that are desired in this bill if it should become a device for encouraging unduly 1 and 2 year mortgages. I do not mean 1 and 2 year mortgages exactly in the legal sense—I mean in the practical operating sense.

Mr. WILLIAMS. On the other hand, that would practically cut them out of participation in it. Will not that be the practical effect of it?

Mr. BODFISH. Well, I do not think so; and I think there is another side to that, Mr. Williams.

Mr. WILLIAMS. Well, is not that really the situation, though? Will not that be the practical result?

Mr. BODFISH. Well, it is going to establish a decided preference for the other type of mortgage. I do not think it will cut them out, because those mortgages are eligible for rediscount under the clause which deals with mortgages other than long-term amortized—they can raise money on them. But there is this distinct preference for the monthly long-term mortgage. So I would not say that that would be cut out; I do not think it is necessary or desirable to do that.

Mr. WILLIAMS. The Ohio Bankers Association, as I understand it, is against this bill?

Mr. BODFISH. Well, I would be perfectly willing to stand and make the statement that the Ohio bankers are unqualifiedly against this measure, unless it is rewritten for the convenience of the large, commercial banks in that State, who are engaged, to a certain extent, in making 1-year mortgages. One of the gentlemen who testified before the Senate on behalf of the Ohio Bankers' Association, in an inaccurate and irresponsible way, attempted to villify building and loan, is a vice president of a large commercial bank that hasn't any mortgage loans eligible under this bill. I do not believe that the gentlemen who appeared before the Senate hearings represented the small banks and the savings banks of the State of Ohio, and I speak with some knowledge as I was a resident of Ohio for several years. They are opposed to anything which strengthens the installment-mortgage institutions, which are the building and loan associations. I do not believe that this bill should be changed to accommodate the type of institution that already has the Federal reserve system designed to service them. It is my judgment that these gentlemen would not approve the measure unless it is redrawn in a way to make it useless to building and loan associations and all the preference for long-time and installment home financing removed. I dislike to make any reference to the sincerity of individuals appearing as witnesses, but the gentlemen who have appeared on behalf of the Ohio Bankers Association have a selfish interest in the matter and desire to defeat this measure, if possible.

Mr. WILLIAMS. Are not the banking associations generally opposed to this bill in its present form?

Mr. BODFISH. I do not think that is true. So far as I know, the smaller banks which it is designed to take care of, and who are the ones who are expected to participate in it, because such bankers do not have the type of collateral that they can go to the Federal reserve with, are enthusiastic about this measure. I would refer to the testimony of several bankers before the Senate committee.

Mr. WILLIAMS. Can you give me one in my own State that is for it?

Mr. BODFISH. I am not acquainted with the banks in your State, Mr. Williams. I will say in all fairness that the Missouri Bankers Association has gone on record in opposition to the measure. I think you will find before we are through that the American Bankers Association will go on record in opposition to this measure. They have asked in an official communication to the Senate committee that action on this be delayed, and that no permanent institution be set up, and, if I may express an opinion there—of course, I am biased and I am emotional about it; I realize that—but I think after all the things you gentlemen have done to try to save the commercial banks of America, including the \$2,000,000,000 of the Reconstruction Finance Corporation and other items, and I have heard no objection to their getting another \$200,000,000 in the Glass bill (and without return to the Government, by the way, as the bill is drawn) that the bankers by and large should retire and not object to our institutions having some recognition and a chance to develop our own place to go for reserve credits.

Mr. CAMPBELL. You think they ought to don sackcloth and go into retirement?

Mr. BODFISH. Yes; I think they ought to don sackcloth and put ashes on their heads and retire and do penance, Mr. Campbell, for a long time, because, wittingly or unwittingly, they are responsible for a year and a half of the prolongation of this present depression.

Mr. WILLIAMS. I now come back to the question I have asked a number of times: What per cent of the home loans do the banks of the country carry? You seem to think they ought to be eliminated. What percentage of the home loans of the Nation to-day are they carrying?

Mr. CAMPBELL. You mean the commercial banks?

Mr. WILLIAMS. Yes; banks of any kind as distinguished from building and loan associations; and I might include in that insurance companies—if you know.

Mr. BODFISH. I have no figures on it, Mr. Williams.

Mr. WILLIAMS. Have you any judgment on it?

Mr. BODFISH. My judgment is that from 40 to 45 per cent of the small home loans of this Nation are in the hands of building and loan associations. Back in 1920, which was the last figures we have on the total volume of mortgages on small homes, there was something like \$4,000,000,000 of those mortgages at that time; building and loan assets were approximately \$2,500,000,000, which indicated then that we had approximately half of the small home loan mortgages. The balance of those are distributed between private investors and insurance companies to a large extent, although they get into the larger mortgages, even though they be on homes and among banks.

Mr. WILLIAMS. Have you any way of furnishing us that information?

Mr. BODFISH. By States?

Mr. WILLIAMS. Yes.

Mr. BODFISH. I would be delighted—

Mr. WILLIAMS. Have you any way that you know of? Is that information available, to your knowledge?

Mr. BODFISH. I do not think it is available by States, for this reason, Mr. Williams, that the State banking reports carry real-estate loans in a single category, and you do not know whether they are farm loans, whether they are loans on business property, whether they are loans on large homes or on the small homes.

The Comptroller's report summarizes the loans and discounts, by States, on pages 42 and 43. In the text of the annual report, on page 45, the report takes the total loans and discounts of the 6,658 national banks and breaks them down into different kinds of loans. The loans and discounts of national banks in this latest report are approximately half their total resources, the balance being cash, bonds, etc. Of the one-half of the national-bank resources, which are in loans and discounts, only 9.72 per cent are invested in real-estate loans other than loans on farm lands. This item would include all real-estate loans, except farm loans, regardless of their size or nature. It would include loans on business properties, stores, and any type of real estate, including, of course, such residential or home mortgages as the banks might have. All, of course, are for the duration of five years or less. State commercial banks on the same date, June 30, 1931, had real-estate loans, other than farm loans, of \$1,357,000,000; loan and trust companies had an additional \$1,232,000,000; the stock savings banks had \$88,000,000; mutual savings banks, \$5,729,000,000; private banks, approximately \$5,000,000. I would estimate that our building and loan associations have at least twice as many home loan mortgages in dollars as you find in all banking institutions. The home loan mortgages that are eligible under this act that are held by banking institutions are held primarily by the small banks in the small towns and small cities.

Again, I want to emphasize that these banking statistics do not separate loans on homes, which would be eligible under the home loan bank bill, from the other city real-estate loans on, for example, wealthy people's homes, business property, etc.

Mr. WILLIAMS. I understand that the Census Bureau attempted to make that differentiation; am I right on that?

Mr. BODFISH. In the figures they are now compiling, as I understand it, they are showing the size of the mortgages on each home that was owned or occupied, and they show the amount of rent paid by each tenant of the occupied home. But I do not think that those Census figures indicate the type of institution that is the mortgagee. Am I correct, Doctor Friedlander, in that? You are familiar with those figures. They do not indicate insurance companies, banks, or building and loan associations, do they?

Mr. WILLIAMS. Do they indicate the total amount? Let us have that if we can get it—on home loan mortgages in this entire Nation?

Mr. BODFISH. We have it in 1920, as I recall the national figures. They can compile it for 1930.

Mr. FRIEDLANDER. They are total mortgages and not home loan as such; they are not segregated.

Mr. WILLIAMS. There you are. You say you can not show that at all. I am asking for information.

Mr. FRIEDLANDER. They show total real-estate loans, but are not segregated as to home mortgages and mortgages on hotels and so on.

Mr. WILLIAMS. They do not differentiate as to farms?

Mr. FRIEDLANDER. They distinguish between farms and "all other." "All other" are in one group; homes and business properties and so on are in another group.

Mr. WILLIAMS. That would be of very little value that way.

Mr. CAMPBELL. It was stated here the other day that there was \$20,000,000,000 in home loans of all sizes, and that over 40 per cent was held by the building and loan associations.

Mr. WILLIAMS. I think it was stated by somebody—I do not know whether it is on the record or not—however, I think it was only an estimate—that there were twenty billions.

Mr. BODFISH. If you ask my judgment, I would say that there were probably twenty billion of home loans of the size that would call for rediscount under this measure.

Mr. WILLIAMS. That is what my inquiry has been directed to. If that information is available in any shape, to my mind that is an important thing.

Mr. REILLY. I think Doctor Friedlander put in the record the figures on those mortgages.

Mr. FRIEDLANDER. I gave you the figures on the 1920 census, and then estimated on what the increase in billions would be. If the other mortgages increased at the same proportion it would be about twenty billion. That was purely an estimate, however.

Mr. REILLY. I understand there has been no tabulation of the 1930 census on that point yet.

Mr. BODFISH. I do not think the basic data is in the 1930 census.

To continue to speak to another of Mr. Monks' proposals in connection with these advances to members: In referring to line 20, page 15, he urged that absolutely no mortgage should exceed 60 per cent of the appraised value of the real estate and be eligible as to collaterals to the home loan banks. Now, that, in the first place, is contrary to the objects of the legislation; it is contrary to the objectives of the President and, for an important reason: We all get very concerned by the second mortgage problem in this country; we talk about the "onerous charges" and the "commissions" and the "bonuses" and the "premiums" and that sort of thing. We feel that in building and loan associations—and I would illustrate particularly by the States of Louisiana, Massachusetts, and New Jersey—that we have proven that with sufficiently abundant supply of first mortgage credits on a long-term instalment basis that you eliminate this second mortgage evil. The second mortgage evil develops where you have 50 and 55 per cent of first mortgage loans, the type that is typically made by banks and by the insurance companies, and, of course, no home builder or home borrower, or few of them at least, have 45 to 50 per cent down payment to make. We feel it is a sound transaction if they have 20 to 25 per cent, and the building and loan associations in those States where we have a large volume of assets are financing that home purchaser who is ready to put 20 or 25 per cent of his own funds in the home-owning transaction; we are ready to finance him for the balance.

Now, the inclusion of Mr. Monks' provision that any mortgage which exceeds 60 per cent of the appraised value would be eligible for rediscount would discourage and possibly eliminate from this bill the exact thing that the bill is attempting to accomplish, namely,

to increase the supply of capital in the hands of the local lending agencies, in order that they may make, let us say, lower costs and make more liberal home mortgage loans, and eliminate the costly, undesirable, and unsound second mortgage problem.

Mr. REILLY. How could you discount a mortgage at 60 per cent under this bill when the limitation is 40 per cent of the appraised value?

Mr. BODFISH. What Mr. Monks was supposing is this: There are two limitations in this bill. One is a percentage of the unpaid principal and the other one is a percentage of the value of the real estate.

Mr. REILLY. But in no event can it be above 40 per cent of the value of the real estate.

Mr. BODFISH. That is true. Now, let us take a \$10,000 home and we will say that the limit that can be advanced by the banks to a member is \$4,000, or 40 per cent. As the bill is written now, I, as a member of a home loan bank, can bring in \$7,500 first mortgage and get that 40 per cent or \$4,000 on it. Mr. Monks proposes that I be not permitted to bring in any mortgage that is in excess of \$6,000 and get \$4,000 on it.

Mr. CAMPBELL. His system would disqualify the greater proportion of mortgages?

Mr. BODFISH. It would disqualify three-fourths of the building and loan mortgages of this country.

Mr. CAMPBELL. His same purpose is accomplished by the restriction placed on the amount that can be loaned on these mortgages.

Mr. BODFISH. So far as safety is concerned it is completely unfair.

Mr. REILLY. Does he give any reason for that?

Mr. BODFISH. Absolutely no reason. But I can tell you the reasons. The reasons are that the banking institutions such as his own seldom exceed 50 per cent of the appraised value in the mortgages they make.

Mr. REILLY. It appears that he wants to handicap and interfere with the operation of the loaning by home loan banks?

Mr. BODFISH. Precisely. Of course, as we said, it eliminates a large portion of the mortgages held by building and loan associations, and we feel, from the experience we have had, that we can make 66 $\frac{2}{3}$ cents, 70 per cent and, in some cases 75 or 80 per cent mortgages to the small home owner, the fellow, as we said, who has little money but lots of character; and we submit our safety record as to the soundness of that type of financing, and that is the type of financing this bill is designed to encourage.

Mr. LUCE. Not only for the benefit of the committee but for the benefit of anybody reading the record, I would like to put in here the statement that when our associations were starting in Massachusetts, a 66 $\frac{2}{3}$ limit was put upon their loans, while 60 per cent was the figure upon our savings banks. Now we have put it up to 80 per cent on amortized loans, showing that the 50 years' of experience with the system has lead our very cautious legislature to believe that an amortized loan may safely have an 80 per cent valuation.

Mr. BODFISH. The safety record of the Massachusetts cooperative banks, which is what we call the building and loan associations in the Bay State, is an enviable one, Mr. Chairman, to say the least. They have never lost a dollar to a shareholder, to my knowledge.

Mr. WILLIAMS. Is their system in Massachusetts different from the general systems throughout the country?

Mr. BOEFFISH. There is practically no difference. Originally they called them cooperative organizations and cooperative building and loan associations, and then gradually they got to calling them "cooperative banks." But their system is essentially the same as that that is in vogue in other parts of the country. They are very rigorously limited by State law. They have a very excellent statute; it has been patterned after in a great many parts of the country.

I think that is sufficient regarding Mr. Monks' proposals in that regard, with one more comment: The reason that we can make so high percentage loans is the fact that we are local institutions in contact with the borrowers. Most of them have been savings investors in our institutions for years before they buy or build their home and that sets up a human relationship, we call it the "moral risk" in the building and loan management. It has led to the safety record that we have established in making these kind of loans, which can not be made by distant money lenders. They can not be made and serviced by the insurance companies who have to operate through a local broker as their agent and that sort of thing. Home loan credits to fully serve the borrowers must be decentralized and local building and loan associations accomplish that decentralization.

The next item, with regard to amendments, which I wish to bring to your attention, is the item of the \$2,500, the so-called "membership fee" that was discussed. I think the object of putting the \$2,500 membership fee in the bill originally was to hasten capital into the system, to get more money in, and which has the second objective of getting the Government out.

Mr. Williams raised the question as to \$2,500 being too high for the small institution, "\$2,500 plus one per cent." I would say as far as I can see we have no objection to that being 1 per cent of the home loan mortgages, with \$2,500 as a minimum rather than as a "\$2,500 plus." That is all I have on that point, unless there are questions.

On page 20, line 16 of the bill, there is a provision which says that [reading]:

Each Federal home loan bank shall have power to accept only such deposits as are made by members of such bank, or by other Federal home loan banks. Such deposits shall not be subject to check, and no rate of interest in excess of 3 per centum per annum shall be paid thereon. No Federal home loan bank shall transact any banking or other business not expressly authorized by this act.

There have been questions raised by the large commercial bankers as to the propriety of that provision, and I want to defend it a moment for your benefit. In the first place, gentlemen, you are setting up a system of banks. They are to be named banks and, as far as servicing their members is concerned, they function as reserve banks for the members. Let us assume for a moment that I am an investor in a building and loan association. I have invested my savings in that association because I wanted my money to go into the home financing business. So I decided that building and loan would be a safe place for me to put my earnings.

Now, that being true, I see nothing but selfishness in the point of view of the commercial banker when he says that even though the funds that have been given to this building and loan association by

its investors were intended for home financing, "if you have more than you need in the home financing business, the only place you can put them is in our commercial banks."

We submit that there is no reason why these 12 banks should not receive deposits from their members of surplus funds—the funds that they are accumulating for the retirement of indebtedness, et cetera. We have absolutely no desire that they carry on a commercial banking business. The language of the bill prohibits checking accounts or anything of that character. This becomes merely a reserve depository which may be used by members of the system within limitations imposed by the board.

Mr. REILLY. Is such a provision in this bill necessary for the operation of this law?

Mr. BODFISH. I think it is very necessary, Mr. Chairman for this reason, that the object of this bill is increase and conserve money in the home financing business, and it will be one of the provisions which will invite participation on the part of building and loan associations; and there is the further thought that one of the things which the bill attempts to do is to shift money from one territory to another occasionally where there is, let us say, in New England, a surplus of funds and there is a lack of sufficient funds in the Wisconsin area, for example. The device for transferring those funds is that a member of the association merely deposits some money in the New England Home Loan Bank, that is, in my Federal home loan bank, and that Federal home loan bank deposits it or lends it to one of the other Federal home loan banks, which may have more demand for funds than they can meet at the present time. In my judgment the elimination of that provision would estop that flow of surplus credits from one part of the country to another.

Mr. LUCE. Mr. Bodfish, it seems to be the general belief that the Supreme Court ruling in the matter of joint stock land banks makes it necessary in order to support the constitutionality of this bill that there shall be some degree of power to accept deposits.

Now, the question may be seriously considered as to the extent of the interest that shall be paid thereon. In the matter of postal savings banks we have tried to keep the Government out of competition with commercial banks by maintaining a low rate of interest, 2 per cent. From time to time suggestions have been made on the floor of the House that we raise that rate of interest, and invariably, so far, they have been choked off on the ground that any larger rate of interest than 2 per cent would result in competition by the Government with private enterprise. Would it do serious injury to this bill if that 3 per cent were changed to 2 per cent, corresponding with the postal savings?

Mr. BODFISH. I do not think so. I think 3 per cent would be a little more desirable, but I see your point of view.

You see, our institutions are mutual and cooperative institutions, and it is highly important that practically every dollar of their money be employed with some return, and we want to have the 12 banks in position to give them enough return to encourage them to put their surplus home financing funds in the hands of the 12 banks whose whole purpose is to steady and assist the home financing business.

Mr. CAMPBELL. Those deposits will be subjected to demand at all times?

Mr. BODFISH. Well, I would say they would probably be subject to withdrawal like time deposits by the member, but not subject to check.

Mr. CAMPBELL. That is what I meant, not subject to check, but subject to withdrawal.

Mr. BODFISH. Yes, and this feature increases the funds in the hands of the 12 banks and will assist in supporting the bond structure and assist in building up the strength of the 12 banks.

Mr. Monks made the point that that would take money out of the commercial, agricultural and industrial pursuits, and, as General MacChesney indorsed it to a certain extent we submit that the members of the building and loan associations intended that their money should come out of the commercial, industrial and agricultural pursuits when they bought shares in the building and loan association. Again, we have absolutely no desire to engage in the commercial or general banking business. All we want is our own place to go for funds, and we want a sufficient depository power to permit it to function successfully.

Mr. CAMPBELL. Funds are coming for that source, now, are they not?

Mr. BODFISH. Absolutely.

Mr. CAMPBELL. So it makes no difference.

Mr. BODFISH. There is another point I wish to make regarding the functioning of these 12 banks, and it is this: There is a distinction between the banker and the building and loan point of view, and this is brought about primarily due to the fact that the banker looks upon the home loan banking system merely as a place to go and discount some mortgages. He has his reserve system in the Federal reserve system where he can pile up credits, where he can keep some of his cash should an emergency arise, and the only thing he sees in the home loan bank measure is the bond borrowing privileges.

Now, in building and loan associations we have a slightly different situation. We have been denied access to the Federal reserve system—do not misunderstand; we do not want access to the Federal reserve system—we feel we have a different kind of business, and even in the Federal reserve system our “notes payable” have been denied eligibility. If we borrow from a commercial bank the commercial bank cannot take those notes and rediscount them. But in our institutions we do sometimes have demands for credit and for funds in excess of what the associations have on hand, and we want to be in position to supply those demands without causing undue delay to the savings members, because that is what encourages them to place their funds in building and loan associations and use our institutions. We feel that the home loan bank system will serve that need which is peculiar to us, namely, a device for storing up some reserve credit, and for pooling some of our cash together and using it cooperatively in servicing our savings members.

That feature of the thing is important and is designed to help our saving members, while the bond issue feature is designed primarily, as I see it, for the borrowing members who make demands for the loans. In line with this comment, we do not accept General

MacChesney's suggestion that these amounts deposited be limited to the borrowings of a member. In other words, if a member is borrowing from the bank, that is just the time when he has the least money to deposit, and we would urge that that suggestion be not adopted.

Just one more comment on that: Mr. Monks, or one of the witnesses representing the Ohio Bankers' Association, indicated that those deposit features take money out of the local community. Now, we submit that our commercial banking friends have not been particularly careful about keeping money in their own communities. They sustained the call market and their bond purchases are not always confined to industries operating in their own communities, and we are willing to match the building and loan record with theirs any time on this issue of keeping money in the local community.

Any deposits that we make would not be of large amount; they would probably never exceed more than 2 per cent, at most, of the assets of an association, which is an incidental, you will grant me.

Mr. Monks, on page 357 of the record, discussed changing the phraseology of the bill so that the banks built up "surplus" instead or "reserves." Now, we strongly urge that the present language be retained, and that these banks accumulate reserves. The distinction is again one of those differences between the banker and building loan point of view. Surplus is money that can be distributed as dividends or as stock dividends to shareholders or stockholders. Reserves are accumulation of funds for the "rainy day," and are built up entirely to increase the safety of the institutions. In building and loan association without exception we build reserves rather than surpluses, and by and large we can make no distribution whatsoever of those reserves. Of course, a banking surplus can be distributed, and in the light of the safety and strength and conservatism of this banking system as it is now suggested, we urge that we adhere to the principles of reserves rather than of surplus.

Mr. WILLIAMS. I think that is a difference without a distinction, especially in some States. I think the statement that surplus can be distributed under the banking laws depends upon the States, that is, the State banks.

Mr. BODFISH. We can distribute our surpluses in the banks in Illinois, but we can not distribute our reserves in building and loan associations.

Mr. WILLIAMS. I say, there is a difference in the State laws. I am very sure that our State can not distribute surpluses without authority.

Mr. BODFISH. I would defer to your knowledge, of course.

In passing, I might comment on the fact that Mr. Monks also indicated that the reserve requirements for compelling distribution to reserves out of net earnings were too high. I think that is a point that the committee should consider and discuss. I can not refrain, however, from commenting on his argument. He indicated that if the bank semiannually took 25 per cent of its earnings and allocated them to reserves, at the end of the year it would have placed 50 per cent of its earnings in the reserve account. I am far from certain as to whether this is exactly correct because usually 25 per cent for the first six months and 25 per cent for the second six months is 25 per cent for the year. We concur in the wisdom, however, of

reducing the reserve requirements, in spite of the inaccuracy of Mr. Monks's mathematics.

There is some thought among building and loan people that consideration should be given to lowering the reserve requirement.

We want again conservatism and safety, but they should not be so high that they impair the earnings of the banks unduly.

Mr. Monks's testimony—and General MacChesney corroborates his statement—dealt also with supervision and examination. His testimony appears on page 258 of the hearings, and he refers to page 32 of the bill. He takes this position: He says that inasmuch as you are loaning on mortgages, the value of the property is the basis of the loan, and that he does not believe any further information is needed. Now, we in the building and loan field stand unqualified by for examination of member institutions; and, by the way—

Mr. REILLY. Is that requirement for the benefit of the building and loan people, or for the banks?

Mr. BODFISH. I think that requirement is for the benefit of this banking system. Certainly any well-managed member institution participating wants to know that the other institutions that are in this system are well managed, are subject to examination and that there will not be practices or tragedies developed that will embarrass them as a member. It is merely applying to this banking system a well-established principle that is applied in the Federal reserve system.

Mr. REILLY. There are probably two States who have no provision for inspection of building-and-loan organizations. What would you do with those States?

Mr. BODFISH. Well, here we are speaking of examination of members after admittance, and I would say that the thing to do is to provide that they must have some sort of examination. The present bill provides, Mr. Chairman, that the Federal board may examine any member institution and require a member institution that is going to borrow to formally consent to examination.

Mr. REILLY. I understand the bill specifically provides that no member institution can become a member unless it is subject to examination.

Mr. BODFISH. That is true at the present time.

Mr. REILLY. That question came up this morning and I had some information about it. There are three or four hundred private mortgage loan institutions that have several thousand home mortgages. They can not come under the terms of this bill as it is now.

Mr. BODFISH. We think that is highly desirable, Mr. Chairman, that such institution not be permitted to come under this bill.

Mr. REILLY. Why?

Mr. BODFISH. Because any institution that is handling the savings of the public should be subject to the scrutiny of public auditors who are functioning in the public interest. I think that is a fundamental principle in banking practice. Our supervision in this country is not perfect, but where would we be with our banks at the present time if they had not had some sort of supervision and inspection?

Mr. WILLIAMS. According to the gentleman from Baltimore who testified about the conditions in Maryland, they would be better off

without one. However, I do not entirely agree with him in that, but I want to ask you this question: To what extent in the entire country do they have a separate examination of the banks and the building and loan associations?

Mr. BODFISH. You mean——

Mr. WILLIAMS. Whether or not the same examining agency examines both of them, or whether it is different.

Mr. BODFISH. In a number of States there are separate building and loan departments. In Illinois, for example, my State, the supervision is all under the auditor of public accounts. He has three divisions: Banking, building and loan and insurance divisions. There is a variety of arrangement in the different States.

Mr. WILLIAMS. I mean, does the same man or the same central authority examine the banks who has examined the building and loan associations?

Mr. BODFISH. In general, I would say yes; it is a similar examination.

Mr. WILLIAMS. What is your information on that? Do you give that as authority?

Mr. BODFISH. I would be very glad to illustrate with any State with which I have knowledge. In Illinois, as I say, we have an auditor of public accounts, who is in charge of the examination of all financial institutions. In his department he has three divisions: banking, building and loan and insurance.

Mr. WILLIAMS. By means of one department he examines them all?

Mr. BODFISH. He examines them, and he is the ranking official responsible.

In New Jersey, for example, you have a commissioner of banking with a separate commissioner in charge of each bureau—insurance, banking, and building and loan—each commissioner with the same salary.

As I say, the well-managed building and loan associations who are going to participate in this system and hope to participate in it, want to know that the other members of the system are properly conducting their affairs and that they are in sound condition, just exactly as the Federal reserve system examiner its participating members.

I am practically through. There are a number of perfecting amendments, as we call them, that were submitted at the close of the Senate hearings. The majority of them appear with little suggestions of language that we wanted to make for the benefit of the drafting counsel and the consideration of the committee. However, in those amendments there were two things that I feel that I should discuss. One of them deals with the conditions, Mr. Williams, that prevail in your state with regard to limitation upon the mutual building associations, pledging or assigning their securities.

The United States league urges that an amendment be included in the act, which will permit the capital placed in the banks by members to be loaned on short-term loans on less than a year to members without assigned mortgages as collateral. This will particularly help the States of Missouri and Oklahoma, where there are peculiarities in the State laws preventing them from assigning their mortgages. This might be helpful to 5 or 6 other States, also, out of the

48, which have unduly restrictive laws as to the borrowing of money by building and loan associations. It should be noted that this amendment deals only with the funds that are placed in the 12 banks by members and in operations where the money loaned to associations so secured from the issue of bonds, of course, associations would have to be in position to assign mortgage collateral. Mr. Williams, that is the proposal that the gentleman from your State desires and we see no reason why it should not be written into the bill. It will be entirely helpful and not hurtful. On page 622 of the Senate hearings, first item 17, we submitted an amendment and it was in form approved by the gentleman from your State, Mr. Williams, who has been discussing it with you.

Of course, it is important to note that it includes only mutual institutions without creditor liabilities. The amendment is as follows:

On page 21, subsection (3) of (i), section 9, line 18, after the word "prescribe" add the following:

"*Provided, however,* That such advances may be made without collateral security to members whose creditor liabilities, exclusive of all advances from Federal home loan banks, do not exceed 5 per cent of the assets of the member receiving such advance or advances under the provisions of this subsection."

You see, if you have a \$2,000,000 building and loan association, the thing is all shares; there are not any debtor-creditor relations in the sense that you have them in a bank. In a \$2,000,000 bank you would probably have \$50,000 or \$100,000 stock, and the balance would be deposits, a creditor liability. This is a thing that is peculiar to mutual and cooperative organizations such as our building and loan associations, and we urge the inclusion of that amendment to assist the early functioning of this system and the admission of the institutions in several States who can not, as I understand it, at the present time assign mortgages. We feel it is a perfectly reasonable request, and here, as in the Senate, we sponsor its adoption.

Mr. WILLIAMS. Have you a copy of that amendment?

Mr. BODFISH. Yes. It appears in the Senate hearings, and I have it as we submitted it. I would be glad to furnish a copy to you.

Mr. WILLIAMS. I would like to have it. However, if you can refer to it in the Senate hearings that will answer my purpose.

Mr. BODFISH. Page 622.

Mr. WILLIAMS. Which book?

Mr. BODFISH. That puts it in the third volume. On that same page at item 18, we urge the inclusion of a section which would permit the affiliation of an additional class of members. In the State of New York there is already a reserve system for home financing institutions functioning on a State basis, similar to the one you are here creating for the Nation. That State has sufficient assets to support its own system. That is not true of all the other States in the country. One has recently been established in Mr. Luce's State, Massachusetts. There has been a proposal, and I anticipate one will also be established in New Jersey.

Mr. REILLY. Are those banks based on the theory of this bill?

Mr. BODFISH. Very largely; as a matter of fact, many of the principles that we urged be included within this bill when we submitted amendments to you gentlemen earlier, were taken from the experiences of the land bank of New York.

Mr. REILLY. How long has the New York land bank been operating?

Mr. BODFISH. I think about 16 years.

Mr. REILLY. There is then no real need for this bill in New York.

Mr. BODFISH. My judgment of that is this: There is a need even in New York. I will say this in all fairness, that the savings and loan associations, as they call them in New York, have moved more steadily through this depression period than the associations in any other State. They have come more closely to functioning normally and we feel that is largely due to the influence and the assistance of that land bank. However, right to-day it is not capable, in my judgment, of expanding its funds sufficiently to care for all the needs, and the reason is primarily this: That their bonds carry no tax preference features and as a result that they have a very restricted bond market.

Mr. REILLY. As I understand it, in New York, under the New York law, it is a private corporation operating without any tax-feature privilege or without any State funds.

Mr. BODFISH. I would say it is quasi public, Mr. Reilly, in that it was created by special act of the State legislature.

Mr. REILLY. I know; but it gets no special privilege in the way of tax-exempt bonds or debentures or State aid for money.

Mr. BODFISH. That is true; although I think the bonds are exempt from all State taxes.

Mr. LUCE. On pages 46 and 47 of the Senate record and following, Edward MacDoughall, president of the Queensboro Corporation of New York City, gave the reasons why this is also pertinent for the record.

Mr. WILLIAMS. I understood you to say that that same system could not prevail in other States. Is that your statement?

Mr. BODFISH. I would say there are not sufficient building and loan assets in my State to support a State institution alone; in New York they have approximately half a billion dollars of building and loan assets.

Mr. WILLIAMS. They also, of course, have more homes and use for them than in a sparsely settled State.

Mr. BODFISH. Of course, your typical home in New York City is an apartment that does not come within the purview of their home-financing activities.

We feel that the amendment permitting those State reserve systems to affiliate with the national system and function in conjunction with and in cooperation with it is desirable both from the point of view of the long-time permanent functioning institution and from the viewpoint of the Federal home-loan banks getting into early and effective operation.

Mr. LUCE. I asked you at the previous hearing how you felt about the mortgage title and guaranteeing. What is your judgment on that?

Mr. BODFISH. Well, I think there is no reason why they should not be permitted to participate if they are rigorously examined, inspected and supervised in the same manner that the banking institutions are, and if they meet the requirements as to making home mortgage

loans. I suppose they would qualify primarily as insurance companies. I might say that by and large, however, at least out our way, they have been short-term lenders rather than long-term lenders. They often broker insurance funds and that sort of thing. I do not see that they can be debarred if they meet the requirements of inspection, examination, and capacity to do long-term business and their financial condition is good. Of course, I think the participation in the system is going to be greater if it is somewhat restricted to institutions that are specialized in home financing. We must not try to put too many different kinds of things together or else we will defeat some of our main purpose and discourage participation on the part of purely home financing institutions.

Mr. REILLY. What do you think about the testimony that has been given on the proposition of charging the banks interest on Government advances in order to let the Government out of this banking system?

Mr. BODFISH. I have an odd judgment of that, Mr. Chairman. I think that the quickest way to get the Government out of this banking system, as far as its advancing of money is concerned, is to keep the capital subscription up to one per cent and to put the Government funds in as an advance or loan without return, so that this system can pay reasonable dividends to participating members right from the start. It is my judgment—and it is purely a judgment—that if Government capital would go in there without return, as purely an advance, to help get this bank started running—

Mr. REILLY. It would be the first time the Government ever did anything like that?

Mr. BODFISH. Absolutely not, as I understand it.

Mr. REILLY. When?

Mr. BODFISH. You just gave \$125,000,000 to the Federal farm-loan system. You originally set up and started that institution.

Mr. REILLY. The Federal farm-loan system is a private institution for the benefit of the mortgagors. No private people make any money out of it. The Federal reserve system started with a Government loan, but was paid right back. That is for the benefit of the banks and the Government makes money out of it. If the Congress passes this bill, it will be the first time I know of where the Congress has put in money where private investors will get the benefit from it.

Mr. BODFISH. Of course, Mr. Chairman, as far as building and loan associations are concerned and the cooperative banks and the homestead associations, they do not come within the category of private capital. What we have is cooperative form of institution.

Mr. REILLY. It is cooperative, but there will be others in there besides the cooperatives. A mortgage bank that will go in will get a benefit from this proposition that mortgagors will not get.

Mr. BODFISH. That is true.

Mr. REILLY. In this bill you provide for establishing something that has never been accomplished before during the history of this United States Government. Do you, Mr. Luce, contend otherwise?

Mr. LUCE. That is true, Mr. Reilly, but as I have been contending, if the Government lends capital to the system, repayment is coming out of the surplus, and therefore the more interest the Gov-

ernment gets the longer it will take to get repayment of capital, will it not?

Mr. REILLY. That is true, but as this bill is drafted now they get \$150,000,000 and nobody knows when the Government can get out of it.

Mr. BODFISH. But everybody who comes in to participate and get any benefit has to contribute to the retirement of that Government capital.

Mr. REILLY. Providing when the banks are up to the same amount of money the Government has in it—

Mr. BODFISH. Yes, as we get more money, and if we can make it attractive, that accelerates the retirement of the Government capital.

Mr. REILLY. Why should the membership get any interest on their investment in this bank before the Government is all paid up?

Mr. BODFISH. I can only speak, Mr. Chairman, for the building and loan associations and their point of view, of course. Our institutions operate on very, very narrow margins. The typical spread between the rate we pay our investing members and our borrowing members is from 1 to $1\frac{1}{2}$ per cent at the most. That narrow spread necessitates that we keep practically all of our capital employed at all times; for example, to-day when your banks are boasting that they are 50 or 60 per cent liquid, the building and loan associations all over the country right to-day have practically 90 per cent of their resources invested in home mortgage loans just as they did at any other time. The balance—that is, 10 per cent—(1) they accumulate some reserves, and (2) have a little cash on hand, and (3) make stock loans to investing members. Our building and loan associations with their mutual and cooperative nature can ill afford to take a fairly substantial portion of their money and put it into an inactive or noninterest-bearing employment, and that is what we would force them to do for a number of years if we did not give them some dividend return.

Now, what would the result of that be? The people that were pressed to the point of having immediate borrowing needs, that would not debar them from coming into the system. But there are hundreds of sound, well managed institutions that we want to make a part of this system not because they have immediate borrowing needs, but so that the system will have an influence on their business practices, and so it will make them more sure of themselves that they will be taken good care of when the time of need does come. Those institutions may not be very ready to put capital into an institution from which they can get no return, as they may not have immediate need for the system.

Mr. REILLY. I am looking at the fact that the one great objection of this bill is the Government of the United States is putting up \$150,000,000—how long the money will be used nobody can tell at the present time—while building and loan investors are going to enjoy some of that, a substantial percentage is going to institutions that are not cooperative building and loan organizations, and, as I said, that is establishing a precedent. It may be the emergency demands it, but you will be up against the hard fight in the House, and I do not see any reason why there should not be a rate of inter-

est provided from which both sides would draw equally, and then the rest go to pay the Government back.

Mr. LUCE. Mr. Chairman, I am not inclined to take issue except in one particular. This present Congress seems disposed to throw principles out of the window. The other day it passed a bill to furnish money to private individuals to buy stock in farm-loan associations, and while this bill does not go so far as to advance individuals any money, yet if we are going to take precedents as an example we could go the limit.

Mr. REILLY. That is because of the unbounded sympathy for those who are badly pressed for funds.

Mr. BODFISH. Mr. Chairman, to show the same sympathy for the hard-pressed small home owner we desire to serve—and there is another phase also, and you referred to it in your statement—the emergencies of the situation probably justify the Government in extending the cost of that capital to them for three or four or five years in steadying and righting the whole small mortgage field and home financing business. After all, we do not want to save dollars and lose hundreds in our present business situation.

Mr. LUCE. But in view of the objectives of the bill, as we all understand them, interest makes no serious difference. This is not to be primarily a money-making enterprise. So that if the system is started with 2 or more per cent, or whatever it might be, having interest charges would not be a serious injury to it.

Mr. BODFISH. I do not think it would be a serious injury to the system, but I do think it would greatly retard the rapidity with which we could get an immediate participation all over the country and get it to functioning. We are not interested in this thing for profit; as a matter of fact, I think I am authorized to say that if there are any reservations on that score in the minds of the committee it would be perfectly satisfactory to us to have you put a limit on the dividend that comes to the participating members—say 6 per cent—so that it would not become the source of improper profit. But I do think that it is important that in connection with our building and loan associations that we do not have to face a situation that the participants of the Federal reserve system had, in that they received no dividend returns for three or three and a half years; and Mr. Reilly well understands the nature of our institutions is different from a banking institution, and we want to be in a position to get our institutions into the system immediately and without undue delay.

Mr. LUCE. There is another angle to it, Mr. Bodfish: The Government lends you money say at 4 per cent. You have a spread of 1 per cent or 1½ per cent, you lend at 6 per cent, and therefore you will make something on every dollar the Government lends you.

Mr. BODFISH. Oh, yes; that is true.

Mr. LUCE. And the point is that the delay might be unfortunate.

Mr. BODFISH. I think the emergency of the situation almost justifies some expenditure in getting this banking system quickly into operation.

Mr. WILLIAMS. Have you anticipated or is it your idea that the members of this institution will be rather consistent and constant borrowers from it or just during the period of depression?

Mr. BODFISH. I think there will be fairly constant borrowing from the system. I think we have got a period ahead of us in which funds are not going to be as plentiful in the home financing channels as they have been in the past 20 years, and I think we are going to need some of the funds from the system with regularity to carry on our normal business.

Mr. WILLIAMS. The question of what dividends would be paid by the institution would depend, of course, upon the extent to which it loaned money and the extent to which it borrowed?

Mr. BODFISH. I think, Mr. Williams, once this system is in operation there is no question but what there would be sufficient demand for services to give the 12 banks that return which will support their activities and pay a reasonable dividend to shareholders.

Mr. WILLIAMS. To what extent do you finally anticipate the institutions of the country would go into this bank?

Mr. BODFISH. You mean the amount of capital they will contribute.

Mr. WILLIAMS. Yes; finally. Have you an idea as to that?

Mr. BODFISH. My judgment, offhand, would be \$450,000,000 to \$500,000,000.

Mr. WILLIAMS. And in order to make a return on that there would necessarily have to be rather consistent and constant borrowings on the part of members to pay any dividends at all?

Mr. BODFISH. That is true. If the building and loan associations alone borrowed all of the \$450,000,000 they would be borrowing less than 5 per cent of their resources.

Mr. WILLIAMS. But if there should come a period of prosperity which we all hope for in this country, when the borrowing would not be necessary, then where would your capital investment be?

Mr. BODFISH. I think your capital is there, and these banks will continue to employ it if necessary at lower rates, which will influence and lower the general cost of capital in the home financing field, which is one of the desirable things that this banking system should bring about.

Mr. REILLY. Do you expect \$500,000,000 capital to be paid into this bank? Was not that your former statement?

Mr. BODFISH. I would say, considering the institutions that are included and that will probably participate, I anticipate that when this thing is really under way and steady going there will probably be \$500,000,000 capital.

Mr. REILLY. The Federal banks have taken \$1,100,000,000 of bonds on \$65,000,000 capital. How could you use that much capital?

Mr. BODFISH. I think that is one of the reasons that the Federal land banks are where they are.

Mr. REILLY. You have the other provision. You only give 60 per cent and they give 100 per cent.

Mr. BODFISH. I think that is one of the reasons that their bonds are down. Their underlying bank structure does not have the funds and the resources to support the market for their bonds. I think that there will be many periods in which this bank system will be operating without any volume of bond issue outstanding. The bond issue is the expanding device to get more funds in times of unusual demands or great need.

Mr. REILLY. Is it your idea this bank will operate largely on capital and not the sale of bonds?

Mr. BODFISH. Yes; I think there will be many periods, Mr. Chairman, in which the principal capital employed will be the capital of the banks rather than any large volume of bond issue.

Mr. REILLY. A witness appeared here the other day who said heretofore there was a necessity for a billion dollars to loan to the institutions that would borrow from this bank.

Mr. BODFISH. There is right to-day. Of course, I consider this a very unusual situation; at least I hope it is. But we could use a billion dollars in the small mortgage field to-day and it would be to the benefit of the small home owner almost entirely, as he has no source of credit at the present time.

Mr. REILLY. The greatest part of that will have to be gathered from bond sales, will it not?

Mr. BODFISH. Absolutely, but I think that volume of bonds would decrease when we got into a prosperity period.

Mr. LUCE. That has been the experience of the Federal reserve system, has it not?

Mr. BODFISH. Yes.

Mr. LUCE. There was a time about five or six years ago when the witnesses before the committee worried about the fact that the Federal reserve system might not pay its expenses, and there was a great deal of disturbance over that. It fluctuates, does it not, according to the business situation of the country?

Mr. BODFISH. Yes; very much so.

Mr. LUCE. I also want to get a chance to bring in here the fact that it fluctuates according to local conditions. The Senate hearings disclosed that situation, numerous witnesses saying, "We do not need this thing," and numerous other witnesses saying, "We do need this thing." Further, a study of the reports of the answer to the questionnaire sent out by the Department of Commerce indicates the same thing, that they vary according to the local situation, and they vary from time to time, and I have supposed that this system would work much the same way. There was one witness who went through the fluctuations of business cycles, and he seemed to show that about once every 10 years there would be an important need for this sort of thing, and then it would go down and come up again.

Mr. REILLY. I think sometimes they could get all the money they want locally.

Mr. BODFISH. I have about two minutes in which I want to make one more comment. I notice again that the Glass bill provides for \$200,000,000 and without return to the Government of the capital. Of course that was originally paid into the Government, I suppose, by the earnings of the Federal reserve banks.

Mr. REILLY. Where does it go?

Mr. BODFISH. It goes to this closed bank pool.

If fundamental amendments are further suggested, Mr. Reilly, we would like an opportunity to discuss them, because we are very much interested in the details and structure of the bill. Beyond that I think our testimony is complete at this point.

Mr. Hancock asked me a question the other day which I would like to answer for the record, and that is this: He asked where and how this money would be used, and I enumerated several things to him: The payment of withdrawals, remodeling, and making alterations to

buildings where needed, and there is a very substantial need for funds to purchase some of these vacant houses that some of the opposition witnesses are so concerned about.

On behalf of the president of the United States Building and Loan League, I wish to submit a brief statement of perfecting amendments which we would urge you to consider in your final deliberations on the home loan bank bill. I have discussed several of these amendments in my testimony this morning. Undoubtedly the legislative drafting counsel can and will make great improvement in the language which we have submitted and we will be quite satisfied with those that you approve being placed in such form and language as he advises.

SUGGESTED PERFECTING AMENDMENTS

The home loan bank bill in its present form has been submitted to a large number of building and loan associations and their State and local organizations. A number of amendments have been advanced which will assist in perfecting the bill. In the main, the suggestions which follow do not concern or affect the policies or principles established in the bill.

I. Some comment has been made regarding the portions of the bill describing the institutions eligible to become members. It is assumed that sound principles of finance and banking should be observed in this important section (sec. 4). Real estate loans to home owners and home buyers should be long-term loans. Further, banking institutions should have a reasonable amount of time deposits to warrant their making loans which can not be called in times of distress or periods of contraction to attain liquidity. Their second line of defense should be the Federal reserve system. Commercial banks which have no time deposits should use the Federal reserve system entirely rather than the home loan bank system.

Building and loan associations make nearly all their investments in long-time home mortgage loans. Insurance companies, to be eligible, should similarly be such as make home-mortgage loans.

In section 4, page 4, strike out lines 4 through 11 and insert in lieu thereof:

"(1) Building and loan associations, savings and loan associations, cooperative banks, and homestead associations, which in the judgment of the board make long-term home mortgage loans and whose financial condition is satisfactory to such board.

"(2) Any of the following whose time deposits and financial condition, in the judgment of the board, warrant their making such home-mortgage loans as, in the judgment of the board, are long-term loans: Savings banks, trust companies, and other banks; and

"(3) Insurance companies which, in the judgment of the board, make long-term home mortgage loans and whose financial condition is satisfactory to such board."

II. Building and loan associations in Maryland, although not under supervision, are anxious for recognition in the measure and their representatives in the Senate and House have advanced amendments to the bill to permit their participation. This will necessitate the recognition of the ground-rent system, which is very widespread in Baltimore, as well as some device for permitting participation without supervision, or permitting participation for a period until supervision of building and loans, similar to that existing in 46 other States, can be obtained.

In order to recognize the ground-rent feature, the following amendment seems satisfactory and in keeping with the spirit of the measure:

Section 2, page 2, subsection (6), line 12, insert after the word "estate," the following:

"In fee simple, or leasehold under a 99-year renewable lease providing for the payment of a definite ground rental, and"

III. Building and loan officials and attorneys have studied carefully the definition of "unpaid principal" and feel that it is fairly satisfactory, although some additional language will make absolutely clear the recognition of the condition that prevails in most States, in which borrowers accumulate credits on shares, which shares are ultimately used to retire the loan.

In section 2, page 2, subsection (7), after line 24, insert the following:
 "or where under the contract of loan such shares at maturity cancel the loan,"

IV. A clear definition of "amortized home-mortgage loan" is desirable.

Therefore, in section 2, page 3, after line 2, add a new subsection (8), as follows:

"(8) An 'amortized or installment home-mortgage loan shall, for the purposes of this act, be a home-mortgage loan to be repaid or liquidated in not less than eight years, by means of substantially equal regular periodical payments made (1) on account of shares or shares of stock pledged as collateral for the repayment of such loan, or (2) on account of the principal debt."

V. In a number of States, particularly in New York State and the State of Washington, building and loan associations are almost exclusively known as "savings and loan associations." As the three important names, under which building and loan associations are incorporated and conducted, appear in section 4, lines 4 and 5, it would seem wise to avoid any confusion or misapprehension by including the term "savings and loan associations."

Therefore, in section 4, page 4, subsection (1), line 4, after the word "associations," insert the following:
 "savings and loan associations."

VI. The provision appearing on page 4, lines 12 to 16, has raised considerable question and comment as to the effect and desirability of the phrase "or of the bank of a district adjoining such district." Building and loan officials have suggested the important possibility of undesirable institutions joning out of range of those institutions most familiar with their practices. To a certain extent, this outweighs the proximity, or convenience, argument.

The following language might be added to the sentence ending line 16, page 4, subsection (b):

"if demanded by convenience and then only with the consent and approval of the board."

VII. In section 5, subsection (e), page 6, lines 15 and 16, there appears to be an indefiniteness or ambiguity of language, which could be remedied.

VIII. In section 5, subsection (i), page 10, line 2, the words "to be" should be inserted after the word "amount," to achieve the intent sought to be conveyed.

IX. It would seem in keeping with the policy of the bill that a member, with the approval of the board, should be permitted to dispose of its stock not only to another member but also to an eligible subscriber.

Therefore, it is suggested that to section 5, subsection (j), page 10, line 7, after the word "member," be added the words "or eligible subscriber."

X. In section 6, subsection (d), page 11, some question has been raised as to the language exactly accomplishing the intent of the section. The intent was to group into three groups all of the members without regard to the nature of the institutions, the grouping to be determined entirely by the size, and the size to be determined entirely by the sum of the unpaid principal of the home-loan mortgages held by the member. Some slight rearranging or additional study will suggest a way of eliminating any possible misinterpretation.

XI. As the term "unpaid principal" has been defined as used throughout the act, it would seem wise to rely upon the clearness of meaning of that term rather than to include a new term, "net value."

Therefore, in section 6, subsection (d), page 11, line 14, strike out the word "net," and in line 15, the word "value," and insert in lieu thereof the words—
 "total amount of the unpaid principal."

XII. In section 6, subsection (d), page 11, line 15, the term "home-loan mortgages" appears. In the definition appearing on page 2, line 9, the term is "home-mortgage loans." Apparently this is a transposition.

XIII. It has been advanced that, in section 8, particularly in subsection (b), subsection (2), the language eliminates certain long-term amortized mortgage loans, the thought being that during stress periods real-estate values may be somewhat depressed, causing current appraisals to rather closely approach the unpaid principal, although 50 per cent of the unpaid principal can very safely be advanced.

The preference to the long-term monthly-repayment amortized mortgage, outlined by the President, and the protection of the bondholders can be achieved by rewriting several sections. This is most clearly shown by reproducing in this memorandum a completely revised page 15. Some additional language appears in subsection (1), in order to care for the building and loan practice

which accumulates credits on shares, to be used for the ultimate retirement of the mortgage loan.

"limitations as the board may prescribe. Any such advance shall be subject to the following limitations as to amount—

(1) If secured by a home mortgage given in respect of an amortized home-mortgage loan which was for an original term of eight years or more, or in cases where shares of stock, which are pledged as security for such loan, mature in a period of eight years or more, the advance may be for an amount not in excess of 60 per centum of the unpaid principal of the home-mortgage loan; in no case shall the amount of the advance exceed 40 per centum of the value of the real estate securing the home-mortgage loan.

(2) If secured by a home mortgage given in respect of any other home-mortgage loan, the advance shall not be for an amount in excess of 50 per centum of the unpaid principal of the home-mortgage loan; in no case shall the amount of such advance exceed 30 per centum of the value of the real estate securing the home-mortgage loan.

(b) No home mortgage shall be accepted as collateral security for an advance by a Federal home-loan bank if, at the time such advance is made (1) the home-mortgage loan secured by it has more than 20 years to run to maturity; or (2) the unpaid principal of such home—"

In order to have clearly before committees and drafting counsel the principles and wishes of the President in the above matter the following is quoted from the published text of President Hoover's statement on the proposed establishment of home loan discount banks of November 13, 1932:

"(f) The maximum amount to be advanced against the mortgage collateral not to exceed more than 50 per cent of the unpaid balance on unamortized or short-term mortgage loans and not more than 60 per cent of the unpaid balance of amortized long-term mortgages, and no advance to be made on mortgages in default. Such loans are to be made on the basis that there are sound appraisals of the property upon which such mortgages have been made. In other words, given sound appraisals, there will be advanced in the case of short-term or unamortized loans 25 per cent of the appraisal, and in case of amortized long-term loans 30 per cent of the appraised value of the property."

XV. In section 8, subsection (d), page 17, lines 19 to 21, there remains some language that is apparently carried over from an earlier draft of the bill, when the theory in regard to the subscription for capital stock was different. In the present bill the assumption is that members purchase stock in the same fashion as the banks purchase stock in their Federal reserve bank and remain members rather than retire their stock and cease to be members of the system as borrowings are repaid or discontinued.

It would seem wise, therefore, to strike out, in line 19, the language after the word "therefor" and substitute a period for the comma; also all of lines 20 and 21.

XVI. Section 9 deals with the general powers and duties of the banks. Subsection (b) of section 9, on page 18, deals with the board's power to prescribe regulations for the assignment, deposit, and custody of collateral-securing bonds. It has been suggested, and with some wisdom, that a specific provision be inserted at this point providing for a "registrar" and duties with regard to the handling of collateral, or a specific provision authorizing the board to act as trustee and to carry out the duties of trusteeship.

XVII. There are a number of States in which home mortgages of building and loan associations are nonnegotiable or nonassignable. Where all sums paid in by members on shares in associations in such States do not sustain a creditor liability and borrowed money is a first lien upon all its assets, a short-term loan could safely be made, under such conditions, upon the direct note or obligation of such association.

On page 21, subsection (3) of (i), section 9, line 18, after the word "prescribe," add the following:

"*Provided, however,* That such advances may be made without collateral security to members whose creditor liabilities, exclusive of all advances from Federal home loan banks, do not exceed 5 per cent of the assets of the member receiving such advance or advances under the provisions of this subsection."

XVIII. There is one State which has a State agency similar in principle and procedure to the proposed Federal home loan banks. Two others have such agencies before their State legislatures at the present time. It has been wisely proposed that these agencies be permitted to affiliate as members with the

Federal home loan bank system. The following amendment will accomplish that purpose with due recognition of the needs of the Federal system:

"SEC. — Organizations, the membership of which is confined exclusively to (1) building and loan associations, savings and loan associations, cooperative banks, or homestead associations; or to (2) savings banks, trust companies, or other banks; or to (3) insurance companies, if the membership therein composes more than a majority in number of the institutions of such class organized under the laws of a State, if such organizations are organized for the purpose of providing sources of credit for members and if such organizations are subject to inspection and regulation under the banking laws or under similar laws of the State, shall be eligible to become members under this act by subscribing and paying for such an amount of stock as the board may determine. In all other capacities they are members for the purposes of this act and subject to any additional rules and regulations as may be prescribed by the board relating to such State organization or agencies."

Several other items which are not essential to the effective functioning of the system might be given attention. For example, the limitation on salaries other than members of the board; a separate limit upon the banks with regard to their power to issue bonds; a provision authorizing the Treasury to prepare forms of bonds and act as custodian of the plates and dies; a distinct procedure in connection with membership applications, etc.

Mr. WARREN. I do not want to testify, but may I ask as to whether or not the brief that was submitted by Judge Stickle on behalf of the New Jersey Building and Loan League at the Senate hearings is to be printed, and, if not, may I have the privilege of having it printed in the record of this committee? My State has 14 per cent of the building and loan assets of the country, and we are in disagreement with the bill in its present form; and a brief has been filed on behalf of the league by Judge Stickle, and we would like very much to have that considered by your committee. I think Mr. Luce has had a copy of that brief sent to him by Judge Stickle.

Mr. LUCE. Is it in the record?

Mr. WARREN. It is not in the printed pamphlet. I do not know whether it will be included in a subsequent volume, but I would like to have you have that brief before you.

Mr. REILLY. How large a brief is it?

Mr. WARREN. I think it is about 20 pages of typewriting.

Mr. REILLY. Can you not come before the committee and give us the substance of it?

Mr. WARREN. Can you not do it, Judge?

Mr. STICKLE. I can furnish a copy to each one of the members of the committee, if you want it.

Mr. REILLY. I think you better furnish a copy to all members of the Banking and Currency Committee.

Mr. WARREN. We are in disagreement with the building and loans asking a dole from the Government. We see no reason why the capital furnished by the Government and the capital furnished by the associations up to the time of repayment should not get the same return.

Mr. LUCE. Loan or dole?

Mr. WARREN. It certainly is a dole if it does not bring a return.

Mr. REILLY. Did you testify before the Senate committee?

Mr. WARREN. Yes, sir.

Mr. REILLY. Is not that information in the Senate committee hearings—we will be here at 2 o'clock; will you be back then?

Mr. WARREN. I did not come to testify; but if you gentlemen desire me, I will do so, and Mr. Stickle will come with me.

Mr. LUCE. I am told it may be printed in another volume.

Mr. REILLY. I know, but I would like to ask these gentlemen some questions, and if convenient they may return at 2 o'clock.

(Thereupon, at 12.30 o'clock p. m., the committee recessed until 2 o'clock this afternoon.)

AFTER RECESS

Upon the expiration of the recess, the hearing was resumed at 2 o'clock p. m.

STATEMENT OF FRED G. STICKEL, JR., REPRESENTING THE NEW JERSEY BUILDING AND LOAN LEAGUE

Mr. REILLY. We will hear you for a short time on this bill. I understand that you have testified at the other hearings?

Mr. STICKEL. I did.

Mr. REILLY. Give us sort of a résumé of the high points as you view this bill, and its defects, if any, as you view them.

Mr. STICKEL. I have been in this building and loan business as lawyer, director, and stockholder for over 20 years. I filed a brief with the Senate committee, and I shall try to epitomize what I said therein.

The purpose of this bill, as I see it, is a dual one; first, to take care of an emergency, and second, to provide for the future—for future building, for emergent purposes, and for expansion purposes. The emergent need arises out of the fact that some of the eligible member institutions, like the banks, made mortgage loans—short-term mortgage loans—during that hectic period when we all tried to get rich, and when their liquidity needs arose they found it necessary to call their mortgages to increase their liquidity, and that produced foreclosures and some hardship among the home owners.

The building and loan situation does not arise for the same purpose. The building and loan mortgage is a noncallable, selfcanceling, and a profit-sharing mortgage, the kind of home-loan mortgage that we should have, and that is one function of the building and loan. The other function is to teach systematic thrift for a rainy day; and if you are to teach systematic thrift you must recognize as an inherent part of that teaching the fact that when a man saves he wants to be able to get his money when the rainy day arrives that he saved for and that has resulted in the recognition of the right of an investing shareholder to withdraw his money on reasonable notice. In our State it has been recognized for over 30 years as part of the legislative policy of the State, and it has been recognized to the extent that after 30 days' notice the associations may apply half of their monthly receipts, and after that period of 5 months it is possible that a suit may maintain if a withdrawing shareholder is not then paid, and there are such suits pending. Consequently, in our State the needs are more emergent and more emphatic, perhaps, than in other States, because a withdrawing shareholder whose shares are not paid after six months may sue, with the attendant consequences, one of which must be obvious to you, and I do not think I ought to state it.

A maturing shareholder, one who has paid in his shares, and with profits, his shares having now arrived at a maturity value, also may be said to become a creditor. Therefore you have those two potential creditor obligations, and in our State they are substantial to-day, very substantial.

We think that this agency should, as one of its chief functions, seek to meet the emergent demand of the banks which causes it to foreclose if it can not liquidate upon short-term paper, and we think the emergent needs of the building and loans should be met, namely, with money to meet withdrawals and maturities, so as to avoid applications for liquidation of associations, and also to do social justice in that those who are applying for withdrawal in many cases need their money as much as the man who has his money in a bank that has become defunct.

These emergent needs, as I conceive it, can only be met through this agency. I do not think the Reconstruction Finance Corporation has anywhere nearly enough money to meet the needs of the building and loan associations throughout the United States. Certainly that has been our experience, so far as the building and loan associations in New Jersey are concerned; and, indeed, as I understand it, the Reconstruction Finance Corporation was not organized for the purpose of helping building and loan associations so much as it was for helping banks and railroads, and such aid as the building and loan associations are to get, I imagine, is incident to the desire to maintain the banking institutions and because the relationship between the building and loan associations and the banks is such that danger to the building and loan associations reflects on similar financial institutions like banks.

Therefore this agency, it seems to me, should supplement the temporary character of relief that may be given by the Reconstruction Finance Corporation, and therefore it seems to me that as an expression of legislative policy this bill should indicate that its primary and dominant purpose is to take care of the existing emergency, and when that emergency has been taken care of, there may then be need for taking care of other needs that may arise or exist in the country.

To use or to divert the funds of the bank, such as was proposed, for new construction, at the expense of existing agencies, certainly would neither be wise nor sensible. The existing agencies, all of them, whether banks or building and loan associations, have a considerable quantity of real estate on hand, the necessary result of the times, and until that has been liquidated and disposed of, new construction in such territories would probably not be necessary. So, I repeat, that it seems to me that the dominant and primary purpose of this bill should be to meet the conditions that have arisen in these eligible member institutions to enable them to meet their immediate needs and purposes.

I have gone over the bill with considerable care in its various stages, particularly the original, but the very much improved bill which was evolved in the Senate—

Mr. LUCE. In the Senate? That is not giving us much credit.

Mr. STICKEL. I will be very glad to amend that, because I understand that the credit is due to the House; but the point that I wanted to make was, whatever its source, it is a big improvement over the

original bill, and in going over it there seemed to me to be some essential amendments and some desirable amendments that should be made. These amendments I have indicated in my brief.

First, briefly, one of the amendments I suggest is that you define an amortized mortgage, or an amortized mortgage loan, because in some States, including that, I think, of the chairman, the payments made under the mortgage contract are made on the shares and not upon the mortgage debt itself, and not until the shares arrive at their maturity value do they cancel the debt.

The obligation is a dual one. You become a member and buy shares, and you borrow money from your member association and pay interest on your debt. You make your payments on your shares, and when your shares, plus the profits, have arrived at a maturity value equal to your loan they are canceled.

Mr. REILLY. What amendment would you suggest to the bill?

Mr. STICKEL. I have in my brief an amendment which I think defines what constitutes an amortized mortgage or an amortized mortgage loan.

Mr. REILLY. We will take cognizance of that brief.

Then, I think the definition of "unpaid principal" is deficient, in that it fails to recognize the situation which I have just described, namely, that the payments are made on account of shares and not on account of the debt, and I have in several instances suggested amendments that would correct that, which I do not think is necessary to read, because you will have them.

Another suggestion I have made is this: In some States, building and loan associations and banks have banded together to create reserve systems of their own. We have one pending in New Jersey, a building and loan reserve, and there has been one, as I understand it, enacted into law in Congressman Luce's State.

Mr. LUCE. Yes.

Mr. STICKEL. State banks and building and loan associations.

It ought to be possible, where such financial institutions have been foresighted enough to try to solve their own problems and to form State agencies, to be able to link up with your Federal agency and to borrow from the Federal agency as a building and loan State unit, rather than to make the bank contact 1,561 units, as in our State, and I have drafted an amendment which would make that possible.

Mr. REILLY. In other words, you want an amendment so that the central bank of New York may become a member of this organization?

Mr. STICKEL. That is correct, or of any other State, and I have an amendment to that end.

Another matter is that under the bill a subscriber who can not subscribe to stock must stand any loss or reduction in the value of securities deposited by it pending authority from its State to purchase the stock of the bank. There may be some good reason for that, but I did not see it.

Mr. REILLY. What difference would it make? He would only have to put up more security, and he would get it back finally. That provision would require him to put up in instances more than the par value of the securities.

Mr. STICKEL. That refers to a stock subscription.

Mr. REILLY. I know, but he has to put up some cash, and the rest securities, or all securities.

Mr. STICKEL. I do not stress it. I call attention to it for what it may be worth. In our State we have the legislature in session and we have had a law enacted so that we may join, and we do not have to put up stock.

Another point is that the bill seems to prevent a member bank of disposing of its stock to an eligible association. I do not know the necessity for that. It ought to be possible for a member of the bank, if it wants to sell its stock to an eligible association, to do so. As it stands, it can not do so, and that might interfere with mergers and similar combinations of member banks that want to transfer. As drawn, an eligible member must become an actual member before the stock could be sold to it, and then it perhaps would not want it.

Now, then, on page 13, line 5, there is a legislative expression of policy, which I am inclined to think debars loans, or may debar loans for withdrawals or for policy loans. It is an expression of policy which I do not think goes far enough, and it either should be eliminated altogether—

Mr. REILLY. What is the language of that part of it?

Mr. STICKEL. It says:

Such board of directors shall administer the affairs of the bank fairly and impartially and without discrimination in favor of or against any member, and shall, subject to the provisions hereof, extend to each subscriber applicant such advances as may be made safely and reasonably with due regard for the claims and demands of other members, with due regard to the maintenance of adequate credit standing for the Federal home-loan bank and its obligations, and with due regard to the orderly provision of credit to aid in the conduct of home financing in the various communities within its district, and within the district as a whole.

Of course, the payment of money to associations to enable the shareholders to withdraw property could not be said to be extending credit to aid in the conduct of home financing. It would be taking money out of the associations and not putting it in.

Mr. REILLY. Your understanding is that that provision would not permit the loaning of money, on the rediscounting of mortgages for the purpose of taking care of payments of taxes and the payments of withdrawals?

Mr. STICKEL. I think it would be a matter of very grave doubt, and I think it would be greatly strengthened if you would say, "and with due regard to the liquidity needs of the subscribers and particularly those arising out of applications for policy loans, share loans, maturities and withdrawals of stock or deposits."

If it means to give us that relief, there should not be any objection to stating it plainly and not leaving it to the courts to determine the question. The ambiguity should be removed.

Mr. LUCE. But the more you specify, the more you invite the doctrine of exclusion. Possibly the provision could be reworded with less danger of that.

Mr. STICKEL. Yes. I have no pride of language, but I think the ambiguity ought to be removed, either by expunging it altogether or by making it say what you mean.

Now, in another section, if a member is denied the right to borrow money from the bank, should not the subscription be at once returned,

and if you fail to so provide, is there not a danger that it will keep institutions out of the bank? Why should the Federal bank retain the subscription of a member to whom it has indicated it will not loan any money. There is language in the act that does exactly that, but I do not think you mean that.

Mr. CAMPBELL. If they presented eligible securities—

Mr. STICKEL (interposing). Then, under the act, the board must determine whether a member is a member and if it can borrow money, and if it does not put that member on the eligible list—and it may refuse to put it on the eligible list under the act—why not return its subscription, because the bank is no good to it then.

Mr. CAMPBELL. I think it should be done.

Mr. STICKEL. I think that is a matter to look into.

It seems to me also that the board should be given the power to be the trustees under the act for the holding of bonds, and that the Federal banks might have similar power. I do not especially emphasize that, but it may be well to think of.

Mr. REILLY. You mean a board instead of a registrar?

Mr. STICKEL. Yes. In other words, the power ought to exist. I do not say it should be done in every instance, but the board ought to have the power to act.

Mr. REILLY. What benefit would that be?

Mr. STICKEL. It would simply mean that the board would have a little better control over the situation, and instead of taking an outside agency to control the matter, the board would keep the matter in control itself.

Page 21, paragraph J, certainly gives unnecessarily broad power to invest unused funds, under which those in control could do almost anything, even to playing the stock market, if they wished. There is no limitation at all. The same applies to the reserves on page 25.

Mr. REILLY. That is, reserves that the bank has on hand?

Mr. STICKEL. Yes, and the unused funds. It seems to me that there ought to be some limitation as to what such funds could be put into, instead of leaving it as wide as it is.

Mr. LUCE. We have had, in past years, a good deal of discussion in the committee on the principle involved there. Sharp differences of opinion have arisen as to whether we have done well to leave the Federal Reserve Board with so much power, and I suspect they are going to rise again in our discussions on the Federal Reserve Board situation. There have been those who have criticized the board for not acting to the extent of its powers, and others have said that we ought to order the board to do certain things. That is conspicuous at the moment in the matter of Mr. Strong's bill to stabilize the currency, where he desires to direct the Federal Reserve Board to use all the powers it has for stabilization. The board has hitherto been reluctant to accept such directions, and has opposed the bill. Every time you put another restriction upon or give another direction to the dominating board, you are inviting trouble. Much is to be said that the best policy for the Government is, as far as possible, to pick the best administrative officers to be had and then let them use their judgment.

Mr. STICKEL. So far as I am concerned, I mention it merely as a matter of policy to be determined by this body, rather one which I

think is vital to the bill. I do not think it is vital to the bill one way or another, because I feel as you do, that we can trust those that the members of these banks shall select to administer their affairs. I mentioned it because I did not know whether that is expressed policy, or whether it was an oversight. If it is expressed policy, I can see advantages, and also disadvantages.

Mr. LUCE. You went so far in your remarks as to intimate that these powers might be used by the central board for lending money to be used in the stock market.

Mr. STICKEL. It would be possible.

Mr. LUCE. It would be possible, but is it conceivable?

Mr. STICKEL. No, I do not think it is.

Mr. LUCE. Then why pay regard to it in legislation?

Mr. STICKEL. I have always felt that there ought to be wide powers given to administrative bodies, with some ultimate limitation. I do not believe in trying to make detailed limitation. I think limitations should be as general as they can possibly be, but there ought to be some things that they could not do. That is what I had in mind.

Some of our members in our State rather dislike the idea that each bank should be liable for the debts or management of each other bank; that is, New Jersey banks would be liable for the debts of the Minnesota bank, and vice versa. That is probably a matter of policy, and, so far as I am concerned, if it must be in the bill I should not oppose it, but I would prefer that it be out.

Mr. LUCE. At the present moment, the only thing that saves the Federal land banks is a provision of that kind.

Mr. STICKEL. It is? I do not know that that is so.

Mr. LUCE. You were aware that some of the banks have been in such dangerous position that they had to call for relief from the other banks?

Mr. STICKEL. Yes, I knew that.

Mr. LUCE. It is a matter of public knowledge. That is one of the important elements of value in the Federal farm loan bonds.

Mr. STICKEL. Then there are one or two other amendments which I will refer to in the brief, and to which I do not think it will be necessary to present. They are largely in connection with the effect of the language now used in defining what is unpaid.

Mr. REILLY. What difficulty can there be about defining unpaid principal?

Mr. STICKEL. There is no difficulty at all.

Mr. REILLY. That arises because of the fact in some cases a man pays up on his stock, and there is nothing paid on the principal of the mortgage itself?

Mr. STICKEL. Exactly.

Mr. REILLY. I think any court would construe the unpaid principal as the difference between his stock certificate and his mortgage.

Mr. STICKEL. But that is not the fact, because until the shares of stock arrive at a maturity value, there is no payment on account of principal. There is no intermediate point, and the courts could not construe it at variance with the actual contract.

Mr. REILLY. I take it that when a man goes to a loan bank in your State with the idea of building a home, he has certain payments that he has made on certificates?

Mr. STICKEL. As a matter of fact, when he applies for the loan he becomes a member at the same time, in most cases, that he takes out shares.

Mr. REILLY. But when he gets around to the point of building—

Mr. STICKEL. When he gets to the point of building, he takes out his shares at the same time. He comes to the association and says, "I want to borrow \$10,000." They say, "Very well; take out 50 shares of stock," and as a part of the contract of loan he takes out 50 shares of stock and agrees to pay \$50 a month on the shares and \$50 a month interest on the \$10,000 he borrows, and that procedure continues running parallel, \$50 on shares and \$50 on interest, the stock having been assigned as further collateral security for the debt. When the payments on the shares, plus the profits which he gets on the shares and which he gets equally with every other shareholder attain a maturity value of \$10,000, it serves to cancel the debt, but it does not do so at any intermediate point, and because of that it is necessary that the language be clarified so that it will clearly bring associations in the United States that do business that way within the benefits of the act.

Mr. REILLY. These loan banks, as a rule, start to build a house for a man before he has paid any money, except to buy some stock in that way?

Mr. STICKEL. Oh, yes; he does not pay any money when he subscribes, because the payments are monthly. For instance, I come to an association to-day, and I want to borrow \$10,000. I may have no investment at all in that association, but I must become a member. I become a member by taking out, we will say, 50 shares of stock, and then they will look at the property which I offer as security, and, when satisfactory, they may loan me up to 80 per cent of the value of the property. So I must put in 20 per cent of my own money.

Mr. REILLY. Where does he get the 20 per cent of the money?

Mr. STICKEL. That is his own money. He has to put 20 per cent of his own money into the transaction.

Mr. CAMPBELL. That could be a lot, could it not?

Mr. STICKEL. Of course, that 20 per cent is frequently saved in the association. In other words, he sometimes saves up to \$2,000 in the association. He withdraws that and pays it to buy the land or to make a payment on the house, and then he comes to the association and borrows the remaining 80 per cent. The association wants security for that, and so it takes a mortgage on the real estate as security and then, in order to make a loan from this mutual association, he has to become a member. They say, "You will have to take out that number of shares of stock that, at maturity, at \$200 a share, will cancel your debt."

That is the reason we think our method of saving money and getting a home is an admirable one, and one that the people of the United States should be educated to when getting a home, not to go to a bank and take out a 1-year mortgage or a mortgage for three years and at the end of 3, 6, or 9 years find that they have just as

much of a debt as they ever had, and that money that they were going to save was meanwhile used to buy a car. In our agency they have to pay monthly, and they share in the profits.

Mr. REILLY. In other words, you take the money away from them so fast that they can not get enough to buy an automobile?

Mr. CAMPBELL. That is a benefit, is it not?

Mr. STICKEL. We think it would be better for them to have a house, over their heads.

Mr. WILLIAMS. I am not entirely clear as to whether the home builder can start with nothing except the land. Of course, he must have that on which to build.

Mr. STICKEL. Yes. He may start with nothing except the land. In other words, he comes in and says, "I have a piece of land, and here are my plans. I want a construction loan." They look at the plans and the land, and the appraisers in the building and loan determine from that how much they want to lend him. They may, as a legal matter, loan up to 80 per cent, but as a practical matter they usually loan between 70 and 80 per cent.

When he knows how much he is going to get he has to supply the rest to build his home.

Do I make myself clear?

Mr. WILLIAMS. I do not know that you do. In other words, he would have to raise 20 per cent of the money?

Mr. STICKEL. Yes.

Mr. WILLIAMS. And furnish the land?

Mr. STICKEL. Not necessarily 20 per cent and furnish the land. He has to furnish 20 per cent in value, the difference between what he can borrow from the association and what his land and building will cost him.

Mr. WILLIAMS. He may start a home on nothing except the land?

Mr. REILLY. If the land is worth 20 per cent of the total value.

Mr. STICKEL. That is true.

Mr. REILLY. Under that plan, where does the second-mortgage shark come in?

Mr. STICKEL. He rarely comes in, because we will loan him in New Jersey so much of the value of the property, because of the monthly amortization, that the average borrower succeeds in raising enough money to pay 20 per cent, and the instances where the second mortgages are necessary are rare, but even in those instances the fact that he may pay his payments monthly and reduce the building and loan mortgage monthly makes it an admirable mortgage contract, because when he has paid that down far enough he can frequently go back to the building and loan and reinstate his loan, recast his loan, and get enough money out of the building and loan to pay for his second mortgage.

Mr. WILLIAMS. What are the interest rates?

Mr. STICKEL. Six per cent on the amount loaned, and he pays in many States a premium to get the loan, and it is because of the premium he pays, plus the 6 per cent that he pays on the full amount of his debt at all times, that the building and loan associations are able to make a profit, in good times, of sometimes as much as 8 or 9 per cent, and that profit is, in turn, allocated to his shares. So, although he pays 6 per cent for his money, sometimes he earns 8 or 9 per cent on his shares.

Mr. WILLIAMS. What does the loan cost him?

Mr. STICKEL. Six per cent.

Mr. WILLIAMS. You say he gets some of that back in dividends?

Mr. STICKEL. Yes; dividends on his shares.

Mr. WILLIAMS. And he also pays a commission?

Mr. LUCE. No.

Mr. WILLIAMS. Does he not pay a commission for the loan?

Mr. STICKEL. He pays a premium of 3 per cent which, in turn, goes into the common funds and is divided among all the stockholders. Sometimes he pays that in a lump sum, and sometimes periodically.

Mr. WILLIAMS. In other words, your buildings and loan associations in your State are operated in behalf of the home builders on a 6 per cent basis, or less, to him?

Mr. STICKEL. Yes, sir.

Mr. WILLIAMS. His loans, then, cost him over 6 per cent?

Mr. STICKEL. Oh, no.

Mr. WILLIAMS. How much under that?

Mr. STICKEL. As much as 4 or 4½ per cent, over the period.

Mr. WILLIAMS. How does it run in your State? How much does it actually cost the home builder?

Mr. STICKEL. About 4 or 4½ per cent where they charge a premium, but in many of our associations they do not charge a premium at all.

Mr. LUCE. I interrupted Mr. Williams because in my State they do not charge any premium.

Mr. STICKEL. Many of our building and loan associations do not charge premiums at all. Sometimes it is only 1 per cent; sometimes it is 2 per cent. Some associations have a rule that they will not make any charge, and sometimes, as I said, there is a premium, that is payable monthly, a few cents each month, in addition to their monthly payments. One is the gross premium plan, and the other is the minimum.

Mr. CAMPBELL. He shares in the earnings on that premium that he pays, and at maturity he receives all of it back?

Mr. STICKEL. Exactly. Then the profits of the association go into a common fund, and our associations are limited as to the amount of money that they may spend for expenses. In our State it is about one-half of 1 per cent, and we keep the expenses down to a minimum. Our boards of directors, for instance, get \$5 or \$10 a meeting night, and they meet once a month, and in many instances never, and the only paid men are, as a rule, the secretary and the treasurer. The other payments are very small.

Mr. WILLIAMS. I understand that your urgent need is for money to pay off the matured certificates and the withdrawals from your institutions?

Mr. STICKEL. That is true. If we could get sufficient money from some governmental source to meet maturities and withdrawals at one fell blow, it would stamp out much of the hysteria, panic, and fear that exists now, because it has been our experience in many instances that when these shareholders know that they can get the money they do not want it. But there is a great number of people that have found it absolutely necessary to get these savings, people who are not in a hysterical state. They are people who are up against it, who

need the money for living expenses, and those people are entitled to consideration, as I have said, quite as much as the fellow who is in a failed bank.

Our condition to-day is due to the failure of the banking group. In our State, in 1925, the bankers agreed with us that we could borrow 30 per cent of our installment dues to meet the situation there, where we had to keep our money invested in long-term loans, and had to be ready to pay our investing shareholders out of assets, and that situation was met by the borrowing capacity agreed upon with the banks. To this day we have tapped that legal capacity only 37 per cent. If we tapped it to the extent of 50 or 60 per cent, we could pay every withdrawal at maturity in the State, but the bank credit has failed us and they are asking the banks for further loans, but in many instances the banks refuse to make more loans to us, even to meet maturities, and in one county at least 10 banks have failed altogether, with the building and loans having their money tied up.

Those situations could be met, and if met would prevent a serious financial situation.

Mr. WILLIAMS. In normal times, where do you get your money to carry on operations?

Mr. STICKEL. From our receipts plus the borrowing capacity from the banks.

Mr. WILLIAMS. To what extent do you borrow from the banks?

Mr. STICKEL. Thirty per cent of our installment dues, and in that State to-day we owe the banks \$63,000,000.

Mr. WILLIAMS. Are you consistent borrowers?

Mr. STICKEL. We have been consistent borrowers in that State, and the banks have regarded our paper as the finest kind of paper. In fact, we think they have loaned us too much money, and I do not think the future will find us borrowing as much as we did. I think that is one of the lessons that has been taught both to the banker and to the building and loan man.

We have an amendment to our law in the legislature now that would prohibit the continuance of the policy of borrowing on short-term paper to make long-term loans.

Mr. REILLY. Would that interfere with the proper functioning of all your associations?

Mr. STICKEL. No; it will not. The proper function of our associations is to use our assets to invest in long-term mortgages.

Mr. REILLY. In other words, under your ability to borrow, you have made loans that you should not have made?

Mr. STICKEL. Under our ability to borrow, in which our banking friends encouraged us, we borrowed money on demand paper, in short-term loans, and invested it to make long-term loans to our members; yes.

This bill, in my judgment, is an excellent bill. It has splendid potentialities, but I think it could be made an even more useful instrumentality if it clearly appeared that its primary purpose was to meet existing conditions, to make that the paramount, evident purpose; and then when you come to the time when it is thought that money is needed to help in building new construction, and for expansion purposes, I hope that such changes will be made in this bill to encourage the use of that money for the kind of a mortgage

that a man ought to obtain to get a home; the kind of a mortgage that, by monthly payments and profit sharing will ultimately remove that jacket, and not the kind of mortgage that at the end of a year may be called, or the kind where at the end of three years he may have to pay another premium to let it stand, or at the end of 15 years be as big as when first put on.

Mr. REILLY. You have thoroughly studied this bill. What money can be used by this home loan bank for the purpose of rediscounting bonds or mortgages of a local association?

Mr. STICKEL. Do you mean how much money it would take?

Mr. REILLY. What money belonging to the association?

Mr. STICKEL. I am afraid I do not quite understand you.

Mr. REILLY. In that bank there will be money put in by the joining members.

Mr. STICKEL. Yes.

Mr. REILLY. And there will be money put in by the United States.

Mr. STICKEL. Yes.

Mr. REILLY. For what purposes are those two funds available?

Mr. STICKEL. The subscriptions of members are earmarked for emergent purposes, short-term purposes. There is no earmarking either of Government funds or of the proceeds of bonds. By inference, it would be possible to use the Government funds and the proceeds of bonds for other than liquidity purposes, although it is possible that the board would conceive that it had the power to use them for liquidity purposes; but the earmarking of a part of the fund for liquidity purposes may, by negation or exclusion, indicate that the balance is not so usable.

Mr. REILLY. In other words, when the institution is organized, we will say that there is \$100,000,000 put in by the Government and its members, before the sale of any debentures. Could not that money be loaned to the members for the purpose of liquefying their assets and to pay withdrawals, as well as to take care of maturing certificates and taxes?

Mr. STICKEL. I wish that the language were unquestioned on that point.

Mr. REILLY. What is there in the language of the bill, as you construe it, that would make it appear otherwise?

Mr. STICKEL. I think the fact that only part is definitely so earmarked may leave the impression in the minds of the board that the rest of it is needed for expansion purposes.

Mr. REILLY. And that is why you suggested that language a little while ago?

Mr. STICKEL. Yes; that is the reason why I thought there ought to be a legislative declaration of policy in this bill that would clearly indicate that it should be used to meet the emergency that is now existing.

May I have this brief included in the record?

Mr. REILLY. Let me see it.

It is rather long; do you want all of this included?

Mr. STICKEL. There are certain amendments suggested in it that I did not refer to.

Mr. REILLY. Suppose that you shorten it, and then send a copy to each member of the committee.

**STATEMENT OF JOHN C. HALL, OF ST. LOUIS, MO., PRESIDENT OF
THE ST. LOUIS BUILDING AND LOAN ASSOCIATION**

Mr. REILLY. Give your name and address.

Mr. HALL. My name is John C. Hall, of St. Louis, Mo., I am president of the St. Louis Building & Loan Association, and a member of the legislative committee of the United States League.

Mr. REILLY. Did you appear before the Senate committee, Mr. Hall?

Mr. HALL. Yes, sir; very briefly.

Mr. REILLY. We are going to read those Senate hearings, so just confine yourself to something new, or to sort of a short summarization of your views.

Mr. HALL. I will do that.

The success of the Federal home loan bank bill depends in a measure on the number of States in the Union whose building and loan associations can participate. Under the law, as it is now drawn, there are a number of States in the Union where the building and loan associations will be unable to participate in the provisions of this act, especially where the power of borrowing money is concerned.

For the past 100 years in building and loan association work, the laws of the various States have provided generally that they shall lend their money on nonnegotiable deeds of trust or mortgages. That has been changed from time to time in the different States, but that condition prevails largely to-day, and it has been the practice that when these associations borrow from banks for temporary purposes, they give their unsecured note as security, on the theory that the relationship of debtor and creditor does not exist between the building and loan association and the shareholders. Therefore those from whom the building and loan association has borrowed are preferred over the shareholders of the association. Some States have changed that, as I say, and they do actually deposit as collateral security certain deeds of trust or mortgages.

Mr. REILLY. What do you propose to remedy that situation?

Mr. HALL. I have an amendment here.

If you will permit me to name the States as I have them that can participate—

Mr. WILLIAMS. That can or can not?

Mr. HALL. Both.

Mr. REILLY. Do you have that amendment in the Senate hearings?

Mr. HALL. Yes.

Mr. REILLY. Then we do not need it here. We will study the other hearings.

Mr. HALL. I have sent out a questionnaire to the State secretaries of the leagues of all the States, asking them whether or not their States could participate in the provisions of this act. I have heard from about half of them. I have them summarized very briefly here and will tell you what they can do.

The following States are prohibited by law from filing their notes or mortgages, all being nonnegotiable: Missouri, Pennsylvania, Illinois, Vermont, Oklahoma, Florida, and Iowa.

Mr. CAMPBELL. Pennsylvania does not prohibit it. There is no prohibitory statute in Pennsylvania.

Mr. HALL. The letter from the secretary of the State league so indicates.

Mr. CAMPBELL. Mr. Best, the president of the United States Building and Loan Association League, told me that it is not prohibited in Pennsylvania, and that they are doing it there.

Mr. HALL. I am quoting the letter from the secretary of the State league. That is the authority for my statement.

Mr. CAMPBELL. But I have it from the president of the United States Building and Loan Association League.

Mr. HALL. I understand that; but the secretary quotes the law in this letter.

Mr. CAMPBELL. I do not take exception to that. I am stating what Mr. Best told me in the last week.

Mr. HALL. You can very easily verify the accuracy of this gentleman's statement.

Mr. REILLY. Does your amendment provide that your association in Missouri can join on its own note, without putting up security?

Mr. HALL. That is right.

Mr. REILLY. You do not think that that would be workable in this law, do you?

Mr. HALL. I do not see why it should not.

Mr. REILLY. That certain associations should come in merely on their notes and others would have to put up securities?

Mr. HALL. They have done it for I do not know how many years and are doing it to-day. They are doing it in the District of Columbia to-day, borrowing on their unsecured notes.

Mr. CAMPBELL. That is, borrowing from the commercial banks?

Mr. HALL. Yes.

Mr. REILLY. Would that not be a discrimination?

Mr. HALL. No.

Mr. REILLY. To require institutions in my State, for example, to put up securities, and not make that requirement of Missouri?

Mr. HALL. But you are putting up all the securities when you are borrowing on your unsecured notes.

Mr. REILLY. But then the bank would be on the same basis as other creditors.

Mr. HALL. The creditors are limited to 10 per cent of your resources.

Mr. REILLY. But when an association in Wisconsin puts up its securities, those securities become preferred.

Mr. HALL. Yes.

Mr. REILLY. But down in your State, if one of your institutions should go wrong, then this bank would have to take its luck with the rest of the creditors.

Mr. HALL. The creditors are limited.

Mr. REILLY. But the security is there if they ever went wrong.

Mr. HALL. You would have to do that if you put up specified deeds of trust. Suppose that you borrow \$100,000 and require \$200,000 worth of security; that is your immediate security. And suppose that they make loans to others, and put up deeds of trust. Where do you come in there?

Mr. REILLY. The bank has this definite security.

Mr. HALL. Yes; but suppose they lend \$200,000 to a private bank in addition to this, and \$200,000 to another one, and take that collateral out; you only have the collateral on your note.

Mr. REILLY. That is twice 200 per cent. That ought to be enough.

Mr. HALL. That may be, but you are junior to the other creditor just the same.

Mr. REILLY. As I understand it, this 200 per cent goes to that bank to satisfy this obligation.

Mr. CAMPBELL. On a collateral note.

Mr. HALL. That is true, but suppose they turn around and borrow another \$100,000 from another bank and put \$100,000 more securities.

Mr. REILLY. That does not affect this at all.

Mr. HALL. It takes out from the notes the additional securities that the association owns.

Mr. REILLY. No; it takes out securities that go to the creditors of the bank, but it does not affect the Federal loan bank.

Mr. HALL. But all of your securities are bonds and nonnegotiable building loan mortgages, every one of them. There has never been, so far as I can find out, any bank anywhere that has ever lost a dollar that it has loaned to building and loan associations. That is a statement that I have heard made. It is being done frequently. It is done in Missouri, Illinois, and all those States.

Mr. LUCE. There are other institutions that are concerned. How about them?

Mr. HALL. If they have not nonnegotiable securities, of course they could pledge them. It would only affect those that are limited.

Mr. LUCE. Take a State bank, for example.

Mr. HALL. Yes.

Mr. LUCE. What is the Missouri law in that regard—the same as it is with regard to a building and loan association?

Mr. HALL. No; the State banks invest all in negotiable securities. You would not have that problem come up with anybody else except the building and loan associations, and that is the only way out that I know of, and unless something like that is done these States will be out from the beginning. There is a number of other States where they must amend their State laws before they can participate, which takes away the immediate value or benefit of this act—Indiana, North Dakota, Alabama, and Kansas.

Mr. LUCE. Let us get back to Missouri. In Missouri a building and loan association can not pledge its securities?

Mr. HALL. No, sir.

Mr. LUCE. Can a mutual savings bank?

Mr. HALL. Yes; as far as I know.

Mr. LUCE. Why do you object to having the law read the same for the two institutions?

Mr. HALL. I have no objection to that if they were to amend it, but it is written differently now.

Mr. LUCE. I know it is, but when this bill was brought in it was acknowledged that perhaps 25 States would have to pass legislation to conform to this one system. That is inevitable, because these institutions have grown up under 48 different jurisdictions. If we had undertaken to meet all of the variations, we would have had to have an encyclopedia. -

Mr. HALL. I agree with you on that.

Mr. LUCE. Why are we open to criticism if we say that the provisions which most of the States believe prudent ought to be accepted by the other States in order to protect the bonds that are issued?

Mr. HALL. There are many objections that might be raised by different States as to certain details, but this is a fundamental objection, that it is going to affect so many of them, that it is going to interfere with the successful operation of this law.

Mr. REILLY. Does this law go further and say that it shall be objectionable?

Mr. HALL. That is all it says.

Mr. REILLY. I do not know how that would prevent it from being pledged for a loan.

Mr. CAMPBELL. Deposited for a loan. They could deposit them.

Mr. HALL. Our Missouri courts have held that it is not assignable.

Mr. REILLY. We have nonnegotiable paper in Wisconsin, which simply means that if you take it you take it subject to all equities.

Mr. CAMPBELL. And hold it until it matures.

Mr. REILLY. No; I can have a note that is nonnegotiable, and can sell it to anybody else, but he takes it subject to all equities. In other words, he can not set up that he is an innocent purchaser.

Mr. HALL. The same question is coming up with the Reconstruction Finance Corporation; they are confronted with the same problem. That law provides that money shall be loaned on sufficient and ample security. Now, the building and loan associations of any number of States have made applications for loans, and you can find out better than I can—I have not been here long enough to check up—as to how many States have been successful. Certainly Missouri has not, and Oklahoma has not, and Illinois has not. Whether they will be put in later or not I do not know, but they have held, I am told, that they have no right to assign or pledge certain specific deeds of trust, and if the same proposition prevails there, it will naturally follow that those objections will be made here.

Mr. LUCE. That is an added incentive for the States to change their laws.

Mr. HALL. It is a question in my mind whether you can make a law retroactive that will affect all the deeds of trust that are now nonnegotiable.

Now, I have a list of the States that can qualify, and even some of them are questionable as to whether they can come under it generally or not on account of the details as to how they can borrow, and under what conditions, which would prevent them from borrowing from the Reconstruction Finance Corporation.

In Massachusetts Mr. Luce—in 1932—they amended their law there to permit them to borrow from the Federal home-loan bank. Prior to that time they could borrow from banks, trust companies, and certain defined institutions, but not from this institution.

Gentlemen, the value of this bill to building and loan associations is the immediate relief that is going to be available. The question of permanency is another matter entirely, but the immediate relief is what is needed. Our legislature does not meet until 1933, and the law could not become effective until along in September, 1933, and there is an urgent need for funds to-day.

Mr. LUCE. I would not have you think for a moment that I have any hostility toward what you are after. If you can offer an amendment that can hold water, I am with you.

Mr. HALL. I have prepared one, and it is in the record, and there is also the amendment prepared by Mr. Lieber. Both of them should be considered together.

Are you interested in these other States, whose laws are conditional as to whether they can come in?

Mr. REILLY. I think, if you have information on that, you may put it in the record.

Mr. HALL. States which must amend their laws before associations can borrow from the Federal home-loan bank are Indiana, North Dakota, Alabama, and Kansas.

The following States are restricted by law from borrowing in any amount for any purpose: Nebraska and Maine.

The States where the associations can qualify under the present law are Massachusetts, the District of Columbia—many, however, have nonnegotiable deeds of trust and mortgages, and still borrow from the banks without collateral security. In addition to Massachusetts and the District of Columbia, there are Tennessee, Mississippi, Maryland—and in Maryland the general practice is for the banks to lend without collateral; New York—and the practice there is for the banks to lend without collateral; Connecticut—the same is true there; Arkansas, but the secretary feels that the State law must be amended before they can come in under this act, but he does not say why; New Mexico, Kentucky—the securities commission has ruled in Kentucky that the building and loan associations can not pledge their securities—and Texas.

Now, I have only heard from a little over half of all the States. I can not speak for the rest.

Mr. LUCE. Before you go on, it happens that this noon, at luncheon, I was disclosing to a western member the fact that his State would probably not be able to come in, but would have to change its laws. His answer was, "I am for it, anyhow." Is there any reason why the members from these States which can not instantly get the full advantage of the bill should stand on the point that we ought not to pass the bill?

Mr. HALL. No; I do not think there is. But, to be perfectly frank, I do not see any real reason why this amendment should not be adopted, because, in my opinion, I think it really strengthens the bill.

Mr. LUCE. Your amendment, however, might not apply to all of the variations in laws.

Mr. HALL. Yes.

Mr. LUCE. It might in some States and might not in others.

Mr. HALL. It would.

Mr. LUCE. But, on general principles, if this law helped some States, even if not instantly all States, should we hesitate to pass the law because it may not immediately serve the purpose of all the States in the Union?

Mr. HALL. Putting it that way, of course, if the law is desirable, and I am not sure that it is, even though it only affected but three of the States, and you can not get it through with this provision, perhaps it would do some good in the other States, but it has to have

a certain number of States behind it in order to let this machinery function properly and not at too great a cost.

Mr. LUCE. I think you may be perfectly assured that it will be the desire of the Committee on Banking and Currency to get around all of these obstacles as far as it is possible so to do, and Mr. Bodfish has urged an amendment which accomplishes your purpose.

Mr. HALL. I think so.

Mr. CAMPBELL. With safety?

Mr. LUCE. With safety.

Mr. HALL. Just a moment and I will conclude on this. You asked a question of the last witness about the disposition of the funds being put in here by the United States Government and by the members. The funds are secured under this act from two sources—that is, the stock subscriptions and the deposits that the members make, which includes the Government. The second way is by the sale of bonds and debentures.

Now, the salability of those bonds and debentures which are to be sold to the public is going to depend largely on the character of security behind them. They are going to be scrutinized carefully by the investment attorneys who advise large clients who might buy them. Now, gentlemen, if you put any building and loan collateral behind them where the question is not absolutely 100 per cent certain, you are going to have the question come up in the minds of the attorneys who advise their clients as to the purchase of them.

This amendment does not come in under that section at all; it comes in under the section that I referred to in the beginning, which answers a question you asked awhile ago as to what is going to become of the funds supplied by the Government and by the members. I am not asking that this be made 100 per cent as to those that can come in under this bill, but I am simply asking that we can come in for temporary loans.

Let me read subsection (i), on page 21. It is very brief.

Each Federal home-loan bank shall at all times have an amount, equal to the sums paid in on outstanding capital subscriptions of its members—

That includes the Government—

plus an amount, equal to the current deposits received from its members, invested in (1) United States Government securities, (2) interest-bearing deposits in banks or trust companies, and (3) advances with maturity not greater than one year made to members, upon such terms and conditions as the board may prescribe.

I take it that that refers back to section 8 on page 14, which provides that loans shall only be made on the security of home mortgages. I assume that that runs clear through the act, and you can not take just one section.

The amendment goes right in there, and applies only to the money secured from members, not the investing public, and it reads briefly that it can be loaned to members without collateral security where the laws of the States under which they operate require them to invest all of their funds in nonnegotiable deeds of trust and notes. Mr. Lieber's amendment provides further that the creditor liability shall not be more than 5 per cent over the amount of its shares.

We would only be permitted to borrow for one year. It would not affect the market value of your debentures and bonds, and would

come solely from funds secured from these sources. If we can in the meantime amend our State laws, then we can come in under the rest of the act, but it does give immediate relief, which is the most important thing to-day that you could possibly have, and in Missouri we could not get an amendment until the latter part of 1933, and you gentlemen know that it is hard to get any kind of a bill through the legislature.

Mr. CAMPBELL. Would you recommend to the State legislature that they amend their law so as to get the full benefit of the act?

Mr. HALL. Certainly.

If you care to qualify it further, you can also require that that amendment shall not be valid after the 42-month period, the same as you have for the investing of funds.

We can not subscribe for stock in this institution, neither can building and loan associations in many of the States, but you take care of that by saying that they can make a deposit of an equal amount and in 42 months they must amend their laws so that they can buy stock.

Mr. CAMPBELL. Only the funds of subscribing members are available for loans.

Mr. HALL. Yes, sir.

Mr. CAMPBELL. But when it comes out of the sales of the proceeds of debentures or bonds—

Mr. HALL (interposing). It has nothing to do with what I am arguing here.

So far as the actual safety of the investment of these funds is concerned, all you have to do is to take the experience of the banks in all of these States, and even in the States where they have negotiable mortgages they lend to them without security. When the Government retires, or gets out its \$150,000,000, and you gentlemen expressed some doubt as to when that would be, then there will not be a great deal of money in this fund that I am talking about now, so that I can not see where it would interfere in the least with that limitation. I know it will do a tremendous amount of good, and unless you do it, then all of these States where there is some question about the negotiability of these notes coming into the general provision would affect the salability of those securities, and that is the most important point in the whole thing, in my mind.

Mr. CAMPBELL. Mr. Williams raised the question a moment ago that these nonnegotiable mortgages and instruments which they now hold could not be made negotiable by an act of the legislature.

Mr. HALL. I have my doubts whether they can, but there are various opinions on that. I doubt whether the passing of an act now making building loan deeds of trust and mortgages assignable would affect those already in force. Then, we are not making any new loans at the present time.

The reason for this nonnegotiable feature was, in the first place, a safety measure. It reduces the probability of theft or embezzlement on the part of the officers of an association to a minimum, and it prevents the pyramiding of the assets of a building and loan association, prevents getting them out into the commercial field and repledging them, which they can not do under the present law.

Mr. LUCE. Whose vested rights would be impaired by retroactive legislation?

Mr. HALL. Well, there might be objection on the part of some borrower that he had made his loan at the time when the law provided for no assignments. Our courts have held that, and I doubt very much, unless this situation were cleared up, whether the attitude of the attorneys making recommendation on the legal phases of this act would be one of approval.

Mr. LUCE. If the man has borrowed, he can not lose a thing.

Mr. HALL. No; he can not lose a thing except that he has his interest in the shares of stock, his investment in the sinking fund. He is an investor as well as a borrower.

Mr. LUCE. You think, then, that the shareholders, whether borrowers or not, might believe that their rights had been invaded?

Mr. HALL. I do not think it is a serious objection, but it might be brought up. It is serious enough that perhaps it would not stand the test of recommendation for investment. I feel really that unless something like this is done, it is going to interfere with the sale of your securities.

Mr. CAMPBELL. Under the Missouri law they are limited to 10 per cent?

Mr. HALL. Ten per cent of our resources. That is all we can borrow.

Mr. CAMPBELL. On their notes?

Mr. HALL. Yes; and an examination of the various laws will show you that there is a limitation from 10 to 20 per cent. I think that is the general rule. Perhaps 15 per cent would be the average. In Missouri and Illinois it is 10 per cent; that is all we can borrow.

The borrowing of a building and loan association, gentlemen, should be an incidental part of its business. It should get its own funds, generally speaking, from the sale of its stock. There are certain seasonable times, times like this, when it could readily borrow money for various purposes, but it should be incidental to its main purposes.

Mr. REILLY. What are the assets of the building and loan associations in Missouri?

Mr. HALL. About \$220,000,000.

The associations in Missouri are now borrowing from banks where they need it, and the banks are lending it promptly. Some States are not so fortunate. Some States need this badly. They are in desperate condition and should have immediate relief.

I would suggest that if you would inquire from the Reconstruction Finance Corporation as to what progress is being made in connection with loans that they are making to building and loan associations, the same question exactly would come up and you could see what would happen under this bill, because this is more specific, that there must be an actual pledge of deeds of trust or mortgages.

Mr. CAMPBELL. I have heard of one loan from the Reconstruction Finance Corporation to a building and loan association.

Mr. HALL. In what State was that?

Mr. CAMPBELL. I think it was stated here the other day that in North Carolina they had borrowed \$400,000, all for the banks; it just batted between them and the banks.

Mr. WILLIAMS. I would like to ask you a question, Mr. Hall.

I understood you to say that borrowing by the building and loan associations was rather incidental. Is that correct?

Mr. HALL. It should be; yes.

Mr. WILLIAMS. What would be the necessity of borrowing by building and loan associations in a period of general prosperity or under normal conditions?

Mr. HALL. Well, I can only answer that by a guess. Certainly there is an immediate need for it, and it may last for several years. If it comes to the point where there is a surplus of funds and a scarcity of loans, there would not be the demand for loans from this bank by building and loan associations.

Mr. WILLIAMS. In the light of your experience as a building and loan association man, what would you say has been the history of it?

Mr. HALL. Our experience, during the past 11 years that we have been in business, was that in 1928 and 1929 we did not borrow any from the banks. Since that time we have had a small loan. At the present time it varies up and down. It is a reasonable thing. The old practice was to borrow in the spring, when the building period was on, and then to pay it off during the winter.

As to how long this condition will last during which we will need this money, that can be answered about the same as the answer as to when we are going to find the "corner" that we are going to turn around. I do not know.

Mr. WILLIAMS. In what shape would this bank be in if the time should come when you would not need to borrow?

Mr. HALL. You would be in the shape of having an organization not doing much business in lending, with no one to borrow if the loans were limited to members. You would perhaps have to retire some of your debentures. I presume that they will be worded so that they can be retired under certain conditions.

Mr. CAMPBELL. That would not be an unhealthy condition?

Mr. HALL. No; it would not, unless the operating expenses should become top-heavy.

Mr. CAMPBELL. There is no fear of that.

Mr. WILLIAMS. I do not know about that, if we did not need it at all.

Mr. HALL. Of course, if you were not making any loans at all it would be like having a store and not selling any goods. You could, perhaps, cut down the organization at that time.

Mr. LUCE. As I remember the figures, it only costs about \$27,000 a year to run the New York land bank.

Mr. HALL. Yes; I understand that that is very economically run.

Mr. CAMPBELL. If this meets the emergency and if it were made permanent, would it not prevent a recurrence of this condition?

Mr. HALL. I did not understand.

Mr. CAMPBELL. If we made this permanent, would not this legislation preclude a condition arising like we are in to-day?

Mr. HALL. Well, it should have that effect; yes. It should have an effect of more easily stabilizing conditions.

Mr. CAMPBELL. Do you not think that the board of directors of this institution will see that there is not any building program started; in other words, that they will take care of the relief needed in the emergency rather than encourage new building?

Mr. HALL. I would hope so; yes.

Mr. CAMPBELL. We need have no fear about that.

Mr. HALL. No. I would hope that that would be the policy of the board.

Mr. CAMPBELL. Do you not think that the President of the United States will exercise good judgment in appointing men in that place?

Mr. HALL. I would think so. I did not have that in mind until I answered the question that we were talking about on the general demands for funds. We have the same problem in the local associations. Sometimes you have too much money and too few loans and then the conditions are reversed. They are reversed now. We have many applications for loans that we can not make and there are some very distressing conditions where people are losing their homes by the hundreds because they can not get their loans renewed. Any funds coming in now at the present time would be a relief to any association and would be a tremendous relief to the home owner and the public, and that is why I am so earnest about the immediate benefit which I think will be brought about by this amendment.

Mr. REILLY. Is there anything further, Mr. Hall?

Mr. HALL. That is all I have, unless you want to ask me any questions or if that takes care of the information that I can give you on this amendment.

Mr. WILLIAMS. There is a question about that amendment that I am not clear on. A number of States are in the same status as Missouri, in that they can not come into the organization, as provided for in the bill, for the reason that their securities are nonnegotiable.

Mr. HALL. Yes.

Mr. WILLIAMS. And there was another group of States that you gave, from which I got the impression that they could not come in for some other reason.

Mr. HALL. Yes. They must amend their laws before they can come in.

Mr. WILLIAMS. In what way? I did not catch that.

Mr. HALL. Well, take Kansas, for instance. This is a technical thing, but it is similar to the condition in Massachusetts, and just that one little section in your law, Mr. Luce, had to be changed. The Kansas law gives the right to borrow, and they may assign, pledge, or sell their bonds with the approval of the banking commissioner, but only for three purposes: First, for paying, withdrawing, or maturing shares; second, for liquidating the association, and they can temporarily pledge with other building and loan associations for a loan for the exclusive purpose of making more mortgage loans to their members. In other words, if an association there borrowed from the Federal home-loan banks, it could not use any of those funds to make loans with; it could only use them for the purpose of paying, retiring, or withdrawing shares, and, of course, they would want to amend that to let them use it for any purpose, certainly for making loans. That is what they need more than anything else.

The Alabama law provides for negotiable mortgages, that they can pledge the same as security for borrowed money, but on funds secured by pledge of mortgages, the same must be used exclusively for withdrawal or retirement of shares and for no other purpose.

Mr. REILLY. Is not that the biggest need of a building and loan association?

Mr. HALL. Oh, yes; they need that.

Mr. REILLY. That is the most pressing proposition.

Mr. HALL. That, and the demand for loans.

Mr. REILLY. The demand for loans will not put them into a bankruptcy court.

Mr. HALL. You can not do that, anyway.

Mr. REILLY. In any State?

Mr. HALL. You passed an act in this Congress which prevents building and loan associations from going into bankruptcy.

Mr. REILLY. They are nearly as bad off as building and loan associations in other States that can be put in receivers' hands when they fail to take up obligations that are due, or fail to pay dividends.

Mr. HALL. I do not think you can put them in bankruptcy in any State.

Mr. REILLY. You can throw them into receivership.

Mr. HALL. If they are insolvent. You can take all the time you want to pay withdrawing members, under every law that I have ever heard of.

Mr. REILLY. I do not think so.

Mr. HALL. I am inclined to differ with you, because I am quite sure that under any State law you can take all the time you want to pay your withdrawing shareholders, because the law provides that a certain percentage of your receipts can be used for paying withdrawing shareholders, and you simply go on notice, as hundreds of them are going to-day all over the United States. I do not know about Wisconsin, but I think you will find that that condition prevails in your law. I did not hear from the Wisconsin secretary.

Mr. REILLY. I would not say particularly about the Wisconsin law, but I have had letters from building and loan people that stressed that fact.

Mr. HALL. I feel quite sure that they are in error there. If they are insolvent, of course they must be put into bankruptcy, but not on account of failure to pay on demand. Of course, the man wanting his money out of a building and loan association, and needing it, should be taken care of, but the man who needs a loan on his home to save him from foreclosure, and who can not get it renewed, is in worse shape. You are taking his home from him.

Mr. WILLIAMS. The primary purpose of this bill is to protect the home owner.

Mr. HALL. I would think so.

Mr. WILLIAMS. Is that not really the intention of it?

Mr. HALL. He can take his building and loan shares and borrow on them from anybody who thinks they are all right, but he can not do anything on his mortgage that he can not renew. And every home you take away from a man just results in a situation where that man will never again try to buy a home. That is the type of citizen we do not want in this country.

The other States that I referred to here must amend their laws for similar reasons in order to come in.

Mr. WILLIAMS. I think it is important to have in the record the reasons for that, because there will be Representatives who will depend on us for this information.

Mr. HALL. In North Dakota the law permits associations to assign or sell mortgages. They can not, however, pledge more than one and one-half times the amount of collateral for the amount borrowed.

In other words, they can not pledge more than \$150 for every \$100 they borrow, and the home-loan bank would require a greater amount of collateral than that.

Mr. CAMPBELL. They could only borrow \$90.

Mr. HALL. Yes.

In Indiana they have both nonnegotiable and negotiable mortgages. The general practice is that the bank loans on unsecured notes. The law provides that notes may be assigned with the approval of the circuit court. The general opinion of the building and loan men, and of the attorneys for them, is that the law must be amended before they can come in and take advantage of the provisions of this bill. However, the reasons they did not give me in their letter.

Those are the four States.

Mr. CAMPBELL. You mentioned something about Maine, and one other State, I think.

Mr. HALL. Maine and Nebraska. They can not borrow at all.

Mr. REILLY. You have only heard so far from half of the States?

Mr. HALL. That is all. The people in Kansas, for instance, said that they could come in all right, and they sent me a copy of the law, but I found this limitation, and it is almost identical in form with the one in Massachusetts.

Mr. LUCE. I have the impression that the Massachusetts law was copied in some particulars by other States.

Mr. HALL. No doubt.

Mr. LUCE. Undoubtedly such is the source of that phraseology.

Mr. HALL. It provided that they could borrow from banks, trust companies, insurance companies, and others of that character, being the only ones that they naturally would expect to borrow from. Then came along this Federal home loan bank bill, which was not included, and they have taken care of that this year, I think last month.

Mr. CAMPBELL. Do you not think that there will be a movement on the part of the building and loan people to have those laws amended so that they can get the benefit of this act?

Mr. HALL. Oh, yes.

Mr. CAMPBELL. Just as the banks throughout the country have had the State laws changed so that they can join the Federal reserve system?

Mr. HALL. Undoubtedly. That is why the 42-month provision was put in the bill, so that they could buy stock in it. There are more prevented from buying stock than there are from pledging their notes and deeds of trust.

Mr. CAMPBELL. When those laws were passed originally, they hardly had reference to this kind of stock.

Mr. HALL. No; but it states how they can invest their funds.

Mr. CAMPBELL. If you could confine it to that—

Mr. HALL (interposing). Yes; I think there will be a general movement among all the States. Maybe when they go through it with a fine-tooth comb, they will find other reasons why they can not loan, and those will have to be taken care of by amendments to the State laws.

Mr. CAMPBELL. We want to find reasons for lending the money, to get out of a bad situation.

Mr. LUCE. When the conference of those interested in the matter of redrafting this bill was held, we were handicapped by not having information concerning Missouri and several other States and the many building and loan witnesses from different States, who appeared before the Senate subcommittee, gave us assurance that there would be no difficulty in connection with the immediate participation of a large number of States. I for one am very grateful to Mr. Hall for bringing these facts before us; and, by the way, let me say that in the Senate hearings that conference, which was wholly unofficial, is referred to at times as the "House Subcommittee," which was an error.

Mr. REILLY. It was one of the unofficial committees of the House.

Mr. LUCE. One of the unofficial committees of the House.

Mr. REILLY. The same as the unofficial committee on the repeal of the eighteenth amendment.

Mr. LUCE. In view of Mr. Hall's suggestions, I am hopeful that the 42-month provision can be redrawn by Mr. O'Brien to meet your needs.

Mr. HALL. I think it can be, and, as I say, we are perfectly willing to come in under the short-term loan of one year, or even take the 42-month provision. My personal opinion is that the bill will be better if it lets us in at the main part of it, but that, perhaps, will meet too much opposition. I am speaking directly for Missouri.

Mr. REILLY. Do you not think that the sale of the debentures of this organization will be seriously handicapped if the idea got out that there was nothing back of it except the stock of the banks and the promissory notes of these institutions?

Mr. HALL. It would be, for the reason that you would have to carry around an expert with you all the time to explain what you mean by that. It is an abstract thing, and hard to explain, regardless of the fact that for the last 100 years the banks have been lending to them and never lost a dime. Even then it is hard to get the idea over. I did not make any headway before the Senate Committee, for the reason that it came to them all of a sudden, "What? Loan without collateral? You can not do that;" and I was through before I got started; but the condition exists just the same, and whether you like the amendment or not, you have the same condition to deal with in the bill as it is now written. You have those States to do business with, and it would do more than anything else to force them to amend their laws so that they could come properly under it.

Mr. CAMPBELL. There is no likelihood of any involvement by having this amendment in there, is there?

Mr. HALL. I do not think so. I have given it quite a good deal of study, and I have almost gotten to be a "bug" on the subject, but I can not see any reason why it would do anything to hurt the situation.

Mr. WILLIAMS. But your amendment would not relieve the situation as to all of these States, would it?

Mr. HALL. Not Maine and Nebraska, who can not borrow at all. They will have to amend their laws. But as to those who are limited as to the pledging of their securities, they give them the general right to borrow for all corporate purposes, and some of them pledge their

securities for a certain thing. I think this would take care of most of them. We can borrow, and all of them can borrow money, so far as I know, except these two States in the Union.

Mr. WILLIAMS. Did I understand that there are some other States that have laws that prevent them from borrowing from an institution like this?

Mr. HALL. Some of them are restricted; but that could be changed. Massachusetts has that, and so has Kansas.

Mr. WILLIAMS. That would require a change in the law?

Mr. HALL. That is true.

Mr. WILLIAMS. And there are other States, as I understand you, that could not borrow from the institution for the purpose of making other loans or paying off loans that do exist?

Mr. HALL. Yes.

Mr. WILLIAMS. Your amendment would not relieve that situation, would it?

Mr. HALL. Not immediately.

Mr. WILLIAMS. Have you any suggestion as to how to reach them?

Mr. HALL. I do not know how to give them immediate relief, because they are prohibited generally from borrowing, except for certain purposes.

Mr. WILLIAMS. Then we have two States that have no exception, and for that reason they can not come in at all, and your amendment would not reach them?

Mr. HALL. No; not at all. I think that there are, perhaps, innumerable amendments that the different States would like to introduce to take care of minor defects, and no doubt you have had many of them presented, but this is of such major importance that I do offer it, because it would be a great help and an immediate help.

Mr. CAMPBELL. It goes as far as you think it is possible to go?

Mr. HALL. Quite so.

Mr. CAMPBELL. And it meets as many emergencies as it is possible to meet?

Mr. HALL. It meets the greatest number.

I would be glad to give you a memorandum of what I have learned from the different letters as they come in.

Mr. CAMPBELL. How long ago did you send them out?

Mr. HALL. About 10 days, I think; but some are a little slow in answering.

Mr. REILLY. They probably have to get an opinion from the Attorney General in many instances.

Mr. HALL. Lots of them do, and lots of them do not want to answer, perhaps, but there will be more of them coming in.

Mr. REILLY. We are very much obliged to you, Mr. Hall, and if you will give us some more information along that line we will be glad to receive it.

(Subsequent to his appearance before the subcommittee, Mr. Hall left with the subcommittee the following memorandum:)

STATES THAT COULD QUALIFY UNDER FEDERAL HOME LOAN BANK BILL WITH POSSIBLE CHANGE IN STATE LAWS

North Carolina.—General practice is to pledge mortgages when required, but borrowing is often done on unsecured notes. The law is silent as to power to pledge mortgages and deeds of trust and may have to be amended.

Michigan.—The general practice is that associations make loans on both negotiable and nonnegotiable notes and mortgages. Some have by-law provisions prohibiting the assignment of mortgages as collateral. Associations generally borrow from banks on unsecured notes (without collateral). Effort will be made at a special session of the legislature this year to clear up the situation by necessary amendment.

Mr. REILLY. Is there anybody else that wants to be heard in favor of the bill? If any of you gentlemen against the bill want to start now, you may do so.

STATEMENT OF HIRAM S. CODY, OF CHICAGO, ILL.

Mr. REILLY. Give your name and address and whom you represent.

Mr. CODY. Hiram S. Cody, of Chicago, appearing simply to read the statements of absentees.

Mr. REILLY. Have any of these men appeared before the Senate committee?

Mr. CODY. There were about 40 witnesses desiring to be heard in opposition to the bill when we were concluding the Senate hearings, and in order not to prolong those hearings, we did not call the witnesses, although the opponents of the bill had presented only 11 witnesses, as against 34 in favor of the bill. The hearings had gone on for some time, and those witnesses that I have just referred to were not called; and for the same reason, in these hearings, we have asked your permission to submit these statements from those who would be glad to come if they were called, but it would take several days' time to hear them, and as we have a number of witnesses coming for to-morrow and the next two days, we believe that that will cover the presentation.

The first statement is from Senator Charles O'Connor Hennessy, who is described in the official book of the United States Building and Loan League as one who has made significant contributions to building and loan practices, and who will be known especially for his excellent and constructive efforts in guiding the affairs of the legislative committee of the United States League to many a significant and successful conclusion which has protected and strengthened building and loan principles.

Then this memorandum goes on to say that the chapter on national legislation in this volume indicated the extent of Senator Hennessy's contribution to the legislative background of building and loan.

The Senator says—

(Mr. Cody thereupon read Mr. Hennessy's statement, which was later expunged from the record.)

Mr. REILLY. Did he not appear before the committee at the hearings?

Mr. CODY. No, sir.

Mr. REILLY. Did not Mr. Hennessy give extended testimony before the committee before?

Mr. CODY. No, sir. He filed a statement; and in that connection, with his statement Senator Hennessy presented an article—

Mr. REILLY. It must be the other Hennessy.

Mr. CODY. He presented before the United States Building and Loan Convention an article on this general subject. There are two

statements in the Senate proceedings; the proponents of the bill have filed his address, which, on reading, would give you the impression that he is in favor of this bill, but if you will look at the appendix you will find his later statement.

Mr. LUCE. I have on my desk several hundred letters, I should say, from persons of responsibility and standing in their communities approving this bill. I had not thought of asking their insertion in the record, and I am wondering whether we would better establish the precedent.

Mr. REILLY. I have the same number, and I was wondering whether those letters ought to go in. I have a great many letters in my office on one side or the other. I think what this committee is interested in hearing are arguments as to the merits of the bill more than a man's view as to whether it is propaganda, or what it may be.

Mr. CODY. That is what we intend to present.

Mr. REILLY. As far as this hearing is concerned, and the other hearing, the matter has been a debate; and I think this committee is interested more in arguments on the merits of the bill, pro and con.

Mr. CODY. That will be the nature of the testimony that will start to-morrow morning. While many of these are not arguments, I see your point, and if you will permit me merely to give the names it will save a lot of time.

Mr. REILLY. We are trying to deal with facts. If the facts have not been presented correctly, something to show that they are not facts ought to be presented now.

Mr. CODY. I see the point.

Mr. REILLY. I do not think that we had better file that letter. Just give the names of the men.

Mr. LUCE. In your testimony before the Senate committee, on page 140 of part 1, you set forth three things that the advocates of this bill contend. The second was this:

That it will help the manufacturers of building supplies and members of the building trades. According to estimates made public by the Federal Government, it would be possible to construct 3,000,000 residences within the next five years, if the plan should be put into effect.

Will you inform me as to what branch of the Government made that statement?

Mr. CODY. I will be glad to. The New York Times, of December 6, contained a 2-column, square-boxed article, stating that reports made to the Federal reserve and the Treasury Department indicated that 3,000,000 residences could be constructed as a result of this bill. I will be glad to get you a copy of that clipping, and endeavor to run that down through the Federal reserve and the Treasury Department, to come to the source of that report.

However, in the latter part of the testimony, Mr. Nelson, executive secretary of the National Association of Real Estate Boards, said that the estimate of the Department of Commerce was 2,000,000 new residences instead of 3,000,000 new residences, and, even without going further on the other, the opponents of the bill would accept that correction, if such is intended, and take the 2,000,000. But if you have a house that you want to sell or rent in one block, and there are two other houses empty in that block, one new residence in that block is contrary to your best interests.

Mr. LUCE. I have been told that search in the Department of Commerce has failed to disclose any such statement.

Mr. CODY. I will be glad to run that down, and get you first a copy of the New York Times.

Mr. LUCE. I have lived long enough not always to believe newspaper reports.

Mr. CODY. It was a report to the Treasury Department and to the Federal reserve that seemed to give it authenticity in this case. I think they would hardly dare use any figures unless they were correct.

Mr. LUCE. You accepted this statement by making it, "According to estimates made public by the Federal Government"; you took a newspaper report and relied on it?

Mr. CODY. In view of the fact that they referred specifically to a paper in which it came, we felt safe in using the estimate in good faith.

Mr. LUCE. The estimate is a gross exaggeration. It could not have been made in the language to which it was later changed. The Senate print has it, "According to estimate made, it would be possible to construct * * * if the plan should be put into effect"; but any probability of that sort of thing is a different matter.

Inasmuch as the circulation of the statement has put it into the minds of many of my colleagues, who are greatly disturbed by it, precise accuracy in the matter is exceedingly desirable.

Mr. CODY. We understand that; 2,000,000 is the present estimate of the Department of Commerce, and we accepted that.

Mr. LUCE. You accepted a statement that it is possible to construct 2,000,000 homes?

Mr. CODY. We understand that the Department of Commerce states that it would be possible as a result of this legislation to construct 2,000,000 homes.

Mr. CAMPBELL. In places where needed.

Mr. CODY. I presume that that would be the point.

Mr. CAMPBELL. They would not be built where there were abundant residences and buildings available.

Mr. CODY. The difficulty is that if the credit is available it is difficult to control that to the districts where there is a real economic need for it.

Mr. CAMPBELL. The board must do that.

(Thereupon, at 4.20 o'clock p. m., after an informal discussion off of the record, the subcommittee adjourned to Tuesday morning, March 22, 1932, at 10 o'clock.)

CREATION OF A SYSTEM OF FEDERAL HOME LOAN BANKS

TUESDAY, MARCH 22, 1932

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE OF THE
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The subcommittee met, pursuant to adjournment, in the caucus room, House Office Building, at 10.30 o'clock a. m., Hon. Michael K. Reilly (chairman of the subcommittee) presiding.

Mr. REILLY. The committee will be in order, and the first statement this morning will be by Mr. Oakman.

STATEMENT OF ROBERT OAKMAN, DETROIT, MICH.

The CHAIRMAN. State your full name and your residence.

Mr. OAKMAN. My name is Robert Oakman, Detroit, Mich.

Mr. REILLY. Mr. Oakman, I understand you appeared before the Banking and Currency Committee of the Senate?

Mr. OAKMAN. Yes, sir.

Mr. REILLY. Of course, if you have anything additional to offer not contained in your testimony there, we will be pleased to hear it.

Mr. OAKMAN. I think I have something additional. I have read everything that has been published in the hearings, and there are two points in connection with the bill that have not been brought out, or probably three points, and I would like to state them.

So far as I can find there has been nobody that undertook to show how the Federal Home Loan Bank could pay. It is not in the record at all. But I have the material here to show how it will pay. Speaking of the Senate bill, the objection has been made that the home loan bank could not pay its way and will become a burden upon the Treasury. Now, let us consider this subject by way of conservative example. The Federal home loan bank is started with a capitalization of \$5,000,000; \$1,000,000 is paid in by the component institutions for stock and \$4,000,000 by the Government; that is the example.

Member banks would receive 6 per cent collected from the payments on current advances, or \$60,000. The district bank would receive 6 per cent on its capital investment, or \$240,000. This latter sum would represent a gross profit.

The expense would not exceed one-half of 1 per cent which would net 5½ per cent profit on \$4,000,000, or \$220,000 profit. I will not

go into details, but you can refer to this and see how it is arrived at.

It is conservative to assume, supposing the bill were passed to-day, the amount of the mortgages taken over by the district bank would reach \$10,000,000. So that after the first of the year the district bank would have earned \$550,000 a year over and above all expenses. The banks would receive 12 per cent collected from the amortized mortgage payments during the year, and this sum would be available for mortgages, constituting a revolving fund, which would add to the earnings of the district bank.

The bill as it now stands provides that there shall be 12 district banks each with a capital of \$5,000,000, making a total of \$60,000,000.

Assuming that each bank would have paid in \$1,000,000 by local members, or a total of \$12,000,000, the Federal home loan bank would have an earning power of four times twelve, or \$48,000,000, and this sum based on a net interest of $5\frac{1}{2}$ per cent would earn \$2,640,000 a year.

Some of the smaller district banks may not use up the entire \$5,000,000 and others would use more than that amount. The money not used by small banks may be turned over to another member bank which can use the money. At this rate of profit a year, that is, \$2,640,000, the Government would be paid back in full for the money borrowed from the Treasury in 20 years, even if there is no increase in mortgages discounted.

There would be no loss on bonds or debentures at $5\frac{1}{2}$ per cent, as the Federal bank would make the direct sale under the bill as it is to-day. The fact that member banks must guarantee the payment of their own mortgages is another convincing reason why the Federal home loan bank will be a success.

That has not been touched on by anybody.

There should be a sinking fund and a reserve fund in each district bank. Net profits for the first year of the district bank shall go into the reserve fund. The second year 50 per cent of the net profits of each district bank shall go into the reserve fund and 50 per cent into the sinking fund. These are simply suggestions here, as you see. Thereafter all the net profits shall go into the sinking fund. Payments to the Government shall be made once a year out of the sinking fund.

Member banks shall be paid interest received on mortgages which they have pledged less than the one-fourth of 1 per cent which shall be paid them in stock. They should also receive dividends on their stock.

The underlying principle on which the Federal home loan bank is based is that it will be a profit-producing institution from the very beginning of its operation. The profits must come out of the interest paid upon the mortgages pledged, and as there is no interest to be charged for the Government's investments in this bank, it will have profits of at least 6 per cent less one-half per cent on all mortgages.

The large life insurance companies and other large lenders on mortgages have only one agent in each city and all applicants must apply to their agent, bank, or trust company, but under this bill all strong solvent banks may become members and retain their own customers. That is new, too. Where there is only one agent in a large city, banks, trust companies, and building and loan associations

must make applications to the local agent and pay a commission of 2 per cent or more in order to have their eligible mortgages accepted.

It is provided that 5 per cent on stock held by member banks shall be paid before the net profits are computed for the sinking fund and reserve fund.

Just another point: The bill already provides as follows [reading]:

The bonds and debentures issued by each Federal home loan bank shall be deemed and held to be instrumentalities of the Government of the United States, and as such, they and the income derived therefrom shall be exempt from Federal, State, municipal, and local taxation.

That is simply to wind that up there. I will not go any further on that, although I have much to back it up. I have had conferences with some bankers at Detroit and others and we have examined this and fought it out and none has been able to puncture it at all so far as the earning power of the bank is concerned, and I think this example was very conservative.

In another item I have said this: It is more important to save homes already built than to furnish money for new homes. The shortage of home-mortgage money for these purposes has done tremendous injury to the construction business, which is among the prime industries of the country. The passage of a genuine Federal home loan bank bill would immediately put to work thousands of the unemployed.

As Senator Watson has said, the individual home is, after all, pretty much the basis of society, so why not encourage home building?

Here is a matter that I think is very important: It has been stated that the local trust companies and banks ought to furnish money for such purposes. I am satisfied that they would if they could.

Strong solvent banks throughout the country, such banks and trust companies as we have in Detroit, are not lending money on mortgages. In the first place, they have been carrying their full quota of mortgages allowed by law, and, besides, taking over real estate that must be sold within a short time in order to satisfy the bank examiners.

You see, when they take over mortgages and become real-estate holders inside of a year or two they have to put them in mortgages and in assets.

Again, there is the hysteria of hoarding caused by the closing of many solvent banks, and hoarding became a passion of timid people, as well as some of the large mortgage-loaning companies.

Then, speaking about the banks striving for liquidity: It is an impossibility to get a single dollar out of the banks for mortgages; in fact—and this is no exaggeration—you can not go into banks, or you could not on last Saturday in Detroit, when I left, with a \$10,000 home and borrow enough money on it to pay taxes. That shows what the fellows in the East have done through hoarding their money in the high places. So there is no place left for a workingman to go and get his mortgage extended.

These mighty life insurance companies—here is an important thing, too, that has not been brought out—who are enjoying the benefits of Government to an extent greater than has been granted to any corporation in the history of this country, do not seem to be disturbed over this terrible situation. This is a new saying. These people do

not realize they have already been granted a station and power that are most extraordinary, and in times like these they do not give a man a chance to keep his home. It is a terrible condition to have those great institutions, with millions, yes, billions behind them, to shut off and say, "We will not lend you a dollar in this community and that community, even if it would be in the best interests of the country."

All of the great banking institutions which lend money on mortgage credits are not opposed to this bill, as is shown in the testimony before this committee by Mr. Wilson W. Mills, chairman of the board of directors of the First Wayne National Bank, of Detroit.

In answer to Senator Morrison's question: "Do you favor this bill, or are you opposed to it?" Mr. Mills answered: "I am in favor of the bill." Mr. Mills's bank has a very large reserve and carries between \$155,000,000 and \$160,000,000 of mortgages, practically all of them on improved property, such as homes. His bank has deposits of \$460,000,000 to \$470,000,000. The opinion of Mr. Mills, the master mind of such a gigantic institution, is worthy of the deepest consideration. This bank has not forgotten the interests of the common people.

I want to state that there are really two fundamental principles underlying this bill. The vital point about the bill is this: That money must be had in order to make it successful. A limitation of borrowing should not be put upon banks or trust companies who want to borrow so high that they can not afford to borrow or that they will not borrow.

Section 8 is really the most vital part of the bill. It provides 60, 50, 40, and 75 per cent. It means that you can borrow 25 or 30 per cent of the value of the real estate—I think it will take about five minutes to discuss that, because it is the vital part of the bill. There are only two really vital points: First, whether the banks will pay if started; and second, whether frozen assets can be thawed out.

Mr. REILLY. Do you object to the limitation as to borrowing power?

Mr. OAKMAN. The limitation of the amount that you can get upon the value of the property?

Mr. REILLY. How much do you think it ought to be?

Mr. OAKMAN. I think 50 per cent of the cash value of the property appraised at the time you ask for the loan. It does not make any difference whether it is hard times or good times, or whether the mortgage is old or young. All the time you are seeking value, and any other conception of lending money upon mortgages is wrong. It can not be done by percentages. A mortgage given in 1927, when prices were high, can not be fixed by percentages. The value of that mortgage can be ascertained just as easily as a new mortgage can be ascertained to-day, because all the time the appraiser is seeking value and not percentages.

Mr. LUCE. May I interrupt you there?

Mr. OAKMAN. Yes, sir.

Mr. LUCE. We have had a pretty big scare by the great drop in values in real estate, especially in the Northwest. We have seen examples of many thousands of properties in the West and in the South that are selling to-day far below 50 per cent of what they were appraised at only a few years ago?

Mr. OAKMAN. Oh, yes.

Mr. LUCE. Would we be justified in taking that 50 per cent figure, in view of the situation in which all the farm loan banks now find themselves by reason of this depreciation?

Mr. OAKMAN. Of course, that makes two questions. The first is very easy. That is, what you have in the cities is just the same as they have in the West. It would not be fair to take the 50 per cent of the old valuation. But, now, suppose there is a new mortgage to-day. Say, a man out West wants a mortgage upon his farm that has been depreciated 30, 40, or 50 per cent. Instead of getting a mortgage of \$5,000 on a \$10,000 valuation made three or four years ago, he can only ask for a 50 per cent mortgage on the \$5,000 valuation. This valuation is made at the time the advance is made for him. It brings it right up to date. There is not any possible chance to escape it.

Mr. LUCE. Yes; but our question is, in the course of the next 10 years the price level on real estate may again get up to a swollen figure. If, then, this law is on the statute books 10 years from now, there would then be the danger of the repetition of what we have just gone through, would there not?

Mr. OAKMAN. That is an important point. Swollen figures would be treated very much the same as they are now. A home-loan bank would be as urgent a necessity 10 years hence as it is now.

But I feel certain that the member banks would in the future prevent to a great extent the repetition of our present difficulties.

There is nobody on earth more close to values than the fellow living in the community. He knows the value of the property at the time the mortgage is asked for. Inasmuch as he must guarantee it, he is not placing any mortgage on that which will make him any weaker in the future.

Then, many of these banks, especially the large ones, have millions of money in what we call the "morgue," that is, mortgages taken over and converted into real estate. That must be moved. They are not going to hurt themselves, and they have mortgages now away beyond the level that they are supposed to retain under the law. During hard times throughout the country the bank commissioners say, "Well, get them down as fast as you can."

Those mortgages must be taken care of. It does not make any difference what that mortgage reads, the banker will find out what is the value of the property behind the mortgage, and that is the basis on which the loan will be made.

He knows when building is going to be increased and he knows also whether there is going to be overbuilding. We do admit that there has been overbuilding and there always will be more or less in some places; for instance, in Detroit there is one section which is overbuilt, an old section, and old homes by the thousands are going to be torn down. Yet there is a market for new homes.

Mr. LUCE. You will appreciate, Mr. Oakman, that if we are over-cautious it will be because "the burned child dreads the fire."

Mr. OAKMAN. There is no question about that. I went through some other panics, and to think of them makes me shiver. I have visited nearly every State in the Union. I have seen hardships, and I have known what the other fellows have done. The crooks have skinned me. But the day of the racketeer in mortgages is prac-

tically over in this country. The people have learned a serious lesson.

Now, we have had our lesson in Detroit. Now, as a matter of fact, there is, and always will be an extra charge for second mortgages in some instances; in other instances there is none. There is none in the regular banks. I am a director in one of the largest companies in the country in that line; I am also a director of a bank; and I know. Here is what we do: A customer comes in and we know he is all right, and we find that his property has gone down under what it was three or four years ago. If he wants to mortgage we make the mortgage fit the value of the land. Then we take back the second mortgage and carry that mortgage upon terms that may be agreed upon by the borrower and the bank. That is the rule.

I carry possibly 1,200 second mortgages, which would run into about \$1,600,000. There is not a single one of those mortgages that draws more than 6 per cent interest, the same as the original first mortgage. But you can not stop racketeering, only to the extent that people now know more than they did. That point has not heretofore been fully discussed.

Another matter that has not been discussed is the importance of having a bank of this kind for rehabilitation and for the repair of homes, which would employ hundreds of thousands of men.

There is not a place that you can go to unless you go to the United States Government to carry a man through certain situations.

Suppose you figure that a bank wants to borrow a million dollars. The bank must put up \$1,911,000.

Mr. REILLY. How much securities should a bank be obliged to put up to borrow money from this bank or building and loan association to borrow money from this bank?

Mr. OAKMAN. I could not answer on the building and loan association matter.

Mr. REILLY. They have all got to be on the same basis.

Mr. OAKMAN. Then I would answer this way: That a mortgage coming in would mean 50 per cent on the face of the mortgage—50 per cent of the value of the property ascertained at the time the loan is asked for. That applies whether times are high or low or medium. It makes an absolute certainty of financial arrangement that has stood the tornadoes of distress for a hundred years in this country, and you find last fall it was reported that the loss on mortgages throughout the United States was about 1.32 per cent. As a matter of fact, those mortgages checked suffering in the West and checked suffering in Florida. They were on 15 to 20 story buildings, and so forth. I would stake my life on it that if those mortgages were confined to homes of the working men there would not be a one-thousandth part of 1 per cent loans on mortgages in the entire United States based on 50 per cent of value.

Not only do the banks carry on this thing—it has been carried on for ages—but the bank itself must guarantee it, and it is up to the district bank to see that that banks does not get any more money than it can take care of.

Mr. REILLY. Right on that point; how much do you think the bank ought to loan on a mortgage valued at 50 per cent?

Mr. OAKMAN. There is an item in there allowing a \$15,000 mortgage for a working man's home. I thought my suggestion was very

liberal at about \$6,000 or \$7,000 mortgage on that working man's home. In other words, I do not think a bill like this should be in competition with the larger concerns.

Mr. REILLY. Leave out that point. Assume we were considering 50 per cent valuation at the time of the loan, how much money should this Federal bank loan to the member bank on a mortgage?

Mr. OAKMAN. I would make it not less than \$7,000.

Mr. REILLY. What percentage of that mortgage?

Mr. OAKMAN. That is the thing that is a curse to the bill.

Mr. REILLY. What are your views on it? That is the proposition.

Mr. OAKMAN. I think it is a fool proposition. It is a proposition that does not mean anything. It is uneconomic; it is unsound. There is not any possible way of arriving at the value of a mortgage percentage.

Mr. REILLY. Now, take this problem: Suppose I represent a home loan bank. I have taken a hundred thousand dollars of mortgages to this district bank. How much would they give me on it, valued at 50 per cent, taking 50 per cent of the value? How much should the bank loan me, in your judgment; what percentage of that?

Mr. OAKMAN. That is if you are engaged in the home loan business?

Mr. REILLY. Yes.

Mr. OAKMAN. Explain further.

Mr. REILLY. Should it be 40, 50, 60 per cent, or what?

Mr. OAKMAN. If it was secured on the base of value, you ought to get 50 per cent of the full value of the property.

Mr. REILLY. Would it be 60 or 40 per cent?

Mr. OAKMAN. Of the unpaid balance?

Mr. REILLY. Of the unpaid balance.

Mr. OAKMAN. Which means 30 or 35 per cent.

Mr. REILLY. My purpose is to get your views on how far they should go; that is all.

Mr. OAKMAN. Of course, I would make merely a guess, if I was answering about building and loan associations, because I have not had any experience in that line.

Mr. REILLY. Then take a mortgage bank.

Mr. OAKMAN. Well, if it was a mortgage bank, I can not conceive of any other way, with all my experience in the business—any way of figuring the value of the mortgage, except based upon the value of the real estate, and, inasmuch as it has lasted for generations and generations and found to be correct. I would lend 50 per cent upon the value of the property, whatever that would be in percentage.

Mr. WILLIAMS. Let me see if I understand you. Following the line of questions that the chairman has been asking you, representing a mortgage bank, suppose you went to this home loan bank with a hundred thousand dollars of mortgages. You would expect to get \$100,000 loan from those mortgages. Assuming that they represented the value of \$200,000, you would expect not 50 but 100 per cent on the mortgages?

Mr. OAKMAN. Yes; exactly.

Mr. WILLIAMS. If the security back of them represents a valuation of \$200,000?

Mr. OAKMAN. Exactly.

Mr. WILLIAMS. That is the way I understand you.

Mr. OAKMAN. That is exactly it.

Section eight contains the most vital defect in the bill.

The weakness in section 8 is that value has been replaced by guess work percentages. The provision in section 8 "in respect to an amortized home mortgage loan, which was for an original term of eight years or more" the advance may be for an amount not in excess of 60 per cent of the unpaid principal of the home mortgage loan," seems to be discrimination. Why a 5-year mortgage should be "fined" for being three years younger than an 8-year mortgage, surpasseth my understanding. It may be a case of old wine being more choice than young wine. This whole mess may be cleaned up by eliminating all that portion of section 8 pertaining to percentages, down to and including the clause that prevents a workingman from borrowing more than fifteen on his humble home. The clause in the same section, page 16, and reading as follows "At no time shall the aggregate outstanding advances made by any Federal home loan bank to any member exceed 12 times the amount paid in by such member for capital stock subscribed for it," should be stricken out of the bill and the following should be inserted instead:

Each Federal home loan bank is authorized to make advances to members who have become eligible to apply therefor; for the security of home mortgages, such advances to be made subject to such regulations, restrictions, and limitations as the board may prescribe. Any such advance shall be subject to the following limitations as to amount.

No amortized mortgage whose unpaid principal exceeds 50 per cent of the value of the real estate appraised at the time the advance is petitioned for, shall be eligible for a loan.

Mr. REILLY. The chairman sent a telegram yesterday to Mr. Frederick H. Ecker, president of the Metropolitan Life Insurance Co., inviting him to testify before this subcommittee or to send a representative. Mr. James L. Madden is here this morning to represent Mr. Ecker. I sent the telegram because Mr. Ecker was chairman of the finance committee of the President's conference on home building and home ownership and some people desired that he should appear at this hearing.

**STATEMENT OF JAMES L. MADDEN, THIRD VICE PRESIDENT
METROPOLITAN LIFE INSURANCE CO., NEW YORK CITY**

Mr. REILLY. Give your full name, the position you occupy and your address.

Mr. MADDEN. My name is James L. Madden, third vice president Metropolitan Life Insurance Co., New York City.

Mr. Ecker has instructed me to convey to you his desire to cooperate with you gentlemen to the fullest extent because he realizes that you are endeavoring to secure a factual background upon which you may base your decision. As chairman of the finance committee of the President's conference on home building and home ownership, Mr. Ecker directed an investigation of the fundamental principles involved in the bill which you now have before you, using both the facilities of the committee as well as our own research staff for this purpose. In addition he is interested in this proposal as the presi-

dent of our company which invests substantial sums in home mortgages.

You gentlemen appreciate that as the custodian of funds contributed by policyholders throughout the United States and Canada, that due caution must be exercised in investing these moneys. At the same time the Metropolitan strives to improve continually its methods of investment to the end that they may fulfill an increasingly important rôle in our social and economic structures without diminishing in any way our paramount consideration, namely the safety factor. Accordingly Mr. Ecker was glad to have investigated the fundamental principles underlying the bill you now have before you, in the thought that if they really would improve the financial status of home owners and senior mortgage financing institutions, the measure would be in the public interest and should be supported. In this event a factual investigation would justify this conclusion. It is apparent, therefore, that Mr. Ecker had two reasons for being interested, first, as chairman of the finance committee of the President's conference on home building and home ownership, and next as President of the Metropolitan Life Insurance Co.

As the telegram from your chairman was received late yesterday afternoon we have not had an opportunity to prepare any formal statement, and therefore it is our purpose only to indicate briefly the object and scope of our investigation and then to answer such questions as you gentlemen see fit to raise. Before proceeding, though, I would like to take cognizance of a statement which the preceding speaker made in reference to life insurance companies and his allegations of their practices which are detrimental to home ownership. Certainly this can not be reconciled with the actual practices of life insurance companies as portrayed by public records. In addition to increasing the amount of funds invested in city mortgages last year, about \$1 out of every \$20 received by the American people last year came from these companies. In other words, a tremendous sum of money—\$2,500,000,000—was paid by these institutions, much of which undoubtedly was spent for the maintenance of homes, for the payment of interest and taxes, and for other purposes to safeguard home ownership. In addition the foreclosure rates of life insurance companies, with over \$4,000,000,000 of city mortgages, was about 1 per cent. Then, too, a substantial part of the new mortgage investments of the life insurance companies went to local institutions which were in trouble, the exact amount we have not figured but which has been estimated by others as being in the neighborhood of about \$70,000,000. Instead, therefore, of the life insurance companies being open to the accusation which has been made, they have "done their bit" in the public interest during a period when many other credit agencies were having difficulties.

Reverting now to my purpose for being here as the representative of Mr. Ecker, factual investigations of the underlying principles of the bill which you now have before you were made in the hope that we would find in the arguments advanced in favor of this measure sufficient substance to enable mortgage lending institutions to improve their services to home owners. That our own interest is very real is apparent from the fact that the Metropolitan has made loans in probably every State in the United States with the exception of

three, and that we have invested about \$449,000,000 in mortgages on homes out of our total city mortgage portfolio of about \$1,289,000,000 and exclusive of about \$201,000,000 invested in farm mortgages.

Our investigations indicate that this particular measure as drawn will be detrimental to the home owner instead of helping him; that generally speaking it will not facilitate the renewal of mortgages and reduce foreclosures; in fact, it will tend to make the existing trying situation more difficult through depreciating existing values and undoubtedly in many cases increasing foreclosures. So much for the effect upon owners of encumbered properties. But now a word in reference to the effect upon owners of unencumbered homes, who, according to the latest information we have, are greater in number than owners of encumbered property. In this case the objectives underlying this bill, if carried out, will bring about a shrinkage in the savings of thrifty and aged people which have been stored in their homes.

Mr. REILLY. That statement is based upon the fact, however, that in your judgment this bill will encourage excessive home building?

Mr. MADDEN. Yes; but there are other reasons, too.

From the standpoint of mortgage lending agencies it is apparent that the title of the bill is misleading because the proposed banks are discount banks and will not render direct service to home owners. In order to learn just how helpful this bill would be to mortgage lending agencies in improving their service to home owners we consulted with building and loan associations, mutual savings banks, commercial banks, life insurance companies, and other types of mortgage banking institutions. We went to some of our European friends for factual information about their mortgage banking institutions. In the course of these phases of our investigation we paid particular attention to the arguments of the proponents of this bill, namely, that it would improve the liquidity of mortgages, insure a broader distribution of mortgage funds, and reduce interest rates. In addition we weighed the merits of the proposed national standardization of home mortgage finance in comparison with the existing competitive situation under the supervision of the respective States. We studied the contingent guaranty of the bonds of the proposed home-loan banks by the Federal Government from the standpoint of the effect upon the credit of the Government, the availability of funds in times of depression, and the soundness of this particular method of financing private enterprise which should either be self-supporting or cease to do business. We investigated the justification for setting up under this measure a competitive banking system with our existing financial structure, the availability of mortgage funds in connection with the general economic credit situation, and the possibilities of the Reconstruction Finance Corporation. Certainly the answers to the foregoing and other questions would indicate the value of the structure contemplated in the bill you have before you. In point of fact, though, our conclusions indicated that from the standpoint of mortgage-lending institutions, generally speaking—and I add this qualification because I realize there is a small minority in favor of this particular proposal—this particular bill is unnecessary.

Under present conditions there is a need for an emergency institution which will “unfreeze” all types of sound assets regardless of

their nature in order to provide cash. There are undoubtedly many cases where banks with assets primarily in bonds would be willing to lend money to home owners providing they could "unfreeze" their bond account. We must not lose sight of the fact, though, that the cause of the emergency need for credit by industry and commerce is essentially the same as that of those home owners whose local institutions are unable to satisfy their demands and that the problem in these cases arises from frozen portfolios of investments for which there is practically little or no immediate market, or one in which quotations are known to be below fair values. Mr. Ecker realized the need of an emergency institution to meet this situation and accepted an invitation from those in charge of the Reconstruction Finance Corporation bill in the Senate to appear in behalf of that legislation.

To summarize, we believe this bill is detrimental to the well-being of home owners, that it is unnecessary from the standpoint of the mortgage-lending institutions, and that only a relatively small percentage of the approximately 32,000 mortgage-lending institutions in the United States have indicated any particular desire for it. There is no need for the home-loan banks as an emergency measure because the Reconstruction Finance Corporation is more competent to render the "unfreezing" service which is necessary. As for the need of the home-loan banks as a permanent institution, we believe that they not only can not be self-sustaining, but they are unnecessary. In fact, a number of States are indicating a degree of leadership, which we think is preferable to this proposal. For example, in New Jersey we find the building and loan associations developing an interesting plan for meeting the problems which are peculiar to them because of local conditions and their State laws. In New York for many years the building and loan associations have successfully operated their own discount bank, which works in conformity with the customs and laws of that State. Then, too, the savings banks of that State have recently taken constructive action to safeguard their institutions in the event of an emergency. In the State of Massachusetts from which Congressman Luce comes—

Mr. REILLY. Mr. Madden, other States have not done that.

Mr. MADDEN. Quite true; but if a demand existed, why did they not take some action?

Mr. REILLY. Because this is an emergency.

Mr. MADDEN. Then the Reconstruction Finance Corporation will take care of them.

Mr. REILLY. What information have you as to what the Reconstruction Finance Corporation has done to date for the building and loan people?

Mr. MADDEN. The corporation has not completely organized as yet, but it appreciates the need of helping certain building and loan associations. During the past several weeks the officers of the corporation have been looking for competent men with a mortgage background. In fact, I am informed that certain representatives of building and loan societies have been consulted on this matter. Furthermore, I do understand that regardless of this difficulty, the Reconstruction Finance Corporation has authorized loans to some building and loan associations. In consideration of the time within

which the Reconstruction Finance Corporation has existed and the organization problems which it is facing, this emergency body has been doing a splendid piece of work.

Mr. REILLY. Do you consider the Reconstruction Finance Corporation as having sufficient funds—

Mr. MADDEN. Absolutely.

Mr. REILLY (continuing). To undertake the liquefying of all bonds and mortgages and things of that kind?

Mr. MADDEN. Absolutely, and in the event it develops that it has not, then it would be easier to provide that body with additional funds than to set up the home-loan discount banks as competing agencies for mortgage discounts.

Mr. REILLY. There are 7,000 building and loan associations in this country.

Mr. MADDEN. There are approximately 12,000.

Mr. REILLY. Are they not suffering to-day from frozen assets?

Mr. MADDEN. Nationally speaking, the building and loan associations are sound, but in some localities they are frozen.

Mr. LUCE. You said this would be detrimental to home owners. I do not quite understand what you had in mind in that regard.

Mr. MADDEN. In our opinion this bill will be detrimental to the interests of home owners. Just to illustrate, one may, let us assume a home owner has a piece of property worth \$10,000. Under present conditions this property has depreciated probably 20 to 25 per cent. A number of new homes are put up in this neighborhood as a result of this bill—one of the purposes of which is to stimulate new building. What is the effect upon this home owner?

Before considering this particular case, let us briefly review the housing situation generally. In view of the surplus homes which have resulted from foreclosures and reduced incomes, there is a relatively small market for new houses. We are aware of the estimates of the need of new buildings made by proponents of this measure, and although we are a national mortgage lending institution with the necessary facilities for keeping our hand upon the pulse of the demand for new housing, we are not in accord with the estimates advanced in behalf of this measure. We know only too well the difficulties which mortgage-lending institutions alone are having in trying to dispose of homes at prices with which new homes can not compete.

Then, too, we must realize that a study of the past 10 years and our expected increase in population during the next decade tends to lead one to believe that the construction industry will function at a slower tempo for a period of time in the future than it has since 1920. If this is so, it will be most unfortunate to try to curb the economic readjustments through legislative processes and Government and subsidies. As evidence supporting this viewpoint, we find that from 1920 to 1930 there were from two to three million homes built. In 1925 the greatest number of houses were constructed. From that date until the present there has been a decline. You will recall that during 1926, 1927, and 1928 the American people had plenty of money so that the decline was not due to lack of funds. It is a reasonable assumption that the downward trend reflects a gradual slowing-down process which naturally would result after the

normal supply of houses was restored because of the shortage of home building which accumulated during the war.

There is a definite relationship between the increase in population and the demand for housing under normal circumstances. Between 1920 and 1930 there were about 16,648,000 new people in the United States. During 1930 and 1940 it is estimated that our population will be increased about 7,906,000, or about half of the increase during the last decade. It is readily apparent that the demand for housing, based upon the housing trend and the growth of population, necessarily will be below the number of homes constructed during the last 10 years. Now, we are well aware of the argument that there is much huddling due to economic conditions, but we believe that this huddling is substantially less than the number of homes which are available for sale either as the result of foreclosures, weak home ownership, the reported drift of people to the farms, and other causes.

Now, if, in view of the foregoing, you inject into the present situation a new building program, you will make the problem of disposing of existing foreclosed and other properties much more difficult, and in addition in the case of the man whose home is worth \$10,000 and which has already depreciated about \$2,000 because of economic condition, you are bound to decrease further the value of his particular house when you build additional homes in his neighborhood, because we know that the home-buying public prefers new houses to others. Furthermore, a man's property is very apt to be depreciated because of obsolescence.

Mr. REILLY. So your principal objection to this bill is that it will unduly increase home building and depreciate the value of homes already built?

Mr. MADDEN. That is one objection.

Mr. REILLY. Is not that your principal objection?

Mr. MADDEN. No; there are other objections; for example, we believe that the existing competitive situation under which the four major leading institutions are working under the supervision of their respective States, is superior to the proposed standardized and nationally controlled system. Intensive competition among banks, building and loan associations, mutual savings banks, and insurance companies is in the public interest because it tends toward improved service to home owners, flexibility in meeting the varying demands of home owners, and compliance with the laws and customs of the respective States. Contrast this with the system proposed in this bill whereby an effort is made to force home owners to take long-term mortgages, and mortgage-lending institutions to comply with the fixed requirements which will be made by the proposed home loan board in Washington.

Furthermore, you must realize that all of the benefits alleged by the proponents of this bill can be made effective only if the mortgage-lending institutions generally go into the home loan banks system. In other words, the success or failure of the proposed home loan banks is going to depend upon the extent to which these banks are used by mortgage-lending institutions. Although we have endeavored to determine the extent of the sentiment in favor of this bill, we find that only a small minority of the mortgage-lending institutions are for it. The American Bankers Association has gone on record against it, and various State banking associations have taken

similar action. Numerous building and loan associations are opposed to it. The mutual savings banks, generally speaking, do not see the need for it, and the same situation prevails among life insurance companies.

Mr. REILLY. Then, if the mortgage-lending institutions do not use it, there will not be an overbuilding of homes.

Mr. MADDEN. There will be an overbuilding of homes in the communities served by a small minority of mortgage-lending institutions. If then the majority of the mortgage-lending institutions do not use the home loan banks, what have you done? You have imposed upon the financial structure of the country, at a time when industry needs funds for capital improvement, a potential supply of about \$1,800,000,000 of tax-exempt securities.

Mr. REILLY. But if they get \$1,800,000,000 they are going to function, and somebody must be using it. If it functions, according to your idea, it is going to result in an unjustifiable increase in home building that will depreciate homes already constructed.

Mr. MADDEN. That is right.

Mr. REILLY. With the result that the home owner's house will go down in value, and he will be in a worse position; that is your theory?

Mr. MADDEN. That is right.

Mr. REILLY. And if it does not work, that situation will not come into existence at all?

Mr. MADDEN. Let us assume that this small percentage of lending institutions do use the home-loan banks and start a new home-building program, which is one of the objectives of the bill, in the particular areas within which they function. Then the home owners in those areas are going to suffer.

Mr. REILLY. They may or may not.

Mr. MADDEN. It is our viewpoint that they will.

Mr. REILLY. I take it no home-lending institution is going to build a home for a man when they have homes to sell, as they have a lot of them to-day, or unless a man has some money to put into a home. I should think that would be a fundamental proposition to guide home-lending financing. If you represented a building and loan institution, and I came there with some money and said, "Mr. Madden, I want to build a home." You could not put me off, and you should not put me off, on the ground that my home building would depreciate another man's home?

Mr. MADDEN. If your local institution were frozen, the Reconstruction Finance Corporation would take care of that particular case. The advocates of this particular bill claim that it will facilitate home building generally. We question very seriously whether home building should be generally stimulated even if there were not a surplus of home at present, unless such stimulation is based upon strong home ownership. We must realize that the American people have been urged to buy homes largely on a shoe string, and this practice underlies much of our trouble to-day. An analysis of foreclosures indicates the loss of homes through foreclosures is due first to unemployment; second, too heavy second mortgages; and third, taxes and assessments.

Mr. REILLY. Right on that point: I submit that the home-loan institutions are doing more to eliminate the second mortgage than any other money-lending institution in existence.

Mr. MADDEN. I do not believe they are, for this reason—

Mr. REILLY. Are not the home-loan banks the only banks that will lend a man a sufficient sum of money to eliminate a second mortgage?

Mr. MADDEN. They do not, and can not, lend him enough money to eliminate the second mortgage, because the American people have been taught to expect to buy homes largely on a shoe string; in fact, you can buy homes on a 10 per cent down payment. The finance committee of the President's conference on home building and home ownership recommended that on the average a home buyer should pay 25 per cent down at the time of the purchase, and it was criticized by one of the proponents of this bill because of this presumably drastic requirement.

This is no criticism of the building and loan associations. I am not thoroughly sold upon them, and I believe that as an institution they have rendered a real service to the American people. In principle they are sound, and I think that if the building and loan executives wanted their own reserve bank and were willing to set it up without Government funds or Government subsidies, we would strongly indorse their proposal.

Many building and loan societies lend generally up to 75 or 80 per cent of the value of the property, and many others lend substantially lower percentages. Confining our thoughts, though, to the former class, a prospective purchaser wants to buy a home and offers to pay 10 per cent down. Where is he going to get the other 15 per cent? There obviously is a need for second mortgages. The second-mortgage business has charged exorbitant rates for their services, but the fundamental risk is so great that relatively few of them have been able to survive. Therefore you come to what in our opinion is the major limiting factor to the development of real home ownership, and that is the solution of the second-mortgage problem. Certainly the proposed home-loan banks are not designed to correct this.

Mr. LUCE. With all courtesy, Mr. Chairman, I do not think he has answered your question.

Mr. REILLY. Let me put the question another way. The building and loan men appearing here testified that they do away with the second mortgage by discouraging a man to build a home until he has about 20 per cent of the cost.

Mr. MADDEN. Yes; I understand the question, and I answered that only some building and loans advance 75 or 80 per cent of the cost and that, in any event, usually the salesman gets to the customer before the building and loan association.

Mr. REILLY. It does not make any difference who gets to the customer first, because the building and loan associations discourage the man who wants to build a home until he has about 20 per cent, and then they loan him 80 per cent, thereby doing away with the necessity for a second mortgage.

Mr. MADDEN. But I thought I answered that question by pointing out that even those building and loan associations which render this service can not possibly reach all of the people, and when they do their service is sound. I also endeavored to indicate that the salesman usually meets the customer first, and therefore the prospect frequently is committed to buy the house upon a 10 per cent down payment. Now, somebody has to put up the difference of 15 or 20 per cent. I tried to emphasize my point by referring to the criti-

cism of the finance committee of the President's conference on home building and home ownership when it recommended that there should be in the average case a 25 per cent down payment.

Mr. LUCE. Mr. Madden, you said this bill will increase foreclosures. The Senate committee and we here have had a crowd of witnesses tell us that the foreclosures are due to a lack of funds on the part of the various lending agencies. How may the supply of more funds lead to foreclosures?

Mr. MADDEN. As to the lack of funds, the Metropolitan Life Insurance Co. last year invested about \$138,000,000 of new money in mortgages—

Mr. LUCE. May I explain right there? We also have a mass of testimony in the Senate and in the House bearing on that question, and I think any impartial man reading that testimony will draw the conclusion that the situation is spotted; that in some parts of the country there is a great scarcity of funds. In most parts of the country there is a material scarcity of funds, and that in a very small part of the country there are plenty of funds. Now, let us assume that we have these varying views as to shortage of funds. Getting down to the question of where there is a shortage of funds, how, then, can the supplying of funds increase foreclosures?

Mr. MADDEN. If I may deal with the shortage of funds first, I will then be better able to answer your question. Starting with our own experience, we know that we invested about \$138,000,000 of new money last year in city mortgages, and of that sum \$49,000,000 was invested in first mortgages on homes—\$26,000,000 on the older type of homes and \$23,000,000 on new homes. A number of insurance companies and building and loan societies to our knowledge also have invested new money in mortgages during the last year. So far as the statement goes that there is no money, there is ample evidence that there has been new money—

Mr. LUCE. In places.

Mr. MADDEN. We are doing a national business.

Mr. LUCE. I will read the evidence from Shreveport; I will go through this testimony and furnish you with 40 instances to refute that statement.

Mr. MADDEN. We are giving the facts of which we have direct knowledge, and as I further develop this thought you can see how our information checks with yours.

Mr. REILLY. What percentage do you loan on a house?

Mr. MADDEN. Usually around 50 per cent, although there have been times in the past when under certain circumstances we have loaned up to 60 per cent.

Mr. REILLY. Can you not imagine there will be a demand for a higher percentage of loans than you make? For example, suppose a man wants to get 60 per cent on his house; he could not get that from your company?

Mr. MADDEN. We have made loans on the basis usually of 50 per cent, and if he wants more than this he will have to go to some other agency.

Mr. REILLY. But your testimony is that you seldom or never give 60 per cent on a house?

Mr. MADDEN. We aim to be conservative.

Mr. REILLY. You do just as other people do; you do just as the majority of mortgage lending companies; they do not want to go above 50 per cent under any circumstances. There is a great need apparently, as Mr. Luce has said, according to our testimony, for money that will give a higher percentage on a building than an institution such as yours can give.

Mr. MADDEN. Various mortgage lending institutions specialize upon different types of mortgage service to home owners. The Metropolitan thoroughly believes in the principle of amortization on home mortgages because we think that ultimately every home owner should own his own home. Our company, therefore, is essentially rendering an amortized mortgage service to home owners. The building and loan associations hold the same viewpoint. The attitude of mortgage-lending institutions toward home owners is that you have to deal with them as they are, which means that they have a variety of ideas upon the type of mortgages which they want. Some want straight loans while others want amortized loans; some want short-term loans while others desire long-term loans, and the mortgage-lending institutions collectively provide them with the facilities they desire.

Mr. REILLY. The condition I am trying to develop is that there is a big lending field that your company does not cater to.

Mr. MADDEN. I admit it, but I want to point out to you that no one agency can cater to it because the demands of the home owners, which should be the governing factor in any mortgage-lending system, require a variety of types of loans. The American people should be able to get what they want in the way of mortgage service.

Mr. REILLY. There are 2,000,000 people getting loans entirely different from what your institution can furnish?

Mr. MADDEN. We will agree with you.

Mr. REILLY. They say that these institutions are in hard circumstances because of unliquid funds. This bill provides a method whereby funds can be liquefied and the idea is that the liquefaction will enable the banks to meet withdrawal demands of people who need money now because of their present condition, and this will enable them to function otherwise, and if possible to lend some money to build where there is a man of character coming along with money.

Mr. MADDEN. Who are these 2,000,000 people?

Mr. REILLY. They are 2,000,000 people who are members of the building and loan associations.

Mr. MADDEN. All right.

Mr. REILLY. These are the borrowers; there are 12,000 building and loan associations.

Mr. MADDEN. It is doubtful if these 2,000,000 people demand these banks because our building and loan friends tell us that their associations are by no means united behind this proposal.

Mr. REILLY. We do not say that the building and loan associations are all for this. We assume that there are certainly building and loan associations which do not need this bill just as many people do not need the Reconstruction Finance Corporation. But we have had here the officers of the building and loan associations, the secretary and president, who testified that the building and loan associations are badly in need of this kind of an institution.

Mr. MADDEN. Then let them have their own reserve bank to be financed by themselves; let the Reconstruction Finance Corporation take care of their immediate needs. As to the building and loan reserve bank, in our opinion it should be run as one of the four competing mortgage lending systems, because we must remember that the home owner should be given what he wants.

Mr. REILLY. This does not interfere with that.

Mr. MADDEN. I do not share that viewpoint, but as far as the emergency is concerned, the Reconstruction Finance Corporation will take care of building and loan associations and banks and other lending institutions.

Mr. REILLY. Assuming that the Reconstruction Finance Corporation can not take care of them and is not taking care of them and will not take care of them, is this bill worthy of consideration?

Mr. MADDEN. I do not think so, because the Reconstruction Finance Corporation was set up to take care of them.

Mr. REILLY. We will assume the Reconstruction Finance Corporation bill had not been written, would you be opposed to this bill?

Mr. MADDEN. I would have to think about it. I am inclined to think I would, because in principle it is detrimental to the home owner, and in principle it is detrimental to the continued development of mortgage financing on the four competing system basis which is now operating under State supervision.

Mr. REILLY. Then, again, the only reason I can see that it can be detrimental to the home owner would be that it would encourage excessive and unnecessary building or home construction.

Mr. MADDEN. No.

Mr. REILLY. How otherwise could it affect the home owner?

Mr. MADDEN. In various ways, for example, it is alleged that this bill will facilitate the renewal of mortgages, which certainly is misleading to a substantial part of the public.

Mr. REILLY. I do not mean that. What I have in mind is the problem of hurting the home owner.

Mr. MADDEN. It will hurt the home owner through overbuilding. It will hurt him in other ways, too; for example, it is going to force him to accept particular agencies and the methods called for by this bill rather than what the home owner wants.

Mr. REILLY. Why, when he can get from your institution anything he wants?

Mr. MADDEN. Assuming his application meets our requirements, he can get an amortized loan upon his home; but if he wants a straight loan, he must go to the banks.

Mr. REILLY. The bill does not take from him any opportunity he has.

Mr. MADDEN. It does because he now can shop around.

Mr. REILLY. Assuming that this bill became a law to-morrow, would it deprive a man who wants to borrow money to build of any opportunity he has to-day?

Mr. MADDEN. I should say yes; it would hurt the man because his opportunities for selecting the particular type of mortgage service he desires would be strictly limited under this bill. One of the alleged reasons for this measure is that it will nationalize the mortgage structure. It is argued that all home loans should be made in

a nationally standardized manner. We differ with this fundamental concept because we believe that competition is the best public servant.

Mr. REILLY. Does this interfere with competition?

Mr. MADDEN. It does, because five men would absolutely control the national standards and they would dominate completely your local regional banks.

Mr. REILLY. But your local regional banks do nothing but satisfy local demands.

Mr. MADDEN. No; the local banks would have to do what the board of five men in Washington wanted them to do.

Mr. REILLY. Then you are objecting to the method of organization?

Mr. MADDEN. Yes; because it does not give the local home owners a chance to get anything but an amortized mortgage except on a penalized basis.

Mr. REILLY. Suppose that this law is on the statute books to-day and I want to build a home. I have \$2,000. Where does this law interfere with my choice of methods of building a home?

Mr. MADDEN. From the standpoint of the ultimate objective of the bill, you will have only one type of mortgage loan that you will be able to get, and that is an amortized loan of eight years or more.

Mr. REILLY. But I can go to the bank.

Mr. MADDEN. A bank can not become a member of the proposed home-loan banking system unless it makes long-term mortgage loans, and suppose you want a 5-year mortgage or less. Then too, assume, as usually is the case, that you have to get a second mortgage.

Mr. REILLY. I can go in my town to a local institution privately managed.

Mr. MADDEN. The fact remains that there is a limited number of private banks, but regardless of this, the man would have to arrange for the second-mortgage money.

Mr. REILLY. Not under the building and loan plan.

Mr. MADDEN. But I have tried to make it clear that the American people have been sold to a substantial degree on buying homes on shoe strings, and that even those building and loan associations which would advance up to 75 or 80 per cent do not eliminate the second-mortgage problem. Where will the home owner get the rest of his money?

Mr. REILLY. But if he has \$2,000 he can go to the building and loan association, and if they have the money to loan him—

Mr. MADDEN (interposing). There are building and loan associations that have money, plenty of them.

Mr. REILLY. But a lot of them do not have it.

Mr. MADDEN. But a review of the situation reveals those with funds are working to correct conditions within their own fields. The building and loan people know their own problems, their own strength and weaknesses, and they know the State laws under which they have to operate. Take New Jersey, for example—

Mr. REILLY (interposing). But there are New Jersey people here arguing for this bill.

Mr. MADDEN. Individually, but collectively they have been developing plans for their own particular discount organization to function within the State of New Jersey, which indicates that they believe that they can take care of their own problem.

Mr. LUCE. Did you know that within a few days the New Jersey legislature turned it down?

Mr. MADDEN. Then it is possible for them to organize along other lines, such as the method followed by the National Credit Corporation.

Mr. LUCE. Why did you say that to put money at the command of a lending institution will increase its foreclosures?

Mr. MADDEN. I did not make that statement. I said that from the standpoint of many home owners, I believed that foreclosures will be increased.

Mr. LUCE. Did you say, or did you mean to say, that to put more money at the command of a lending institution will increase foreclosures?

Mr. MADDEN. At times; yes.

Mr. LUCE. Tell us why.

Mr. MADDEN. History is a good barometer of what you often might expect in the future. Accordingly we might study the history of the farm-loan field. When the readjustment came in agriculture, the prices of commodities were high—

Mr. LUCE. We know all about the laws existing because we live with them.

Mr. MADDEN. I am answering your question with an exact parallel. Up to this time, production costs were high, standards of living had increased, and the indebtedness assumed during the boom time was tremendously high. With the sharp fall of commodity prices a radical readjustment had to take place. Then about \$2,000,000,000 were thrown into the agricultural situation by the land banks. In our opinion, the injection of that fresh credit only tended to make the farmers' problem much more difficult than it otherwise would have been. Without that money, the readjustment undoubtedly would have been sharper but to-day agriculture would be in a sounder position. The effect, therefore, of the additional credit was to prolong the economic readjustment. It is believed that if the present depression continues much longer, and if the home-loan banks are set up, the same condition will prevail in the home field.

Mr. REILLY. His point is that if we pass this law it will lead to such reckless and increased lending that in the future there will be more foreclosures.

Mr. MADDEN. Substantially, that is the idea.

Mr. REILLY. But suppose that this law were passed to-day. In the next year or so, how would it affect foreclosures?

Mr. MADDEN. I would not have had much effect because the home loan banks will not be operating.

Mr. REILLY. But suppose they were operating within a year. If this bill is passed, it ought to get going within a year. What would be the immediate effect?

Mr. MADDEN. It is just a question of how soon the credit inflationary process will start. I do not know exactly when that will be, but so far as the trend goes it is my opinion the putting into effect of the underlying objectives of this particular bill will certainly bring about the trend.

Mr. REILLY. That is because you claim that it would lead to more reckless lending on home building, and in the future foreclosures would come fast?

Mr. MADDEN. Yes, but there are other reasons. This bill can not do for the home owner any more than the existing mortgage lending agencies and the Reconstruction Finance Corporation either are now doing or will do. The real trouble to-day arises from the fact that many people unfortunately can not pay their interest or taxes, yet this bill has been publicized as a means of facilitating mortgages and reducing foreclosures to home owners. As a result we have people coming to our office and after referring to the publicity, ask us how they might avail themselves of the service of this new Government bank. In the friendly discussion which follows, it has become apparent that in each of these cases the economic situation underlies the particular difficulty and there is nothing that the home loan banks or any other mortgage lending agency can do. The fundamental difficulty is not with mortgages per se but with the economic situation.

Mr. REILLY. That is what is making this bill necessary, the present economic situation.

Mr. LUCE. Now, Mr. Madden, you said that there was no demand for this bill.

Mr. MADDEN. I said that based on our survey among building and loan associations, savings banks and other institutions, that we were informed there was no real demand.

Mr. LUCE. I should modify my question. I think my note referred to some statement you made that there was no demand for money.

Mr. MADDEN. No demand for money?

Mr. LUCE. No legitimate demand for credit.

Mr. MADDEN. There is a slackened demand for credit but there is still some demand as is plain from the fact that our own company loaned about \$49,000,000 last year on homes, out of a total city mortgage investment of about \$138,000,000.

Mr. LUCE. You certainly used the words "no demand for this bill."

Mr. MADDEN. This is what I intended to convey. Based upon our survey, we found only a small percentage of the mortgage lending institutions in favor of this bill—

Mr. LUCE (interposing). Your statement was that from your investigation there is no demand from these people?

Mr. MADDEN. In so far as the particular mortgage-lending institutions consulted, that is right, but, of course, we have been aware of the support given to the bill by a limited percentage of other mortgage-lending institutions.

Mr. LUCE. The Department of Commerce asked this question of some thousands of institutions:

Would the operation of the proposed discount banks increase the amount of credit now available for legitimate use in your community?

To that question 6,525 of them answered yes and 1,974 answered no. How do you account for the fact that 6,525 banks, associations, loan and trust companies, and mortgage bankers said that there was opportunity for legitimate use of mortgage funds in those communities?

Mr. MADDEN. I can account for it in part, I believe.

Mr. LUCE. Go ahead.

Mr. MADDEN. First let us see whether the number of these replies is large enough to portray the real viewpoint of mortgage-lending institutions generally in reference to this bill. There are about 32,000 mortgage-lending institutions in the United States, and the particular questionnaire referred to has been reported as having gone to about 29,000 or 30,000 of them. It is obvious, therefore, that only a small percentage of these institutions replied in favor of the bill. To illustrate: It has been said that only about 1,600 building and loan associations out of the 12,000 in the United States have expressed a favorable reaction in reference to this measure.

Mr. LUCE. You are not answering my question. I do not want to know about the people who did not answer the question. I asked you to explain why 6,525 institutions answered yes.

Mr. MADDEN. I am endeavoring to answer you in my own way.

Mr. LUCE. But I do not like to have you bring in people who did not answer.

Mr. MADDEN. But they have a very definite bearing upon a correct viewpoint of the attitude of mortgage-lending institutions generally toward this bill.

Mr. LUCE. I do not care about the bearing. I want my question answered.

Mr. MADDEN. A number of these organizations read the statement of the purposes underlying this bill which was attached to the questionnaire, but not the bill itself, because this was not included. Nothing was said about the Reconstruction Finance Corporation in the statement or questionnaire. The institutions, therefore, thought that the principles set forth in this statement would help them to "unfreeze" their mortgage portfolios, but you would not have received the response from the banks which you did—

Mr. LUCE. How do you account for the fact that between 6,000 and 7,000 of these people had this opinion?

Mr. MADDEN. I believe that they expected that this bill would be in accord with the statement inclosed with the questionnaire—

Mr. LUCE (interposing). I have not asked you about this bill. This bill was not before them when this question was put up.

Mr. MADDEN. Yes; it was.

Mr. LUCE. This questionnaire is dated January 15.

Mr. MADDEN. It refers to the bill specifically. Let me read the questionnaire. It reads, "Would the facilities provided by the proposed home-loan discount banks"—which is what we are discussing—"for borrowing on your home mortgages add desirable flexibility and security to the conduct of your institution?"

Mr. LUCE. Yes; but the home-loan banks referred to were those which were in an inchoate, unformulated condition, as suggested by the President.

Mr. MADDEN. Why did you refer to the bill in the letter?

Mr. LUCE. There is no reference.

Mr. MADDEN. In the letter there is a reference to the bill introduced by you.

Mr. LUCE. I have not the letter here and it is immaterial anyhow, but it still diverts me from my question. I am trying to get back to a straight answer to the to the question why between 6,000 and 7,000 people wanted some institution of this kind set up.

Mr. MADDEN. The answer to that is that most of these people, undoubtedly with wholly or partially frozen mortgage portfolios, believed there was a need for some institution which would "unfreeze" their portfolios, but it does not necessarily follow that they are for this home loan banking system as set forth in this bill.

Mr. REILLY. They had the old bill. What is the difference between the old bill and this one?

Mr. MADDEN. Will you permit me to complete my answer to the other question first? In not having this particular bill inclosed with the statement of the general principles underlying the President's program which was attached to the questionnaire, many of these people thought, based upon our discussions with some bankers—

Mr. REILLY. They had the old bill.

Mr. MADDEN. Some of them may have, while others had the new bill and undoubtedly the vast majority had no bill because no measure was inclosed with the questionnaire. You will find most of the favorable results of your questionnaire came from bankers. When they secured copies of the bill now before you and found out the difference between it and the statement inclosed with the questionnaire, such as the competitive features which have nothing to do with mortgage discounting, many of them undoubtedly changed their view because the American Bankers Association recently has gone on record against this bill.

Mr. LUCE. As I say again, I am not asking about those who did not, but about those who did.

Mr. MADDEN. As we do not know what particular institutions replied to the questionnaire, we can only generalize and I have endeavored to do that. In view of my explanation, you must weigh the 6,500 favorable replies against the 24,000 who were either opposed to the bill or not sufficiently interested to fill out the questionnaire.

Mr. LUCE. That does not answer my question.

Mr. MADDEN. That is the best I can do, offhand.

Mr. LUCE. I asked why these 6,500 said they wanted something of this sort, and you come in and say there is no demand for it.

Mr. REILLY. Not as their investigation shows.

Mr. MADDEN. I have pointed out that there is no real demand for this bill, and this is substantiated by the small percentage of the replies to your questionnaire which indicate a favorable attitude toward it. Now as to the sources of the favorable reactions. Nationally, the building and loan associations are sound, but the local associations in certain areas functioned under management methods which when combined with economic conditions, have resulted in freezing their portfolios. State banks too nationally are sound, but in certain areas have invested very heavily in mortgages, although they must have realized that there would be trouble when heavy demands for deposits were made. As a result when you analyze the financial structure of building and loan associations and State banks on a State basis, you will find that the support for this measure comes from those sections where the building and loan institutions and the State banks with sizeable volumes of mortgage investments have been wholly or partially frozen for reasons which do not relate to mortgages. Nationally, therefore, there is nothing wrong with the building and loan associations or our banking struc-

ture. In fact my recollection is that banks nationally have only about 8 per cent of their deposits invested in mortgages. The answer, therefore, is that undoubtedly many of these local institutions whose mortgage loans are frozen would favor the bill, but they come primarily from certain definite localized areas. Therefore, we submit that this committee should interpret this evidence in conjunction with the failure of approximately 24,000 mortgage lending institutions to reply to the questionnaire.

Mr. LUCE. That is all right; of course we ought to, but I am trying to find out about what these people thought.

Mr. MADDEN. I do not know specifically who answered the questionnaire.

Mr. LUCE. I will tell you one thing about the matter of localized areas. These replies have been broken down by States, and as I glance down the columns, just to give you the high lights, I see that every State in the Union and Alaska answered and that the replies were roughly proportionate to the population in the States. Ohio appears to lead, with 511 replies; Pennsylvania is next, with 447; then Illinois, with 429; and then there are a number of them with 200 replies—here are eight States with more than 200 replies.

Mr. MADDEN. Each of those eight States is in a concentrated area where the situation of the building and loan associations and the State banks has just been described, and their condition should not be allowed to color the national picture.

Mr. LUCE. With 6,500 institutions scattered throughout 48 States in proportion to population your concentrated area is bounded on the north by Canada, on the west by the Pacific, on the south by the Gulf, and the east by the Atlantic. That is the "concentrated area" and that is the area we are legislating for.

Mr. MADDEN. If you will study the reports of the Comptroller of the Currency and the Federal reserve system on the percentage of mortgage investments to deposits and the percentage of property owned to capital and surplus, you will find these eight particular States—

Mr. LUCE (interposing). There are 48 of them.

Mr. MADDEN. No; the point is that, as far as the concentration of mortgage investments on a volume and percentage basis goes, the demand for this bill comes largely from the areas containing these particular institutions previously referred to.

Mr. LUCE. But I point out that these are scattered throughout the whole country, roughly in proportion to population.

Mr. MADDEN. That may be; but I am pointing out that the eight States which you have read to me, and I have not seen that—

Mr. LUCE (interposing). Do you want some of the others?

Mr. MADDEN. Read them in the order of their importance.

Mr. LUCE. Here are those in the hundred class: Arkansas, California, Kansas, Kentucky, Massachusetts, Nebraska, North Carolina, Oklahoma, Texas, and Virginia. If that is concentration, for Heaven's sake, what is not?

Mr. MADDEN. I still maintain that the major volume of support for this bill comes from limited particular areas, and I base my remark upon a study we made of the volume of mortgages and property owned in comparison with total deposits and capital and surplus, respectively, of banks, as well as information dealing with

building and loan associations, and the results thereof explain why the first five States you mentioned have given the highest percentage of replies in favor of this bill.

Mr. LUCE. And they also correspond to the largest population in the country.

Mr. MADDEN. That does not change my statement.

Mr. LUCE. But I am trying to point out that with such an array of figures as this, roughly proportionate to population, the attempt to say that this is a localized demand seems to be untenable.

Mr. MADDEN. We maintain that this is largely a localized matter, because the building and loan associations and the banking structure are nationally sound, so you can see from an economic standpoint this is a matter of viewpoint.

Mr. LUCE. No; it is a matter of our conception of mathematics.

Mr. CAMPBELL. You mentioned the American Bankers' Association.

Mr. MADDEN. Yes, sir.

Mr. CAMPBELL. Do you know they opposed the Federal reserve system?

Mr. MADDEN. I am not familiar with any of the background of the American Bankers' Association.

Mr. CAMPBELL. They did. They opposed the Federal reserve system.

Mr. MADDEN. This is not a reserve system. It can not be compared with one.

Mr. CAMPBELL. I know, but the American Bankers' Association, which you have quoted, have been opposed to this bill.

Mr. MADDEN. They have been said to represent 20,000 banks.

Mr. CAMPBELL. They misrepresent about 95 per cent of them. They are responsible for the conditions which exist to-day. I want to correct you on your idea with reference to the Reconstruction Finance Corporation. It was not passed with the idea of helping building and loans.

Mr. MADDEN. It says so in the bill.

Mr. CAMPBELL. I grant you that, but it was put in there to catch votes. It has not made a loan to a building and loan association yet that has not been passed immediately to the banks or that will not. It only helps them to pay the banks.

Mr. MADDEN. We are business men and are not familiar with legislative technique and therefore with the motive of putting building and loan associations in the bill, but I would think that the Government administrative agency would carry out the law. In fact, the building and loan associations evidently expect some assistance from this institution because only recently they have recommended a man to pass upon building and loan mortgages which are to be discounted by the Reconstruction Finance Corporation.

Mr. CAMPBELL. But solely to pay the banks.

Mr. MADDEN. Regardless of the motive, it is quite clear that the building and loan associations are getting money and will continue to get it.

Mr. CAMPBELL. To repay the banks.

Mr. MADDEN. Not being a building and loan man, I can not comment upon the motive or uses.

Mr. CAMPBELL. Every loan is contingent upon the fact that they shall pay the banks.

Mr. MADDEN. Undoubtedly you know more about them than I do.

Mr. CAMPBELL. That is what the Reconstruction Finance Corporation is doing to-day.

Mr. MADDEN. All I know is what the corporation is supposed to do and that the building and loan associations are taking proper steps to get loans.

Mr. CAMPBELL. It is discretionary with that board as to what loans they shall make. The object in passing that bill was to liquify the assets of banks, first, and next the railroads, and they have not enough money to go all along the line. There is just as much demand for this bill to help the building and loans and the home owners as there was on the part of the banks and the railroads for the Reconstruction Finance Corporation.

Mr. HANCOCK. Mr. Madden, I was not here when you commenced your testimony. You are connected with the Metropolitan Life Insurance Co.?

Mr. MADDEN. Yes, sir.

Mr. HANCOCK. You said in your testimony that last year you loaned about \$49,000,000 for the construction of homes.

Mr. MADDEN. I said that last year we loaned in new money about \$138,000,000 in city mortgages, of which \$49,000,000 went on homes. Of the latter sum, about \$23,000,000 was invested in about 5,000 loans on new homes and about \$26,000,000 was placed in about 9,000 loans on older homes.

Mr. HANCOCK. You started to give us the average loan.

Mr. MADDEN. It runs around \$3,500, as a quick estimate.

Mr. HANCOCK. You stated a few minutes ago that competition was the greatest public servant—is that right?

Mr. MADDEN. Yes.

Mr. HANCOCK. Do you contend that the passage of this bill will eliminate competition among mortgage-lending agencies?

Mr. MADDEN. I contend that the passage of this bill, if the proponents carry out their national standardization idea, is not in the interest of the home owner. Next, it is maintained that from the standpoint of mortgage-lending institutions, the State of Massachusetts probably is showing us how to meet our mortgage problems in so far as they exist by introducing bills to set up a central discount bank for cooperative banks in that State and a separate central discount bank for the savings institutions there. In other words, the executives in the mortgage-loan business in Massachusetts realize that it is necessary to maintain their separate entities and in the public interest to improve the service of their own competing systems. The proposed home loan discount banking system will interfere with further development along this line.

Mr. HANCOCK. You impress me as knowing something about what you are undertaking to tell us, but your answers are more or less evasive. I want to know whether it is your opinion that the passage of this bill will eliminate competition among home-lending agencies?

Mr. MADDEN. I think the passage of this bill will be detrimental to the present competitive situation for the reasons I have advanced.

Mr. HANCOCK. You mean it will be detrimental to your company?

Mr. MADDEN. No, sir. So far as our company is concerned, we do not care whether it passes or not.

Mr. HANCOCK. You have no interest in the passage of this bill, so far as your company is concerned?

Mr. MADDEN. We are down here by invitation to answer your questions.

Mr. HANCOCK. I think your testimony has been very helpful, but I would like to know how much interested you are.

Mr. MADDEN. We believe that this bill should not be passed. As I said while you were out, we think it is detrimental to the interest of the home owner, and as far as mortgage-lending agencies generally are concerned, it is unnecessary. Mr. Ecker believes that the Reconstruction Finance Corporation will take care of the present emergency. As to the need of a permanent institution, he thinks that in normal times there will be no need for it. Who is going to discount good mortgages in normal times? As to the present emergency and the need for this home loan banking system, where would it get money in times of depression? If your land banks can not get money on its bonds now, how could this institution?

Mr. HANCOCK. You think that the facilities of the Reconstruction Finance Corporation would meet the present emergency so far as small homes are concerned?

Mr. MADDEN. I certainly do.

Mr. HANCOCK. There is another thing that I would like to hear from you, in order that I may appreciate the weight of your testimony here. Did I understand you to say a while ago that as a general rule the building of a new home in a given area or residential section had a tendency to depreciate other homes already existing in that particular area?

Mr. MADDEN. Yes, sir. The answer to that is the building of new homes in a given area does tend to depreciate the value of existing homes because the buying public prefers new homes. Invariably there are new things in new homes, such as the kitchens being painted and equipped in a more modern way, more up-to-date bath-room improvements—

Mr. HANCOCK (interposing). Do you not think that the most powerful argument we can advance in any way is the law of emulation?

Mr. MADDEN. What do you mean by emulation?

Mr. HANCOCK. Modeling after. Do you not think that going into a community and painting a house, rejuvenating it, and all that kind of thing is a more powerful argument in favor of civic improvement than all the lectures telling the facts that you may have?

Mr. MADDEN. Surely; providing you really can afford to do it, but there is a question as to whether the people to-day have the money to make improvements of that type now.

Mr. REILLY. Thank you.

Mr. MADDEN. Gentlemen, I want to express to you our appreciation for the opportunity to cooperate with you through answering questions, and it is sincerely hoped that the information given will be helpful. There has been no desire to set forth any viewpoint which is detrimental to any agency or to urge any preconceived ideas, but only to give you our viewpoint as we have developed it from our own investigations.

(Thereupon, at 12 o'clock noon, an adjournment was taken until Wednesday morning, March 23, 1932, at 10.15 o'clock a. m.)

CREATION OF A SYSTEM OF FEDERAL HOME LOAN BANKS

WEDNESDAY, MARCH 23, 1932

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE OF THE COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The subcommittee met, pursuant to adjournment, in the caucus room, House Office Building, at 10.15 o'clock a. m., Hon. Michael K. Reilly (chairman of the subcommittee) presiding.

Mr. REILLY. The committee will be in order, and I will ask Mr. Rosenbaum to come forward, please.

STATEMENT OF EDWIN J. ROSENBAUM, NEW YORK CITY

Mr. REILLY. Give your full name to the reporter.

Mr. ROSENBAUM. Edwin J. Rosenbaum.

Mr. REILLY. Where do you live?

Mr. ROSENBAUM. New York City.

Mr. REILLY. What is your business?

Mr. ROSENBAUM. At the present time I am retired; I am doing nothing.

Mr. REILLY. Who are you appearing here for?

Mr. ROSENBAUM. For myself.

Mr. REILLY. Representing nobody but yourself?

Mr. ROSENBAUM. No one whatsoever; no, sir.

Mr. REILLY. Did you appear before the Senate committee on this matter?

Mr. ROSENBAUM. No, sir.

Mr. REILLY. Now, will you proceed to tell the committee what you know about the subject of home-loan banks?

Mr. ROSENBAUM. Mr. Chairman and gentlemen of the committee, I respectfully submit to your earnest consideration first, that over \$300,000,000 can be released with sound banking for the purchase of food and clothing in the proposed home-loan bank bill.

Second, such provisions are necessary, otherwise the bill is a menace to property owners and can not accomplish its purpose.

President Hoover has suggested that bonds aggregating \$1,800,000,000 shall be sold for home-loan banks. The bank shall rediscount straight mortgages up to 30 per cent of the appraised value and amortized mortgages up to 40 per cent of their appraised value. There should be added a third class; namely, amortized home loans where amortization is suspended, but interest and taxes, and so forth, are maintained. When the principal of the loan does not exceed

50 per cent of the present appraised value, this type of loan should be eligible for rediscount.

The average amortized home loan running 14 years, the principal being reduced at 7 per cent per annum, is 98 per cent extinguished over a 14-year period. We shall call it 100 per cent for convenience, and divide it into two 7-year periods. In so much as 100 per cent of amortization payments for seven years previous to the stock market debacle are a complete loss, practically only those loans will be eligible for rediscount which have been on the building and loan books for seven years.

An average loan of \$6,000 will have been reduced to \$3,000, on which the building and loan or bank can borrow \$1,500. The mortgage of \$6,000 I have now reduced to \$3,000. The annual amortization of \$6,000 at 7 per cent equals \$420; the interest charge on \$3,000 at 6 per cent equals \$180, a total of \$600.

Now, if that \$3,000 is treated as a straight 3-year loan the \$420 amortization can be used by the mortgagor.

This benefits the unemployed home owner and a very substantial number of home owners working for reduced wages or under the stagger plan.

In the case of a home owner who started with a \$15,000 mortgage and has reduced it to \$5,000, for example, the result is almost startling. At 6 per cent interest he pays \$300 per year; at 7 per cent annual amortization on \$15,000, he pays \$1,050 per year, which is enough to feed himself, wife, and three children.

Possibly two-thirds of the contemplated bond issue of \$1,800,000,000 or \$1,200,000,000 will be loaned on this type of loan and at \$1,500 each would lift a burden from 800,000 home owners; an average of \$420 each relinquished from amortization would produce a spending power of \$336,000,000 per year for purchase of food and clothing. This would stimulate business, it would stimulate consumption, it would stimulate employment, it would stimulate and stabilize the market for small homes; it would work a step toward recovery.

The Metropolitan Life Insurance Co. points with pride to a straight mortgage, now cancelled, which was on their books for 47 years; the Mutual Life Insurance Co. was recently paid a mortgage that ran for 85 years, but they have a mortgage still robust at 78 years.

The suspension of amortization when the loan is amply secured, is not a charity; it is iron-clad banking. But, according to the present plan, no loan on which amortization has been suspended is eligible for rediscounting.

The statement that part of the funds raised should be used for further construction is a grievous error, and does not merit the consideration of any one conversant with existing conditions. There must be approximately four million vacant houses and apartments to-day. Any new construction must be absorbed and it further aggravates the present unsound condition.

To guard against the plan that part of these bonds should be utilized for new construction, there should be incorporated a clause in the home-loan bank charter that no bank or building and loan association using the privilege of the home-loan bank should be per-

mitted to loan for new construction; that upon their making such loans, the loans discounted by the home-loan bank shall be due and payable. This does not preclude them from making new loans on properties built previous to the formation of the home-loan banks. Without this clause we shall eventually develop a situation similar to the farm condition. The Federal Government encouraged the farmer by lending him money, and then on account of the overproduction which the very loans developed, it set up a farm board with a few hundred million dollars to help rescue him, and how unsuccessfully is self-evident.

If the present banking facilities can develop such overproduction as now exists, then neither Federal capital nor governmental encouragement are necessary for building construction. The home loan banks are formed to meet a national emergency, and when that emergency ends, the less they function the better for the country. They are formed to help real estate and home owners, not to crush real estate with further overproduction.

It has been my privilege to discuss the foregoing recommendations with the bankers representing a very substantial volume of capital; only the building and loan associations have taken exception to them.

Their exception is based on the fact that they do not believe there should be legalized permission to relinquish amortization. That the home owner should come to them and pray for remission of amortization. That the best thing for the home owner is to get his home paid for. I grant that he should get his home paid for, if possible.

This home loan bank bill emerges from national calamity. The voluntary release of amortization as outlined will provide sufficient money to feed 2,000,000 people. If the major part goes into food it will stimulate food consumption, help the farmer and industries allied to farming; if it goes into shoes and clothing, it will provide a stimulus to prices and employment in those industries. If it goes into construction, the present home owners can not eat the new bricks and mortar.

The building and loan associations want to satisfy their customer who has saved a few thousand dollars to purchase a new home; this is very laudable. But for every hundred thousand new homes built, there will be a hundred thousand vacancies in existing apartments or houses; the new construction must be absorbed, and it is absorbed through lowered values of existing properties. The spirit of this act is to help the present home owner facing foreclosure and hunger, not to help the potential home owner with funds that make his position impregnable.

This does not preclude new construction, but it does preclude new construction through the sale of these bonds and the privilege of rediscount.

The Federal Government knows the economics of production, overproduction, and further production. We must try for once the economics of consumption which makes production necessary. Senator James Watson, just previous to published criticisms of the home loan bank bill by the American Bankers Association, stated that none of the money raised would be used for new construction. That is not my interpretation of the bill. The building and loan associations can discount the mortgages on hand and use the proceeds of those discounts for new construction. An explicit provision must be

made to prohibit this unsound banking and its potential menace to the property owner. And further, the morale and courage of the American home owner must be sustained and strengthened by a provision that when his home loan is amply secured, he can use the further payments during a limited time for the purchase of food and clothing for his family. This provision is not mandatory; the banks shall determine when the loan is amply secured. This provision merely puts on record that mortgages, which are amply secured, are not ineligible for rediscount when only amortization payments are in default.

The bonds which are amply secured constitute gilt-edge securities, but the home loan bank should not be set up as a permanent institution along proposed lines. Provision should be made for the retirement of the major part of outstanding bonds within 12 years. If this reservoir of credit, created through the sale of home loan bank bonds is continued indefinitely, when an emergency arises again, there must be created another reservoir of credit to save the situation. For instance, if this bank had been functioning during the past 10 years, when this present emergency arose, its credit would have been absorbed long ago, and another and larger credit would have had to be found to meet the emergency. Again you have the analogy in the farm banks and the continuous increases of credit voted by Congress.

Now there can be no denial of this reasoning. One billion, eight hundred million is a large amount of money. But our national wealth has been estimated at \$400,000,000,000, of which real property comprises over 54 per cent, so that \$1,800,000,000 is less than 1 per cent of the total value of all real property; but confining this to our present 12,000,000 home owners at \$7,000 each, we get \$84,000,000,000, of which \$1,800,000,000 is about 2¼ per cent. That this credit would have been absorbed in further overproduction long before the market debacle, there can be no possible question.

After a given number of years this bank must function as a skeleton organization.

It may be superfluous to add that no appraisal of a property should be accepted that was made more than six months previous to the formation of the home loan bank.

Mr. REILLY. Mr. Rosenbaum, what was your business before you retired?

Mr. ROSENBAUM. Well, I was in the stock market a number of years, and I have been in the construction business.

Mr. REILLY. Construction business?

Mr. ROSENBAUM. Yes, sir.

Mr. REILLY. Your principal objection to this bill is that it will result in the overproduction of homes?

Mr. ROSENBAUM. Yes, sir—no; further than that, it aggravates the present overproduction; the result is here already.

Mr. REILLY. It would result in the bringing about of a situation that you think now is overproduced?

Mr. ROSENBAUM. Yes, sir.

Mr. REILLY. If the bill is to be passed, have you any suggestions as to any amendments?

Mr. ROSENBAUM. Well, the suggestions I submitted are here, Mr. Chairman.

Mr. REILLY. Thank you, Mr. Rosenbaum.

Mr. CAMPBELL. Mr. Chairman, I would like to ask a question.

Mr. ROSENBAUM. Yes, sir.

Mr. CAMPBELL. Suppose a man has saved up a couple thousand dollars, and he wants to build a home. Would you deny him the right to build a home if he wants to do so instead of having to buy one of the homes already built?

Mr. ROSENBAUM. I think he should have to buy a home already built.

Mr. CAMPBELL. It is not what you think about it, but what the man wants to do.

Mr. ROSENBAUM. Those are the facts.

Mr. CAMPBELL. I do not care anything about what are the facts. He wants to build a home according to the ideas he has had for a long time. Would you deny him that right?

Mr. ROSENBAUM. I certainly would.

Mr. CAMPBELL. Has he not a right to go and borrow money and use that money as he sees fit to build a home?

Mr. ROSENBAUM. Will you permit me to answer you?

Mr. CAMPBELL. Yes, sir.

Mr. ROSENBAUM. I think that the spirit of this proposed act certainly emanates from a condition where homes were facing foreclosure and people actually facing want and hunger, and those are outstanding features in our economic condition to-day. I think that the money will accomplish a great deal more good and answer its primary purpose in establishing this act to help those men who are losing their homes and whose families are facing want and hunger. But that is the spirit of it.

Mr. CAMPBELL. Whose credit is that?

Mr. ROSENBAUM. It is the Government's credit.

Mr. CAMPBELL. In the case of any man using his own money and his own credit, you would not permit that man to make a loan to get that? You mentioned about a number of vacant houses?

Mr. ROSENBAUM. Yes, sir.

Mr. CAMPBELL. There are probably thousands of pieces of property that have not been occupied for five years and which never will be occupied, because people have moved away from that community and it will never again be a residential section; and yet those vacant houses are unoccupied, and that condition exists in most cities throughout the country from year to year.

Mr. ROSENBAUM. If that is the condition, why aggravate it?

Mr. CAMPBELL. Because people want homes in that section of the country.

Mr. ROSENBAUM. Then, we are going to use this money in order to satisfy the individual whim of some people?

Mr. CAMPBELL. It is not a whim. You take the slums part of New York, from which people are moving outside the city, are they not? Again, take Pittsburgh, and they are moving to the outside sections, moving away from the congested section, getting out in the country where transportation is easy, and they are vacating homes that have been occupied for 50 years.

Mr. ROSENBAUM. I think in the final analysis that the way provided to permit new construction through this bill is really a menace—

Mr. CAMPBELL. Then, Mr. Rosenbaum—

Mr. ROSENBAUM. Will you permit me to answer?

Mr. CAMPBELL. That was not the idea, to bring about construction. The purpose was to set up an aid for the building and loan associations similar to that which exists just in the case of banks, for which we passed the Reconstruction Finance Corporation act; we set up that machinery to take care of the banks and the railroads.

Mr. ROSENBAUM. I think in the final analysis the bill is a menace to the banks.

Mr. CAMPBELL. Which banks?

Mr. ROSENBAUM. The savings banks.

Mr. CAMPBELL. They have not said so; the majority of them have been here recommending this.

Mr. ROSENBAUM. The savings banks?

Mr. CAMPBELL. Yes; and according to the questionnaire sent to them.

Mr. ROSENBAUM. I can not help it if they do, but certainly it is a menace to the life-insurance companies.

Mr. CAMPBELL. All the small life-insurance companies are favoring this bill, although some of the large New York life-insurance companies are not.

Mr. ROSENBAUM. Very few of them, unfortunately, are profound students of economics. In the final analysis, with the tremendous further production by the banks for every purchaser of a home.

Mr. CAMPBELL. Are you a profound student of economics?

Mr. ROSENBAUM. I do not know that I am profound.

Mr. CAMPBELL. You did not qualify at first as that, when you came here to give us those suggestions.

Mr. ROSENBAUM. I did not think it was necessary.

Mr. CAMPBELL. Is that your occupation?

Mr. ROSENBAUM. That is not my occupation.

Mr. CAMPBELL. Is it your profession?

Mr. ROSENBAUM. That is not my profession.

Mr. CAMPBELL. You are venturing into that field now?

Mr. ROSENBAUM. Yes, sir.

Mr. CAMPBELL. Then why not say you are giving it as a student of economic conditions—a profound student of economics?

Mr. ROSENBAUM. I think in the final analysis—I say this think is a menace to the banks.

Mr. CAMPBELL. We have a condition concerning us. We do not need information about the final analysis; we need suggestions to remedy this condition.

Mr. ROSENBAUM. If you will permit me to get at—

Mr. CAMPBELL. You had your long say, and now I am trying to show you the fallacy of your argument.

Mr. ROSENBAUM. I left that out, because if there is a further production and—

Mr. CAMPBELL. You are putting up a straw man and tearing him down. There is no contemplation of carrying on any extensive building program here. We have a provision that will control this. You are emphasizing the fact that it will bring about additional homes that will not be occupied.

Mr. ROSENBAUM. I think that money should go to the man who is facing foreclosure and starvation, instead of to the man who is in an impregnable financial condition.

Mr. REILLY. How could it go to such a man?

Mr. ROSENBAUM. How can it go to him?

Mr. REILLY. Yes.

Mr. ROSENBAUM. They can relinquish amortization. There are thousands of banks in this country that have closed their doors, and when the receiver of these banks calls their loans that money must be met somewhere and the money must go along those lines where it is absolutely required. In some sections of this country they really have no banking facilities whatsoever.

Mr. REILLY. Supposing you were sitting on a building and loan board in a town of 25,000 to 30,000 people, would you encourage the construction of buildings that were unnecessary?

Mr. ROSENBAUM. The answer to that is the situation as it now exists, Mr. Chairman. I have talked to quite a few bankers on this thing, and I have discussed it with bankers who represent over \$6,000,000,000 in capital, some with building and loan associations, some with savings banks, some with life insurance companies, and each one seems to feel that he can determine individually whether there is an economic necessity for that particular type of home or building which their institution intends to lend, and, judging by the actual acts and the loans they have made, practically none of them were competent to determine it. It is unfortunate, but it is an outstanding fact.

In New York City they say, "Well, we have a certain few millions of dollars, I think, in the land banks, where the building and loan associations can turn for further discounting their mortgages," and they point to that and say that it has been functioning very admirably. In this particular section this man spoke of, in Westchester County, which is considered, I believe, one of the finest residential sections of the country, those properties are offered at from 50 to 55 cents on the dollar, and there is no sales price.

Mr. REILLY. Do you not recognize the fact that a great many building and loan associations to-day are in need of money to meet the requirements of withdrawals?

Mr. ROSENBAUM. I say it is necessary, understand, to meet existing conditions; but I do not feel and I do not think it is absolutely indefensible that any of this money should go into further construction. The withdrawal is entirely different.

Mr. REILLY. There ought to be written into this bill the absolute prohibition of the use of any of this money for further construction?

Mr. ROSENBAUM. Absolutely.

Mr. REILLY. That defeats one of the principal purposes for which the bill was written.

Mr. ROSENBAUM. The purpose may have been unsound from the beginning. The fact that it was the announced purpose for this bill does not necessarily mean that that purpose is sacrosanct and that it can not be impeached.

Mr. WILLIAMS. It is your understanding that one of the announced purposes of this bill was to encourage home building?

Mr. ROSENBAUM. That was the announced purpose; yes, sir.

Mr. WILLIAMS. And there was a great deal of stress placed on that in the beginning, at least, and this movement for the establishment of this home loan bank?

Mr. ROSENBAUM. Yes, sir.

Mr. WILLIAMS. Now, I will ask you if that purpose has not been entirely abandoned, or practically so, by the proponents of this measure?

Mr. ROSENBAUM. That I am not in a political position to determine.

Mr. CAMPBELL. I think my colleague is in error as to that. It has not been abandoned at all. Wherever new homes are required it is to provide means to get them.

Mr. REILLY. Let the witness answer as far as he knows. That is a matter of opinion.

Mr. ROSENBAUM. I do know much: That just previous to the published criticism by the American Bankers' Association Senator Watson made a public statement, which I read in one of the New York papers, that people were laboring under a misapprehension that any of this money was to be used for new construction. Such is not the case. I have read this bill, and the bill reads that the loans can be made on homes—finished homes, as I interpret it. But if a building and loan association has on hand a volume of collateral which is already on finished homes they can discount that collateral and use the proceeds of that for new construction, which is the same identical thing.

Mr. REILLY. If in their judgment it is good business policy?

Mr. ROSENBAUM. Never mind their judgment. Their judgment has been thoroughly unsound as to the volume of new construction that this is all the country can absorb, not only small building and loan associations, but with the major banks besides and the insurance companies; I will include them in that, too.

Mr. REILLY. Do you not think the present surplus of housing facilities is due largely to the panic and depression that doubled up homes?

Mr. ROSENBAUM. I certainly do not. I think it has been aggravated by that. Mr. Walter Stabler, who was comptroller of the Metropolitan Life Insurance Co., and who I had the pleasure of meeting for a short time, stated about five or six years before the stock market broke that the country was already overbuilt. I made the statement, and I said to Mr. Stabler three years before the stock market broke that the country was already overbuilt; and that constant and continuous schemes of building continued.

Mr. REILLY. Do you not think that overbuilding was largely due to the promotion of several divisions by corporations outside of the legitimate building and loan institutions?

Mr. ROSENBAUM. Largely promoted by that?

Mr. REILLY. Yes.

Mr. ROSENBAUM. Whatever the cause was, the credit was there, understand, and the credit was abused. It does not matter whether it was by the building and loan associations, where you can buy homes that they made loans on, I think, in Westchester County for 50 to 55 cents on a dollar, where I have seen building and loan associations actually sell their loans for 40 or 50 per cent for the loans they had made on them on account of pressure for funds. We can

not get into whether A did it or whether A, B, C, D, E, or F did it collectively; they all did it.

Mr. REILLY. Is there anything further, Mr. Rosenbaum?

Mr. ROSENBAUM. If you feel it is necessary for me to qualify as an economist on this I will be more than pleased to do so. I did not intend to do that; I did not think it was necessary.

Mr. CAMPBELL. Well, we have had sufficient.

Mr. REILLY. You have made your statement in the record and given your reasons, and we will take it on that. Thank you, Mr. Rosenbaum.

Mr. ROSENBAUM. Thank you, sir.

STATEMENT OF MANNING STIRES, NEW YORK CITY

Mr. STIRES. I am an attorney practicing my profession in New York City, living in Westchester County, and for the last six or seven years have made it a hobby to build houses, and I built during that period 33 homes throughout Westchester County for sale, and I might be called to that extent a speculator.

I am rather interested in the viewpoint of the last speaker. There has been a great depreciation in values in Westchester County, but I wouldn't be able myself to go out and find anything in Westchester County that could be picked to 45 or 50 per cent of the value that existed a couple of years ago.

Our county, like probably all counties, has been more or less handicapped by unwise development, by builders, by speculators.

The purpose of this bill is not to give encouragement to speculators; it is to give encouragement to the man who wants to build his own home, and unless it can facilitate that object and reduce his cost it is not going to be a permanent benefit. As one speaker said yesterday, or rather in opposition to what he said yesterday, I can not see how in any respect this piece of legislation or the creation of this bank is going to interfere with State legislation, whether it be in New York State or any other State. They are going to function under their State laws just as they are functioning to-day, with merely this Federal reserve system to supplement their present facilities.

I have been writing and speaking on this very subject for a year and a half, and some of my stuff has been published as long ago as a year. So I am not a novice on this particular subject.

There are some phases that I think might perhaps be improved. In the first place, I do not think there is anything to be gained by hurry, because I do not believe you are going to get your membership under your bill under our laws. Take New York State: Neither a building and loan association nor savings bank, nor life insurance company could become members until there is enabling legislation. You have exercised the foresight of attempting to provide for just that contingency by saying that pending, within a fixed period, enabling legislation, an institution otherwise eligible might make a deposit and get the benefit of the act. But you are not a bank. You expressly state it is not a bank, and that any money deposited shall not be subject to check. Well, the same law which regulates the investments of institutions such as savings banks and life insurance companies—all insurance companies, but particularly life

insurance companies and building and loan associations—I do not think it contemplates the making of a deposit that is not in a bank in the ordinary sense.

Mr. LUCE. May I interrupt you there?

Mr. STIRES. Yes, Mr. Luce.

Mr. LUCE. The gentlemen from Ohio criticized this bill. They said that under their State law they could not proceed because it is to be a bank.

Mr. STIRES. I presume it is a pretty difficult thing to pass a bill that is going to fit under the cover of the laws of every State.

Mr. WILLIAMS. Let me ask you this question at that point.

Mr. STIRES. Yes, sir.

Mr. WILLIAMS. I believe that is new testimony, so far as I am concerned, that New York can not come in. For what reason?

Mr. STIRES. The statutes governing investments of savings banks, life insurance companies, and building and loan associations limit the investment so closely that they could not buy stock of this bank, and if they can not buy stock of this bank they can not be members. Now, unless they could get around that, there is a necessity for enabling legislation, and, of course, there will be enabling legislation when this bank is once started.

Mr. WILLIAMS. Do you state that upon authority and knowledge of the New York law that they can not come in as the law now is, under this provision?

Mr. STIRES. I state that as a member of the bar of New York State, having studied this act and having studied the act germane to the institutions which are under discussion. I did not bring my books with me; I left them at the club. But the limitations are very rigid. There can be question but that they can not buy the stock of this bank until they have enabling legislation.

Mr. WILLIAMS. Have you made that investigation as applying to other States?

Mr. STIRES. No; I have not, sir. I have talked with some lawyers in other States and received an impression similar to my own, but I do not know whether they have given it careful thought either.

Mr. WILLIAMS. You have given that particular matter special study, have you?

Mr. STIRES. I have, sir, and I am very certain that a life insurance company, a savings bank, and building and loan association can not buy the stock of this home-loan bank until there can be enabling legislation.

Mr. CAMPBELL. In New York State?

Mr. STIRES. In New York State.

Mr. CAMPBELL. Have you an amendment to suggest to cover that?

Mr. STIRES. I do not know how you can cover it, sir. That is why I said I do not think there is any great rush. You are sure to get the enabling legislation as soon as a session of the legislature can be convened. It is improbable that there will be a special session called for the purpose, however. But it is because of the fact, I am so satisfied—of course, it is going to take you an appreciable length of time to get functioning after you get this bill passed and get your money and all that, and it may be that a year may be consumed, in which case you have not lost any time, because by the time you are

ready to function you can get your enabling legislation, because I can not conceive—well, just like the legislature allows them to invest in farm-loan bonds after the farm loan act was created, and this is such a wonderful avenue for aid and benefit of the institutions that they would, to my mind, make such a piece of legislation almost unanimous.

Mr. REILLY. There is nothing we can do in this bill to remedy the New York situation?

Mr. STIRES. You can not.

Mr. REILLY. Until they pass the enabling legislation?

Mr. STIRES. You can not, sir. Now, then—

Mr. CAMPBELL. Would you suggest that the New York institutions take advantage of this legislation as soon as they can do so?

Mr. STIRES. Absolutely. Now, there is one thought I had which answers this gentleman's request for suggestions. If you would permit during the try-out period, say, a year or a year and a half, any institution which is otherwise eligible for membership, and unable to become a member, because of lack of legal authority—use the facilities of the institution, you could immediately give them help, and I do not know why there is any particular reason that you should not give them a little help now, except that you might say they will not have the same interest; they will not be members of the board of directors and have the same welfare motive that they might have if they were represented by the membership on the board of directors. But I also think that the greater gain to be accomplished would more than offset that initial handicap.

Mr. LUCE. We have given this matter a good deal of study. The bill attempts to meet the situation, but in behind all the time has been the factor of the debentures and bonds that may be issued, and the question arises constantly, Can you borrow money if we extend this grace, so to speak? It is of paramount importance that the bonds shall be bullet proof and fire proof and protected in every way possible, and some of us have feared the sort of thing you suggest in its effect on investors.

Mr. STIRES. Mr. Luce, the man that accepts a piece of paper which we call a dollar bill that is issued by the Federal reserve bank gives very little thought to the fact that the regional banks are run by a board of directors elected by the bank. They look upon the Federal reserve system as a governmental institution, and they take those pieces of paper, which are nothing more or less than promissory notes, at face value, because they have confidence in their Government. This is a semigovernmental institution, too, and if this institution puts out a security which can be made flexible—and that is the point I wish to come to next, if I may—you ought to find the same degree of response from the public as to the reception of those securities that you find with respect to any other governmental activity, as long as we have a Government in the United States that stands up.

Mr. LUCE. But, you see, we have staring us in the face the fact that the farm-loan bonds are selling at a discount and the joint-stock land banks' bonds are away down.

Mr. STIRES. Yes, sir.

Mr. LUCE. And some of us on the Banking and Currency Committee have for some time been inclined to consider at least the de-

sirability of putting the Government behind those bonds just where you think they should be behind these bonds.

Mr. STIRES. Yes.

Mr. LUCE. But so far nobody has ventured even to put in a bill suggesting that we make good the losses to bondholders in our system of farm-loan banks.

Mr. STIRES. That brings me up to the second point I want to bring to your attention. I very much doubt whether you will find a market for these bonds or debentures that will be sufficiently responsive to give you the money you want at a reasonable return. In the first place, real-estate bonds as such are thoroughly discredited. They are discredited, first, because everybody who has a real-estate bond has suffered a loss, and, second, because of their utter lack of flexibility. The big institutions which have been putting out these bond issues on important buildings could not maintain a market for them, with the result that when the trouble came and people had to get money, in their desire to realize something they kept dropping, dropping, until to-day you can buy some really first-class real-estate bonds at 50 cents on the dollar. That is an absurdity. Because and only because of that condition I think any bond that may be offered by such an institution as this proposed bank is going to have a great handicap in putting them across to the public. I think you may accomplish the same result and not even have them tax exempt, making them more flexible, and this is my line of reasoning: Going back to the Federal reserve system, the public takes the dollar bill issued by the Federal reserve system because it represents money. They can use it for any purpose that they have occasion to, and if they hoard, they hoard, generally speaking, those pieces of paper in place of gold. If everybody that has a dollar bill in this country—our entire circulation—should call for it in gold, we could not pay it; and the only reason that the public keeps taking those pieces of paper is because you and I when they come around to us just as freely accept them as they accepted them in the first place. In other words, it is a circulating medium which is completely flexible for all purposes.

During all this period of bank distrust, where even the biggest banks have felt some uneasiness and the public generally have looked with skepticism on banking institutions, the one class of banks that has stood up the strongest is the savings banks. It is one strange analogy that a type of bank which manifestly has so large a proportion of its deposits invested in a frozen security, nevertheless it is considered by the public as the soundest.

Now, I only recall one run on a great savings bank in New York City, and that did not last over a day, and it was not closed—I mean the other savings banks just helped out and it was all over right away.

The answer, to my mind, is, first, they have confidence in the policy of a savings bank. They are running no risks with their money; they are putting it into investments which they consider to be prime, and they also have the confidence that if they want to get their money they can walk up to the window and get it, regardless of the fact that the bank may put a moratorium for 60 days on deposits. In other words, they have confidence in real estate and they have con-

fidence in their ability to walk up and get their money. In other words, that pass book is a flexible thing. If you could give to the investing public a security by this home-loan bank which would possess that degree of flexibility, then, in my judgment, you have got something that would sell and reach down into the pockets of the very type of people whose money you want to get, because it is that money which so largely now is hoarded and will always be hoarded, and that is the population which either immediately or in the near background are foreign born. They are more apt to be thrifty than our native-born children a couple times removed from foreign soil.

Mr. REILLY. What is it you could have as an amendment to this bill that would make those bonds more workable?

Mr. STIRES. I would have the bank issue a sort of demand notes.

Mr. REILLY. The bank issue them?

Mr. STIRES. Yes, sir—demand notes of any convenient denomination—\$5 or \$10 up, drawing a rate of interest which would be fixed from time to time by the board just as the savings banks fix their rates of interest at different times. The question is, Are they all going to come at once to get their money?

Mr. REILLY. The promoters of this bill contemplate there will be a requirement of a billion dollars.

Mr. STIRES. Yes.

Mr. REILLY. Would you have this bank operate on \$1,000,000,000 of demand notes?

Mr. STIRES. Why not?

Mr. REILLY. I am asking you.

Mr. STIRES. Because just so long as the people think they can get their money they are going to leave it alone, and if you start out with the predication that the Government is using this as an instrumentality that these demand notes which are issued by this bank may be exchanged for cash on demand, you will have very, very little demand.

Mr. LUCE. May I call your attention to the fact that your proposal is coming before the House from a dozen different directions, and I believe conspicuously as to the proposal that we pay the balance of the bonus with just that sort of thing? So far the House has not indicated any willingness thus to expand the currency.

Mr. STIRES. This would not be currency.

Mr. LUCE. It is demand notes. Of course it is currency.

Mr. STIRES. No; it is not issued by the Government; it is issued by this bank. It bears interest at some rate, and you may adopt such detailed regulations with respect to difference in rate as demand is made within the said time, just like the savings banks do. But it is nothing but an ordinary piece of paper such as the commercial institutions may themselves issue.

Mr. LUCE. Is it legal tender?

Mr. STIRES. Certainly not. But the point is, I can put this in my sock, and it is not hoarding any more than if I took a share of stock and did the same thing; that is not hoarding and is not doing the country any harm. But to the extent that its paper brings out of my sock a dollar bill which, in turn, immediately through the banks goes into commercial circulation, and then I have helped to relieve conditions.

I am certain in my mind, and I think it is something worthy of consideration, that if you would take a cross section of opinion of competent economists you find they would agree that as long as the public could be certain that they would get their money they would not want their money.

If I may be borne with, I want to speak of a couple little details. I think the size of your loan, \$15,000, is unnecessarily large. If you are making a home loan on a residence for a man in close circumstances who is least able to help himself. The larger the home, the easier the man can finance it, because he has connections, and I do not think you ought to have it for a 3-family house, because I do not think the man should be encouraged to have a 3-family house, but should be limited to a 2-story dwelling, and I think a \$10,000 loan is adequate.

If you really want to broaden this field and attract to the field the biggest untapped source of money for home lending, you have got to increase the percentage loanable to the member banks on the mortgages which are rediscontinued.

You will not attract the commercial bank in New York State by this bill. None of them will become members. In the first place, the word "mortgage" is anathema to them anyway, and, in the second place, the only investments they do make—I am now speaking of metropolitan New York rather than the State generally—is limited to New York City proper. It is the rare exception that you will find a New York trust company going out of New York City proper with their loans, and the only loans they do make are for trust accounts, and in New York City is the one place where you do not have very many applications for home loans. If you want to get that class of institutions to become interested, you have got to enable them to get a comeback of their money in an amount fairly approximate to the amount they have put out.

Now, the Federal reserve will take from a member bank the promissory note I make, if I am a rated business individual, and lend to the member bank a hundred cents on the dollar. There is an unsecured piece of paper based on nothing but assets structure and a period of experience, and here is a secured piece of paper that has something basically as a first lien that you say can only be rediscounted to the extent of 50 or 60 per cent; and you are not going to attract commercial banks.

Mr. REILLY. Is it desirable to attract those bankers?

Mr. STIRES. Why should it not be?

Mr. REILLY. They are not engaged in the amortized loan business. This bill is not designed to attract such institutions.

Mr. STIRES. Then, if that is the case—

Mr. REILLY. I understand, Mr. Luce, it is not?

Mr. LUCE. It is not expected that the big city banks will greatly use the system, unless it be in exigencies like the present, when they may be in distress for lack of cash and want to get mortgages rediscounted.

Mr. STIRES. The reason I had in mind you wanted to attract them, Mr. Luce, is because you want to reduce the cost of money. You take the Prudence Co.; they charge 5 or 6 per cent bonus to get money.

Take the Metropolitan Life Insurance Co.; you can not get them to take a mortgage on an individual house; they take a mortgage on groups and blocks. You take the other big life insurance company over in Newark, the Prudential; you can not get them to take a mortgage in Westchester County unless you go to their own brokers that charge you 5 or 6 per cent bonus.

That is expensive money, and it is an unfair burden to put upon a man who wants to build his house.

The mortgage loan and title companies all charge 3½ per cent up to whatever the traffic will bear for the money, and I think that you ought to attract a different class of institutions, if for no other reason than to break down these burdens they are putting upon borrowers, which I think are unfair and unnecessarily high.

Mr. WILLIAMS. I would like to ask you a question before you quit. How does the home-loan bank of New York operate, with success? As I understand, they have now under the State law a central system there of some kind, have they not?

Mr. STIRES. I think not, sir.

Mr. WILLIAMS. Have they not some kind of an organization under the State law along the line suggested in this bill, something of that nature?

Mr. STIRES. You mean as a legal structure?

Mr. WILLIAMS. Yes.

Mr. STIRES. Certainly not; at least I never heard of it.

Mr. WILLIAMS. You never heard of it?

Mr. STIRES. No, sir. It has been suggested by a number of witnesses held up as a model.

There may be an association of banks that operate its own clearing house but there is certainly no legal entity I have ever heard of, and if there is it is in some part of the State far removed from New York City. I would be interested to know about it.

Mr. WILLIAMS. You will find this record full of references to it by men who claimed to know.

Mr. STIRES. I do not.

Mr. WILLIAMS. All right; if you do not know anything about it, I do not want to ask you any more about it.

Mr. STIRES. No, sir; I am ignorant as to that.

Mr. LUCE. Is there anything in this bill that would commit such kind of financing as you have advised?

Mr. STIRES. No; I do not think so.

Mr. REILLY. Who is next to be heard?

STATEMENT OF R. GRAEME SMITH, CONNECTICUT GENERAL LIFE INSURANCE CO., HARTFORD, CONN.

Mr. REILLY. What is your name?

Mr. SMITH. R. Graeme Smith, of Hartford, Conn., and I have quite a thorough statement to make on the subject.

Mr. REILLY. Did you appear before the Senate hearings?

Mr. SMITH. No.

Mr. REILLY. Are you for or against the bill?

Mr. SMITH. I am opposed to the bill.

Mr. REILLY. Proceed.

Mr. SMITH. In preparing this statement, I have carefully read the bill and have gone over thoroughly in detail all the testimony given before the Senate subcommittee.

I am opposed to this legislation because it appears to be unnecessary, unsound, and in my opinion will not serve the purposes of the home-owning public. Furthermore, it seems to be that the following thoughts are well founded in reason:

1. Until such funds of the Reconstruction Finance Corporation as are allocated to the relief of frozen mortgage assets are exhausted, or until Congress refuses to augment such funds by future appropriation to the temporary Reconstruction Finance Corporation, we see no emergency need for Federal home loan banks.

2. We believe great difficulty will be encountered in selling bonds of the home loan bank system, particularly in view of the investor's experience with Federal land bank bonds. We believe that the home loan bank bonds would not sell at a low enough interest rate to benefit more than one class of institution that would be privileged to discount mortgages. We believe this will be particularly true after the flotation of bonds for the Reconstruction Finance Corporation, for the deficit and for farm relief.

3. We believe that the sale of home loan bank bonds, tax exempt, is class legislation, discriminatory in character. It would further deplete tax income to the Federal Government, the States and the smaller governmental units at a time when income is being sought from every source. It would add greatly to total governmental or quasi governmental indebtedness, thus tending to depreciate outstanding Government obligations.

4. We doubt the safety factor in operation of proposed Federal home loan banks, pointing to the experience of the Federal land banks, which during the current depression, find their bonds depreciated, no market for new bonds, no money to lend and the necessity of calling on Congress for additional help to keep their doors open. Just as the Federal land bank system failed to assist in the present emergency, so we believe the Federal home loan banks would fail to meet future emergencies.

5. We are opposed to a further extension of Government activity into private business. We feel that the regulatory power of Federal home loan bank system would lead to a further invasion of Federal authority into the field of State rights.

6. We oppose inflation of mortgage credit, stimulation of building, and the resultant future depressing in value of existing home equities through an oversupply of homes.

Mr. LUCE. May I interfere as you go along?

Mr. SMITH. Yes, sir.

Mr. LUCE. If you wish to make a connected statement, I am quite willing that you should go on.

Mr. SMITH. I prefer to make a connected statement, and if I may be permitted to keep on this way when I am through I would be glad to answer questions.

Mr. LUCE. All right; I will make some memoranda here and inquire later.

Mr. SMITH. We maintain that when liquidation has pursued its course, private mortgage lending can and will adequately finance

real estate when, as and if real estate warrants financing, on a sound economic basis.

Any criticisms or objections which I might make regarding the bill itself would be of secondary importance to my expressed opposition to the legislation itself. Many valid detailed criticisms of the bill have been made. I concur with those raised by Mr. E. J. Adams, of the Federal Trade Commission, as expressed in the hearings before the Senate subcommittee Tuesday, January 26, 1932, and as set forth in Part II of the record of those hearings.

And I will say there that I have before me a digest of his suggestions, which I will be glad to take up after this testimony, if you care to have me do so.

Mr. CAMPBELL. We have it in the record?

Mr. REILLY. Yes.

Mr. SMITH. I refer only to Mr. Adams's criticism of this bill and not to his substitute plan, to which I have given little thought. It seems to me that Mr. Adams has pointed out, after much deliberation, the many fundamental weaknesses of this bill. In addition, he has epitomized his opinion by saying unequivocally, "There is not dollar's worth of relief or help in this bill for the home owner." Any one who carefully studies this measure will realize that it is drawn for institutions. The home owner may or may not indirectly benefit by it. As I will point out later, he may very directly suffer from it, should it be enacted. It is without provision for any guarantee that the participating institutions will pass its benefits on to the home owner. There is nothing to prevent these institutions from using the system to realize cash from mortgages in order to pay stockholders, or depositors, or creditors, to build up reserves or to engage in any other line of business.

That is, to pay the money back to their stockholders, or to pay dividends to stockholders, or to pay their depositors or to pay their creditors, or to build new also, office buildings, or to engage in any other line of business, new or otherwise.

It proposes a system that rests on existing mortgage-lending institutions and, however its purpose may be veiled by sentimental talk, those institutions will feel its effect. The home owners' place in the picture is uncertain. Why, then, consider this measure designed to help the home owner? Why call it a home loan bank? My point is that the proposed system would be purely institutional in character.

When this measure was first proposed to Congress, there prevailed great confusion as to its aims. That is on the part of the public. Was it primarily intended for emergency relief or was it to set up a permanent additional mortgage structure? The President included it in his emergency relief program. Providing no other governmental agency had been set up, there might have been a valid reason for establishing some such system as this to meet the emergency. However, the Reconstruction Finance Corporation has come into being and provides for the defreezing of mortgage assets—if the Reconstruction Finance Corporation is meeting the emergency—of all mortgage-lending institutions. It has received many requests for discounting mortgages, is now engaged in setting up a nationwide organization for that purpose and has, I believe, actually

advanced funds to this end. As the Reconstruction Finance Corporation is meeting the emergency, this proposed measure is necessarily going to be permanent in character.

Every Congress for the past 12 years has had before it some such measure as this, and never once has any Congress brought one of these measures out of subcommittee. This, in spite of the fact that these Congresses were sitting during a period of unparalleled residence construction, during a period of great demand for mortgage money, during a period of prosperity, when a system such as this could more easily have been set up, and during a period when the state of mind of the country was more calm and sane. They saw no need for such a system. Why, then, should this be considered on a permanent basis during a period of stress such as this?

If this system is designed to provide additional credit facilities, its enactment should be delayed until such need is definitely ascertainable. It should not be created in order to foster and stimulate mortgage borrowing, but rather it should await the time that mortgage borrowing can not be taken care of by other agencies. Certainly, we face no period of construction which will call for mortgage funds in an amount which our existing institutions can not supply during normal times.

Both political parties in Congress have for months been passing legislation to protect existing institutions. Both parties have been busy preserving, strengthening, and bolstering up by remedial legislation the banks, the building and loan associations, and the insurance companies through the passage of the Reconstruction Finance Corporation and the Steagall-Glass bill, and other measures. Neither party has designed or enacted these measures to produce new business at the cost of old business. Why, then, should Congress reverse itself and stimulate home ownership when, in so doing, it may seriously endanger existing homes and existing home owners?

Let us review the forces that have been behind this measure. The finance committee of the President's home ownership conference did not propose a Federal discount or bank bill.

I might say there, gentlemen, that the committee was appointed by the President, a representative committee, in May, 1931, and worked consistently, having at its command, not only private investigation sources but those of the Department of Commerce, and after due deliberation did not include in its financial report to that extensive home ownership conference any proposal for such a bill as this. They went only so far as to state that they would support the President in any remedial measure. Emphasis should be placed on the word "remedial," and so far as is known, they have not in any way supported this measure.

Constant reference has been made to the questionnaire sent out by the Department of Commerce to lending institutions over the country, with the inference that favorable replies to this questionnaire meant approval of the plan. Such could not be the case. In sending out the questionnaire, no copy of the bill was included. Therefore, no one could know what he was answering.

I might inject there that the bill was not even printed at that time in its present form.

The questionnaire was accompanied by an appeal of President Hoover for home ownership, which had been issued at least some

weeks prior to the drafting of H. R. 7620, and which made no specific reference to this measure. It has seemed to me that the questions asked by the Department of Commerce were pointed and leading toward favorable answers. At the time the questionnaire was sent out, the Reconstruction Finance act had not been passed and had not been amended to take care of defreezing mortgage assets. You may draw your own conclusions as to the value of such a questionnaire and the answers thereto.

Nearly two and one-half months have elapsed since the hearings on this measure began in the sub-committee of the United States Senate and you have doubtless had time and opportunity to size up the proponents and opponents of this measure. One point is significant—of the six types of institutions which could be members of this system, one, and only one, through the medium of certain building and loan officials has striven for its passage. To be sure the Nebraska League of Building and Loan Associations is in opposition to the measure, while those of Missouri, Minesota, and 11 other States have made clear that they can not avail themselves of such a system because of State laws. Nevertheless, in spite of these handicaps, the burden of furthering this legislation has been assumed by the Building and Loan League. They have presented what appears to be a very fair cross-section of opinion within their organization.

Has it not occurred to you that it is significant that the bankers who would be members under this bill have not passed a resolution through their American Bankers Association favoring the measure and have not sent accredited representatives down to you to favor it? Has it not occurred to you that the savings bank officials who would be members of this organization have never passed a resolution in favor of this through the American Bankers Association and have not appeared in favor of it? Has it not occurred to you that the trust department officials have not appeared in favor of the measure? Has it not occurred to you that the Mutual Savings Bank through their association—mind you, they would also be members—have not passed a resolution, nor have they appeared in favor of this measure, and neither have the Life Presidents' Association, or the American Life convention—five out of six have not appeared in favor of it? Does it seem reasonable that this can be sound or necessary legislation for institutions if five out of six types involved do not urge you to pass it? If five out of six do not come out officially in favor of it? They must be impelled by reasons that have not as yet been revealed, and these may well be—

First. Each local association could discount at 5 per cent their mortgages that bear 6 to 13 per cent interest, thus assuring a handsome profit.

Second. There has long existed, and is constantly growing, a conflict of interest—I almost called it a running fight—between the building and loan associations and the banks and it is naturally irksome for the building and loan associations to be dependent upon the banks for borrowing funds. This system would allow the building and loan associations to free themselves from the scrutiny and business judgment of the banks.

Third. By providing the building and loan associations with their own depository and by providing them with a method of automat-

ically raising cash from their mortgage holdings, it will allow them to accept deposits and further invade the field of banking. In view of the fact that nothing in this measure forces them to pass on to their mortgage loan borrowers the benefits of rediscounting, why, then, should they not work ardently for this bill?

In passing we should mention the National Association of Real Estate Boards, though they are not involved in the bill and would not be either members or beneficiaries of the system. Their opinion seems somewhat divided because the Denver, St. Paul, and Kansas City real-estate boards are opposed to the measure and the mortgage and finance division of the national association has never approved the measure. However, they have appeared before you in the interests of new residence construction.

In presenting my opposition to this measure, I am not speaking for those other interests which oppose it. However, to justify my right to appear before you, I should like to make clear the connection between the institution of life insurance, with which I am associated, and the home and home owner. It has been said that the life-insurance companies have 50,000,000 policyholders. Presuming that these are thrifty individuals, we may go further and believe that they include a great majority of the home owners of the country. Now, a large part of the life-insurance assets of this country are genuinely owned by a large portion of these policyholders. Mutual insurance interests lend money to home owners and insure home owners.

It is safe to assume that insurance interests have at least two to three times as many direct contacts with American home owners as any other business institution.

The life-insurance companies lend over the length and breadth of the land, in a vast number of communities, distributing their investment funds to the greatest benefit of all. They lend freely and extensively to home owners in numerous sections of each city, to the extent that they have investment funds available.

On these loans, the life-insurance companies charge a base rate of interest. The correspondents, or intermediaries who negotiate and service the loans, charge a fair cash commission or take a participation in the interest rate, but in either case, the total gross rate to the home owner is seldom, if ever, over 6½ per cent per annum, and usually runs 6 per cent. It must be borne in mind that this charge, over and above a base rate, is made to defray the expense of doing business in many communities, through intermediaries, who join with the insurance company in a working partnership arrangement with the home owner.

In this connection, it is interesting to note the additional amount of work which the insurance companies are assuming to-day in an effort to work out the home owners' mortgage problems. Great forbearance is being shown in cooperating with honest, conscientious borrowers who to-day, through decreased earnings or misfortune, are not able to meet their full interest, tax, and principal payments. All companies are adding to their field forces for the purpose of directly interviewing, assisting, and giving advice to these delinquent borrowers. Providing a borrower is physically maintaining his property, is not diverting funds to other uses that should be applied on his indebtedness and is making every conscientious effort to pay

what he can, the companies are uniformly being lenient with him and granting him every concession consistent with sound business principles.

To the best of my knowledge and belief all life-insurance companies that I know anything of first hand are to-day renewing loans that mature. Most of them are making new loans through their correspondents; that is, through the regular channels of business. Furthermore, during the past six months the insurance companies have, partially at the request of the administration, purchased great numbers of mortgages (probably in excess of \$80,000,000) from banks and building and loan associations who needed to secure cash and it is worth noting that in these cases the insurance companies did not take advantage of the situation to charge a discount.

The insurance companies are doing what they can to meet the trying situation. With this background, I am more firmly convinced than ever that attention is being centered on the wrong phase of the mortgage situation in the urging of this legislation.

At the present time, mortgage lenders everywhere are having to foreclose on a certain number of properties. In the case of insurance companies, these houses are immediately repaired and rehabilitated. If they can not be sold readily, as is usually the case to-day, they must be rented. The effect of such properties on the whole real-estate market, and particularly on the home market, is as inevitable as it is unfortunate and regrettable. As the number of these properties increases, there will be ample opportunity for any prospective home owner to secure a first rate home in good condition, at a low price and on most reasonable terms. What better stimulation to home owning can be furnished by artificial means?

My honest conviction, based on extensive and constant travel, upon regular reports by our correspondents, and upon careful investigation by our traveling field men, is that there is a distinct oversupply of housing in every one of the 33 cities and towns in which we lend, and that has been and is the prevailing opinion among the mortgage executives of life insurance companies who keep closely in touch with the situation in all parts of the country. Not only are there vacant houses, but vacant apartments, one competing directly with the other for tenants and the apartments competing indirectly with houses for purchasers. In every community that I know of, there are some unsold new houses. At the cost of repetition, let me state that there is an increasing number of rehabilitated, repossessed houses in each community. In view of all this, it seems that too much stress has been laid upon the miracle of creating home owners by providing easy credit through some Federal lending system. The means and the material for creating new home owners are already at hand. If a man is a potential home buyer, he has never had better opportunity than to-day as regards choice of available property, low price, and easy terms.

Will an institutional Federal lending system give the potential home buyer a better opportunity or will it perform that miracle we all so devoutly look for; that is, the creation of more potential home buyers?

Upon the constant insistence of the proponents of this bill, it is necessary to touch upon the supposed relief which this measure will give to the distressed home owner. I think we will all agree that

there is no way for any banking system to assist a man who is not able to meet his interest payments and taxes. Certainly, no home-loan bank system can put money in his pocket to pay these items. Certainly no cooperative or governmental agency can take over his loan if he can not pay them. How is this proposed system to give relief?

Now, granting there is no relief in this bill for the man who is delinquent, how is it proposed, how is the proposed system to give relief?

The proponents stress the plight of the man whose loan matures. It has not come to my personal attention that lenders have been foreclosing properties solely because a loan can not be refinanced at maturity. Granting, however, that such cases have occurred, I am of the firm belief that they will be far less frequent, and eventually nonexistent, when a great deal more property is taken over by foreclosure. Why any lender should figure that he can put himself in a better position by taking over a piece of property, rather than extending or renewing a loan, is more than I, as a practical mortgage man, can see. My prediction is that the time is at hand when every lender will realize that he is less liquid with a property than with an obligation. Bankers, receivers for closed banks, building and loan associations, insurance companies and savings banks will realize this.

I have seen receivers for closed banks—a loan matures and they send out a notice "You have to pay this loan right now," and the man comes rushing into our office and he says: "Graeme, I have got to have that money. You have just got to help me out. Get that money or they are going to take my house away from me." I say, "Now, don't get excited. Just go back and tell them they can have the house." He goes back and the next day he has a new loan, his loan has been extended three or five years at a fair rate of interest, and he has probably paid \$100 or \$150 on the principal, and the receiver for the bank is infinitely better off with the extended obligation with his \$100 or \$150 than he is in taking over a piece of real estate. That may not have prevailed generally up to now, but as we all take more and more real estate—and everybody realizes it can not be sold—no lender will foreclose solely on the basis of the maturity.

Personally, I do not know a single life insurance company that has or would call maturing loans and actually foreclose if the borrower was up on his payments and was keeping the property in good condition.

That question I have asked some 16 to 18 life companies.

Mr. LUCE. Mr. Smith, you can be seated, if you wish. I may interrogate at some length.

Mr. SMITH. All right, sir. May I continue my statement?

Mr. LUCE. Yes.

Mr. SMITH. I think, if a painstaking check were made of first-mortgage foreclosures at maturity, you would find factors other than the maturity governing the lender's action.

It seems to me that this talk about the dire position of the home owner with a maturing loan does not hold water. It sounds to me like the only possible argument that proponents of the bill could muster up to use in stressing the relief which some Federal lending

agency could provide. If such relief is needed, we in the life insurance field have not found it out.

In conclusion, I would state that this bill is institutional in character and the possibility of its helping the home owner indirectly is rather slight. New loans are being made to-day. Delinquent loans can not be assisted by any new lending agency. Maturing loans will have to be taken care of by the present lenders, who will find it advantageous to do so, rather than to have real estate in their portfolio.

Of the six types of institutions mentioned in this bill and which could become members of this organization, with this measure, officials of only one type have endeavored to convey the impression that their members' units are behind this measure.

For the temporary emergency the Reconstruction Finance Corporation will provide quick and ample means for defreezing mortgage assets. On the grounds that this Federal home loan bank bill will create a permanent governmental structure, we oppose it because of tax exemption, Government in business, and stimulation of unnecessary new houses. We doubt the ability to sell the bonds at a low enough interest rate and we doubt the successful operation of the banks.

As for the home owner, we say, let there be a need first and a system afterwards. I trust that there will not be created a system in a vain effort to create a need for new homes that are not needed.

I wish to thank the committee very much for having so graciously indulged me in presenting my views on the bill under consideration.

Mr. LUCE. You have made an admirable statement of the views on this matter taken by the life-insurance companies.

Mr. SMITH. Thank you.

Mr. LUCE. Who, together with the mortgage association, furnish the only consolidated body of opposition that this bill has met. I have read the Senate testimony also and should judge that you in your statement have covered every argument there presented.

Is it your intention, is it the intention of the life insurance interests, to confine their argument here to your statements, or are there other life-insurance people to be heard?

Mr. SMITH. Mr. Representative, I would not know. I am appearing as an individual for my company. There has been no agreement between the life companies of an official character.

Mr. LUCE. What I am inquiring for—

Mr. SMITH (interposing). I would not know if anybody else were to appear.

Mr. LUCE. What I am inquiring for is to ascertain whether, for the sake of conserving time and not extending argument, I may address all my inquiries bearing on this life insurance phase of the situation to you, or whether there are others who will want to be heard?

Mr. SMITH. To the best of my knowledge and belief, Mr. Luce, no one else from the life companies will appear before this committee.

Mr. LUCE. Then I can go ahead and gratify my curiosity.

Mr. SMITH. Yes.

Mr. LUCE. By addressing you?

Mr. SMITH. Yes.

Mr. LUCE. Now, let us begin at the beginning. The President, after calling the conference which we all know about, committed himself to the support of some program for furnishing additional credit in the home-building field for relieving the present emergency. Your statement discloses no sympathy in any aspect whatever or upon any point whatever. It discloses no sympathy with any of the recommendations, even those of the President. Am I accurate in saying you are opposed to this thing—lock, stock, and barrel?

Mr. SMITH. Yes, sir.

Mr. LUCE. Very well. Then we will, for the lock part, put the President against yourself.

Mr. SMITH. Mr. Representative, could I say there that we were heartily in support of the remedial measure for the purposes of the emergency, and were glad to see that Congress was wise enough to vest the Reconstruction Finance Corporation with the power to discount mortgage loans with banks and trust companies, and building and loan associations, and life insurance companies, if needed. We were in sympathy with the President on that.

Mr. LUCE. I meant to inquire about that later on; but inasmuch as you have mentioned the subject, I would like to inquire as to your thought about the Reconstruction Finance Corporation program.

Mr. SMITH. There are several remarks I would like to make on that subject. I do not want to go into a discussion of it.

Mr. LUCE. Do you know any facts about how much money they will lend to this field?

Mr. SMITH. They apparently have in mind, although I am speaking without any official record, about \$250,000,000, so I have heard.

Mr. LUCE. The allegation has repeatedly been made here that such allocation is designed to enable these institutions to repay their borrowings to the banks. Do you know anything about that?

Mr. SMITH. Mr. Representative, there is no trace of such a stipulation on the part of the Reconstruction Finance Corporation. Mr. Dawes has been asked to appear before the Senate subcommittee, as you know, and is going to appear before them, I understand, at some future date to explain what the Reconstruction Finance Corporation has done and what it is going to do about the mortgage situation.

Mr. LUCE. Well, I am glad you have quoted that because I meant to say I am very sure that this committee will not proceed in the matter until it knows actually what the R. F. C., as we call it, is going to do, and so we will hold in abeyance, if you please, all arguments for or against the bill on that score, until we have the information upon which that may be based.

Mr. REILLY. Assuming that the Reconstruction Finance Corporation is not going to be able to remedy existing conditions, is this bill necessary?

Mr. SMITH. As a temporary bill; yes. Or some change could be made in the Reconstruction Finance Corporation act, and an additional specific appropriation made for it.

Mr. LUCE. I am assuming that will not be done. I am assuming that the Reconstruction Finance Corporation is unable to handle this situation. So, assuming, is such a measure as this, as an emergency measure, desirable, in your judgment?

Mr. SMITH. Yes, sir; temporary relief is needed. Could I interject one point there?

Mr. LUCE. Certainly.

Mr. SMITH. In our city two banks needed assistance from the Reconstruction Finance Corporation in discounting mortgages. Arrangements were made. A month has gone by and the men in those banks tell me they are not going to need the help once they know they can get it.

Mr. WILLIAMS. That is one of the results we hoped for. That is good.

Mr. LUCE. The less these things have to work, the better for the public, as has been said on the floor of the House.

In the fourth paragraph of the statement you have just laid before us—

Mr. SMITH. Is that the first page?

Mr. LUCE. Yes; the first page, No. 4, you say, there would be no market for new bonds. In the sixth paragraph, you begin, "We oppose inflation of mortgage credit," and at other places you say "this thing won't work anyhow." How can there be any inflation if the money can not be borrowed and if the thing won't work?

Mr. SMITH. Under the provisions of this act, one type of institution can avail itself of the functioning of the bill, certain building and loan associations in certain districts—take the State of Ohio, for example, can jump in and gobble up a great amount of money and put on a building boom in the State of Ohio that will manifestly affect all the other institutions operating in that State, and by that act alone they can do immeasurable harm in certain communities. Now, to do it, to be sure, they would have to have money, and it is inviting the money for them to do that in local communities that I say difficulty would be had in selling the bonds.

Mr. LUCE. If there is no market for the bonds, the institution will not function.

Mr. SMITH. It can to the extent of \$125,000,000.

Mr. LUCE. It can, and that is put in the control of the central board to apportion to the best of its judgment as to the needs of various communities, and if we can ever trust men, and I think we can, may we not assume that these men will wisely distribute that money with an eye to the very situations that you fear?

Mr. SMITH. It depends upon who is consulted in selecting the men.

Mr. LUCE. Now, just jump on to another of your statements bearing upon the same thing.

Mr. SMITH. Yes.

Mr. LUCE. In the first paragraph on the next page you say, "There is nothing to prevent these institutions from using the system to realize cash from mortgages in order to pay stockholders, or depositors, or creditors, to build up reserves or to engage in any other line of business."

Mr. SMITH. Yes.

Mr. LUCE. In the light of the experience of this country in 150 years or more, is it conceivable that any public board under the control of the President of the United States will do such preposterous things as you here suggest and as was suggested in the Senate hearing? Should the possibility that our public officials may prove

delinquent debar us from giving them authority to render a public service?

Mr. SMITH. Mr. Representative, can I make an answer to that?

Mr. LUCE. Yes; I would be glad to receive any explanation possible.

Mr. SMITH. The Reconstruction Board has been subject to a little criticism here upon the possibility that in making loans to building and loan associations they have required that the money paid out to building and loan associations be paid to banks. Now, the essence of that criticism is that any governmental body should attach conditions to moneys advanced. Just assuming therefore that no governmental body should do that, I think there is in accord with your feeling—your Federal home loan board should sit here and a building and loan association would bring in \$500,000 of mortgages and borrow \$200,000 and there is nothing, providing, of course, your board is not going to stipulate how they will use that money, there is no reason why the building and loan association can not go into its statement and put in a safe deposit box department, and build a beautiful one with the \$250,000, and never pass it on to the mortgage borrower.

Mr. LUCE. There is absolutely nothing in the way except common sense.

Mr. REILLY. Would you do that if you were sitting on a building and loan board?

Mr. SMITH. If I were sitting on a building and loan board. That involves my personality. I probably would not, but I can see where a building and loan association, three years from now when the emergency is over, if it is ahead of itself a 40 per cent profit annually in the operation of the safety deposit box, with no stigma attached, do you suppose they would forego the opportunity?

Mr. CAMPBELL. In their history of over 100 years have any been accused of doing such an apparently unreasonable thing, the building and loan institutions of the country?

Mr. SMITH. I do not think this situation has arisen.

Mr. CAMPBELL. You suggested it would arise. Has it ever arisen?

Mr. SMITH. I am not familiar enough with their practice to know it.

Mr. CAMPBELL. As compared with the banks' experience, does not the building and loan association compare favorably?

Mr. SMITH. Bankers could do the same thing. I am not accusing the building and loan agency. I am not attacking them.

Mr. CAMPBELL. You seem to be directing quite a little of your statement to that.

Mr. SMITH. That is because they were the only proponents that have come down solidly for the bill.

Mr. LUCE. You mean they have appeared before the committee. You do not know of the hundreds of letters we have received from people in our districts to whom we may properly give heed. Citizens demand this. Your policyholders demand it. You say that the American Bankers Association has not indorsed it. The American Bankers Association objected strenuously to the enactment of the Federal reserve system. Were they wise or unwise at that time?

Mr. SMITH. Well, I heard the testimony yesterday, Mr. Representative, and I made inquiry of the American Bankers Association and found that the records show that they opposed certain provisions in the original Federal reserve act and that subsequent to their opposition those provisions were changed and then they were for the act.

Mr. REILLY. No; I think you are mistaken. The bankers opposed the Federal reserve bank right up to the last moment.

Mr. CAMPBELL. They fought it to the last moment. Were they right in fighting it?

Mr. SMITH. Well, not in my opinion.

Mr. CAMPBELL. Well, are they right now in fighting this, or wrong?

Mr. SMITH. I think they are right.

Mr. CAMPBELL. They are just as apt to be wrong now as they were then. Five years now, after this is established, the life insurance companies will be commending Congress for doing it.

Mr. LUCE. You go on to say that the President included it in his emergency relief program and you have met the question suggesting itself, so I will not pursue that. The next paragraph begins—

Every Congress for the past 12 years has had before it some such measure as this, and never once has any Congress brought one of these measures out of subcommittee.

Simply to have it on record that your information is incorrect in that matter, I would say that I happen to have been on this committee for just 12 years and I never heard of any such proposition as this in the course of that time.

Mr. REILLY. I might say, right there, that a bill was introduced in 1926 based on the Federal farm loan act whereby, without any Government assistance, groups of men could get together and work out the same proposition for farm loans for homes. That never came before any committee of Congress, so far as I know.

Mr. SMITH. Mr. Chairman, I think you will find, in the Senate hearings, a statement by one of the building and loan officials regarding the history of this movement, that in 1919 the first of these bills was introduced in Congress, and he goes on then and brings it up. Now, again in the Senate hearings, either a Senator or a Member of the House of Representatives, or an official in Washington, testified as to the date and the number of his bill, and we have none of the bills. The representative service that our company subscribes to has for the past three or four years provided us with those bills. We do not keep them, but we might be able to dig up the records to show them, but for the last three or four years we have been notified that those bills have been gotten out and I do not believe printed. I do not know that they were printed.

Mr. LUCE. The first bill to which you refer was brought in just before I entered Congress 13 years ago. There may have been bills in the Senate; we do not often come in contact with them.

Mr. SMITH. I see how that could happen.

Mr. LUCE. And, I have never noticed anything in the Senate, but I feel sure that in the House there never has been any subcommittee entrusted with a bill of this kind in the 12 years that I have been here.

Mr. SMITH. Would it be possible, Mr. Representative, that they might not have been referred to a committee?

Mr. LUCE. Your statement here—

Mr. SMITH (interposing). I do not say it has been brought before a subcommittee.

Mr. LUCE. It is unimportant anyhow.

Mr. REILLY. You do not think that is an important factor in this bill, because we never had an emergency like this before.

Mr. SMITH. No. I have finished my testimony. I will just answer questions.

Mr. LUCE. On page 4, in the paragraph numbered 1, you say:

Each local association could discount at 5 per cent their mortgages that bear 6 per cent to 13 per cent interest, thus assuring a handsome profit.

What is the basis of your belief that any building and loan association will lend money at 13 per cent interest?

Mr. SMITH. In a book called "Elements of the Modern Building and Loan Associations," land economics series, edited by Richard T. Ely, Ph. D., LL. D., director of the Institute for Research in Land Economics and Public Utilities, approved for standard real estate course by American Savings Building and Loan Institute, United Y. M. C. A. Schools, National Association of Real Estate Boards.

Authors, Howard F. Clark, Ph. D. (Wisconsin), associate professor of engineering economics, University of Wisconsin, and Frank A. Chase, educational director American Savings Building and Loan Institute. A textbook prepared as a part of the educational program of the United States League of Building and Loan Associations, this book being prepared under the direction of the textbook committee of the league.

There is a little inaccuracy in the text of mine, that I feel just a trifle guilty about, but was unable to correct at the last minute. There are four States in the Union where the actual rate of interest the building and loan associations charge to the borrower is slightly under 6 per cent. I believe Delaware is the lowest, with something around 5.15, and then there is one State at 5.47, and one at 5.79, and one at 5.84, and of the other 44 States, they go all the way up to about 14½ per cent.

Now, of course they have what is ostensibly a rate called a model rate, I think. I am a little uncertain about that. Then, their book goes on and explains how to charge premiums and bonuses that bring the actual rate up above that.

Mr. LUCE. Building and loan associations charge premiums and bonuses?

Mr. SMITH. The Department of Commerce, I believe in 1931, prepared a study of that which showed that the—I am on pretty thin ice here, trying to rely on my memory—I think it showed a bonus or a premium about, around 2.74 per cent per annum, but I would rather not have that in the record inasmuch as it takes me without any substantiation here. It is part of the Department of Commerce prepared materials for 1931.

Mr. LUCE. Well, in my State I never knew of more than a 6 per cent charge, and I have been a member of these organizations for 40 years and helped start one. In all the Senate hearings nobody every brought out any such figures, and your statement as to anything like 13 per cent is absolutely novel.

Mr. SMITH. Well, there is the authority for it.

Mr. LUCE. I think that those representing the building and loan associations can perhaps explain it later. I am very positive that as a rule the customary rate in the eastern part of the country, at any rate, is 6 per cent. However, we can verify that later.

In the third paragraph there it says that this measure will allow building and loan associations to accept deposits and further invade the field of banking. The testimony in the Senate was to the effect that Ohio was the only State of the Union where the taking of deposits for banking purposes is permitted. Would you be willing to restrict your statement to Ohio?

Mr. SMITH. To the limit and extent of my knowledge, Ohio is the only State that I personally know about where deposits as such can be made, but what I had in mind there, Mr. Representative, was that of the 12,000,000 members of building and loan associations, in round figures, 10,000,000 are purely stockholders and not mortgage loan borrowers, and they have been giving the American public the impression that that stock could be redeemed at any time, and in so doing they in effect make all their institutions deposit institutions.

Mr. LUCE. Well, you ought to, I imagine, qualify that by referring to time deposits.

Mr. SMITH. Well, I qualified it, Mr. Representative, in my delivery of it. You will find it in the record. I said to accept deposits in one form or another, when I gave it before the committee.

Mr. LUCE. I did not notice that, but the fact remains there is no testimony before the Senate or House committee as yet to the effect that the deposit system prevails in any of the States other than Ohio—the system of banking deposits as usually understood by that term.

Mr. SMITH. It may; but I do not know of any other State.

Mr. LUCE. We have not been informed that it exists in any other State. I am sure the Senate witness said it did not exist in any other State.

In the last lines on that page, you say:

In view of the fact that nothing in this measure forces them to pass on to their mortgage loan borrowers the benefits of rediscounting, why, then, should they not work ardently for this bill? Is there anything in the Federal reserve system that forces the banks to force on to their depositors any of the benefits of the Federal reserve system?

Mr. SMITH. Well, I am not well enough acquainted with the Federal reserve system to know.

Mr. LUCE. And the danger that you intimate here is something of a bugaboo, is it not?

Mr. SMITH. No, Mr. Representative; because this refers not to the Federal home loan banks, but to the institutions that finally get the money from the Federal home loan banks.

Mr. LUCE. Yes; but those institutions, the building and loan institutions, or the mutual institutions, they are existing for the benefit of their membership, mutual institutions for the most part—that is, nonprofit-making corporations.

Mr. SMITH. Yes.

Mr. LUCE. That exist for the benefit of their membership. Is it quite fair to suggest that those who conduct these mutual institutions will not use their resources for the benefit of their membership?

Mr. SMITH. Mr. Representative, if I can answer that directly in this way, the advances of the Federal home loan banks would be for the mortgage business, would they not? That is why you create them. Five out of every six members of the building and loan associations are stockholders, and only one out of six is a mortgage borrower. My sentence says:

In view of the fact that nothing in this measure forces them to pass on to their mortgage loan borrowers the benefits of rediscount, why, then, should they not work ardently for this bill?

Mr. LUCE. Well, your suggestion is simply inconceivable to anybody who has any connection with the actual working of these institutions. That is all I can say.

Mr. SMITH. I do not say they would do these things.

Mr. LUCE. But you are bringing up bugaboos here, possibilities that common-sense precludes.

Mr. CAMPBELL. The borrower would be bound to receive his pro rata benefit or profit.

Mr. LUCE. On the next page, the paragraph reads, omitting the nonessential part of the first sentence:

The life insurance companies lend over the length and breadth of the land, in a vast number of communities, distributing their investment funds to the greatest benefit of all. They lend freely and extensively to home owners in numerous sections of each city, to the extent that they have investment funds available.

What is the significance of "numerous sections"?

Mr. SMITH. We have certain sections in every city in which we do not lend.

Mr. LUCE. Is that true of the institutions that the people themselves form for lending purposes?

Mr. SMITH. I do not know just which you mean.

Mr. LUCE. I mean to ask if the building and loan associations have sections of communities or classes of people to which they will not lend?

Mr. SMITH. I do not know.

Mr. LUCE. Well, your observation, I mean. Is it your observation that the building and loan associations are universal in their helpfulness, within reason, of course?

Mr. SMITH. In my talks with the building and loan associations, there is a great deal of caste and more or less pride among them. Very often an officer in association coming in to talk to me will say, "Of course, now we are not in the position these others are in because we lend out here in Beverly Hills or Highland Park," and they will point to it with great pride, and they will limit their loans right to Highland Park, and the chances are they will be in a better condition than some associations that may lend down in the swamps.

Mr. LUCE. I never heard of such a thing before in connection with building and loan associations, and I have been somewhat close to their conduct in my own neighborhood. I doubt if that prevails throughout the rest of the country. It may, however.

Now let me ask you some more questions bearing on this one point because an allegation has been made that the life insurance compa-

nies pick and choose as to their loans. Do you lend on any old houses?

Mr. SMITH. Yes, sir.

Mr. LUCE. How old?

Mr. SMITH. Well, we have loaned on houses as old as 100 years.

Mr. LUCE. Yes; but if a new loan was requested on such a house, would you lend it?

Mr. SMITH. Well, I am trying to think of loans that have gone over my desk in the last six months.

Mr. LUCE. Let us not confine ourselves to instances. Is it your practice to use age as a factor in loaning?

Mr. SMITH. Yes; when it is coupled with the effect on the neighborhood of a lot of old houses. But an old house per se might very readily get a loan to-day in our office. It might be 60 years old, if it is in a good district where people would want to move to.

Mr. LUCE. The testimony in the Senate was to the effect that this, however, was not customary with the big life insurance companies, to lend on old houses? Would you contest that?

Mr. SMITH. I would say it was customary for the life insurance companies to lend on some old houses in limited quantities. Mr. Madden's testimony yesterday showed that, I believe, that of \$23,-000,000 of residence loans, about \$8,000,000 were on old houses.

Mr. LUCE. Old at the time the loan was made?

Mr. SMITH. Yes. Those were loans in the last few years.

Mr. LUCE. Then, we will set that down as "Evidence on that subject contradictory." We have it, then, that the large life-insurance companies pick and choose to the extent of sections and in some degree of the age of houses. Are there other particulars in which they discriminate against part of the community?

Mr. SMITH. Mr. Representative, every loan is taken up in great detail and business judgment is used in every available aspect of the property and the borrower and the location and transportation.

Mr. LUCE. Well, so far as it can be commended, that is at the recourse of every lending institution?

Mr. SMITH. Yes.

Mr. LUCE. Is it not true that in order to meet the needs of all the people the building and loan associations perform a useful function in lending for certain classes, areas, sites, and ages, that you will not take?

Mr. SMITH. As I said in the beginning, I think the building and loan associations are very worthy institutions.

Mr. LUCE. In the next paragraph you say that the total gross rate to the home owner is seldom, if ever, 6½ per cent, and usually runs 6 per cent. That is the gross rate for insurance-company money and in it I suppose you include commissions, bonuses, and all other expenses?

Mr. SMITH. Yes.

Mr. LUCE. That is in direct contradiction to the testimony of numerous witnesses in the Senate committee. How do you reconcile it?

Mr. SMITH. Those witnesses were endeavoring to build up a case for other types of institutions.

Mr. LUCE. Do you intimate that they did not tell the truth?

Mr. SMITH. No, indeed. I indicate that all interest rates are a matter of a very careful computation. It takes actuaries to do it, and it is not possible for each witness to know actuarial computations and to have made a study over the country of the practices of insurance companies.

Mr. LUCE. But, you are speaking here of the practice?

Mr. SMITH. Yes.

Mr. LUCE. In which you say that the total gross rate to the home owner is seldom, if ever, over 6½ per cent. I point out to you that numerous reputable witnesses have testified directly to the contrary.

Mr. SMITH. That is their privilege. It is my opinion against theirs.

Mr. LUCE. Then, somebody is inaccurate?

Mr. SMITH. Yes.

Mr. LUCE. On the next page, down toward the bottom of the page, in the next to the last paragraph, you said:

I think we will all agree that there is no way for any banking system to assist a man who is not able to meet his interest payments and taxes.

We have been informed that it is the practice, at least of some building and loan institutions, when a man can not meet his interest and taxes, to wipe out the mortgage and replace it with a new one by which the payment of interest is very materially reduced. That has not come to your attention?

Mr. SMITH. No, sir.

Mr. LUCE. On the next page, you say that in your opinion "this bill is institutional in character and the possibility of its helping the home owner indirectly is rather slight. Few loans are being made to-day."

I have checked up numerous statements in the Senate hearings that I do not want to take the time to go over, but that are directly to the contrary. Witnesses have come before us and said that new loans are not being made in their localities. May it not be that your information is spotty in its nature?

Mr. SMITH. Of course, that is a possibility, Mr. Representative, but in thinking this over and preparing this, I have talked with a great number of the large life-insurance companies, nearly all of which lend in a great number of communities. Now, the composite picture in all of the communities that all of the life-insurance companies lend in, would pretty nearly cover every community in the country, and I find that they are making loans.

Mr. LUCE. But, the witnesses tell us they are not.

Mr. SMITH. First, those are witnesses who may not have been able to get a loan where the loan itself was not acceptable on the merits of the loan.

Mr. LUCE. Your statement here is not confined to what the insurance companies are doing, but it is a general statement relating to the subject that new loans are being made.

Mr. SMITH. In our city the trust departments are making loans. I have seen loans go through the savings banks. We have made loans. We are making them all over the country. They are coming over my desk and being passed in the normal flow of business.

Mr. LUCE. One witness said that Hartford and Providence are the only places in the United States to which that applies. Now, assum-

ing that the previous witnesses have been prejudiced in their statements in these matters, will you accept me as a witness, possibly prejudiced? I will inform you that I received a letter within a short time from a constituent in the wealthiest town in the United States, Brookline, telling me of a neighbor who had just moved into a new house costing him \$10,500, and desired to make a loan of \$7,000; that he went to 12 savings banks and 11 of them refused under any circumstances to make any loans. I can buttress that with numerous statements to like effect from my letter files.

We are getting, from members of the House with whom we discussed these things, from every quarter of the country, the same reports, that new loans are in many places not being made. Among them are members of this committee from the South, one of them from Alabama, for instance, who, will tell you that in a group of counties every bank has failed, and there is not a dollar to be had. We get so many of these stories that I feel you are misinformed in this matter of new loans.

Mr. SMITH. Mr. Representative, my statement pertains to the fact, as I say there, new loans are being made. New loans are being made. We are making them.

Mr. LUCE. Let us not quibble over them. You meant to tell the committee that to-day there is no shortage of money?

Mr. SMITH. I do not say that. I say new loans are being made, Mr. Representative, and the insurance companies have taken \$80,000,000 of loans that they have purchased in blocks from building and loan associations and banks in the last six months in addition to keeping their regular flow of mortgages flowing.

Mr. LUCE. Were those new loans?

Mr. SMITH. Those were loans the building and loan associations and the banks had. Those institutions were frozen. They had to have money. The president called up one of the big life-insurance officials and he got in touch with one of the life-insurance officials, and a meeting was held and it was decided the life-insurance companies had to pinch-hit in the emergency, and they did that in addition to their regular lending.

Mr. LUCE. That statement has nothing to do with your intention to intimate to the committee that there is no shortage of money for loans. I won't say you intended it. I will say that you permitted the reader or the listener to draw that inference from what you said, while we know the contrary is the fact.

Let us go on to the next point. You object to this because it puts the Government in business. Would you have us abolish the Federal reserve system?

Mr. SMITH. No; but two wrongs do not make a right.

Mr. LUCE. Do you think the Federal reserve system is a useful institution?

Mr. SMITH. Very.

Mr. LUCE. Then it is not a wrong, is it?

Mr. SMITH. Well, the principle of it, I might disagree with the principle of it and still say it has done and is doing a world of good. I might say that the same thing could have been accomplished by another move.

Mr. LUCE. Would you say it?

Mr. SMITH. That would be a personal opinion and would not be relevant to this discussion. It would not be on the home loan bank system.

Mr. LUCE. Is it not fair to point out to you that, as in the case of the Federal Farm Loan Board, the intention here is not to keep the Government in business, but by lending institutions to enable the people to help themselves?

Mr. SMITH. Of course, Congress has gone back in the farm loan business by advancing \$125,000,000.

Mr. REILLY. We are much obliged to you, Mr. Smith.

Mr. LUCE. I have a number of other questions to ask, Mr. Chairman.

Mr. REILLY. I think we will adjourn at this time, and come back at 2.30.

STATEMENT OF THOMAS F. CLARK

Mr. CLARK. I have been asked by Mr. Stires, Mr. Chairman and gentlemen, the witness who preceded Mr. Smith, and who had to make a train—Mr. Stires made a statement to the effect that when a person applied to the Prudential Insurance Co. of America at Newark, N. J., for a loan in Westchester, that he was referred to a correspondent in Westchester County, to whom he was obliged to pay to get that loan a bonus of 5 per cent for its expense. I asked Mr. Stires, after he said that, what the circumstances were that gave rise to such an opinion. He said, "I wanted to build; I wanted to get construction money." He said, "I realize now I made a mistake, that I should not have included the cost of construction on top of the cost of the service charge that the correspondent makes." He said "I know that there is a limit on that charge and it is not 5 per cent or 6 per cent, and that 5 per cent or 6 per cent covers all the expenses in connection with the loan." He said, "I will make that correction." He came to me just before he left and asked me if I would make it for him.

Mr. REILLY. He will get a copy of his testimony.

Mr. CLARK. I would like this in the record, so that he will know that I complied with his request.

Mr. REILLY. All witnesses can get a copy of their testimony, and let it state what they wanted to state.

Mr. LUCE. Are you going to take the stand as a witness?

Mr. CLARK. I expect to during the week after the opponents have completed their testimony.

Mr. CAMPBELL. Did you appear before the Senate?

Mr. CLARK. I d'd.

Mr. LUCE. I wish to ask him some questions bearing on his Senate testimony.

Mr. ROSENBAUM. Mr. Chairman, in many sections of the country where institutions have closed their doors and there are no banking facilities, and practically all of the building and loan associations are out of funds besides, how will this bank meet the demand for those loans that are facing foreclosure? In other words, an institution has to be a member institution in order to have the privilege of rediscount.

Mr. REILLY. Will you be here after lunch?

MR. ROSENBAUM. Yes, I will.

MR. REILLY. Then if you will be here at 2.30 o'clock, we will hear what you have to say further.

We will now recess until 2.30 o'clock.

(Whereupon, at 12.30 o'clock, a recess was taken, the committee to reconvene at 2.30 o'clock to-day, March 23, 1932.)

AFTER RECESS

The subcommittee met at 2.30 o'clock p. m., pursuant to the taking of recess.

FURTHER STATEMENT OF R. GRAEME SMITH

MR. LUCE. Mr. Smith, do the practices of the insurance companies vary as to these restrictions placed upon the kinds of houses they will make mortgages on?

MR. SMITH. Yes, sir. It is a matter of company policy with each company.

MR. LUCE. I have here the testimony of Mr. Robinson, of Ohio, a man of high standing in the banking world, who intimates that they—this is his own phraseology: "The insurance companies won't make a loan in some parts of that suburb. Why? Because the houses happen to be 15 years of age. I don't blame the insurance companies. It is a sound policy." That might not be true of other companies in that same neighborhood?

MR. SMITH. Yes, sir.

MR. LUCE. Now, Justin Matthews, president of the Metropolitan Trust Co., of Little Rock, Ark., said this: "The insurance companies of course are making loans there but they are only loaning on certain types of new houses, and there is a great need felt for some agency whereby these loans can be handled."

Again, it may be a matter of policy as to what types of new houses?

MR. SMITH. Yes, sir; perhaps in Little Rock, Ark., there might be only three or four of the companies lending. It might be that in years to come there will be 10 or 15 companies lending there. After all, it is like the operation of any business. You can only conduct your affairs in a certain number of places, and cities vary according to the companies that happen to be lending there.

MR. LUCE. Here is the statement of Edward A. MacDougal, president of the Knickerbocker Corporation, Jackson Heights, New York City. He says: "You can not get anything from the life insurance companies or banks of any kind, no. All they can do is to take care of refinancing people who are in distress. This is the most serious situation that has ever confronted the industry that had to do with building." That is a pretty strong statement from New York City.

MR. SMITH. Yes; but it does not necessarily have to be founded on facts. Mr. MacDougal may not have been acquainted with the operations of all the companies in Greater New York. It so happens that the New York companies, from my knowledge, are still making loans in Greater New York. Mr. MacDougal might not have been able to get money on account of some characteristics of the particular loans that he wanted to get. He may not be able to get

loans now that he did get formerly, on account of some change in the transportation or in the neighborhood he is building in, or other things. After all, those companies, as all companies, have to distribute their money equitably. They may have let Mr. MacDougal have a great deal of money in the past. Now he comes again and they say, "Now, Mr. MacDougal, it is only fair that we should give our money to some of these other people."

Mr. LUCE. But, these statements like his have been made by numerous witness in the Senate hearings, broad, sweeping statements, saying that no mortgage money is to be had, and I think I would be justified in saying that about my own neighborhood, Boston, and its vicinity. At least, the testimony I get from such people as have informed me in the matter, and there have been quite a number, are all to the effect that no money is now being loaned on mortgage in that region.

Mr. SMITH. The way you could find it out would be to look at the schedules of the companies that they have to publish every year. They give in detail in every State just what has been lent.

Mr. LUCE. But, this thing has come so quickly.

Here is a statement by James McCarthy, president of the Home Savings & Loan Co., of Youngstown, Ohio. It is a quarter of a page and so I will not read it in full. It is on page 488 of the Senate hearings. Mr. McCarthy, who seems to be a man of substance and enterprise, averred that he tried to refinance a group of mortgages amounting to half a million dollars or a little over with the Penn Mutual, and the agent said he would take it up with his company and consider the loan, and then he never heard anything more from it.

Mr. SMITH. The agent who that would come through is, I believe, going to testify before your committee.

Mr. LUCE. Good.

Mr. SMITH. Probably to-morrow.

Mr. LUCE. I suppose we will be sitting to-morrow. Here is one of the most interesting statements made by a gentleman from your own State, the statement of Arthur A. Crandall, vice president of the Connecticut State Association of Real Estate Boards, Stamford, Conn., and, by the way, the number of letters, telegrams, and statements from the real estate people of Stamford, Conn., would indicate that you have not been fully informed as to the extent of the support of organizations given to this bill. If I understood you correctly, you said it was confined to the building and loan associations.

Mr. SMITH. I said of the institutions that would be members of the home loan bank system. I went on in another paragraph and mentioned the real estate boards, although I said they would not be members of the home loan bank system, and therefore would not enter into a direct consideration on the point in question.

Mr. LUCE. One of Mr. Crandall's statements seems to confirm my own observation. "I am struck, Senator, with the fact that these strong institutions who do not need help comprise practically the only opposition to the bill."

Have you any comment to make upon that?

Mr. SMITH. Yes, I would like to comment on that. I think all of you gentlemen will agree that my attitude in this matter has been

calm and the last thing in the world I want to do is to be destructive. It is my personal opinion that there is strong opposition to this bill. I think if you will call for the resolution of the Mutual Savings Bank Association, of the American Bankers Association, and if you will examine the procedure of the savings banks division, and if you will get in touch with each of the five out of the six groups of institutions that would be members of this organization, you will find that there is pretty general opposition. However, I would rather not stand on that. I would rather say, as I said this morning, does it not occur to you that it is rather strange that out of the six types of institutions which would be members of this home loan bank system, which would rise or fall on its merits, only one out of the six have come down here to urge this? There has been no resolution from the other associations and no accredited representatives of the other groups. I would rather put it in that negative way than to say, "Where is the support for the bill?"

Mr. LUCE. If you will come up to my office, I will show you several hundred letters that will indicate your opinions might be changed by observing the signatures and the nature of the occupations of the people. Information is not only brought to this committee through the hearings but through the use of the mails. That condition and many other particulars has made this the busiest session of Congress in many years.

I think it might be fair to point out to you that the purposes of the bill, at any rate in the replies to this questionnaire, were approved by 110 mutual savings banks with 70 against, by 1,415 national banks with 506 against, by 2,633 State banks with 764 against, by 79 stock savings banks with 35 against, and by 217 loan and trust companies with 51 against. The figures in full appear in the fourth volume of the Senate hearings which has just come from the press.

Mr. SMITH. In regard to the answers to the questionnaire, that questionnaire was sent out without any copy of the bill so that no one knew what they were voting on when they got it. It was accompanied by an appeal from the President which had been issued weeks prior to the drafting of any measure, just as the President's appeal. Everybody that got it thought it was an administration matter and did not want to come out against it because at that time, in the crisis, everybody felt they should get behind the President. In the third place, the Reconstruction Finance Act at that time had not been passed and had not even been amended to include a rediscouinting privilege for banks and for insurance companies and building and loan associations.

Mr. REILLY. There is no question, Mr. Smith, that the Reconstruction Finance Corporation can not meet the wants of the building and loan associations. They would not have the money. The statement has been made by men who seem to know that it will take a billion dollars at least to liquify these mortgages institutions so that they can function. It is beyond any possible power of the Reconstruction Finance Corporation to furnish such funds. You know that.

Mr. SMITH. I know it would not be able to furnish a billion dollars.

Mr. REILLY. That is what the men who come in here say, it will take a billion dollars of funds to liquify these mortgage institutions so that they can function.

Mr. SMITH. Mr. Chairman, I take it that the intent of the Reconstruction Finance Corporation and the intent of this bill and these hearings, is to help the mortgage borrower.

Mr. REILLY. That was the intent, but they never carried it out and do not intend to carry it out.

Mr. SMITH. With these building and loan associations, five out of six of the people involved are depositors. Now, if the building and loan associations get help and turn that help back to the stockholders, to the five out of six, and do not turn it over to the one out of six of mortgage borrowers, there will not be much money anywhere to take care of it. But, the Reconstruction Finance Corporation will have enough money and can function far better in an emergency in taking care of this one-sixth. That is your worthy home-owning mortgage borrower. It is not going to take so much money. These building and loan associations are in far better shape than we think.

Mr. REILLY. I hope so.

Mr. SMITH. And, the psychological effect of being able to get money forestalls the actual use of that money. We see it everywhere.

Mr. REILLY. Do you not think there are a great many people withdrawing from loan associations because of necessity?

Mr. SMITH. Yes, I think there are a great many in the absolute, but I think there are a lot more not withdrawing because they feel they can not get their money if they withdraw. Those people if they read the certificates on their stock, they know they can not get that money. If they were led to suppose they were depositors in that building and loan association, they have a right to be furious because they can not get their money, but it is not the purpose of the home loan bank to carry back to depositors or stockholders their money. The purpose of the home loan bank bill I take it is for the home owning mortgage borrower, the one man out of six in the building and loan associations, not the other five out of six, who are simply stockholders.

Mr. REILLY. Do you not think it would help a borrower in a building and loan association to have the financial situation of his company such that they could get money on their frozen assets to go on and function without putting him out of his home?

Mr. SMITH. He can get that help to-day from the Reconstruction Finance Corporation.

Mr. REILLY. You know that is absolutely impossible.

Mr. SMITH. It is being done.

Mr. REILLY. The testimony is they have received help to pay back their bank loans.

Mr. SMITH. Mr. Chairman, I wonder if anyone from the Reconstruction Finance Corporation has testified to that effect?

Mr. REILLY. We will have somebody from the Reconstruction Finance Corporation before this committee before we close our hearings, but that is what men tell us who have looked into the matter.

Mr. SMITH. Well, I do not know, of course, who they are or to what extent they have looked into the matter. I presume it would be rather difficult for anybody to get accurate word from the Recon-

struction Finance Corporation unless they appeared before you gentlemen. It seems to me anyone making statements about the Reconstruction Finance Corporation would put himself in a rather embarrassing position.

Mr. REILLY. I do not think so.

Mr. SMITH. I think the April 1 statement of the Reconstruction Finance Corporation will show just how much they have lent to building and loan associations.

Mr. REILLY. Surely.

Mr. SMITH. It is true that in 24 out of 48 States, I believe I am right, they have found that the laws are such that the Reconstruction Finance Corporation can not discount mortgages, or, to put it another way, that the building and loan associations can not discount them. In 13 States they have found that the building and loan associations can not borrow, and I believe I am right in saying that in 11 other States the building and loan associations do not have the right to pledge, which, inferentially, mean they have no right to borrow.

Mr. LUCE. How is the Reconstruction Finance Corporation going to help?

Mr. SMITH. In the other 24 States. The same thing will hold true of your Federal home loan bank bill, though.

Mr. LUCE. Yes; it will.

Mr. SMITH. So you see it works either way.

Mr. LUCE. There are 12,000,000 members of the building and loan associations who are mostly, you will admit, persons in moderate circumstances. About one man in six in the country is unemployed, so that probably about 2,000,000 stockholders in building and loan associations are in greater or less need of cash. Would it be wholly covering the ground if you said the only purpose of this bill was to help that part of the membership that is borrowing and not that part of the membership consisting of members who may have need to withdraw their money?

Mr. SMITH. I can see your point, Mr. Representative, exactly. I say to you that from the standpoint of broad public policy, no; but we are sitting here on a piece of real estate legislation, mortgage legislation, that has to do with the mortgage aspects and the plight of 2,000,000 stockholders of the building and loan associations, it seems to me, comes under a consideration of unemployment legislation or relief through the dole, or relief through public works, or something like that. It should not come under mortgage legislation. We are sitting here for real estate mortgages, homes, and properties.

Mr. LUCE. Mr. Smith, to use the words of the old adage, "Any stick to beat a dog." We are not going to theorize when men are starving or need money to clothe their children; we are going to help them, if we can, in any reasonable way.

Mr. REILLY. Is that all, Mr. Smith?

Mr. SMITH. Yes; unless there are some questions.

Mr. REILLY. Thank you very much, Mr. Smith.

Mr. SMITH. Yes, sir; thank you very much.

Mr. EDWIN J. ROSENBAUM (again)—

Mr. REILLY. Do you want to make some statement, Mr. Rosenbaum?

Mr. ROSENBAUM. If you please, Mr. Chairman.

Mr. REILLY. Proceed.

Mr. ROSENBAUM. In parts of the country where the banks have closed their doors, where there are practically no banks functioning, or where 50 per cent of the banks are in receivership, this particular bill does not function at all and does not meet the emergency that exists there, and I can cite specifically a city like Philadelphia. I believe half of the banks are closed in Philadelphia. The same conditions is in a measure true of Chicago. I know that down in Monmouth County, on the Jersey coast, practically every bank closed their doors there, and I think only one is left open, and those mortgages are coming due, or will come due, and the receiver there—this bill will not function in a community of that character.

Mr. REILLY. You mean building and loan banks have closed?

Mr. ROSENBAUM. Banks have closed. It is much more vital than the closing of a building and loan association.

Mr. REILLY. That does not affect this bill.

Mr. ROSENBAUM. Of course, this bill can not function there.

Mr. REILLY. There may be cases like that, undoubtedly.

Mr. ROSENBAUM. When 3,600 banks have closed in the past two years, it is a very vital consideration. It is not something, understand, where you can say just building and loans. There have been building and loan associations and banks. There were 3,600 banks alone, and this bill does not meet that situation. I believe the Reconstruction Finance Corporation does in a measure meet it, but their resources are certainly insufficient.

Mr. REILLY. I do not think there is anything you could put in this bill to help that situation. This bill could not be changed to help that situation. They have other bills, I understand, under consideration to help closed banks.

Mr. ROSENBAUM. But, helping a closed bank, understand, and getting a continuing mortgage for a man is an entirely different proposition, where this man needs financing over a period of years. The fact that they help the closed bank, that may help them up to 50 per cent of the resources they have on hand, but that does not help the owner of the home except to the 50 per cent perhaps of his mortgage. There is nobody who will carry the other half because they are not in existence to carry it. There is a real vital shortage of mortgage capital stock.

Mr. REILLY. Is that all you have to offer?

Mr. ROSENBAUM. Yes, sir.

Mr. REILLY. Thank you.

STATEMENT OF THOMAS E. MONKS, VICE PRESIDENT OF THE GUARDIAN TRUST CO. OF CLEVELAND, OHIO

Mr. REILLY. Now, Mr. Monk, you testified before the Senate committee?

Mr. MONKS. Yes, sir.

Mr. REILLY. Now, I think the committee will be pleased if you will just confine yourself to new matter in answering. Give your address and who you are representing.

Mr. MONKS. Thomas E. Monks, Cleveland, Ohio, vice president of the Guardian Trust Co., here representing the Ohio Bankers' Association.

There are just a few statements I want to make, and then I want to submit a bill here, the original of S. 35, which was introduced by Senator Watson on December 9, the same day that Congressman Luce presented H. R. 5090. There were never any hearings held on those bills. Under date of January 7, S. 2959 came out under Senator Watson and H. R. 7620 by Mr. Luce appeared January 13, 1932. These hearings were started before the Senate committee on January 14 and the gentlemen that testified before the Senate committee I think were all of the opinion that they were testifying on S. 35, H. R. 5090.

Mr. LUCE. Right there, Mr. Monks, I think you must be in error.

Mr. MONKS. Well, that is the first day it came out, on January 14, the first hearings were held January 14.

Mr. LUCE. I am not contesting that.

Mr. MONKS. January 14, 16, 19, 20, and 21.

Mr. LUCE. An explanation of the new bill, the fact that it was a new bill, and a different bill, was the first thing that Senator Watson laid before the committee. You may find it on page 11 of volume 1. If anybody did not know that this was a different bill it was a misfortune, I am sure, which I regret, but it was not through any failure on the part of Senator Watson to let the people know that this was a new bill.

Mr. MONKS. Here is what I am saying to the members of this committee. Gentlemen, on February 15 or 16, I appeared before the subcommittee on Banking and Currency of the Senate on S. 2959, and presented many amendments and corrections to the bill which were made by the Ohio Bankers Association, which it is my pleasure to represent at this hearing.

While in Washington at the hearing in February, I made it my business to see and talk to members of both the Senate and the House, to Cabinet members and to bankers, members of the American Bankers Association, on S. 2959. It was the opinion of the majority of those with whom I talked that this subject of Federal home loan discount banks was much better set up and covered in Senate bill 35 by Senator Watson and House bill 5090 by Congressman Luce, which had been introduced December 9, 1931, and more in conformity with the President's statement as issued November 13, calling for legislation of this kind to be enacted, than either S. 2959 or H. R. 7620 introduced later. In fact, we could not understand why S. 35 and H. R. 5090 were discarded without ever a hearing upon them, when it is generally admitted by all that they had been drafted in accordance with the President's views as set forth in his November 13 statement.

Upon our return to Ohio, after the hearings before the Senate committee on S. 2959, and in view of the unanimous feeling on the part of the different persons conferred with, that S. 35 and H. R. 5090 were drafted in accordance with the President's statement, we had our attorney take S. 35 and H. R. 5090 and amend and correct them accordingly, so we are here asking that your honorable committee consider the original Luce bill 5090, as introduced, and that the hearings to be conducted will be on that bill.

We submit the following amendments, corrections and additions to the bill and our reasons for asking for the same.

Mr. REILLY. Have you not submitted those amendments to the Senate?

Mr. MONKS. No, this is on S. 35.

Mr. REILLY. Did you not appear and testify against the Senate bill, the same as this bill before us?

Mr. MONKS. No, I appear on S. 2959.

Mr. REILLY. Yes; that was the last bill.

Mr. MONKS. I am talking now about S. 35 and H. R. 5090.

Mr. REILLY. I do not think you ought to mix us up on that. Mr. Monks, if you have any statement to give this committee wherein the Watson bill was better than this bill or what you would like to put in from the Watson bill into this bill, I think that would help the committee.

Mr. MONKS. I am here in a constructive way and I am submitting you these amendments and then I am submitting you the original bill S. 35 and the Luce bill, H. R. 5090, with all these amendments typed in it.

Mr. REILLY. We want these amendments applied to this bill. Now, the Senate has heard the last bill and we would have great difficulty in doing anything with the Watson bill or the former Luce bill. What we would like to have is what part of the Watson first bill ought to be put into the Watson second bill, or what part of Mr. Luce's first bill should be put into his second bill to make it conform to your ideas of what the bill ought to be. If you have some reasons why certain things of the Watson first bill or the Luce first bill ought to go into this bill, that will be enlightening to the committee.

Mr. MONKS. Well, I can tell you this. We believe that the first bill was drawn in the interests of all concerned. We do not believe the second bill is drawn with that intent and purpose.

Mr. REILLY. Now, why?

Mr. MONKS. In H. R. 7620, the second bill introduced, on page 4, start on page 3, it says:

Such of the following as are duly organized under the laws of any State or of the United States, and are subject to inspection and regulation under the banking laws, or under similar laws, of the State or of the United States, shall be eligible to become a member of a Federal home loan bank:

First. Building and loan associations, cooperative banks, and homestead associations;

Second. Any of the following whose time deposits and financial conditions, in the judgment of the board, warrant their making such home mortgage loans as, in the judgment of the board, are long-term loans: Savings banks, trust companies, and other banks; and

Third. Insurance companies.

Then it goes on to say:

An institution eligible to become a member under this section may become only of the Federal home loan bank of the district in which is located the institution's principal place of business, or of the bank of a district adjoining such district.

Mr. REILLY. Your objection to this bill is that it does not let financial institutions in without the judgment of the board in the first instance?

Mr. MONKS. I will say to you as chairman of this committee that if this bill is to be passed, it should be passed with equal rights to all and special privileges to none.

This bill as drawn is purely a building loan bill. I have Mr. Luce's letter here of January 18 to Mr. H. C. Robinson, senior vice president of the Guardian Trust Co., in which he says:

Where there is a question of doubt these things will be called to the attention of the committee and it will be given full opportunity to decide. Inasmuch as President Celarius and Executive Manager Bodfish of the building and loan associations were present all the time, I think I had the help of the men most experienced in that field in such matters as the one at present under consideration.

Now, gentlemen, I will ask you in all fairness to the people that the President's statement says are to come in, why were they not all invited to the rewriting of this bill if the first bill was not the right bill?

Mr. LUCE. Mr. Chairman, that seems to call for a statement. I can answer it by saying that these gentlemen were not Johnny-on-the-spot. I should have been delighted to have had you with me, but nobody came.

Mr. MONKS. Were we advised that this bill was to be rewritten?

Mr. LUCE. I felt under no obligations to advise anybody. I didn't advise Mr. Celarius or Mr. Bodfish. They were here. They gave me most useful help at very great sacrifice of strength and time. I should be very sorry to have you suppose that these gentlemen were not helpful in the extreme. I should also be very sorry to have you imagine for a moment that I would not have delighted in your help or that of anybody else who would have put in the hours and hours and hours that we did.

Mr. MONKS. I will say to you, Mr. Luce, that had we been notified that this bill was to be rewritten, we would have been glad to have stayed here for months and to have helped you. We would have had some of the best legal talent that this country could produce.

Mr. LUCE. I think it most unfortunate. But you took no pains to find out what was being done.

Mr. MONKS. I beg your pardon?

Mr. LUCE. I deem it most unfortunate that you took no pains to find out what was being done in the matter of this legislative.

Mr. MONKS. We can not take pains to find out what is being done when we don't know what is being done and were not advised of it.

Mr. LUCE. But you made no inquiry. Go on, Mr. Chairman.

Mr. REILLY. Proceed with your reasons why the limitations of the first bill should apply to this bill.

Mr. MONKS. Because we believe all the way through that the first bill is a better-drawn bill to all concerned than the second bill.

Mr. REILLY. Why?

Mr. MONKS. I have told you.

Mr. REILLY. You have told us it is better because it took in more people. Why should those institutions go in?

Mr. MONKS. Because, if you are going to help the people that you started out to help, they should be free to be helped one the same as the other.

Mr. REILLY. You have a loan institution?

Mr. MONKS. Yes, sir.

Mr. REILLY. What sort of loans do you make?

Mr. MONKS. We make real-estate loans, commercial loans.

Mr. REILLY. Mortgage loans?

Mr. MONKS. Yes, sir.

Mr. REILLY. For how long periods?

Mr. MONKS. Most of our loans are made for one year, and then they run along and they keep up their interest and taxes and payments. That is the habit in Ohio or the custom.

We have always felt in the past that after a loan had run a year, it then became a due loan if we cared to ask for the payment of it. We have been writing mortgages in that kind of a manner in the 34 years that our bank has been in existence—37 years; and up to 3 years ago I don't think we ever had but two foreclosures in our institution. We have at the present time about 36 million dollars of mortgages.

Mr. REILLY. How many institutions does the second bill cut out?

Mr. MONKS. How many does it cut out? It only puts in building and loan associations and cooperative banks and homestead associations.

Mr. REILLY. The rest have got to go in on the judgment of the board?

Mr. MONKS. Yes, sir. And the board would be composed of building and loan people.

Mr. REILLY. Unless they put up a million dollars, it would be composed largely of Government direction. The United States Government directors would very likely determine who would come in in the first instance. Isn't that so, Mr. Luce?

Mr. LUCE. Yes.

Mr. REILLY. Because they would not have any voice at all unless they had a million dollars.

What else do you object to in this bill?

Mr. MONKS. We object to the 8-year term mortgage in there, mortgages that have to run eight years. We object to the bank—

Mr. REILLY. Now, wait. What more do you want to put in there of limitations?

Mr. MONKS. No limitations.

Mr. REILLY. Any kind of mortgage?

Mr. MONKS. Any kind of mortgage that is fit to be rediscounted should be taken into consideration.

Mr. REILLY. What is your third objection?

Mr. MONKS. We object to the way the board of directors are set up. I gave that statement. You will find that in my testimony before the Senate.

Mr. REILLY. You might as well get that all in here, all of your objections.

Mr. MONKS. I will give you that now. Page 11, line 6, 7, and 8:

The directors of classes A, B, and C, whether appointed or elected, shall be from among persons connected with the home financing business.

We do not know what the definition of "home financing business" would be. And, furthermore, we believe we can make a recommendation as to the provisions for directors that will be an improvement over the present provision as proposed in the bill.

We therefore suggest that, starting with line 22 on page 10, section (c), and on page 11 section (d) and lines 1 and 2 on page 12, all be stricken out; and that the following be substituted:

(c) Nine of such directors, three of whom shall be known as class A directors, three of whom shall be known as class B directors, and three of whom shall be known as class C directors, shall be appointed by the board

and serve until the end of the calendar year 1932. Their successors shall be elected as provided by subsection (d); and each such successor first elected out of each class shall serve for one, two, and three years, respectively. Thereafter all such directors shall serve for three years.

SEC. (d). The board shall divide the members of each of the Federal home loan banks into two groups, which shall be designated as A and B, which groups shall represent, respectively, and as fairly may be, the large and small members, the size of such members to be determined according to the net value of their holdings of home mortgage loans. The board may revise the membership of such groups from time to time. Class A and class B directors, whether appointed or elected, shall be chosen from the officers or directors of the member institutions. Class C directors, whether appointed or elected, shall be chosen from among persons actually engaged in commerce, agriculture, or some business or industrial pursuit. No class of director shall be an officer, director, or an employee of any member. Each member shall be entitled to nominate a suitably qualified person for election as director of a class corresponding to the group to which such member belong and one suitably qualified person for election as a director of Class C. The directors of each class shall be nominated and elected in accordance with such rules and regulations as may be prescribed by the board.

Now, here are our reasons: You will note from the above that we have eliminated class C directors from the membership, and substituted therefor members drawn from those actually engaged in commerce, agriculture, or some other business or industrial pursuit. **This set-up follows somewhat after the Federal reserve act, which has worked very satisfactorily.** The group C directors would be expected to furnish the outside view on general business conditions which would, we believe, be very helpful to the management of all the banks in determining business policies. Furthermore, these directors could be generally regarded as representing the public interests when the time came to offer the bank's debentures in the market.

We are of the opinion, Mr. Chairman, that that is a much better provision for electing directors in this bank than the ones that are now in the bill.

MR. REILLY. What other objection have you to the bill?

MR. MONKS. As to setting up the Federal centralized bank, line 16, section (g), why do they take deposits, and why would they pay 3 per cent? This whole section from line 16—

MR. REILLY. I understand you put that in the other hearing. You may say in a general way what you want in the bill so we will know what you want. Then we will go and read your testimony. Do you want us to pay on deposits?

MR. MONKS. We don't want to have a bank there at all. There is no need of another centralized bank.

MR. REILLY. You don't favor these Federal banks taking deposits?

MR. MONKS. Absolutely not.

MR. REILLY. All right. You are opposed to that?

MR. MONKS. We believe it is a bad thing for commercial business and industrial business. We can see no reason why they should set up another bank to take deposits in competition to all the commercial banks and savings banks and trust companies and everybody doing a commercial business to-day and the national banks.

MR. REILLY. Do you believe that if there are Government deposits, the banks should pay interest?

MR. MONKS. On the Government deposit? I certainly do. They ought to get a dividend just the same as the stockholders get.

Mr. REILLY. How is that?

Mr. MONKS. I think the Government ought to be paid a dividend just as well as the stockholders in the bank.

Mr. REILLY. Is that all the amendments that you have?

Mr. MONKS. Yes, sir.

Mr. REILLY. Assume that all those amendments were put into this bill, would you be satisfied with the bill then?

Mr. MONKS. I think we would be satisfied with the bill.

Mr. REILLY. Do you think there is a necessity for the bill?

Mr. MONKS. I certainly do.

Mr. REILLY. Do you think it would do some good if it worked according to the way that you would amend it?

Mr. MONKS. I certainly think it would.

Let me say this, too: I just want to give you these figures here. I have given the figures in the State of Ohio for 463 country State banks and 50 city banks and 41 unincorporated banks, a total of 554 banks. That does not include any national bank.

Out of their total deposits, 63 per cent of the amount that is in savings accounts in those 554 banks are now in real-estate loans. Out of the total deposits in those 554 banks, commercial deposits and everything, 31.8 per cent of all the deposits are in real estate loans.

If you are going to help business, you have got to help your banks that have been carrying these real estate loans; and you can not set this bank to function only for building and loan associations.

At the present time, building and loan associations in Ohio—we can give you a few figures about them. There are 791 building and loan associations in the State of Ohio, with assets of \$1,248,000,000. Forty-eight per cent of them at the present time, with 19.8 per cent of the total assets, are functioning—making payments on their deposits; 52 per cent of them, with 80.2 per cent of the assets, are not making any payments.

The amount of deposits and accrued interest that they have is \$508,000,000. The amount of paid-in capital stock is \$132,000,000. The amount of running stock in dividends is \$502,000,000. The reserve fund and undivided profits is \$59,000,000. Their bills payable are \$25,000,000. Their real estate loans are \$1,100,000,000. The average rate of interest on deposits is 4.4 per cent. The average rate paid upon stock is 5.75. The average rate of interest on loans is 6.65.

The amount of taxes that they paid was as follows: Their personal property tax was \$17,300. Their taxes on all real estate was \$692,000. Their income taxes were \$89,000. Their special assessments were \$7,000. Their other taxes \$11,000. That is a total of 791 building and loan associations with assets of \$1,250,000,000, of taxes paid in Ohio of \$817,000, just as much taxes as our one bank pays.

Mr. LUCE. May I comment there that in my State we think the value of these associations so great that the stockholders are exempted entirely from taxation; and the Federal Government has thought their value as a social factor so great that they exempt \$300 from every man's income from these associations. In other words, the Government, State and Federal, have held that these institutions are of such great value to the community that they are deserving of exemption from taxation in part or in whole.

Mr. MONKS. Mr. Luce, don't get me wrong. I am not saying that they are not of value to the community. The time is coming—and it is fast approaching—when you are going to look to building and loan companies pretty much to take care of your real estate loans. I am not here saying that they are not of value. But what I am saying here is that they are not entitled to any more rights than any other institution as a financial institution.

Mr. LUCE. The Governments, State and local, have taken the opposite view.

Mr. MONKS. The Government got hornswoggled. You know that. You know that Nick Longworth was the cause of it.

Mr. LUCE. I don't know anything about that.

Mr. MONKS. You know. You were here at the time. You know that Nick put something over on you.

Mr. LUCE. If Mr. Monks will not object to my calling attention to the fact that while—well, I will be careful. While he objected to the second bill in toto, comprehensively, to meet his whole objection he now suggests six changes, I think, upon the making of which it will meet with his approval.

Mr. MONKS. I have offered more than that. There is more than that in my testimony. I think there are 19 corrections or amendments that I have asked for. I didn't rehearse them, because your chairman asked me not to go over them. But they were in the previous hearing.

Mr. REILLY. They are all in the other record.

Mr. MONKS. Yes, sir. I want to correct you when you said that I made six corrections.

Mr. LUCE. I meant this morning and this afternoon.

Mr. MONKS. Because I was limited by your chairman.

Mr. REILLY. Are there any questions of the committee?

Mr. WILLIAMS. No. I believe not.

Mr. REILLY. We will study your testimony in the other record.

Mr. MONKS. I would like to have this entered in the record too, please [offering a redraft of the original bill to Mr. Reilly.]

Mr. LUCE. I shall object to that.

Mr. REILLY. Mr. Monks, I don't think it cuts any figure as far as a consideration of this bill is concerned.

Mr. MONKS. I think, Mr. Chairman, if you want to be fair here with us, you ought to listen to our side of the situation. We didn't get a chance to be heard before Mr. Watson's committee. We want to be heard now before this committee.

Mr. REILLY. What was in the first bill does not cut any figure with this bill. It is what should go into this bill. Evidently in the two drafts the admission to membership has been cut down materially. Now, we will consider all your statements where they should go in.

Mr. MONKS. I think I have just as fair a right representing the Ohio bankers to come in here and put in what we think this bill ought to contain, not having been asked—

Mr. REILLY. You have got it in your other record. We have got it. We have it all.

Mr. MONKS. Not having been invited to appear before this hearing, I think we have a right to be heard.

Mr. REILLY. You have been heard. You offered all that at the other hearing, didn't you?

Mr. MONKS. Yes, sir. And I am now proposing, because you confined me to 2959, I am proposing a bill which I think is a much better bill than the bill you are considering.

Mr. REILLY. We will have that bill.

Mr. LUCE. May I say that the bill to which he refers is not before this committee. The full committee has referred to this committee the new bill. If you are desirous to have the first bill printed with your changes, I have no doubt that your Congressman will introduce it and so get you a clean printed copy of it.

Mr. REILLY. This committee will consider and can consider at our session his suggestions about the old bill.

Mr. MONKS. Mr. Luce, I am not going to ask this Government to go to a large expense to have this bill reprinted and all this and have another hearing. I am submitting this here to you gentlemen with a formal request that it be put in the record and that you give it consideration, inasmuch as we were not called in when the second bill was written, which was within 30 days of the first one.

There could not have been an awful storm of objection raised in 30 days. There must have been some reason for changing the bill to the second one. So that inasmuch as we were not even asked to appear at any one of those groups that were represented here, I think in fairness to us you folks ought to accept this and put it into your record and give it consideration.

Mr. LUCE. I don't think you understood what I have said, Mr. Monks. Under the parliamentary procedure of the House it is customary for Members to introduce practically any bill that is put in their hands. I have introduced two bills in this matter. The committee has decided not to consider the first bill. It is now considering the second bill. If you should desire another bill considered, if the chairman of the committee, Mr. Steagall, who is responsible for this hearing, should decide to give you a hearing, you will get it. But we have no authority or power to consider any bill except the one that the full committee has referred to us.

Mr. MONKS. I would think that the committee would have the right—

Mr. REILLY. I would take the suggestion, if I were you, Mr. Monks, that Mr. Luce suggested. I would have your Congressman introduce that bill as amended. If the committee as a whole or the subcommittee approves your bill, they can substitute it or do anything they want.

But we can not print bills in our record here, and we can not take testimony on bills other than this one. We are practically considering just one bill here; and there is no reason why that bill can not be amended to contain all the good points of the original bill if you think it is a better bill so far as the committee agrees with you.

Now, as far as I see from your statement, the fundamental thing is the exclusion of the organizations that you represent in the first instance. That is right, isn't it?

Mr. MONKS. That is right.

Mr. REILLY. That is your fundamental objection?

Mr. MONKS. That is the first one.

Mr. REILLY. That is the biggest one?

Mr. MONKS. No. It is not. They are all big.

Mr. REILLY. That is the most important one in the length of time—

Mr. MONKS. No. I want to say that they are all big. They are all important to the other five institutions that are represented.

Mr. REILLY. We will consider that. We have that testimony. You put it in this morning. Is there anything further that you have to offer?

Mr. MONKS. No, sir.

Mr. REILLY. Thank you, Mr. Monks.

STATEMENT OF CHARLES H. MYLANDER, REPRESENTING THE OHIO BANKERS' ASSOCIATION

Mr. MYLANDER. I also represent the Ohio Bankers' Association. I happen to be a vice president of the First National Bank of Cincinnati.

Mr. REILLY. Commercial bankers?

Mr. MYLANDER. Ohio Bankers' Association.

Mr. REILLY. Are they commercial bankers?

Mr. MYLANDER. It is composed of savings banks, commercial banks, private companies, and all of the types of the institutions mentioned in this bill other than building and loan associations.

I want to supplement some of the things that Mr. Monks has said and add a little bit to my testimony before the Senate committee.

First, I want to clear up, if I can, an impression that perhaps may have been unpleasant in the colloquy between Mr. Monks and Mr. Luce. As Mr. Monks has said, the original Luce and Watson bills were introduced; and notification of that was given, of course, through the press and through the usual legislative services.

When hearings were called on the Home loan bank bill, it was the belief of most of us in Ohio at least that they were called on the original bills; and when Mr. H. C. Robinson of Mr. Monks' bank, appeared before the Senate committee early in the proceedings, it is true that the new bill was then before the committee. But it was not even printed at that time, as I understand.

Mr. LUCE. I think there were a few copies that came up from the printer in the course of the day.

Mr. MYLANDER. I may be corrected in that. I suppose they came up during the day.

At any rate, Mr. Robinson has had no opportunity to examine the bill and suppose that he was testifying on the first bill. Consequently Mr. Robinson expressed considerable approval of the original bill.

On his return and having his attention called to some of the features to which we object, you immediately received word from Mr. Robinson and from the Ohio Bankers' Association that we were opposed to the second bill in the form in which it was introduced. I want to get that before this committee for the reason that there is conflicting testimony from Ohio on the Home Loan Bill. That is the reason for it.

I think that I should say to this committee first that I want to indorse and reiterate everything that I said before the Senate committee.

Mr. REILLY. Just wait a minute. When you were talking before the Senate committee, did you have in mind the last bill?

Mr. MYLANDER. Oh, yes.

Mr. REILLY. And you addressed your remarks to that?

Mr. MYLANDER. To the last bill; yes, sir. I do want to add some things to what I said before the Senate.

The first thing that I have is to comment on some of the reasons which have been advanced in favor of this measure.

I am unable to see where the passage of this bill is going to stop foreclosures. It has been said a good many times by proponents of the measure that it will stop foreclosures. In my short life as a banker it has been my experience that the man who can not pay his indebtedness to a financial institution of any kind is foreclosed upon whether secured by real estate or stocks or bonds or merely his own personal promise to pay. The debtor, in other words, is supposed to pay; and when he can not, the financial institution takes steps to protect itself.

If a mortgage is in default, as I understand the provisions of this bill, it will not be available for rediscount. Consequently, if there are large numbers of mortgages held by the member institution of this system, they will not be able to take advantage of its provisions, only with their good mortgages.

Mr. LUCE. We have just appropriated, I think it was, \$125,000,000 to meet precisely this situation in the farm loan associations; and Congress has taken the ground that it is permissible, even under good banking, to be lenient in the manner of payment. Whether that is a wise policy or not, it is the attitude that Congress has taken toward a large section of the country.

Mr. MYLANDER. And I think it is the attitude, Congressman, that most financial institutions engaged in lending money are taking—that they are being just as lenient as possible.

Mr. LUCE. What we are trying to do is to make it possible.

Mr. MYLANDER. But are you doing it under this bill?

Mr. LUCE. I think so. By furnishing so much more money available. That is what we intended.

Mr. MYLANDER. But will the defaulted mortgage be available for rediscounting?

Mr. LUCE. But the defaulted mortgage of the building and loan association can be refinanced and perhaps bring it down, we hope, to an amount of monthly interest to be paid so that it will make it possible for many borrowers to get along, where now they can not meet the Shylock demands.

Mr. MYLANDER. Do you mean—let me see if I get your statement correct—that the mortgage now in the building and loan association on which the borrower is unable to pay on it, can be reduced to a point where he can pay on it?

Mr. LUCE. By issuing a new mortgage. For example, say that the face of the mortgage is \$10,000, and a man has reduced it down to \$4,000, say. He is obliged to make the same monthly payments that he had at the start. They wipe out that and issue a new mortgage for \$4,000, which in turn would have a term of 12 or 15 years. Therefore the monthly payment on that mortgage is by so much reduced and the interest so much reduced.

Mr. MYLANDER. But is there any necessity for setting up a corporation of this kind to do that?

Mr. LUCE. That is only one feature of it, of course.

Mr. MYLANDER. Certainly. I understand. But the point I am making is that the mortgage which is in default and on which the debtor can pay nothing, that so far as I have been able to see in the bill, there is no assistance for that particular debtor.

Mr. LUCE. I agree with you.

Mr. WILLIAMS. Did you say that you agree with him?

Mr. LUCE. As to any mortgage that is in default and the debtor can not pay anything.

Mr. WILLIAMS. There is no way to save him.

Mr. LUCE. If he can not pay anything, I don't see how we can save him.

Mr. REILLY. If I were loaning money on mortgages and I had plenty of money to carry the mortgages on, I would be less likely to foreclose or to press a good loan than I would be if I was in straitened financial circumstances.

Mr. LUCE. Yes. That is what I mean. I agree with that.

Mr. REILLY. And the fact that these home loan mortgage institutions or any kind of institution can liquify some of its mortgages and get immediate cash ought to have a tendency to make them go slower on a man who is unfortunately back but whose loan is good.

Mr. MYLANDER. I agree with you in every word you say, Mr. Chairman, but that is going right on back to my conclusion that the debtor who can not pay anything, the fellow who is out of work and up against it and has no money, that there is nothing in this bill to help him.

Mr. REILLY. Only that it makes the institution to be in a better financial condition.

Mr. MYLANDER. Yes, sir.

Mr. REILLY. It will help them to liquify some of their assets.

Mr. MYLANDER. Yes, sir.

Mr. REILLY. And if they want to favor those men, they can.

Mr. MYLANDER. They can.

Mr. LUCE. I think I can reconcile what Mr. Mylander was saying—

Mr. MYLANDER. I think I can, too.

Mr. LUCE. By pointing out that if the man is evidently beyond redemption—that is what we were told in respect of some of those farm loans—then we can not help him. But if he is a substantial citizen who is for the moment broke, then your statement applies.

Mr. WILLIAMS. I understand that the primary purpose—it has been so stated here several times—is to obtain money with which to pay or to meet withdrawals and to pay off matured obligations or certificates in the building and loan associations so as to pay obligations to the banks. Now, if that is true, what material benefit can come to the man who is in default on his mortgage?

Mr. MYLANDER. I can not see it. I can not find any benefit.

Mr. WILLIAMS. I can't either. I can not see that, and nobody has explained that to me yet.

Mr. MYLANDER. I don't want to enter into this discussion at the other end of the table.

The second thing that I can not quite get through my head is how this bill is going to eliminate the person who has caused most of the trouble to the small home owner, namely, the holder of the second

mortgage; not the holder of the first mortgage. Out in our State at least the big bulk of our foreclosures have come from the owners of the second mortgage and not the owner of the first mortgage on the property. And I don't believe that there is anything in this bill that is going to eliminate the second mortgage on real estate.

It is true that there is a provision in the bill that where an amortized loan is made, it may go up to 75 per cent of the value. But if homes are to be sold again, as they were in the last 8 or 10 years in the State of Ohio, on a down payment of about 5 per cent of the value, there will be a second mortgage.

Mr. LUCE. We have very few second mortgages on homes in New England, as far as I have observed. So I don't feel competent to discuss them. But I have read and heard of them in this testimony, and I quite agree with you about a second mortgage being an objectionable thing. But can you suggest any way to get rid of it?

Mr. MYLANDER. No, I can not, Mr. Congressman. But to me, in reading the reports of the President's conference on home building, it was the second mortgage evil that was complained of much more than the first mortgage evil.

In other words, there has always been plenty of money available on good first-mortgage loans up to the last five or six months. I am not going to say that there is plenty of money available for good first-mortgage loans to-day, because I don't think that that is true. I think there are lots of communities where there is no money available for anything to-day. You can not borrow money on a gold dollar. On the other hand, let us get out of this situation a little bit, and there will most likely be money available for good, conservative, first mortgages.

But that is not what the fellow, the poor devil that wants to buy or build a home, myself, for instance—I am going to buy a house, if I can, while these prices prevail. I can get the first mortgage perhaps; but it is the spread between the first mortgage and the cost of the house that I can not get. And that is the thing that if you can find some way to work that out, that will be what will stimulate further home owning.

Mr. LUCE. Do you think home owning of that sort ought to be stimulated? We thrifty Yankees don't look at it in that light.

Mr. MYLANDER. We thrifty Germans of Cincinnati don't look at it in that light, either, Mr. Congressman. But that has been the way in which most of the new construction in the State of Ohio in the last 10 years has been financed. It has been on a down payment of less than, far less than 25 per cent.

Mr. CAMPBELL. The first mortgage to the building and loan association may represent 75 per cent?

Mr. MYLANDER. It may represent 50 or 60 or 75 per cent.

Mr. CAMPBELL. Then he borrows on a second mortgage?

Mr. MYLANDER. He borrows on a second mortgage.

Mr. CAMPBELL. Representing the difference between the appraised value and the building and loan association mortgage?

Mr. MYLANDER. No. He borrows as much as he can on the second mortgage.

Mr. CAMPBELL. All right. He uses all of that money to go into the house?

Mr. MYLANDER. No.

Mr. CAMPBELL. Some of it he may spend otherwise?

Mr. MYLANDER. Yes.

Mr. CAMPBELL. All right. He has received, then, from the building and loan association 75 per cent?

Mr. MYLANDER. Yes. That is right.

Mr. CAMPBELL. Seventy-five per cent of the value of the property. He receives perhaps 35 or 40 per cent of the value of the property on the second mortgage?

Mr. MYLANDER. Oh, no.

Mr. CAMPBELL. What per cent would he receive?

Mr. MYLANDER. That is not my understanding. They would not loan him that much money. Certainly it would not be more than the other 25 per cent. In some cases it is not more than 15.

Mr. CAMPBELL. Then he has borrowed 100 per cent of the value of the property?

Mr. MYLANDER. Yes.

Mr. CAMPBELL. I can not see what he loses if they foreclose.

Mr. MYLANDER. No, sir.

Mr. CAMPBELL. He has received 100 per cent of the value of his money?

Mr. MYLANDER. That is exactly the man that I am talking about.

Mr. CAMPBELL. He has received 100 per cent of the value of the property, as I understand.

Mr. MYLANDER. That is exactly the type of mortgage that has caused a lot of our trouble in Ohio.

Mr. REILLY. Isn't it a fact that any home owner or farmer who has a first and second mortgage on his premises that is 3 or 4 years of age, that he has absolutely no equity in the place; he is beyond help, especially if the mortgage dates prior to the slump?

Mr. MYLANDER. Yes. And it is the type of mortgages, Mr. Chairman, dated prior to the slump, that are in distress to-day.

Mr. REILLY. And there is no help for them.

Mr. MYLANDER. I can not see any.

Mr. CAMPBELL. And if they are in distress now, five years from now that class will still be in distress.

Mr. REILLY. They were in distress before the slump, but they didn't know it.

Mr. WILLIAMS. What per cent, Mr. Witness, do you think are in that condition, in that shape—just beyond help, beyond hope?

Mr. MYLANDER. You have had a lot of testimony here from people in the mortgage loan business as to the percentage of their mortgages that are in distress.

Mr. WILLIAMS. Well, I don't know what it is.

Mr. MYLANDER. I don't know that you have had so much testimony here, but I heard a lot of it before the Senate committee in the two days that I was there.

Mr. WILLIAMS. What is your opinion about it?

Mr. MYLANDER. I don't know. I haven't any idea, because the bank with which I am connected has but very few real estate mortgages on its books; and practically all of those were taken to secure prior debts and so on. So from a personal standpoint I know very little about it.

The next point that I want to make is that I am a little bit surprised after the previous contact that I have had with this commit-

tee, that the mutual savings banks are so far shut out of the provisions of this bill. It is my understanding—and you will correct me in this, Mr. Luce, if I am wrong—but it is my understanding that under the laws of most of the New England States, where the mutual savings banks flourish, their mortgages run only for a period of one year.

Mr. LUCE. I don't think so.

Mr. MYLANDER. Or 3 years at the outside. They don't make an 8 or 14 year amortized loan like the building and loan associations do.

Mr. LUCE. No, they do not, but as to the other end of it, what term is usual, I am uninformed. I had not know that the 1-year mortgage was customary there.

Mr. MYLANDER. I am giving you information that I got from Mr. Albee, deputy manager of the savings bank section. He told me that the normal term of mutual savings bank mortgages, he thought, was one year. As Mr. Monks said, that they were just automatically renewable thereafter. They were due, but never called for.

Mr. LUCE. It may be so. But it has not come to my knowledge.

Mr. MYLANDER. But under the provisions of the bill as drawn certainly the mutual savings banks operating on that basis would be barred, because a home loan mortgage is defined in this bill as one having a mortgage term of 8 years or more.

Mr. LUCE. We made the distinction between the long term and the short term. But I was not aware that short-term mortgages were shut out. May I ask Mr. Bodfish that?

Mr. BODFISH. The short-term mortgages are included, but preference is given to mortgages over eight years.

Mr. LUCE. That is as I understood it. I am sure you won't find that short-term mortgages are excluded.

Mr. MYLANDER. They are not excluded. No. But, as I understand the mutual savings bank loan, it is an amortized loan, one just payable in installments, both interest and principal, from time to time. It gradually is paid down practically the same as a building and loan association loan.

Mr. LUCE. No. We have nothing of the sort as far as I know.

Mr. MYLANDER. If I am wrong about it I will withdraw my objections and go along.

Mr. LUCE. My understanding is that under the mutual savings bank loan whenever a mortgage comes due, the bank will accept a payment on account to reduce the mortgage. But I know of no mutual savings bank that agrees to accept a monthly payment extending over a period of years.

Mr. MYLANDER. Aren't they quarterly payments?

Mr. LUCE. That never has come to my knowledge. I had supposed that amortization was with us confined to what we call the cooperative banks. But again I speak without any knowledge beyond casual observation for many years.

Mr. MYLANDER. I am glad that I brought up the point, because I think it is one that ought to be given consideration by this committee.

Mr. LUCE. I would be the last man in Congress to keep out the mutual savings banks.

Mr. MYLANDER. That is what I thought.

Of course, this provision does keep out what we know as savings banks out our way. They are not mutual, but are stock savings banks. But their business is savings and deposits, and they lend money on mortgages, with the regular amortization automatic requirement, which does not make them for a period of eight years. They may be for a much shorter period; seven or five.

Of course, it keeps out entirely the national banks, which can not lend for more than five years on real estate.

Mr. LUCE. Still I can not understand why it keeps them out.

Mr. MYLANDER. It keeps them out of the preferential class.

Mr. LUCE. That is what we meant to do.

Mr. MYLANDER. These loans are amortized loans the same as the other loans are. They are to be paid down regularly. Now, why should there be a preference given to 8-year mortgages against 5-year amortized mortgages?

Mr. LUCE. Because I think you will find in the President's recommendations, which were the basis for this bill, a desire expressed on his part, presumably in accordance with a belief on his part, that long-term amortized mortgages were a preferable form of home financing.

Mr. MYLANDER. Then let me bring up this point. I asked Mr. Bodfish the question just before the committee began its deliberations this afternoon, and I didn't get any dissent from him. I think you will find the bulk of the building and loan mortgages in Ohio are due and payable within one year after date at the option of the association. They are made, it is true, on an amortization basis. They have no definite term, but they are due and payable at the option of the association one year after date, within one year after date. Now, is that a long-time mortgage loan or is it a 1-year loan?

Mr. LUCE. That situation had not been brought to my own notice.

Mr. MYLANDER. Certainly preferential treatment should not be given to that type of mortgage if it is to be denied to stock savings banks with a 5-year loan or 3-year loan on a regular amortization basis.

Mr. LUCE. In the conference which resulted in this bill we had great difficulty in setting forth in concise terms the difference between long-term and short-term mortgages.

Mr. MYLANDER. I don't doubt it.

Mr. LUCE. If you can aid us with better language, everybody concerned will be grateful.

Mr. MYLANDER. Well, I can not, Mr. Congressman.

Now, I am not so sure of the wisdom of this proposition as a permanent piece of legislation. I believe with Mr. Monks and with the other members of the council of administration of the Ohio Bankers' Association that there is need for a place where money in times of emergency can be raised on mortgage securities. There is no dearth of money for home financing in normal times. I want to give the committee some rather interesting figures on that from my own State.

In the year 1908, for example, the State banks of Ohio had loaned practically \$83,000,000 on real-estate securities, and the building and loan associations \$211,000,000, practically \$212,000,000 on real estate security.

Within 12 years the amount of real-estate mortgages held by those two groups of financial institutions had jumped 319 per cent, so that by 1920 those two groups owned a total of \$676,000,000 of mortgages.

In the next five years they jumped 184 per cent over the 1920 figure. In 1925 they had \$1,245,000,000 of mortgages. And then in the next five years, up to 1930, they jumped 133 per cent, to \$1,659,000,000 of mortgages.

Now, that is a tremendous growth in the amount of mortgage money available for use in a single State.

I should imagine that the 1931 figures and the 1932 figures are going to show a reduction. But if you can show me any other thing that is not going to show a reduction in 1932, I don't know what it is. This is a perfectly normal process—for the amount of mortgage money in use to decrease.

I have been somewhat at a loss in studying this whole situation in reading the testimony before the Senate committee to figure out the reason why the building and loan associations are so anxious for this bill. In my testimony before the Senate committee you will find that I said there were 57 varieties of building and loan associations, and I think that is possibly a mild statement of the picture.

But I picked up the February issue of the American Building and Loan Association News, and I think I found the reason why the building and loan associations want this bill. They say:

As the bank bill now stands, building and loan associations will be able to convert their 1 per cent cash balance into a membership in one of the regional banks and then (1) borrow twelve times this amount on either a short or long time basis (which may be repaid over a period of several years out of a portion of their receipts); (2) receive a dividend on their membership far in excess of any interest that they may receive on bank balances; (3) have confidence rebuilt in their institution through membership in the Federal home loan bank, which will do for the building and loan just what the Federal reserve has done for American banking.

I expect that the second one of those, namely, that they will be able to receive more interest from the home loan banks than they will from the commercial banks, in which they now keep their balance, is the main reason for their strong advocacy of this bill.

The same issue of that same publication, in describing the new bill, Mr. Luce, points out that there were seven significant changes from the original draft, and this is the comment: First, that the change in the districts, which I will pass because it is not important. Second,

that the new bill changes the line of institutions which are available for membership in the home-loan banks system. The chief attention of the system is now centered on building and loan associations, cooperative banks, and homestead associations. Banks are available in so far as they make long-time home loans.

That again is corroborative evidence from the building and loan associations that they want to shut everyone out of this system other than themselves. Third, they point out that—

under the provisions of the new bill your home-loan bank will have 11 directors instead of 7; and that 9 of these directors will be chosen by member institutions at the end of 1932. This provides a democracy of management far surpassing that of the old bill, which would have provided that four of the seven directors

would always be chosen or appointed by the Federal home loan bank board, whose members in turn are appointed by the President of the United States.

It seems to me that if the United States is to put up the capital to start this institution and to operate it for some little time, if the testimony which we have heard is to be believed, that the United States should have some share in saying what the management policy shall be.

Lastly they say that "the sponsorship of the administration for this particular bill gives us a safeguard in this direction."

Now, I can not speak for the administration. I won't attempt to. No one else does. Yet, the bill now before your committee is so far away in a good many respects from the recommendations of the President's conference that without the vital changes which we have suggested in our testimony before the Senate committee, and which Mr. Monks placed before you this afternoon, I do not believe that it represents what the President's committee had in mind at the time the statement went out.

Now, lastly, or third or fourth or fifth, or whatever it is, there is another reason why building and loan associations want this bill. Most building and loan associations, I believe, outside of my own county in Ohio, are not making any new loans to-day. The demand for withdrawals is so heavy that they have no funds with which to make new loans.

Now, when the making of loans stops in the building and loan association, the compensation of those who are engaged in its management for the most part also stops, the reason being that in the organization of building and loan associations, as conducted in Ohio at least, the compensation of the management does not come from a salary from the association, but comes from the perquisites of his office.

Now, let me say that you gentlemen here have received a large number of letters and telegrams, as you have stated, from various people in support of this bill. You have received them from bankers undoubtedly. Some of that has been obtained—

Mr. WILLIAMS. I think in that connection I want to offer this observation: The letters which I have received concerning this matter, which were in response to a synopsis of this bill which was sent out, and no request for an answer at all—I have received on the average 12 to 1 against it instead of for it.

Mr. CAMPBELL. From Missouri?

Mr. WILLIAMS. Yes.

Mr. MYLANDER. What I wanted to say was that the propaganda for this bill has not been to my mind open or fair. For example, on February 23, over the signature of Mr. Vest, a letter was sent to a large number of different types of financial institutions. It went to a number of banks in our State. It reads this way:

It is to your interest to telegraph or communicate with your Congressman and Senator with regard to the home loan bank bill. Every financial institution in your State has many sound first mortgages. The present depression has revealed the fundamental defect in our financial structure. First mortgages are the soundest securities in the world and to-day we can not get much-needed funds on this sound collateral. The home loan bank bill, Senate 2959, House 7620, is designed to give legitimate financial institutions with good mortgages a place to go and get money. Furthermore, money is to be advanced on a long-time basis.

From there on the letter is simply the usual urge to send telegrams to your Congressman, and so on.

Now, I submit that "designed to give legitimate financial institutions with good mortgages a place to go and get money" is bespeaking the question a little bit, in that, as we see this bill, legitimate financial institutions with good mortgages might not be able to qualify under this bill to get money on their mortgages, because, if in the opinion of the board their time deposits were not such or the loans which they made were not the right type of long-time home mortgage loans, they could not become members in the first place; and if they can not become members they can not borrow. And it is for that reason that we say that the amendment suggested over on the Senate side ought to be included before this bill is adopted by the Congress.

I don't think I have anything more to present to the committee.

Certainly, if this sort of a bill is to be passed, if we are to have a place where institutions with good mortgages can go and discount and get money with which to meet withdrawals or to make more money, then there ought to be no restrictions placed on the type of institution which is to be a member. If they are financial institutions under State or National supervision, making mortgage loans, they ought to be given the privilege of coming in without further restriction. And I can see no reason other than an effort on the part of a single group to dominate this whole set-up, to make that.

Mr. LUCE. Well, I can not speak for that group, of course. But I can speak for myself. As I have before explained, my own judgment was that the reason for that concession was, anyway the reason that appealed to me was, the experience we have had with shady financial institutions calling themselves banks in our large cities. They have caused our banking commissions no end of trouble. Those institutions are much used by foreign-born citizens for the purpose of transmitting money to the home country.

(Discussion off the record.)

Mr. CAMPBELL. The Federal reserve has power to say whether or not a bank has qualified to become a member.

Mr. MYLANDER. A State bank, not a national bank.

Mr. CAMPBELL. This is a national institution.

Mr. MYLANDER. But what I say, Mr. Congressman, is that all national banks immediately were made members of the Federal reserve system, and must be. But when State banks come in, they are subject to the examination of the board and must qualify.

Mr. CAMPBELL. That would be the same set-up in this.

Mr. MYLANDER. No.

Mr. CAMPBELL. Why not? If the board can say what banks can come into a Federal set-up as a start.

Mr. MYLANDER. But there is no such provision for the building and loan associations. They all come in. Now, if everybody was going to have to undergo the same examination—

Mr. CAMPBELL. Certainly. Prescribe rules and regulations; and they must measure up to that standard.

Mr. MYLANDER. No.

Mr. CAMPBELL. If the President appoints a board to fix that—

Mr. MONKS. Who says whether they measure up to it in the first instance?

Mr. CAMPBELL. The board that the President appoints.

Mr. MYLANDER. The bill says that all building and loan associations, homestead associations, and cooperative banks may become members.

Mr. CAMPBELL. If they meet with the requirements prescribed by this board.

Mr. MYLANDER. Why is that not enough for all banks? Why put special qualifications on them?

Mr. CAMPBELL. Because this is more intended for building and loan associations than it is for banks.

Mr. MYLANDER. That was not the intention at the time this was started.

Mr. CAMPBELL. Yes. The President said it was.

Mr. MYLANDER. Oh, no. You read the President's recommendations.

Mr. CAMPBELL. Within the last two or three weeks he has sent a message to the Hill that he was extremely anxious for this new bill of Mr. Luce's to become a law.

Mr. MYLANDER. Has he done that?

Mr. CAMPBELL. He has done that.

Mr. MYLANDER. He has not done it publicly.

Mr. CAMPBELL. It is not necessary for him to do it publicly. He doesn't have to go down and send word to the newspapers. He can call up on the telephone.

Mr. MYLANDER. Very true. But all we have to go on, Mr. Congressman, is the President's original statement, which said that he had consulted with representatives of various groups granting credit on mortgage loans; and he proposed that there be established 12 banks, the members of which should be building and loan associations, savings banks, deposit banks, farm-loan banks, and so forth, who may become members of the system after they have qualified, and the conditions and qualifications and eligibility may be fixed by the Federal board.

Mr. CAMPBELL. That is exactly what I said.

Mr. MYLANDER. But you are differentiating here at once between building and loan associations and banks. That is what we are objecting to.

Mr. CAMPBELL. You have to have some set-up to begin, like the national banks were the first members of the Federal reserve system; and then others came in later.

Mr. MYLANDER. But don't you think that you would get this system started much more rapidly and much more quickly if the membership was thrown open to all banks and building loan associations?

Mr. CAMPBELL. It would not meet the purpose of the President and his council.

Mr. MYLANDER. Why not?

Mr. CAMPBELL. Because the big banks would force them out in the beginning and stifle them, which they do every time they find competition anywhere. They kill it off.

Mr. MYLANDER. I don't think so.

Mr. CAMPBELL. That is my experience after 12 years on this committee.

Mr. MYLANDER. I don't want to argue that question.

Mr. CAMPBELL. I am not arguing it. I am just stating the opinion.

Mr. MYLANDER. I don't see how that can happen with the original board appointed by the President.

Mr. CAMPBELL. Why is it that the building and loan associations want to come in with this set-up? Isn't it because the banks, commercial banks, sense the competition; and that is why they are so strongly opposed to it? It is human nature. That is natural. The building and loan associations may be that way, but the banks are equally so.

Mr. MYLANDER. It is not only a sensed competition. It is a competition of the meanest character.

Mr. CAMPBELL. Why not exclude the building and loan associations and turn it over to the banks?

Mr. MYLANDER. No. I don't agree with that.

Mr. CAMPBELL. Isn't that the way to take care of the banking institutions?

Mr. MYLANDER. I say this: If you are going to take care of mortgage-lending institutions, take care of all of them.

Mr. CAMPBELL. To the extent that their money is loaned on real-estate mortgages for home building.

Mr. MYLANDER. Right.

Mr. CAMPBELL. Not on apartment houses or business houses, but homes.

Mr. MYLANDER. I will grant you all that. But do you say that building and loan associations lend only on homes?

Mr. CAMPBELL. Mostly on homes. Ninety per cent of their loans is on homes.

Mr. MYLANDER. You ought to go out to Ohio and look over their books.

Mr. CAMPBELL. Ohio seems to be a typical exception to the rule as to building and loan associations.

Mr. MYLANDER. You don't have to go only to Ohio. You can go to California or the State of Washington.

Mr. CAMPBELL. How many States allow building and loan associations to receive deposits like they do in Ohio?

Mr. MYLANDER. Every State in the Union. Not as they do in Ohio. Ohio is the only one where they receive deposits.

Mr. CAMPBELL. It does not seem proper to me to have it that way.

Mr. MYLANDER. You had testimony here a short time ago from a gentleman from Louisiana—I don't know whether he is before this committee or not; he was before the Senate committee—in which he pointed out that it was impossible for him to get enough money by the sale of shares, so he began issuing paid-up certificates. That is just the receiving of deposits under another name.

Kansas has the same thing. Missouri has the same thing. They issue paid-up stock which is payable on demand. Building and loan associations receive deposits all over the United States under various names; and they have led the people of this country to believe that they are accepting deposits, and that those certificates of deposit are payable on demand.

Mr. CAMPBELL. Then they are doing that without authority.

Mr. WILLIAMS. Before you get away from that, I want to ask you a question.

Mr. MYLANDER. Let me read you this:

In recent years the practice of accepting deposits on the same basis as those in a savings bank has become more or less common in a few States where this practice is sanctioned by the statutes. Arizona, Montana, and Ohio permit building and loan associations to accept regular savings deposits. The majority of the States are silent as to deposits. California, Michigan, New Jersey, and Rhode Island are among those prohibiting them.

I can not vouch for the accuracy of that. I had always understood that Ohio was the only State where deposits as such were accepted by building and loan associations. But a rose by any other name smells just as sweet.

Mr. CAMPBELL. They can not receive deposits except the funds of the association.

Mr. MYLANDER. I haven't said a word on the point about these 12 regional banks accepting deposits because I covered that so fully in my testimony before the Senate committee and I didn't want to go into it again here. But I think the major objection which the banks of this country have to this bill is the fact that you are setting up here a set of regional banks which will be in competition with the Federal Reserve system in open-market operations and all of those things because of receiving deposits. And it is that which the building and loan associations by their own mouths say that they are most interested in—is that they can take their cash balances and put them into this system and take them out of the banks.

Mr. CAMPBELL. But they can only pay 2 per cent or 3 per cent, and can only receive deposits from members.

Mr. MYLANDER. That is what your bill now says—"from members."

Mr. CAMPBELL. Well, not subject to check.

Mr. MYLANDER. Oh, I know. But, Congressman, why quibble about the words "not subject to check"? How much money to-day of the larger amounts is transferred by check? If you could see the tremendous amount of money that is transferred by wire to-day through the Federal reserve system. You don't need checks.

Mr. CAMPBELL. Won't these home loan banks redeposit their funds in the commercial banks?

Mr. MYLANDER. No.

Mr. CAMPBELL. Where will they invest them?

Mr. MYLANDER. They can buy anything they want.

Mr. CAMPBELL. But they can not buy anything they want.

Mr. MONKS. Sure they can under the law.

Mr. MYLANDER. They can buy Government bonds. They can buy commercial paper with their surplus capital funds that have been paid in by the member institutions.

Mr. CAMPBELL. They can buy commercial paper?

Mr. MYLANDER. They can under your bill.

Mr. CAMPBELL. Oh, no. It was not intended for that purpose.

Mr. WILLIAMS. There is a provision here that the obligations are not to exceed a year in maturing.

Mr. CAMPBELL. And commercial paper is excluded.

Mr. MYLANDER. No. They can buy commercial paper.

Mr. WILLIAMS. I want to ask you this: You made a statement about the building and loan associations lending considerably or to

some extent at least on other than dwelling houses. To what extent does that apply? To what extent is that practice engaged in? To what extent do they loan on apartment houses and other houses that are not dwelling houses?

Mr. MYLANDER. I can testify, of course, Congressman, only to my own knowledge in my own State.

Mr. WILLIAMS. All right. Just give us your experience and observation.

Mr. MYLANDER. The building and loan associations in Ohio will loan and have loaned on all kinds of real estate. They have loaned on hotels, apartments, store buildings, homes, farms—on anything which is improved real estate. If I had had time to inquire, I should have had any number of instances.

I don't want to say that every building and loan association in Ohio has followed that practice. We have a very large number of them who have for a great many years confined their loans exclusively to single dwellings, and others which have branched out. And those which have gone into the business of taking deposits on a large scale have gotten in so much money that they had to employ it. There were not enough small loans to take care of it, so they went into competition with the mortgage brokers and insurance companies and savings banks and all of the other institutions for these larger loans.

For example, I know of one \$300,000 loan made on an apartment building by a single building and loan association. Not only did they do that, but we have instances of a large building and loan association—I won't break faith and name it—which went out and bought mortgages in other parts of the State in order to keep its funds employed. That is true not only of that one, but it is true of others.

I understand that the same thing has been true in California and Washington and some of the other Western States.

Mr. CAMPBELL. That is interesting information, if we can safeguard against that now. They can only loan on 3-family apartments; not to exceed 3-family buildings.

Mr. WILLIAMS. I didn't know that that was done.

Mr. MYLANDER. On this question of purchasing commercial paper, subsection (j) of section 9 of the bill provides:

Such part of the assets of each Federal home loan bank (except reserves and except sums provided for in subsection (i) as such bank may deem available therefor, may be invested otherwise than in advances to members. Such investments shall be made subject to such regulation, restrictions, and limitations as may be prescribed by the board.

Mr. CAMPBELL. It does not say "commercial paper."

Mr. MYLANDER. No; but it does not put any restriction on what the board may invest in.

Mr. LUCE. I granted you that earlier in the hearing.

Mr. MYLANDER. Yes, you did.

Mr. LUCE. And I said at the same time that the chief safeguard against that is common sense; that it was inconceivable that a central board appointed by the President, administering the system of home loans, would ever allow such a monstrous thing to be done.

We can not provide by law that every man shall use ordinary common sense. But we may expect that the high officials of the United States Government will at least has some modicum of it.

You can point out in every administrative statute that I know of some possibilities for abuse. It is impossible in any law giving administrative powers to anticipate all possibilities of abuse. We must rely to some degree upon the intelligence and integrity and patriotism of our public servants.

Mr. MYLANDER. Granting all that, Mr. Luce—and I quite agree with everything that you have just said—yet, on the other hand, if the deposit feature were taken out of this bill entirely and the provision made that the capital investment, surplus capital investment, of the 12 regional banks, is that not needed or advances to members, be kept invested either in cash on deposit or in Government bonds, all of the possibility of any such abuse would be removed.

Mr. LUCE. But several times—obviously it has not come to your attention—but several times it has been put into the record that by reason of a decision of the Supreme Court this bill could not be held constitutional unless the banks created could receive deposits and be an instrumentality of the Government.

Mr. MYLANDER. Receive Government deposits; yes. But is it necessary that it be enabled to receive deposits from its members?

Mr. LUCE. I can not say about that. But I am quite confident that, adding to my statement, it must be able to receive some deposits and its obligations must be instrumentalities of the Government.

Mr. MYLANDER. I quite go along with you on that. My understanding is that the preceding section—I think it is the preceding section or maybe the one a little later on—reads that—

This bank shall be deemed to be an instrumentality of the Government, a financial agent of the Government, eligible to receive Government deposits.

That is necessary for the constitutionality of the bill.

But I do not understand, and it was not so stated in the Senate hearing when that point was discussed at some little length—I do not understand that the provision allowing the bank to accept deposits from members is necessary for its constitutionality.

Mr. LUCE. I would not dare to take issue on that point. I would have to look it up. I had generally understood that those provisions were put in there in part to safeguard the constitutionality.

Mr. MYLANDER. The first one, I think; yes. The other one I don't know about.

Gentlemen, I have taken a lot of time of this committee.

Mr. REILLY. Is there anything further that you have to offer?

Mr. MYLANDER. No. I thank you very much for your attention and interest.

(Whereupon at 4.50 o'clock p. m. an adjournment was taken until the next day, Thursday, March 24, 1932, at 10 o'clock a. m.)

CREATION OF A SYSTEM OF FEDERAL HOME LOAN BANKS

THURSDAY, MARCH 24, 1932

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE OF THE COMMITTEE
ON BANKING AND CURRENCY,
Washington, D. C.

The subcommittee met, pursuant to adjournment, in the room of the Committee on the District of Columbia, House Office Building, at 10 o'clock, a. m., Hon. Michael K. Reilly (chairman of the subcommittee) presiding.

Mr. REILLY. The committee will be in order, and the first statement this morning will be by Mr. William Rindsfoos, president, the Brunson Bank & Trust Co.

STATEMENT OF WILLIAM RINDSFOOS, PRESIDENT THE BRUNSON BANK & TRUST CO., AND THE BRUNSON SAVINGS & LOAN CO., COLUMBUS, OHIO

Mr. REILLY. Please give your full name, whom you represent, and your address.

My name is William Rindsfoos, president of the Brunson Bank & Trust Co. and the Brunson Savings & Loan Co., 145 North High Street, Columbus, Ohio.

Mr. CHAIRMAN. If you will pardon me, I have this all outlined. It is a short statement, and after I have made it you can ask me any questions.

Mr. REILLY. Did you appear before the Senate committee?

Mr. RINDSFOOS. I did not, but I read the testimony and I know just what you want, and I have got it ready for you.

Mr. REILLY. All right; go ahead.

Mr. RINDSFOOS. I have represented the mortgage department of the Penn Mutual Life Insurance Co. throughout Ohio for many years. I am also a rather substantial owner of investment real estate. I am, as a consequence, able to view this problem from many angles. I am a free agent, and I am paying my own expenses.

Having placed between \$75,000,000 and \$100,000,000 of first mortgages, and having at this time about \$35,000,000 to \$40,000,000 in active first mortgages, I am naturally interested in this problem, and especially in the maintenance of real-estate values.

The prevailing trouble could have been avoided if conservative mortgage and building policies had been followed by others. I quote our own experience: Up to December 31, 1931, we have paid out but three delinquent interest items and one foreclosure property per pro

the Penn Mutual Life Insurance Co. and less than six of our own account, in the entire State of Ohio.

I regard the present troubles as resultant of overabundance of mortgage funds that prevailed until last spring. So great was the pressure of these funds for employment that it forced feeding into real estate, encouraged the speculative allotment realtor and builder to absurd extremes. Loans from 90 to 125 per cent were common, affording a sure and pleasant cash profit to the unscrupulous through deliberate or unintentional overappraisal.

Last summer the truth began to trickle through to the public, causing loss of confidence and consequent withdrawal of deposits in banks and building and loans with large mortgage portfolios. This resulted in bank closings and "withdrawal notice" in building and loans.

Owners of overmortgaged properties, discovering lack of equity, declined to make further payments, with resulting voluntary deedings and foreclosures.

The pressure of such properties on an already overburdened real-estate market caused a rapid decline in quoted values, and a stagnation of the real-estate market.

Thousands of these properties, many of them modern, worth, say, \$2,500 to \$10,000, can be bought on land contract for 1 per cent down, balance 1 per cent per month or on deed for 10 per cent down, 1 per cent per month on balance, 6 per cent interest.

The second-mortgage man is a myth. He is gone, driven out of business several years ago by the liberal first mortgage. Any good live inquirer two years ago could borrow the full value of his house, or more, at 6 per cent interest, no charges except an average cost of one-half per cent for title search, recording fees, et cetera.

What few second mortgages are still extant are rapidly evaporating by foreclosure of first mortgage or voluntary cancellation.

The average cost of mortgage money in Ohio has always been 6 per cent—no commission, plus a total average cost of \$25 per \$5,000 mortgage.

I am opposed to the encouragement of new building under the present circumstances. To do so on an already overburdened real estate market will further depress values, ruin the holders of homes of 10 years ago, and destroy the equities of the legitimate home owner, who has reduced his mortgage the past five years. In other words, I am opposed to reducing the equities of the 95 to advance the interests of the 5. It is not wise to burn down the barn to kill the rats. Neither do I think it wise to narrow the present margin of safety of the untold millions of existant mortgages.

It must not be forgotten all real estate is now owned by somebody. Ninety per cent is now mortgaged, overmortgaged. So, why reduce these equities to induce a superficial and temporary prosperity for the allotment man and building trades? He is the active proponent. I have nothing against him. If he prospers, I can collect several now doubtful claims.

Perhaps you would be interested in some conservative allotment figures. They were furnished me by one of the few allotment men still solvent.

Mr. LUCE. What do you mean by "allotment man?"

Mr. RINDSFOOS. Allotment men are those who make subdivisions, they are dividers by the acre and by the foot. I will go into that; I have it all down here.

Mr. LUCE. I only wanted to get the meaning of that word "allotment man."

Mr. RINDSFOOS. That is a local term for a man who lays out subdivisions. Some call them "subdividers," but that is the common phrase in our section of the country. I divide them into three grades. These are actual figures, which were furnished me by the only successful allotment man or subdivision man in our State. There have been 500 of them.

We have divided these lots into three grades, according to the location and cost of development, et cetera.

In grade A we get four lots to the acre, 60 by 135. The cost per acre is \$1,000. The improvements for the four lots cost \$420 each, or \$1,680. The commission on four lots up to \$300 per acre is \$1,200. The advertising, at \$150 a lot is \$600. The overhead, at \$300 for each lot, is \$1,200. The incidental expense, at \$150 each, is \$600. That makes a total of \$6,280. The retail price of these four lots at \$3,000 makes the total retail price of \$12,000.

Grade B—that is a little cheaper location and a little cheaper class of stuff. In that case they get five lots to the acre. They make them into 50 by 140 lots. The cost of the land is the same, \$1,000. The cost of the improvement on five lots at \$336 each, as you see, is a little less than the other, or \$1,680. It nets the same, as they have to have the same streets per acre. The commission on the five lots is \$200 each, or \$1,000. The advertising of five lots at \$100 amounts to \$500. The overhead on five lots at \$200 each is \$1,000. The incidental expense on five lots at \$100 each is \$500, or, the total net cost to the subdivider is \$5,680. They retail those lots at \$2,000 each; five lots at \$2,000 makes the total retail price \$10,000.

You will notice in grade A that the four lots costing \$6,280 are retailed at \$12,000, while the five lots in grade B costing \$5,680 retailed at \$10,000.

Grade C—Those are made into still smaller lots, that is, 40 by 140. They buy a little cheaper land, for which they pay around \$800 per acre. The improvement on the six lots, at \$280 per lot, amounts to \$1,680; commission, six lots at \$120 each, amounts to \$720. Advertising, six lots at \$60 each, is \$360; overhead on the six lots at \$120 each is \$720, while the incidental expense, at \$60 per lot, is \$360; or a total net cost of \$4,464, with a retail price of \$1,200 each, for six lots, a net cost of \$4,640; that is to say, a net cost of \$4,640 against a retail price of \$7,200.

These allotments are all bought by the acre and sold by the foot. I say "bought" advisedly, because they are optioned or bought on land contracts, with a partial release privilege. Each time you sell a lot you get a release—little or nothing paid down.

The apparent profits in this business caused overexpansion. Most cities in Ohio could accommodate their average growth for 10, 15, or 25 years. Streets and sidewalks, sewers, cluster lights, entrance posts, beautiful offices, high-powered salesmen, publicity, partial payments, assessments, "Lonesome-hurst," ad infinitum. These lots are now eating their heads off. They must be sold. Ah, we have it—

Government relief. The home owners' true friend appears, the first cousin of the farmer's friend.

Now, before I go any further, I want to explain why they must be sold, and why I use the primary allotment cost, less the element of time. Having been very close to some of these allotment people, I know there is a big profit in allotment property, if it is promptly sold, and they collect their money. But the remnants of the retailer are these lots left over. If they do not sell over a certain proportion per acre, then they have got to pay this carrying charge; they have got to pay the interest, because when they bought the land there is naturally a carrying charge. They must also pay taxes and they must pay street assessments, et cetera, and they have not got the money. The result is that there is all the fellows who have not sold out their allotments completely—and there are very few that have—are flat up against it. And I say I only regard one or two out of 75 big ones in our own city who are still solvent; and that applies to every town in Ohio, because I do business in every city in our State, all the towns of the State; I have 60 offices in Ohio making loans, and I know this situation. So, the allotment man is the fellow who wants relief; he has got to have it; if he does not get it he is done.

There is a certain allotment man who owes me a lot of money now. I searched the record the other day, and I found he is \$30,000 delinquent in assessments. He has paid the taxes, but he can not sell the lots fast enough to pay assessments. I could give you the figures, the exact amounts, but that would not be doing the right thing. I know these fellows; I know what they are up against, and I know they have got to have relief. But if they get relief they will ruin the fellows who already own properties, because they will build a lot of stuff you do not need.

The solution of these evils that now oppress the real estate market will come through the natural workings of supply and demand. We went through a similar experience during the war when building was discouraged. It built up a real shortage and the resultant real estate boom, which persisted all this time until the present collapse.

Nothing could be more helpful to the real estate market than that new building be discouraged until a legitimate demand arises and a real need exists for construction.

Banks and building-and-loans are suffering from overindulgence and undigested securities, with consequent withdrawal of the funds of their frightened depositors. They should have relief, not for their sake but for that of their depositors. After all, it is the depositor who furnishes the money to banks, building and loan associations, insurance companies, and the Government. Why does not somebody champion him? He is the meat of the cocoanut. The Reconstruction Finance Corporation should afford this relief. If it does not, its scope should be broadened until it does. But the face of this committee should be sternly set against anything that would restore the former orgy of speculative building.

The speculative builder, the allotment man, and the material man want it revived.

The broker who sells completed property does not. I know these men and I know this is a fact.

Now, for fear you may consider me prejudiced, let me read you a part of a talk given confidentially to the Columbus Real Estate Board

in January, by one of their high officials. Here [exhibiting same] is the original dictated report, which I am not supposed to have, but I will read from it. [Reading:]

You are most interested to-night in facts about Columbus real estate. Maybe what I have to say to you may sound pessimistic, but this is a time when it seems to me a few people have to tell a lot of unpleasant things. We have had too much propaganda with nothing to base it on.

That is quoted from here on. This is a quotation from this speech.

It is certainly time to face facts.

I am not a pessimist. I have listened to nothing but trouble in the last two years, both in my local and State positions, but it seems to me to fall off my shoulders like water off a duck. I am an optimist, but one who believes in studying data that may be pessimistic in order to find a way out or a basis for proper procedure.

How did the real estate business in 1931 compare with other years? How many sales were made in the sheriff's office? What percentage of these sales were to the plaintiff?

Unfortunately, it is impossible to compare transfers in dollars and cents. Only numbers of deeds can be considered. But that has some value, especially as it covers a 10-year period. * * *

Then he goes on and gives the number of deeds.

Unfortunately, in moving to our new location—

They had just moved their offices—

the janitor destroyed all of our foreclosure records. I have, however, made a rather hurried survey, by taking the foreclosure record from the sheriff's office home in the evenings and working on it there. While these figures that I am giving you may not have a lot of value, they are quite interesting.

	Number of foreclosures
1928.....	455
1929.....	666
1930.....	618
1931.....	321

The first month, January, comparison is this: 1928, 38 foreclosures; 1929, 46 foreclosures; 1930, 56 foreclosures; 1931, 76 foreclosures; and 1932, 71 foreclosures.

I have taken the foreclosure sales from November 1, 1931, to January 1, 1932, and determined how many were sold to the sheriff, those that were purchased by financial institutions and insurance companies, which, of course, were many times the plaintiff, the number sold to individuals, and how many were sold at two-thirds the appraised value. Out of 118 sales, 98 were sold to the plaintiff; 92 of them to financial institutions or insurance companies; 20 were purchased by individuals; 71 brought just two-thirds of the appraised value. * * *

Now, I want to emphasize the next sentence.

The majority of the foreclosures to date have been speculative properties. * * *

You could speak for a week and you could not say more than that, and that is from the proceedings of the Columbus Real Estate Board in private council. Then he goes on and gives the evictions, which is not so important. There is too much of this to take you time reading it.

Approximately nine hundred and thirty-nine 99-year leases have been made in Columbus; 176 of these have been canceled. * * *

This gives the estimated extent of the speculation we have been going through. Then he gives construction, which shows where located, which does not mean anything to you.

Our families in the United States are constantly getting smaller. Census figures in 1920 show 4.2 people per family; in 1930, 4.1; in 1910 this was 4.5; in 1900, 4.7; and in 1890, 4.9. * * *

Now, here is an interesting thing:

You will no doubt recall that in 1929 we had 5,003 vacant living units. Of these, 1,318 were single houses, 3,685 apartment units including double houses. This figure has jumped this year to 6,466 residential units, 2,273 of which are singles, an increase of 1,055, and 4,093 are apartment units, an increase of 408. * * *

There is no apparent necessity for new buildings.

What is the answer? Either many families have moved from Columbus to other localities or Columbus did not grow last year, or the merging of families has been tremendous.

I am inclined to believe that the latter is the cause. A year ago Postmaster Gerenon—

That is our postmaster—

made a survey of the number of merged families and found that 2,034 had doubled * * *.

I wonder if you are familiar with the tax situation? We have in Franklin County to-day \$4,544,000 in delinquent taxes and assessments, a rather high figure—\$2,000,000 of this is assessments. * * *

That gets back to the point that these allotment sellers have been laying out this stuff and can not pay assessments.

Now, this is an important thing; this is extremely important:

In a questionnaire sent to the building and loan associations, replies from more than 1,100 named taxes and special assessments—

This covers the State—

next to unemployment and financial circumstances of the borrower as the most important cause of foreclosures, directly affecting the individual's capacity to meet his mortgage obligations. * * *

That disposes of the theory that it has been the mortgagee.

In the last three years rents have suffered a shrinkage of 20 per cent or more. * * *

Which is very conservative, because they have shrunk a great deal more than that, as I will explain a little later on.

There is just one fundamental law that in my opinion regulates business conditions and that is the law of supply and demand. If the supply is low and the demand great, prices rise. If the demand is low and the supply is great, prices fall.

This is the real-estate board talking.

What has happened? Easy financing led to overbuilding in every class of property. In addition, our economic condition led to doubling up, resulting in an abnormal supply of living units.

Overproduction in the building industry has produced dislocation throughout the entire field of real estate. * * *

We are witnessing competition among the owners of 6,466 living units and the 790 storerooms for tenants, with a resultant decline in rents. * * *

The decline in rents and abnormal vacancies has lowered the income of investment properties to such an extent that they do not in many cases show a fair enough return on a fair market price.

In addition, foreclosure sales have demoralized the market. Financial institutions taking these properties back have entered the real-estate market generally offering their merchandise at extremely low prices which owners must meet if they desire or are forced to sell. * * *

We are at the bottom. The tide is out. When the turn comes it will be up, but in my opinion we must get out of our system a goodly portion of the remaining distressed properties, residential, business, etc., before that upward turn comes. When it does, those individuals who have placed their house in order will profit. * * *

There is one very pleasant thing here which I read and smiled.

We should do everything—

They are talking among themselves—

We should do everything in our power to assist our national association in having Congress approve the mortgage loan discount bank urged by President Hoover.

Frankly, I have not made a study of this proposal but I have heard enough favorable comment from many of our most prominent realtors in Ohio who understand finance to see that it will help solve our financial situation, * * * but I am in favor of it anyhow.

That is the end of the quote. He shows the deep thought that is given to these things by some fellows. That is the end of the quotation. From now on I am telling what I say as my own.

In Columbus, the post-office reports as of 1931, 6,466 vacant residential units, 2,373 singles, and 4,093 apartments. This is typical of Ohio. Less is the proportion in some cities, more in others. But, Columbus is a typical city of Ohio. I could tell you about the others, because I have an office in every Ohio city, but I have not brought many statistics. But this will amply prove that Ohio is now overbuilt. Away overbuilt.

I personally rent a house in our most exclusive section, that cost \$42,000 cash, and it has no mortgage on it, for \$100 per month. Last week a neighbor offered me his \$75,000 home, which is also clear, for \$125 per month. This does not indicate a shortage.

You hear a lot of bunk about foreclosure and calling of matured loans.

We never foreclose a mortgage if we can collect interest, and if we have to collect the interest in partial payments. We will resort to almost any measure rather than forestall a market.

In our many years experience we have never called a maturing mortgage—we always renew them. They are written for 3, 5, or 10 years, at the borrowers option, with very small semiannually payments. Some mortgages have been on our books for 15 years and longer.

Funds are available and abundant to home owners and always have been.

We have made and are now making large loans to distressed banks and building and loans in very large sums by outright purchase and on their mortgages as collateral.

The company's average interest rate is 5.28. The average size home loan is about \$4,000.

My thoughts are that the proposed bill will not cure the apparent present ills for the following reasons:

A. Overbuilding and overfinancing in the past, which was in turn forced by pressure of funds. The result was overloaning and

overbuilding, which, coupled with present depression caused a consequent decline in values of real estate. This in turn caused suspicion of depositors and resultant withdrawal of their funds, and an apparent, not real, temporary shortage of mortgage funds:

B. Investment banks and building and loans of demand deposits in long-term mortgage loans. All suspended banks can trace their trouble largely to mortgages. I have not learned of the failure of a strictly commercial bank in Ohio.

Let me repeat that. There has not been a single failure of a strictly commercial bank in Ohio. They say they failed for one reason and another, but when you iron it down you find they have got a lot of frozen mortgages.

Second. I regard it as unsound practice to borrow money for permanent investment purposes. The bill, if passed, should contain a provision that borrowing members be prohibited from making mortgage loans, until their obligations to the discount bank be repaid.

I could talk to you for a week and I could not say more than that one sentence. That is the meat of the cocoanut.

The bill, if passed, should contain a provision that borrowing members be prohibited from making mortgage loans until their obligations to the discount bank are repaid. The failure to do this I regard as the most vicious thing in the bill. If financial institutions are permitted to borrow money on long time, the less conservative will be involved during the next depression, and thus doubly frozen. It is unpleasant to contemplate what the present situation would be if it were further aggravated by the pledge of financial institution assets, resulting in an even more frozen condition than existing at present.

Third. In considering the problem, the depositor has been ignored. His rights should be paramount. This bill relegates his claim to priority. If borrowed funds are loaned, the depositor is removed just that distance from his funds.

Fourth. Cities are overbuilt; rents and values are therefore depressed. The bill further would simply retard the return to normal values. This bill considers only the minor advantages of the building trades and ignores the equities of the vast bulk of property owners.

Fifth. Loan limits in this bill are too liberal and methods of appraisal too lax. No provision is made for declining values and for amortizing advantages. No members should be permitted to borrow for more than six months without reducing the loan, to take care of amortization of collateral loans and declining values. Loan limits should be \$10,000. That will include more than 80 per cent of all homes; 3-family apartments should not be included; it is not a home.

Sixth. Bonds will be difficult to sell unless guaranteed by the United States Government. Experience in Federal farm mortgage bonds is sufficient to warn purchasers.

Seventh. There is nothing in the bill requiring the carrying of a cash reserve. By that I mean the building and loan can go in under this bill and borrow its head off and not carry 25 cents in the bank, and if you get another crisis like this what are you going to do? That is the trouble to-day; they did not carry any reserves,

except a few. The ones that did are not in trouble. Some had a big cash reserve, but 99 per cent did not, and that is why they are in trouble.

Gentlemen, that is my thought. This is undictated or suggested by anyone; it is my own personal thought, founded on a lifetime experience. I am in it right up to my neck on all three sides of the fence.

Mr. REILLY. I can not understand just how the subdivider is going to get any benefit out of this bill.

Mr. RINDSFOOS. He is the fellow who is most rambunctious. He has thousands of lots on his hands. The only God's way in which he can sell—

Mr. REILLY. And they are almost all broke. Where is the subdivider going to get any benefit out of this bill?

Mr. RINDSFOOS. I will tell you why. If you could see them running around and bringing the pressure to bear.

Mr. REILLY. That does not matter. Tell us where they are going to get any benefit out of this bill.

Mr. RINDSFOOS. Suppose I am an allotment man and I have so many lots on my hands. It is impossible to sell a lot, except during a boom like we had a couple of years ago, except to build upon. If an allotment man wants to sell me a lot, he has got to show me where I can get the money to build on it right away, or I will not buy the lot. Ninety per cent of all lots under normal circumstances are sold to a man who has a theoretical intention, at least, of building a home. The allotment man goes to him and says, "I will give you a cheap way to own a home." I will give you a typical way this is handled. I can explain by practical illustration. Here is Bill Jones, who is in the allotment business. His lots are selling at \$2,500. He naturally wants to sell them. His salesman is sent scouring around to find a college professor renting a home. They go to him and say, "Mr. Lord, why don't you come out in our subdivision and build yourself a home to live in. You are now paying \$150 a month rent. You can buy a home at that rate and own it."

The professor replies, "That is all fine and dandy, but I haven't got enough money." The salesman says, "You surely have some money." "I have only \$500 down; that is all." "That is enough. I will tell you what we will do for you."

I will have to have a pencil to figure this out, but he takes this lot for \$2,500. This is the old procedure, and what he wants to bring back. Here is his lot selling at \$2,500. The house, he tells the fellow, will cost him \$7,500. It only costs to build \$6,500. But that is \$10,000, on the old plan. The fellow has got \$500 cash, has he not? He has got to raise \$9,500. The allotment man takes back the second mortgage for \$2,000, and he goes to a building and loan and borrows \$7,500. There you are.

Mr. REILLY. What building and loan man would lend him on that?

Mr. RINDSFOOS. My dear friend, that is the way 90 per cent of the building and loan business is done.

Mr. REILLY. That is not the testimony we have had before this committee by building and loan people. That has all got to go through a building and loan board of directors, and they pass on it.

Mr. RINDSFOOS. Yes.

Mr. REILLY. The only reason your idea would have any validity would be because of a conspiracy between the officers of the building and loan association to help out a subdivision man.

Mr. RINDSFOOS. No; you are entirely wrong. I did not mean that at all. There is no conspiracy. In normal times that was all right. That fellow paid \$75 a month, and he paid out. Those loans are now all right, paid down to \$6,000. That went on two or three years ago when things were good. That loan is perfectly legitimate.

Mr. REILLY. The testimony of the building and loan people here has been that 80 per cent is the limit they loan; a man has got to have 20 per cent to become a builder under their program.

Mr. RINDSFOOS. I do not want to dispute any of my fellow building and loan men. I have had enough experience in this to know. I am the largest operator of this kind in Ohio, and I ought to know something about it. I do not want to say anything against anybody.

Mr. REILLY. I was just beginning that out. I can not see it from the testimony we have had from the building and loan people.

Mr. RINDSFOOS. If you would take the time, I could show you practical illustrations by the hundred. That is what caused the foreclosure by one concern on 400 properties in Columbus alone—caused foreclosures on 400 residents in Columbus. Why did they get them?

Mr. REILLY. Are they subdividers?

Mr. RINDSFOOS. No, sir; they are not subdividers. No subdivider could get 400 properties. He has not any money. This concern has 400 houses, and I imagine they cost around \$5,000; I don't know. I did not bring the figures with me. I could show you where they made a contact the other day with a big linoleum concern to put linoleum in 400 kitchens at one time.

Mr. REILLY. Is that a building and loan association?

Mr. RINDSFOOS. No, sir; it is not building and loan association. It is an insurance company. They are supposed to be more conservative than building and loan. It was done by overappraisal. You must consider a lot of these things by construction loans. They are built from blue prints, and the builder skins them after he gets into that. He may take off \$500 or \$1,000 on some set. You can get two houses which look exactly alike. You can not tell them apart more than you could two apples. They look just exactly alike the first five years. It is done by spacing the rafters and studding on the job. You have got to be a practical man. It is done by leaving out certain things between sills.

Mr. REILLY. They are doing that all over.

Mr. RINDSFOOS. I know they are. I canceled a mortgage myself on a very beautiful home. It was an accidental situation, because I happened to live in that particular section. We were making a loan on a very beautiful home, and the plans called for stucco of a certain type over tile backing. Maybe you are not interested in this kind of stuff. I could talk like this for hours if you wanted to hear it. That was one of the English type of houses, part stone, part brick, and part stucco over tile. It was a very beautiful thing; but I happened to be driving out that way when they were slamming on the stucco. I was taking a drive. I thought it looked a little peculiar. I got out and walked over and looked at them working;

and lo and behold, on all these places they would put metal lath, and they expected to get the job done in a couple of days and nobody would ever find it out when the stucco was on; when the stucco was on nobody could tell what was underneath.

So I went back and reported. We got the fellow in the office and he admitted it all. We said "We will cancel your mortgage. You will have to get your mortgage some place else. We are through," because a man who would do that could not be relied upon. It is not a question of what it is worth. That fellow got \$1,000 or \$1,200 saving on that house. It looks like the same house now. But there is more than one way to skin a cat.

Mr. REILLY. Do you recognize that there is any necessity for relief to building and loan associations or any other association that is taking care of home building according to the home building plans?

Mr. RINDSFOOS. In order to answer that intelligently I would like to have you explain just what you want me to say. Do I think they are entitled to any relief?

Mr. REILLY. Is there any necessity for the plan of relief proposed by this bill to building and loan associations?

Mr. RINDSFOOS. As I have stated in my statement, I think it very, very important that they have some relief in order that they may pay off some of their frightened depositors. You must remember that more than 90 per cent of the building and loan members are investors.

Mr. REILLY. How are they going to get it?

Mr. RINDSFOOS. I think this Reconstruction Finance Corporation should do it.

Mr. REILLY. Supposing they should testify they can not do it?

Mr. RINDSFOOS. You mean the Reconstruction Finance Corporation can not do it?

Mr. REILLY. Yes.

Mr. RINDSFOOS. Then broaden it so they can. They can loan for 10 years, can they not?

Mr. REILLY. You recognize the necessity for some set-up to help these institutions, do you not?

Mr. RINDSFOOS. It depends on what you mean by that. I think they should be helped to whatever extent their depositors require help. I do not think they should be helped for the purpose of making loans. There is a vast difference, and that is where my real difference occurs. I do not think the building and loan should be permitted to borrow money to lend, but they should have some way to secure money to pay off their frightened depositors. As a matter of fact, gentlemen, if you could relieve this fright, if you can calm the minds of the people, so the people can go in the building and loans and get their money when they want it—I mean, the depositors, and when I say "depositors" I mean stockholders, because it all means the same thing under a different description. There is no difference in stockholder and depositor in Ohio.

But if you arrange it so those fellows can get their money, you will find 90 per cent of them do not want it. The only reason they want their money is because they are scared, and they are scared because the institutions have loaned too much and their loans are not good any more. When you pick up a paper and see 3, 4, or 5 pages of

solid matter covering foreclosures in every city in Ohio, it naturally makes the depositor wonder what has happened, and they go down to the courthouse, and there is not a single bidder for these properties. The mortgagee bids them all in there.

Mr. WILLIAMS. That applies to banks as well as building and loans?

Mr. RINDSFOOS. Absolutely. I am a banker and a building and loan, a good one of each. Anything you do I am going to get the benefit of it, the same as the other fellow.

Mr. WILLIAMS. So that it is just a question of helping the institutions out of a position they have got themselves into?

Mr. RINDSFOOS. Ah, absolutely. Anybody who has any sense and is frank will tell you that you can not tell those fellows apart. But I know what is back in their minds and they know, and we talk with each other and are good friends. We know what the trouble is.

Mr. REILLY. The Government helped out the troubled land banks, did it not?

Mr. RINDSFOOS. Yes, sir.

Mr. REILLY. Are there any further questions?

Mr. WILLIAMS. You say the land banks have helped the farmers out?

Mr. RINDSFOOS. No, sir; I didn't say that. I know that is a big difference.

Mr. REILLY. But the land banks have helped the farmers.

Mr. RINDSFOOS. Oh, no; they helped us out.

Mr. REILLY. They have brought down the rate of interest without any question to millions of farmers who are not members of the land-bank associations.

Mr. WILLIAMS. With all respect to our chairman, I will have to differ with him on that.

Mr. RINDSFOOS. If you will permit me, I will tell you a little joke. It is all over. It would happen if this bill passed, too. You will never know how many rotten mortgages you took off of our local fellows' hands when you passed that bill.

Mr. WILLIAMS. I do not doubt you.

Mr. RINDSFOOS. Every fellow is mortgaged up to here [indicating]. He just had one nostril above the water. And we are just about to push him down.

He went in and he got enough not only to pay us, but enough to buy an automobile and pay off the bank and a few others, and we blessed him and sent him out with our kindest regards, and he has been going back ever since.

I kept a few mortgages, and I have still got them. I was wrong. I could not make them good enough.

Mr. REILLY. I have no doubt that the land bank has been the victim of crooks in helping local banks in unloading securities that they took to secure loans that they never made, but which they took to protect themselves.

Mr. RINDSFOOS. We are human beings. We are all just human; that is all there is to it. But the farmer didn't need any egging on. They knew how to handle themselves. They are not so dumb. Bill Jones owed a \$70 loan, and he could not pay the interest. He would go and borrow \$60, and get two fellows to make affidavit he

was worth \$125; and his neighbors when they saw how he came out would repeat. They teamed up on you. You didn't have a Chinaman's chance.

Mr. REILLY. The banker loaned Bill Jones a large sum. Then, in order to get square he had Bill Jones give a mortgage which he never would have loaned on in the first instance. Then he passed that on to the land banks.

Mr. RINDSFOOS. He did not pass that on. He passed it on plus something for the farmer. Do not forget those fellows who got this land got something out of this shakedown. You do not think he went into conspiracy with the banks for the benefit of the banker. The farmer is human, too.

Mr. REILLY. Are there any further questions?

Mr. WILLIAMS. What is your judgment about what will happen if this institution is set up as to banks and others passing on some of this bad paper to them?

Mr. RINDSFOOS. I have studied this thing a lot, and I would like to know how you are ever going to make a loan of this kind and protect yourself. I have been through it myself the last two years making these loans. It is the most terrible job you ever saw. We have one concern we are discussing now which we are loaning two and a half million, and we have gone over their portfolio of mortgages. We have put one expert at the work and he is a better man than any man who worked for a Government institution, because he demands too high a price. He worked two months trying to pick out those mortgages. He made a sincere job. He went to the house and appraised it. You can not get that done. If you make that fellow a long-time loan, how are you going to tell what the security is a year after you make the loan? In other words, suppose he got the loan three years ago when real estate was worth double. What security would you have to-day?

I have seen this real estate jump up and down often. You have got to reinspect real estate once a year, any real estate, regardless of your loan. You can not make a conservative loan on real estate; and I know; I have done enough with it.

Mr. WILLIAMS. Have you any suggestion as to how real-estate values can be stabilized in this country?

Mr. RINDSFOOS. Yes, sir.

Mr. WILLIAMS. Will this plan do it?

Mr. RINDSFOOS. I do not think so.

Mr. WILLIAMS. Will this help do it?

Mr. RINDSFOOS. That is rather academic—"help." I do not know. I think if you encourage building you are going to discourage the revival of values, if you want to put it in one sentence. If the United States Steel Corporation went on a 25 per cent basis, would they build another factory in order to stimulate the steel business? They would not; they would shut down one factory already built. You do not see any factories expanding because business has fallen off.

Mr. WILLIAMS. Do you think there can be a plan devised by which real estate values can be stabilized and kept on an even keel during the years?

Mr. RINDSFOOS. Could you do it with wheat or any other commodity? It can not be done.

Mr. WILLIAMS. I thought you said you had a plan by which it can be done.

Mr. RINDSFOOS. No. I said I had a plan by which real estate values can improve over the present condition. I say if you do not build any more, then real estate will come back; it always did before.

Mr. WILLIAMS. Have you a plan by which you can maintain that level?

Mr. RINDSFOOS. There is no plan by which you can maintain anything at a price in the world, and never has been. There is no artificial method of maintaining a staple price for anything. I do believe they do maintain it for gold, but that is all. They can not maintain a staple price for any other commodity.

You do not want new buildings. If you have 6,000 vacant houses in Columbus, do you want to build 6,000 more? Remember this, that every time you increase the oversupply 1 per cent you do not drive down the price 1 per cent, but you drive down the price 10 per cent, because that little surplus is what is crowding the market.

We went through this thing before; during the war we were all excited and could not get any money to loan. It was considered unpatriotic to build. I had a building half way up myself, and was caught in the middle of it. I had an awful time to buy materials to finish the building.

Mr. WILLIAMS. The thing I had in my mind was whether or not this measure would help the man who has a loan and who has lost his job and who can not maintain his payments, at least temporarily.

Mr. RINDSFOOS. My dear sir—

Mr. WILLIAMS. Will it help him?

Mr. RINDSFOOS. How would it? If I can borrow \$50,000,000, how is it going to help some poor fellow who can not borrow. I am not going to take this house if I can get the interest. I am tickled to death to get the interest and send a fellow out every Saturday night when he gets his pay. We go after some fellows 6 or 8 or 10 times a month to get a \$25 payment. We do not want his house. Do you think this insurance company with 400 houses wants to crowd another off the bench?

Mr. WILLIAMS. Your opinion is it would not help?

Mr. RINDSFOOS. Why, it could not. How could it? If I have got \$100,000,000 that does not do the other fellow any good. I have got it now. It does not do you any good for me to get money, because if you owe me more than you can pay, I can not lend any more. All I can do is to go along and hope you can get a job and pay. We are all doing it. This fellow talking about harassing the borrowers is most silly, because we not only do not harass him, but we hope they do not walk out. That is our job to keep the fellow from coming in and handing you the key and saying, "Here is your property."

Mr. LUCE. You brought out, I think, that your intention was to treat your borrowers with as much consideration as possible?

Mr. RINDSFOOS. We not only want to do it, but if we do not we would have to. We have the benefit of his interest and depreciation, which coincide.

Mr. LUCE. You have ample assets, I gather, with which you can extend utmost leniency?

Mr. RINDSFOOS. We certainly are doing it, and we have to do it.

Mr. LUCE. How about a banking institution that has not the assets which will permit it to extend leniency?

Mr. RINDSFOOS. It has got to do it. If you will permit me to diverge a little. I may get a little long winded, but I am full of this subject.

Mr. LUCE. I think we can save time.

Mr. RINDSFOOS. I know what you are going to bring out. You want to know what the banker will do that is in as bad shape as his borrower?

Mr. LUCE. Yes; and the bank has not the assets which will permit it to extend leniency.

Mr. RINDSFOOS. He does not foreclose because he can not; and I can explain with a practical illustration: There is a bank in Youngstown, Ohio, now broke and in the hands of a receiver. It is going to reopen, we think. Not only did the bank go broke, but the whole town went broke. There was not a single mortgage foreclosed or called. Here is what happened. These are practical matters. We went to Youngstown. We went over their portfolio, and we went over all mortgages on properties that were acceptable, and we said, "We can lend this much and that much. We told them what we would lend on every piece of property where they had 90 and 100 per cent loans.

The banking department gave the closed bank permission to take a second mortgage back for the difference, and the fellows were never foreclosed. There was a case where the whole town was flat. There was only one bank left in the town, and Youngstown is a big city with big banks.

Mr. REILLY. Are there any further questions?

Mr. LUCE. Yes; I want to get back to my question, and I will preface it by saying that Congress was confronted with the same situation in the farm field and has just appropriated a large amount of money to the farm-loan system, in order to furnish it with funds by means of which it may be able to carry out the injunction of Congress specifically put in the bill that it extend leniency to these borrowers.

Mr. RINDSFOOS. Yes.

Mr. LUCE. Is that impossible, do you think, under this present bill?

Mr. RINDSFOOS. I think if you do this you will be called on to exercise discretion in a big way; in other words, I think it is all right to do what you did for the farmer.

Mr. LUCE. Is it wrong to do it for the home owner?

Mr. RINDSFOOS. Oh, no; you are not going to do it for the home owner.

Mr. LUCE. We are putting money in the hands of thousands of institutions that now have not cash with which to be lenient to their borrowers.

Mr. RINDSFOOS. Yes; they have; they are lenient with their borrowers. They have to be. If they did not, they would have to foreclose.

Mr. LUCE. Let it go at that. I would like to ask another question.

Mr. RINDSFOOS. All right, sir; go ahead.

Mr. LUCE. You said you thought there should be a provision in this bill so that any institution borrowing from a central bank would not lend until that loan had been repaid?

Mr. RINDSFOOS. Absolutely.

Mr. LUCE. Would you have a similar provision put in the Federal reserve act?

Mr. RINDSFOOS. No; because from the Federal reserve you borrow for 90 days and 4 months, and here you propose to make long-time loans.

Mr. LUCE. What is the difference?

Mr. RINDSFOOS. Because at the end of 90 days and 4 months the Federal reserve expects you to pay off and here you do not?

Mr. LUCE. What is the difference?

Mr. RINDSFOOS. The difference is that one is for 90 days and 4 months, and the other is for 10 years.

Mr. LUCE. What difference does that make?

Mr. RINDSFOOS. It makes the difference between solvency and insolvency.

Mr. LUCE. Please explain.

Mr. RINDSFOOS. If I lend money that is rediscountable in the Federal reserve bank I have to have the supporting collateral, do I not?

Mr. LUCE. Yes; and so do we in this system.

Mr. RINDSFOOS. No; you do not, because—

Mr. LUCE. You can not borrow the money without putting up collateral.

Mr. RINDSFOOS. I know, but the collateral is not good.

Mr. LUCE. Neither is the collateral of a 90-day note.

Mr. RINDSFOOS. Oh, yes; it is; otherwise it is not acceptable.

Mr. LUCE. It is not due until 90 days.

Mr. RINDSFOOS. I would rather have a good piece of commercial paper due in 90 days than a mortgage. That is the reason all the banks have failed, and all the banks have frozen assets; that is the difference between frozen assets and liquidity.

Mr. LUCE. Unfortunately, nearly all the commercial banks are frozen; we are trying to help them out.

Mr. RINDSFOOS. I do not think that is correct. In the city I come from that is not correct.

Mr. LUCE. You are very lucky.

Mr. RINDSFOOS. No; we are not lucky; there is no such thing.

Mr. LUCE. That is not true of the entire country.

Mr. RINDSFOOS. Let me tell you another city of which it is not true, Cincinnati.

Mr. LUCE. You were talking about Ohio. I did not ask questions about Ohio. I recognize the virtues of Ohio.

Mr. RINDSFOOS. Absolutely, everybody does.

Mr. LUCE. I also recognize the fact that gentlemen who have come here from Ohio have not realized that the Congress must legislate for 48 States and not for one, and in view of all the conditions in the 48 States. Do you know that in the region from which I come, New England, there is comparatively little of this allotment business and within my own locality, metropolitan Boston, a city of about a

million and a half people, so far as I am aware the allotment question is not alive?

Mr. RINDSFOOS. I congratulate you.

Mr. LUCE. Now, in view of the fact that we are to legislate for that region as well as for others that have been called to our attention similarly situated, where there is no allotment question, do you still think that the allotment problem in Ohio should dominate the legislation?

Mr. RINDSFOOS. Oh, no; certainly not. I do not think Ohio should dominate the situation.

Mr. LUCE. Of all the witnesses we have had, both in the Senate and in the House—and I have either read or heard all their testimony—I can not recall more than three or four allotment men who have come before us asking for this legislation, nor have they objected to such legislation.

Mr. RINDSFOOS. They objected? They would not.

Mr. LUCE. They either have not asked for it or have not objected.

Mr. RINDSFOOS. I have read the testimony.

Mr. LUCE. The allotment proposition has, so far as the interest in this bill goes, been an insignificant factor. That being so, should legislation for the whole country be determined by the allotment problem?

Mr. RINDSFOOS. No; but I think they have had more to do with this proposition than you realize, because they have remained in the background. I know two or three hundred. They are active, but they do not openly appear.

Mr. LUCE. Do you think the allotment men exerted an influence in the building conference here prior to the initiation of this bill?

Mr. RINDSFOOS. You ask me some questions I hate to answer, because I would have to tell you some things which would be very embarrassing about people I know very well, intimately, and people in that conference. I happen to know something about them, and I personally. I do not want to get into that. I would rather present my side of the story and let the other fellow present his side of the story. I do know that the allotment pressure was very great, although they did not come here as allotment people.

Mr. LUCE. Out of 300 or 400 letters I have on my desk, do you think it would be possible for that to have the importance you have indicated, when I have received no communications indicating any such thing?

Mr. RINDSFOOS. They would not write to you; they would be very foolish to do so. But they were here. Some of those fellows are mighty fine politicians; most of them are. They go out in the edge of towns and get things to the city council that would make you laugh. We are all politicians in Ohio, all born with the presidential certificate out there, and we know how to pull the wires; and those boys are past masters. The allotment men are the very quintessence of good politicians. You do not have to tell them anything; they know just how to handle their affairs. They will go before a city council and arrange to have streets, sewers, sidewalks, cluster lights, and all that put out in their developments.

I was up to Winnipeg some years ago, on a hunting trip. Up there in Winnipeg, where I used to spend a lot of time hunting and fishing, they had a city council extend street-car lines out 8

or 10 miles in the country for their subdivisions. We have not got quite that far in Columbus, but they know how to do it; and if they want to influence your committee they would have a very fine idea about how to get to you, if you want to know it. I imagine you are a fairly good politician or you would not be here in Congress. I am just an ignorant country boy, but I do know these allotment men could bring the proper testimony before you and never let you know they were allotment men at all. I do not say they are after you, but I say they are on their knees every night praying to God almighty that you pass this bill.

Mr. LUCE. Do you think the allotment business is an illegitimate business?

Mr. RINDSFOOS. No, sir; I do not. I think it is a vastly overdone business. The closest friends I have got are allotment men and on my board is an allotment man.

Mr. LUCE. If they thought it would help them even though they have not disclosed that fact to this committee or the Senate committee, would there be anything improper in considering their point of view?

Mr. RINDSFOOS. Absolutely not. I think you gentlemen ought to consider everybody's point of view; that is only fair. You have got to have judicial minds in this thing. You can not just take me and my point of view; but you have to take everybody's point of view. That is only right.

Mr. LUCE. That is all.

Mr. REILLY. Thank you, Mr. Rindsfoos.

Mr. RINDSFOOS. Thank you. I want to thank you gentlemen for your courtesy.

Mr. REILLY. Mr. Chandler, give your full name and address and business to the reporter.

STATEMENT OF BUCKINGHAM CHANDLER, PRESIDENT STATE REALTY CO., CHICAGO, ILL.

Mr. CHANDLER. My name is Buckingham Chandler, 40 North Dearborn Street, Chicago, Ill.; president of the State Realty Co., general real-estate business in Chicago.

Mr. REILLY. Did you appear before the Banking and Currency Committee of the Senate?

Mr. CHANDLER. No, sir. I have not very much to say. It is not going to be long; it is very brief, and there is only one point I want to bring out.

At one of its monthly meetings attended by about 75 members, out of a total active membership of about 800, the Chicago Real Estate Board voted in favor of this bill. Not believing this to be an accurate cross section of the views of the entire board, some of the members of the mortgage loan committee, of which I was then chairman, took a referendum vote of the entire membership, as printed in the club's official year book. The result was a vote of 4½ to 1 against the bill, of which a digest prepared by Mr. Newton C. Farr, past president of the Chicago Real Estate Board, and published in the official magazine of the Chicago Real Estate Board,

was inclosed with the referendum document. We also inclosed a copy of the official report of the mortgage loan committee of the Chicago Real Estate Board, which has unanimously voted against the bill. The committee members who cast this vote were: Milton S. Yondorf, A. A. Brock, Sidney Lowenstein, Henry E. Coonley, and myself. The actual count was 58 in favor of the bill and 252 opposed.

Mr. REILLY. Without a public meeting on that, can you give us briefly on what ground they based their opposition, in a concise manner?

Mr. CHANDLER. There was no public meeting on this bill in Chicago at all. In the past, probably last year—I was not present at the meetings, but I have been to a lot of their meetings; they held them in the evening, and there are generally about 75 out of 1,000 or 800 men that attend.

There was no notice sent out to the general membership asking for discussion on this question, but this question came up at one of those meetings. And, so I am informed, the board and those present voted in favor of the thing, a yea-and-nay vote.

Mr. Waterfield, the president of the board, appointed me as chairman of the mortgage-loan committee this year. One of the members of the mortgage-loan committee suggested we ought to investigate and see whether this bill was beneficial to the general real-estate interests and to the public. We had two or three meetings and discussed the bill, went through it from front to back, and the unanimous decision of our committee was that it was not favorable to either the public or the real-estate fraternity.

Mr. REILLY. For what reason, in a general way? Now, just give your views so we can have them. Let me put this question: Is not your objection based largely on the fact that you think the bill will encourage building that will be detrimental to the general real-estate situation?

Mr. CHANDLER. No; that is not my particular view on the thing. I think some members of the committee feel that way.

Mr. REILLY. Do you think this bill will encourage home building to such an extent that it would be detrimental to the home owner and of the loan banks and other home owners?

Mr. CHANDLER. I make the point it probably will not encourage much home building, because it will not produce the results that are anticipated by the bill.

Mr. REILLY. What is your particular objection to the bill?

Mr. CHANDLER. My objection to it is that it is setting up a machinery of the Federal Government that will eventually require \$60,000,000 of Federal money to be invested in these banks. It is a permanent machine, and the permanent machine will live on when its usefulness or any possible usefulness is over, and that therefore it is a bad thing for the Federal Government to go into. It creates another bureau.

Mr. REILLY. In other words, you do not think it will work?

Mr. CHANDLER. I do not think it will work.

Mr. REILLY. Either as regards the proper functioning of the bank or as regards satisfying any demand?

Mr. CHANDLER. That is my point.

Mr. WILLIAMS. You speak of a referendum, and I believe you gave the information that those giving their opinion in that referendum had before them—I did not quite get that. Did they have a copy of this bill?

Mr. CHANDLER. No, sir; Mr. Newton C. Farr, former president of the real-estate board, made a digest of the bill and published it in the real-estate magazine issued by the real-estate board.

Mr. WILLIAMS. And they had that before them?

Mr. CHANDLER. This is a copy of what we sent with our questionnaire. They had a copy of that for them to read.

Mr. WILLIAMS. And based upon that information, they voted 4½ to 1 against the proposition?

Mr. CHANDLER. Against the proposition.

Mr. WILLIAMS. That is all.

Mr. CHANDLER. We also put in a report of the mortgage-loan committee to the real-estate board.

Mr. REILLY. How long is that report?

Mr. CHANDLER. Two pages. Do you want me to read it?

Mr. REILLY. Giving their reasons?

Mr. CHANDLER. Giving their reasons.

Mr. REILLY. I think it would be a good thing to put in the record right after that.

Mr. CHANDLER. Do you want it read?

Mr. REILLY. No; just file it with the reporter for the record.

Mr. CHANDLER. Here is the analysis—

Mr. REILLY. We do not care about the analysis, only the reasons.

Mr. LUCE, have you any questions?

Mr. LUCE. We have had an intelligent presentation of arguments from the Ohio State Bankers' Association, and they started off by saying they were against the bill, and repeated that statement, but when we got all through we found, with a few changes in the phraseology of the bill, they were satisfied with the bill and approved it. Have you any idea whether the answers you got to this were comprehensive—that is, whether the objection went to the whole program of the President's conference or whatever it went to the language of the bill only, as in the case of the Ohio Bankers' Association, and that they might change their attitude on the bill?

Mr. CHANDLER. The committee, consisting of five of us, went through the bill and argued amongst themselves, discussing it from the point of view of the public and of the real-estate men.

Mr. LUCE. You mean as a whole?

Mr. CHANDLER. As a whole, the whole bill.

Mr. LUCE. And you are against the whole program of the President and his conference?

Mr. CHANDLER. Yes, sir.

(The document referred to and submitted by Mr. Chandler is as follows:)

REPORT TO MEETING OF BOARD ON MARCH 2, 1932

CHICAGO, *March 2, 1932.*

Mr. President and fellow members: Your mortgage loan committee has analyzed the Federal home loan bank bill, now pending at Washington, known as

H. R. 7620, and has come to the conclusion that it should be disapproved. This was the action of your committee at its meeting of February 10, 1932. The following resolution was unanimously adopted by those present, consisting of Sidney Lowenstein, Andrew A. Brock, Henry E. Coonley, Milton S. Yondorf, and Buckingham Chandler:

Resolved, That the mortgage loan committee of the Chicago Real Estate Board makes the following recommendations to the Chicago Real Estate Board, namely, that the Chicago Real Estate Board disapprove of House bill No. 7620, a bill to provide a Government city home loan discount bank, and so notify the Senators and local Congressmen of such disapproval for the following reasons:

"1. The bill is a further inflationary measure.

"2. It further extends the bureaucracy now existing in the National Government, interfering with private initiative.

"3. It will put an unfortunate rigidity in the loaning system, the board passing on real-estate credits; whereas, previously there were many men in each community who would look on different loans in different lights.

"4. The board recognizes that loans are hard to obtain at the present time, but believes this is only a temporary condition as mortgage houses, banks, and insurance companies have always been able to amply take care of the situation and will be able to do so again.

"5. The bill will not help the situation, because those mortgage houses that discount their loans will not likely be in the market until the discounted loans are disposed of, and as far as construction loans are concerned, there is no necessity for any homes now, there being a surplus on the market, and a further supply now would only further depress the market.

"The board further recognizes that some banks may be financially assisted, at the present time, by being able to borrow on the mortgages in their portfolios, but this need is now fully covered by the reconstruction bureau."

The purpose of this bill is "to create Federal home loan banks"—12 of them, 1 in each of the Federal reserve districts. But these will not be banks dealing with the home owners, like the Federal farm banks with the farm owners, but simply to be collateral loan banks where only the members—actual stockholders—can borrow on their home mortgages up to 50 to 60 per cent of the face value of the mortgages. The membership is restricted to building and loan associations, banks, trust companies, and insurance companies, and no one else. The privileges of borrowing can not be obtained by realtors or real estate agency corporations. Of course, from the realtor's point of view there is little reason for him wanting to borrow on the mortgages he has on hand, when the limit is 50 to 60 per cent, unless he finds himself called by his present banks; and then, of course, "any help in time of storm," etc. But, help at such a time does not mean that the realtor will start making new loans. A realtor will not make any new loans unless he believes there is a reasonable chance for him to sell them in the near future and secure his capital back shortly to make new loans and other commissions.

So far I have been taking the realtor or realtor agency corporation's view because I know that the best. But I also know this, the point of view of the investment house and of the real-estate loan department of banks and trust companies is practically the same as the individual realtor's who is specializing in making and stocking for sale real-estate loans. They make their profits from making and selling mortgages not from carrying them.

The proposed bill does not create Federal home banks who will buy mortgages, but merely banks who will loan 50 to 60 per cent on good mortgages, and are not our banks to-day doing even better than that? Most of the collateral loans were on an 80 or 90 per cent basis, and with the scarcity of cash buyers, I have a feeling that most of the collateral loans are still considerably above a 50 to 60 per cent basis. And, even if they were not at present on more than a 25 to 30 per cent basis, I do not believe any investment house would begin to make new home loans just because they could borrow 50 to 60 per cent on their new mortgages.

What I have been trying to show is that the proposed bill would not make new home mortgages any easier to be obtained. It would relieve the banks and trust companies of part of their frozen collateral loans. That would be a good thing undoubtedly, but there really is not such a lot of this kind of collateral. Most of the frozen collateral is on real-estate bonds and mortgages over \$15,000. The proposed Federal home banks would be limited to individual

mortgages not exceeding \$15,000. And what is the price this country would have to pay for the thawing out of the minor part of the frozen collateral?

The bill provides, section 16: "There is hereby authorized to be appropriated the sum of \$500,000 for salaries, travel, and subsistence expense," etc., "to the organization and establishment of the banks, until the end of the calendar year 1932." After January 1, 1933, it has to be borne out of the profits of the banks. But if, when times become normal and there is no further use of the banks, does anyone believe that the constituent banks are going to be disbanded by their officers and employees just to save the taxpayers' money? The bill provides that when withdrawals of members take place the Treasury of the United States will supply the capital so withdrawn, so that each bank shall at all times have a minimum capital of \$5,000,000, and there are 12 banks, or a combined \$60,000,000 of the taxpayers' money, the income of which must be used to pay the salaries and operating expenses of each home loan bank and the central board.

If the bill were drawn as an emergency measure and the banks would cease when the emergency was past, there might be some slight excuse for it, if it could not be covered in some other way, but to saddle this country with a permanent institution at this time when "economy" is being preached is uncalled for and ridiculous. It is just creating another Federal institution for salaries and expenses. Do we want any more like the Farm Board?

The Mortgage Bankers Association of America has come out unequivocally against the bill and is distributing a "Digest of Sound Opinion" with "15 reasons" for disapproval. I also understand that the sound insurance companies can not see any value in it, and I, a realtor, am certain it will not help us. There are also many individual realtors opposed to the passage of the proposed law.

BUCKINGHAM CHANDLER,
Chairman Mortgage Loan Committee.

Mr. REILLY. Mr. Cody, I believe you appeared before the other hearings.

STATEMENT OF HIRAM S. CODY, PRESIDENT OF MORTGAGE BANKERS ASSOCIATION OF AMERICA—Concluded

Mr. CODY. Yes, sir. This memorandum contains entirely new material.

Mr. REILLY. Proceed.

Mr. CODY. As requested by the chairman, our presentation will be limited to facts in rebuttal or in answer to questions by the committee.

A clear understanding of the actual cost to the borrower of the different types of loans from different sources must prove helpful to this committee.

The facts are shown in the following tables:

Table 1 is taken from pages 509 and 510 of the textbook prepared under the direction of the United States Building and Loan League, entitled "Elements of the Modern Building and Loan Association," by Mr. Horace F. Clark, Ph. D. (Wis.), associate professor of engineering economics, Iowa State College, and Frank A. Chase, educational director American Savings Building and Loan Institute. This book is one of the Land Economic Series, edited by Dr. Richard T. Ely, director for the Institute for Research in Land Economics and Public Utilities. It is approved for the standard real-estate course by the United Y. M. C. A. schools and the National Association of Real Estate Boards, as well as by the educational division of the United States Building and Loan League, known as the

American Savings, Building & Loan Institute, and was prepared under the direction of the textbook committee of the league.

It was published in 1924, and the figures in Table 6, issued by the Department of Commerce in December, 1931, indicate somewhat higher percentages at this time.

(Table 1 and the other tables submitted by Mr. Cody are as follows:)

[Appendix, p. 509, Elements of the Modern Building and Loan Associations, by Clark and Chase]

TABLE 1.—*Building and loan interest rates in United States in 1924 (based on \$1,000 loan)*

ANALYSIS OF TABLE 1

Ostensible interest rate:
 93 cases, 6 per cent.
 11 cases, 7 per cent.
 26 cases, 8 per cent.
 35 cases, 10 per cent.
 13 cases, 6.24 to 6.96 per cent.
 17 cases, 7.02 to 7.8 per cent.
 Average ostensible rate, 7.463 per cent.

Actual interest rate:
 4 States, 5 to 6 per cent.
 13 States, 6 to 7 per cent.
 6 States, 7 to 8 per cent.
 12 States, 8 to 9 per cent.
 5 States, 9 to 10 per cent.
 2 States, 10 to 11 per cent.
 3 States, 11 to 12 per cent.
 2 States, 13 to 14 per cent.

Section and State	Osten- sible in- terest rate (modal average ¹)	Actual in- terest rate	Section and State	Osten- sible in- terest rate (modal average ¹)	Actual in- terest rate
	<i>Per cent</i>	<i>Per cent</i>		<i>Per cent</i>	<i>Per cent</i>
New England.....	6.00	6.140	West North Central—Contd.		
Maine.....	6.00	6.413	Missouri.....	8.00	8.387
New Hampshire.....	5.00	5.766	North Dakota.....	6.00	10.571
Vermont.....	6.00	6.215	South Dakota.....	6.00	8.772
Massachusetts.....	6.00	6.121	Nebraska.....	8.40	7.680
Rhode Island.....	6.00	6.595	Kansas.....	9.00	8.034
Connecticut.....	6.00	5.678	South Central.....	10.00	9.320
Middle Atlantic.....	6.00	6.907	Kentucky.....	6.75	6.071
New York.....	6.00	6.533	Tennessee.....	6.00	8.574
New Jersey.....	6.00	7.013	Alabama.....	6.00	11.573
Pennsylvania.....	6.00	7.283	Mississippi.....	8.00	8.000
South Atlantic.....	6.00	7.298	Arkansas.....	10.00	9.476
Delaware.....	6.00	5.143	Louisiana.....	7.80	8.200
Maryland.....	6.00	6.935	Oklahoma.....	10.00	10.552
District of Columbia.....	6.00	5.471	Texas.....	10.00	9.869
Virginia.....	7.12	8.026	Rocky Mountain.....	10.00	10.229
North Carolina.....	6.00	6.704	Montana.....	10.00	13.232
South Carolina.....	8.00	8.780	Idaho.....	10.00	9.900
Georgia.....	8.00	6.652	Wyoming.....	10.00	9.126
Florida.....	7.50	9.962	Colorado.....	10.00	8.855
East North Central.....	6.00	6.476	New Mexico.....	10.00	11.633
Ohio.....	6.00	6.128	Utah.....	10.00	8.996
Indiana.....	6.00	7.334	Arizona.....	10.00	11.216
Illinois.....	6.00	6.627	Pacific.....	8.00	8.937
Michigan.....	6.24	6.558	Washington.....	8.00	8.775
Wisconsin.....	6.60	6.175	Oregon.....	10.00	13.300
West North Central.....	8.00	8.469	California.....	8.40	7.989
Minnesota.....	6.00	8.023			
Iowa.....	7.00	7.044			

¹ The number which occurs most frequently in any given series of items.

It must be remembered that these actual interest figures are based on transactions to be completed in the usual way, i. e., the borrower will complete his payments on the stock and the stock will cancel his loan. In cases of default, or when the loan is paid before maturity, the membership and loan fees and the fines and forfeitures of 25 to 50 per cent of the dividends and profit on the stock will result in a much higher actual cost than is shown in this table. (Clark and Chase, pp. 259-260.)

TABLE 2

	Per cent
1926.....	5.738
1927.....	5.705
1928.....	5.725
1929.....	5.734
1930.....	5.792

TABLE 3

	Replied
No commission charged.....	26
Correspondent retains one-half of 1 per cent interest.....	13
Commission paid to correspondent by borrower varies from 1 to 5 per cent.....	15
Mortgages purchased from banks, etc., for commission ranging from 1 to 3 per cent.....	7
No commission charged on loan. Commission on life insurance suffices.....	3

TABLE 4.—Ostensible interest rate

Banks and mortgage bankers:		Building and loan associations:	
	Number		Number
5.....	3	7.2 per cent.....	2
5½.....	13	7.8 per cent.....	4
6.....	35	8 per cent.....	16
6½.....	23	8.4 per cent.....	18
7.....	60	8 to 10 per cent.....	3

TABLE 5

	Completed building	Construction loan		Completed building	Construction loan
0 per cent.....	27	12	3½ per cent.....		5
½ per cent.....		1	4 per cent.....		2
1 per cent.....	15	11	5 per cent.....		2
2 per cent.....	31	18			
2½ per cent.....	5	2	Total.....	117	94
3 per cent.....	39	41			

Table 6.—Premiums charged by building and loan associations

[1931 National Survey by Department of Commerce]

	Cases
Premium less than 1 per cent per year.....	20
1 per cent per year.....	79
Between 1 and 2 per cent per year.....	23
2 per cent per year.....	60
Between 2 and 3 per cent per year.....	13
3 per cent per year.....	71
Between 3 and 4 per cent per year.....	6
4 per cent per year.....	16
5 per cent per year.....	32
6 per cent per year.....	14
7 per cent per year.....	1
Between 7 and 8 per cent per year.....	1
8 per cent per year.....	2
Between 8 and 9 per cent per year.....	1
10 per cent per year.....	6
Between 12 and 15 per cent per year.....	1
15 per cent and over per year.....	1

Total..... 347
 Arithmetical or mean average, 2.72 per cent per year.
 Median average, 5 per cent per year.

TABLE 7.—Comparison of charges
[1931 National Survey by Department of Commerce]

	Building and loan	Banks and mortgage bankers
Number of replies.....	1,242	884
Average interest rate on amortized loans..... per cent.	6.88	6.41
Average term of amortized loans..... years	10.1	5.1
Average premium or commission on original loan..... per cent.	¹ 2.72	² 2.42
Average commission on renewal..... do.		² 1.68
Average total charges for appraisal, survey, title examination, drawing and recording mortgage, etc., on \$3,000 loan on completed building (in addition to interest and commission or premium)	³ \$42.68	⁴ \$33.72
For renewal.....		⁵ 21.05
Average total charges on \$3,000 construction loan (in addition to above charges) covering additional premium or commission, fees for performance bond, inspection of job, disbursing funds, etc.....	⁶ 45.41	⁷ 47.86

¹ \$2.72 per year × 10.1 years (average term) = 27.47 per cent. 27.47 per cent — 1/6, or 4.58 per cent, leaves 22.89 per cent average net premium paid by borrower for 10.1 year loan.

² Total.

³ 1½ — per cent.

⁴ 1 3/4 + per cent.

⁵ Two-thirds of 1 per cent.

⁶ 1½ per cent.

⁷ 1½ 3/4 + per cent.

Mr. CODY. Table 1, showing the ostensible interest rates and the average ostensible rate in the States of the Union, and the actual interest rates, which we shall explain in a moment, is analyzed as follows:

Mr. REILLY. Just a second, Mr. Cody. What relevancy have these tables to this bill?

Mr. CODY. The relevancy is, Mr. Chairman, that several times references have been made to commissions charged by mortgage bankers and bankers ranging from 7 to 60 per cent. Mr. Sherlock referred to 60 per cent discount but did not state whether it was a second or third mortgage, or a land contract. It seems only fair to submit the actual facts prepared by the Department of Commerce—

Mr. REILLY. What has that got to do with the merits of this bill?

Mr. CODY. A great deal, Mr. Chairman, because if the members of your committee know what rates are actually being charged at the present time, they can form a better judgment as to the need for new financing and a new credit structure for mortgages. In other words, if the building and loan associations, mortgage bankers, and the bankers, are now charging exorbitant rates, and have been doing so for years—which I say they are not and the figures show it for all of them—then it becomes an important point in connection with the need of new mortgage money, for if our Government finds them charging outrageous and exorbitant rates as a rule—there are always exceptions in all camps—but as a rule, throughout the country, it would certainly feel it should step in and provide means that would get those rates down to a reasonable figure.

The analysis shows the “ostensible interest rates” charged by building and loan associations throughout the country; 93, 6 per cent; 11, 7 per cent; 26, 8 per cent; 35, 10 per cent; and 13 ranging from 6.24 to 6.96 per cent; 17, ranging from 7.02 to 7.8 per cent.

The actual interest rates; that is, the actual net cost to borrow from building and loan associations, reveal that in four States the

borrower was actually paying from 5 to 6 per cent; and in 13 States from 6 to 7 per cent; in six States from 7 to 8 per cent; in 12 States 8 to 9 per cent; in five States 9 to 10 per cent; in two States 10 to 11 per cent; in three States 11 to 12 per cent; and in two States 13 to 14 per cent.

And I think Mr. Luce will be especially interested in this, because he spoke yesterday of the fact that he was not aware of any rates in excess of 6 to 6½ per cent to the borrower, and all we want is the facts, all of us, to form a fair judgment and conclusion, and the facts for each type of loan, Mr. Luce, immediately follow the figures just mentioned.

Mr. LUCE. That was in my own State, of course; I was not speaking for other States. As this table wants to be made clear, I shall ask questions.

Mr. CODY. I believe they will be cleared up in just a moment, but if you wish me to stop, I will be glad to do so.

Mr. LUCE. Yes; but some of your terms are not clear.

Mr. CODY. In explaining the ostensible interest rate and the actual interest rate, the authors state:

The ostensible rate is seldom the actual rate of interest which the borrower pays. Many other items of cost affect the rate.

In order to set forth the actual situation in use to-day, we have asked association officers in all parts of the United States to tell us their exact charges and have made a careful study of these reports from practically every State in the Union.

Mr. LUCE. Right there, in order to have a basis of understanding. These figures are all building and loan?

Mr. CODY. This particular group in Table I is for building and loan associations, but those for banks and mortgage bankers are in the tables following and are taken from the reports of the Department of Commerce.

Continuing, the authors state:

Actual rates in use to-day are almost invariably higher than the ostensible rate.

In only three instances out of the 233 reports studied were the actual rates the same as that which was stated as the ostensible rate; 196 associations were charging more than the stated rate and 37 were charging less. The actual rates charged vary from a figure 1 per cent less than the published ostensible rate to more than twice the published rate. The latter instances occur where no earnings are credited to dues paid by the borrower, the borrower thus paying the full amount of the loan in dues and interest on the full amount for the full time as well. On the average, over the whole United States, the actual rate is more than 2 per cent greater than the ostensible rate. To state this fact is to indicate the remedy, which is that the actual cost of the loan should be determined by the association officers and then this cost should be stated in their published circulars.

Explaining the premium charged by the building and loan associations, the authors state:

Combined with interest is the peculiar use of a "premium," which has persisted since the earliest building societies. It is one legalized method of securing a higher interest rate for the association's funds. It is still possible, by the use of premiums, to charge considerably more than the highest contract interest rate in some States. Premiums charged by associations are used as an adjustment to increase the published rate. The ostensible rate advertised by an association is largely determined by competition with other lending institutions in the same city. If it is customary for commercial lenders to charge

6 per cent, it would be unwise for a building and loan association to ask more than 7. In order to charge a higher actual rate, many different forms of "premium" have crept into use. These premiums are called by different names, but their purpose is the same. The building and loan statutes sometimes provide specifically that interest and premium are not to be considered usurious, which means that any rate agreed to between the association and the borrower could be collected in the courts. The sum demanded per week or month is of more importance to the average wage earner than the total amount to be paid over a long period of years. A few additional payments make no essential difference to him. The premium is probably destined to be merged into the regular interest charge, when our people are more familiar with the operation of the associations, but until they understand more about finance, there is small likelihood of the abandonment of the premium.

The present use of the premium is largely as a lever to obtain a higher total rate from the borrower in order to give a bonus to the member saving on "free shares." Sometimes it is used to take advantage of the excessive need of a prospective borrower. The latter use, however, is definitely becoming obsolete. It is possible to induce a borrower to make this additional payment on a loan because the association is crediting him with earnings upon the installment repayments. For example, when the dividend rate and the ostensible interest rate are both 6 per cent, the borrower may not realize that when a premium of \$5 per month per thousand is added to the cost of his loan he is paying approximately 12 per cent interest. The credits of dividends on the installments appear to be large and the borrower who is unskilled in finance may be led to believe that he is paying much less than the real interest rate.

In Table 6, mentioned above, the figures prepared in December, 1931, by the United States Department of Commerce for the President's conference on home building and home ownership show a range in premium charges by 347 typical building and loan associations of less than 1 per cent per year to over 10 per cent per year. The median average is 5 per cent per year, but it seems fairer to give the arithmetical or mean average, which is 2.72 per cent per year (over and above the ostensible interest rate).

It will be noted that in a mutual organization the premiums, fines, fees, and forfeitures are returned to the depositors, stockholders, or shareholders, as the case may be, but it must be remembered that only one-sixth of the building and loan association "members" are borrowers, the other five-sixths being nonborrowers who are purchasing "free" shares of stock; thus five-sixths of the earnings go to nonborrowers, while only one-sixth is returned to borrowing members.

Also it must be remembered that these actual interest figures are based on transactions to be completed in the usual way, i. e., the borrower will complete his payments on the stock and the stock will cancel his loan. In case of default, or when the loan is paid before maturity, the membership and loan fees, and the fines and forfeitures of 25 per cent to 50 per cent of the earnings on the stock, will result in a much higher actual cost than is shown in this table. (Clark and Chase, pp. 259-260.)

Regarding fines, fees, and forfeitures, the textbook says:

Fines are gradually disappearing. Fees of all kinds continue in use as a source of expense funds, and penalties, such as withholding a part of the earnings on shares, in case of early withdrawal, constitute an important part of the income.

The only reason forfeitures are continued to-day is that in 12 States the law permits their use as an additional source of revenue. In some States forfeitures are used surreptitiously.

With frankness that lends added weight to their statements, the authors go on to say:

The organizers of an association are interested first of all in securing a sufficient dividend rate upon their own shares to make the investment profitable to themselves and to other investors. Therefore, they attempt to fix an interest rate as high as "the traffic will bear," knowing that the borrower can see his way out of debt through the amortization principle in spite of the excessive rate.

Unscrupulous directors have at times taken advantage of borrowers by keeping the monthly payment low, while requiring an excessive number of payments, thus accomplishing the same thing as charging a higher rate in the first place. Charging too high a rate in the past has obliged some associations to liquidate their assets and go out of business, because the high rate was boycotted by borrowers and the money of the savings members could not be invested according to plan.

The average building and loan secretary has not taken the trouble to sit down with the borrower and figure out the total cost of a loan. It has been the custom to tell the borrower the rate of interest and to refer to the premium and such other costs as may be imposed as unimportant details. The average borrower from a building and loan association is making the only big loan of his life, and misleading or incomplete statements may make it possible to exact an exorbitant total price for the loan.

And their courage in putting this in their own volume as a guide and help to their members, it seems to me ought to be commended, no matter what side of the fence we are on in this discussion.

The authors continue:

Many of the States have passed special acts which permit the associations to charge more than either the legal or the ordinary contract rate in the form of premiums and interest. These special laws directly exempt the premium of the building and loan association from attack as usury.

The building and loan associations are not the sole makers of long-term amortized loans to home owners. From a study of the December, 1931, figures of the Department of Commerce, in comparison with the above tables, it appears that the 12 and 15 year insurance company mortgages are made at lower rates and for longer terms than the prevailing building and loan mortgages.

The Department of Commerce survey of 1931, based on replies from 84 life-insurance companies, shows the net returns on home mortgages, listed in table 2, those figures being lower in every case than the average net return on all city mortgages.

If you will turn to table 2 you will have it before you. It shows from 1926 to 1930 an average net return to the insurance companies on home mortgages of 5.738 to 5.792 per cent, with a range downward between these years.

Where an "interest differential" allowance is made to the correspondent to cover his services, the gross interest rate to the borrower will be one-half of 1 per cent per annum higher than the net rate to the insurance company shown in table 2, or in a few cases, 1 per cent per annum higher. It was found by the Department of Commerce that the prevailing practice where the correspondent received an interest allowance, was to charge no commission to the borrower.

In a survey of mortgage conditions on the Pacific coast conducted by the Department of Commerce last summer, the question was asked "What arrangements do you have for compensating your loan correspondent?" There were 64 replies which are classified in Table 3.

Twenty-six replied that no commission was charged; 13 replied correspondent retains one-half of 1 per cent interest; 15 replied commission paid the correspondent by borrower varies from 1 per cent to 5 per cent; 7 replied, mortgages purchased from banks and so forth, for commissions ranging from 1 to 3 per cent; and, 3 replied, "No commission charged on loans, commission on life insurance suffices."

In the same survey a study was made of interest rates by all first mortgage lenders, including banks, mortgage bankers, and building and loan associations. The results will be found in Table 4, and we find 3 reports of 5 per cent, 13 reports of 5½ per cent, 35 reports of 6 per cent, 23 reports of 6½ per cent, and 60 reports of 7 per cent.

Then, under building and loan associations, we find 2 reports of 7.2 per cent, 4 reports of 7.8 per cent, 16 reports of 8 per cent, 18 reports of 8.4 per cent, and 3 reports of 8 to 10 per cent, all on the Pacific coast in this survey made by the Department of Commerce last summer.

Commission rates by banks and mortgage bankers obtained in the same survey of the Pacific coast are itemized in Table 5, and that shows under "completed buildings" on which no commission was charged, 27, probably where they had compensation from the interest differential as we have explained; 15 of 1 per cent, 31 of 2 per cent, 5 cases of 2½ per cent, and 39 cases of 3 per cent; 3 per cent being the highest commission reported in that survey on the Pacific coast last summer. However, under "construction loans" we find 12 where there was no commission charged, 1 where there was one-half of 1 per cent commission, 11 where there was 1 per cent commission, 18 where there was 2 per cent commission, 2 where there was 2½ per cent commission, 41 where there was 3 per cent commission, 5 where there was 3½ per cent commission, 2 where there was 4 per cent commission, and 2 where there was 5 per cent commission, the additional fee probably being caused by the additional detail connected with construction loans, disbursing the funds, inspection during construction, and other services that you all know.

In Table 7 we have a comparison of average costs of mortgages itemized by 1,242 building and loan associations and by 884 banks and mortgage bankers. The average premium of 2.72 per cent per year charged by building and loan associations was computed by the writer from the Department of Commerce figures in Table 6. It is based on averages for the entire country, for we have found in Table 1 that there is a wide range in rates between the Eastern and the Western States. This average net premium of 22.89 per cent on a 10.1 year loan, may be compared to the average commission charges by banks and mortgage bankers established by the Department of Commerce as follows:

	Per cent
Average commission on original 5.1-year loan.....	2.42
Average commission on first 5-year renewal.....	1.68
	4.1
Total commission for 10-year period.....	4.1

A comparison of these national averages shows, for a 10.1 year \$3,000 loan :

	Building and loan	Banks and mortgage bankers	Building and loan			
			More		Less	
			Per cent	Amount	Per cent	Amount
Ostensible interest, per annum.....	1 6. 88	1 6. 41	4. 74	² \$142. 20	-----	-----
Total premium or commission.....	1 22. 89	1 4. 10	18. 79	563. 70	-----	-----
Usual loan expense.....	\$42. 68	54. 77	-----	-----	0. 4	\$12. 09
Total.....	-----	-----	23. 53	705. 90	. 4	12. 09
Net excess of building and loan charges on a 10.1 year \$3,000 loan.....	-----	-----	23. 13	693. 81	-----	-----
Construction loan fee.....	45. 41	47. 86	-----	-----	-----	2. 45

¹ Per cent.

² Building and loan excess of 0.47 per cent per annum equals 4.74 per cent, or \$142.20 on a \$3,000 loan for 10.1 years.

NET RESULTS

As shown above, the Department of Commerce national averages reveal that on a \$3,000 loan for 10.1 years, the building and loan charges exceed those of the banks and mortgage bankers by \$693.91, or 23.13 per cent of the loan, without including—

(a) Building and loan fines, fees, forfeitures, and penalties, which vary with individual cases and increase the building and loan costs accordingly. (Clark & Chase, pp. 125-161.)

(b) Building and loan cases where no stock earnings are credited on the borrower's monthly payments. (Clark & Chase, p. 159.)

(c) Loss of interest by building and loan borrowers on dues paid weekly or monthly, but credited quarterly or semiannually.

It is only fair to remind you that these Department of Commerce figures represent national averages. Individual cases will produce a wide variation. Commissions to banks and mortgage bankers range from nothing to 1 per cent per annum, while building and loan premiums vary from less than 1 per cent per annum to over 10 per cent per annum. In associations where the percentage of borrowing members is greater or less than one-sixth, the prorata dividends to such borrowers will be increased or decreased accordingly.

An impression seems to prevail that building and loan associations make a regular practice of lending up to 80 per cent of the value of the property. As a matter of fact, in actual practice, many of the better-managed associations seldom lend more than 60 per cent. The percentages they do lend are more important to the prospective home owner, and in the consideration of this bill, than the percentages they can lend under the law.

Please see the report on foreclosures by the President's conference on home building and home ownership, on page 587 of part 3 of the Senate hearings. It shows how misleading, gross foreclosure figures can be. Much responsibility for the present real-estate conditions must be borne by those who spread these totals without explanation.

The addition of more tax-exempt securities to an already crowded investment market, would materially reduce Federal income. Due to the sliding scale of tax rates on incomes of differing sizes, it is impossible to determine the exact extent to which the Treasury would be deprived of revenue by reason of the tax-exemption feature of the bonds. However, under the revenue act now being considered by Congress, the rate of tax on incomes of the lowest class is 2 per cent. If a billion dollars of these bonds, bearing interest at, say, 4 per cent, were sold to persons whose incomes fall in this class, the total interest on the bonds would amount to \$40,000,000. And the tax loss would be \$800,000 annually. It is certain that a large part, possibly the greater part, of the bonds, would fall into the hands of persons of large income seeking to avoid the heavy surtax payments contained in the new tax bill. In such case, the annual loss would be many times \$800,000. Should the total authorized amount of these bonds, \$1,800,000,000, be issued, the annual tax loss would be increased accordingly. Ultimately it is intended that the 12 banks shall be owned solely by private enterprise. It becomes clear, therefore, that the sponsors of the plan intend the tax-exemption feature of the bonds as a permanent annual subsidy to those ultimately owning the system.

It is, of course, true that a considerable period of time will elapse before the Government could be retired from its partnership interest in the banks. It is proposed, however, that nothing shall be paid the Government for the use of its funds during the time it is a stockholder. Regarding the contention that the cost of this system to the Government would be negligible, it should be noted that the most recent financing of the Treasury cost over 3 per cent. Some funds are being borrowed at 2 per cent, so for the sake of conservatism we will consider the funds the Government advances will be worth 2 per cent. Should the Government be required to invest \$100,000,000 in the system, it would cost the taxpayers at least \$2,000,000 annually. Should the entire \$150,000,000 be required, as seems more likely, the cost would be \$3,000,000 a year. To this figure and that reflecting the minimum loss of tax revenue should be added at least \$200,000 for operating deficit. Without including the original appropriation, the minimum total is \$4,000,000 a year, a substantial subsidy for Congress to allow any group in the mortgage finance business.

Regarding new construction—

1. A recent survey, which appears on page 503 of part 3 of the Senate Hearings, covers 272 reports from 116 cities in 37 States. Of these, 208 or 75 per cent report an oversupply of homes; 64 or 25 per cent reveal a normal supply; and one company reported a shortage.

2. In the recent survey by the Department of Commerce, over 50 per cent of the replies showed no need of new construction or remodeling.

3. The Department of Commerce estimates that 2,000,000 new homes could be built during the next five years, with the partial assistance of the proposed bill. We maintain such a building program would be disastrous.

Our membership includes banks and trust companies, title companies, and life insurance companies—all mortgage investors—in addition to our mortgage bankers.

We have been called “brokers.” In our judgment, no stigma attaches to the word “broker.” Almost every realtor is a broker. But here is the essential difference. When a house is sold, the broker collects his commission and departs, but when a mortgage is made and sold, the mortgage banker, in most cases, continues to service that loan until it is paid in full, possibly twenty years later, making frequent inspections of the property and conferring with the owner on his problems, financial and otherwise; collecting interest and principal and remitting to the investor; supervising the payment of taxes, special assessments, and fire insurance renewals. He is, or he represents, the owner of a half interest in the property who has attested his confidence in the borrower by the investment of funds in that borrower’s undertaking, and whatever benefits that borrower or whatever injures that borrower, benefits or injures the mortgage investor and his representative.

Just a word about the 12,000,000 building and loan “members,” which include 10,000,000 depositors and 2,000,000 borrowers. Also their \$8,000,000,000 of assets, constantly mentioned in these hearings. Impressive totals, it is true, but if our Mortgage Bankers Association of 300 or 400 actual members, including banks, trust companies, and mutual life insurance companies, counted its membership and its assets by exactly the same process as the building and loan associations count theirs, the total would be over 50,000,000 “members” and our assets would exceed \$14,000,000,000. Yet we seek no special consideration because of these striking totals.

Congressman Luce inquired on Monday about the source of our information regarding the construction of 3,000,000 new homes during the next five years if the proposed loan banks are created, and we would appreciate your permission, if Mr. Luce has no objection, to place in the record the article in the New York Times of Sunday, December 6, 1931, quoting reports just made to the Treasury and the Federal Reserve Board. This article also contains some interesting figures taken from the 1910 and 1920 census reports covering the number of families, of “dwellings”—that is, house, apartment buildings, hotels, and so forth—renters, unencumbered homes, and mortgaged homes in the United States.

We have been requested to place in the record this statement from Thomas F. Larkin, past president of the New York State League of Savings & Loan Associations.

Because I am, in point of age and service, the oldest living ex-president of the New York State League of Savings & Loan Associations, I am honored with a request to communicate with you in the name of the still active leaders among the veterans of the savings and home-ownership movement in our State, in opposition to the Federal home loan bank bill pending in your committee.

This course we feel impelled to take because we learn that outside propagandists for the bill are seeking to mislead Congress with the assertion that our State organization has indorsed this bill. It is true that a committee, small in number, and by a divided vote, under the urgency of outside influence, adopted a favoring resolution. This action was taken, I assure you, without authority and without notice to the State league and despite knowledge that, previously, the representatives of 60 associations in meeting assembled had unanimously disapproved the bill in question.

Of 18 living ex-presidents of our State organization, only 2 are known to be in favor of the bill. Eleven of them, including the undersigned, have written to our United States Senators and Representatives expressing belief that the proposed Federal system could be of no service to our institutions and that it would be wasteful and unnecessary in the public interest.

Among those protesting are the most experienced, widely known, and highly respected representatives of the savings and loan movement in the State.

Mr. REILLY. I should judge from your statement that it is your judgment that the mortgage bankers' loans are cheaper to the home owners.

Mr. CODY. Considerably, when the actual figures are before us.

Mr. REILLY. Now, could the mortgage bankers do the work the building and loan people are doing?

Mr. CODY. No. They are of great use and of great service.

Mr. REILLY. Then, there is an absolute necessity for those building and loan institutions.

Mr. CODY. Not only that, but to encourage and help them in every legitimate way, as long as you do not injure other interests.

Mr. REILLY. What effect has it on this bill whether the mortgage bankers' rates are lower or higher than the building and loan institutions, providing there is a necessity for the existence of the building and loan people to-day?

Mr. CODY. Just this, Mr. Chairman, that in formulating its judgment the committee certainly would seek to have an accurate and true picture of the mortgage conditions in the country to-day and the actual rates that the home owner is paying. He is the man we are worrying about. What is it costing him? Is he being gouged? Somebody spoke about foreclosures, and some one else mentioned a 60 per cent discount figure and it left that figure in the minds of this committee, and it seemed only fair, and we appreciate the opportunity, to bring you such facts as the building and loan people have published, and the Department of Commerce has compiled, from unprejudiced, impartial sources, so that you should have before you the actual facts, in the interest of fair play, in our rebuttal.

Mr. REILLY. These other statements have no relevancy in my judgment, either one of them.

Mr. CODY. Which other statements?

Mr. REILLY. The statement as to the mortgage banker being a gouger, and such things.

Mr. CODY. It seemed to me that it was unfair to have them in the record, but we did not protest at that time.

Mr. REILLY. Are there any mortgage bankers in favor of this bill that you know of?

Mr. CODY. Well, it would seem there must be, Mr. Chairman, out of a membership of between three and four hundred. A member of our association from Baltimore testified in the Senate hearings that he did not favor the bill as prepared, but, I think, if the bill were amended in accordance with his Senate testimony and that of the other Baltimore gentleman who was before this committee, he would favor the bill.

Mr. REILLY. You heard the mortgage banker before the committee yesterday, Mr. Monks, from Ohio?

Mr. CODY. Yes; he is a banker, not a mortgage banker. He is vice president of the Guardian Trust Co. of Cleveland, which is primarily a commercial bank, but they have a great many mortgages.

Mr. REILLY. They were in favor of the bill, and thought it would be advisable if we just removed some limitations.

Mr. CODY. If the 19 suggestions he made to the committee were accepted, I understood he would favor the bill.

Mr. REILLY. You do not want the bill?

Mr. CODY. We feel it is a dangerous bill in any form.

Mr. REILLY. And your principal objection to it is that it will increase unnecessary home building?

Mr. CODY. I would hardly call that the principal objection, although it has been a source of great concern.

Mr. REILLY. Is not that the big thing you are concerned with?

Mr. CODY. I would refer you to Graeme Smith's statement of yesterday. We would rest our case upon the points he made. We thought it one of the best presentations of the opposition to the bill that the committee has had.

Mr. LUCE. For the benefit of the reader of the record, I would like to call attention to the fact that while these figures are helpful and for one I am glad to have them, the averages must be taken with a grain of salt because on the face of it they appear not to be weighted averages, so that if that is the case, Montana, with an excessive interest rate, bears just as much on the average as New York, with many times the number of inhabitants.

If these are weighted averages, I will withdraw my criticism.

Mr. CODY. The averages in Table 1 are weighted averages, worked out by skilled auditors in behalf of the United States League of Building and Loan Associations and include a full statement of every dollar of credit and every dollar of debit that goes in. You will find these averages in the right-hand column, weighted and fully accurate, I am sure.

The premium average of 2.72 per cent per annum, in Table 6, was derived from the Department of Commerce figures, and not "scientifically" prepared, and was computed to give you an idea of the approximate average throughout the country.

Mr. LUCE. That is all right, then.

Mr. REILLY. The committee will adjourn until 10 o'clock to-morrow morning and will meet in the committee room of the Committee on Public Buildings and Grounds.

(Whereupon, at 11.55 o'clock a. m., the committee adjourned.)

CREATION OF A SYSTEM OF FEDERAL HOME LOAN BANKS

FRIDAY, MARCH 25, 1932

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE OF THE COMMITTEE
ON BANKING AND CURRENCY,
Washington, D. C.

The subcommittee met this day at 10 o'clock a. m., Hon. Michael K. Reilly (chairman) presiding.

Mr. REILLY. Gentlemen, the subcommittee will come to order. I think Mr. Clark is the first witness we have.

STATEMENT OF THOMAS F. CLARK, VICE PRESIDENT MORTGAGE BANKERS ASSOCIATION OF AMERICA, AND CHAIRMAN OF LEGISLATIVE COMMITTEE, NEW HAVEN, CONN.

Mr. CLARK. I wish first, Mr. Chairman, to make a statement of the position of the Mortgage Bankers Association of America in this situation, which will account for the president, Mr. Cody, and myself here; and as has been stated before, without any lobbying or anything else, we are working in the interest of our membership, who represent billions of invested capital. We are not assuming to represent the unorganized home owners, but we are representing the home owners in general by attempting to protect to-day the investments that have been made by them in their homes during the past number of years.

One of the questions that was presented to you during the testimony or statement by Mr. Bodfish on last Friday was that the demand loan was being made in New England; that we were making them, and whether or not he made the statement, the inference was left with your committee that the demand loan was the cause of much suffering on the part of mortgagees, because of the calling of these mortgage loans. I want to say that we have been making demand mortgage loans for a number of years, and we have loaned a lot of money, just how much I do not know, but I wish to give you information directly from three of the largest savings banks in New England, whose policy is demand mortgage loans. I appreciate the fact that when you speak of a demand mortgage loan to a man from the West or the South, you are speaking of something that, to him, seems impossible, because the thought of a demand loan is always of immediate calling, and subsequent difficulties.

In Connecticut the demand loan is the proper loan, and the home owners want demand loans. There the home owner knows it as a

savings bank loan. We are carrying some for an insurance company made on the demand basis for eight years; we have a great many of them, and we are making them every day.

I want to read you first a letter from A. E. Hunt, assistant treasurer of the Connecticut Savings Bank of New Haven:

MARCH 22, 1932.

MY DEAR MR. CLARK: Your favor of the 19th received.

In reply to your inquiry therein, would say that all mortgage loans made by the bank are in demand form. If interest and taxes are promptly paid they run indefinitely, some having been on our books for 35 years or more, even with change of ownership.

Any foreclosures made by this bank for many years have been mostly on large tenement houses, but very seldom on homes. We collect interest six months in advance, all loans being automatically extended in that way and foreclosures on homes are not started unless the owner owes taxes and becomes one year in arrears on interest payments. In most cases we find that arrears are caused by too large a second mortgage, payments on which being more than the home-owner can swing.

We carry close to 5,000 mortgages, almost exclusively on homes, amounting to \$20,000,000.

State laws, as you know, limit a mortgage not to exceed 50 per cent of the value, appraisal being made by men judged competent and loan to be approved by the finance committee of the bank.

Trusting this will give you the necessary information.

Very truly yours,

A. E. HUNT, *Assistant Treasurer.*

Now I have a letter from the New Haven Savings Bank, of New Haven, Conn., dated March 21, which says:

DEAR MR. CLARK: Your favor of March 19th relative to certain questions in relation to demand notes on mortgage loans held by this bank, was received this morning and I haste to reply.

1. What is the percentage of loans made by your bank on demand?

All of our mortgage loans have a note payable on demand, excepting a very few loans on centrally located business property, in which case a time note for three or five years has been required.

2. The average length of time that these demand loans run for, if interest payments are kept up?

Indefinitely, if taxes, interest, insurance premiums, and property is kept in repair. All property is reappraised at least once in five years and payment on account of the principal may be required.

3. Approximately how many home loans your bank has made, or has a record of at this time?

We have no segregated list of home loans on our books, but would say approximately 90 per cent of our loans are on residences, mostly on one, two, or three families.

4. Approximately amount of these loans?

Approximately 5,000.

5. What is the policy of your bank with reference to demand loans made on homes?

I think the answer to question No. 2 will give our policy with reference to demand loans on homes.

With very kind regards, I remain,

Yours very truly,

WALTER R. DOWNS, *Treasurer.*

Now I have a third letter from the National Savings Bank, of New Haven, Conn., dated March 21, 1932, which says:

MY DEAR MR. CLARK: We have your letter of the 19th instant relative to mortgages payable on demand.

We have \$4,483,687, in first mortgages, all of which are payable on demand. We were incorporated in 1866 and have always made this form of mortgage. It would be a very difficult matter to state the average length of time these loans run. The oldest mortgage loan that we have was made in August, 1867.

We have never demanded payment of a mortgage except in cases where the property had depreciated in value and the mortgagor had allowed the taxes and interest to become in arrears.

We have a plan whereby we reexamine all of our real-estate mortgages at least once in three years, and if we feel that our mortgages are more than a 50 per cent loan we demand payments on the principal semiannually with the interest, until the amount of our mortgage is satisfactory. In case it is necessary for us to ask for payments on the principal we require the mortgagor to come in to the bank, and we go over the conditions with him and make arrangements for the payments on the principal to our mutual satisfaction.

It is seldom necessary to demand payment of a loan on account of interest being in arrears. We check our tax payments about every four months.

Practically all of our mortgages are on home loans; we do not loan on commercial property (so called) or apartment houses or farms.

We do not know of any case where any of our demand loans have worked a hardship on the borrower; on the other hand, it has saved the borrower a considerable sum for the renewal charges. If we have a good mortgage we see no reason for demanding payment every three or five years and being obliged to either renew this mortgage or reinvest the funds.

With kind regards, I am,

Very truly yours,

JOHN P. KIMBERLY, *Treasurer*.

Right here I would like to make a suggestion. I would like to offer it as the suggestion of the Mortgage Bankers' Association. When these witnesses, before the proponents and the opponents complete their testimony, I believe that it would be well to abolish the correcting of the record by the witnesses in any position except in the presence of the secretary of the committee or the chairman of this committee or a member of the committee, because frequently errors creep into the corrections that do not reflect exactly the testimony offered to the committee.

Mr. REILLY. It seems to me that the witnesses ought to be privileged to correct their testimony.

Mr. CAMPBELL. We try to follow the rules of the House with regard to it, without suggestions from anybody else.

Mr. CLARK. Mr. Ermans, of New Orleans, speaking the other day with reference to the filing of 261 telegrams, which were submitted to the Senate committee from various parts of the United States, said that the telegrams received from his home town were from people not known by himself, and he is the third generation of his family, or by anybody else in town, and he had inquired of several reputable business and financial men as to these people. I am not going to read these, but one of the names was John Hogan. John Hogan is vice president of the Standard Bond & Mortgage Co. My integrity was questioned by the statement that we were getting telegrams from people who did not exist. The reflection is very evident and very definite, Mr. Chairman. I just wanted to make this statement here, not to go into details, but to show he is vice president of the Standard Bond & Mortgage Co., of New Orleans. Mr. Wilfred Gehr is vice president of the Union Indemnity Security Co. (Inc.), of New Orleans, and this company owns 14 fire-insurance companies; it has a guarantee mortgage department and also an insurance company that has an office in New York City with hundreds of employees. Mr. Gehr is a resident of New Orleans; I believe a native of New Orleans; yet he is not known by the third generation of the Ermans family.

The work of Mr. Cody and myself in this connection is to try to correct many of the things that have been offered here as testimony,

or to make clear other things that might be necessary, in order that this committee may judiciously pass upon the merits of the bill before the committee. After listening to the testimony of many of the proponents, one wonders what is the real reason for the urgency of this bill and for the justification of the propaganda that is being carried on. Some of the proponents claim that its purpose is to help the home owner, but not one of these witnesses have been able to show any convincing method whereby the home owner in default of interest, principal, or taxes, can get any relief. The three points that do stand out and are becoming more and more prominent are: First, the desire for funds with which to pay the depositors who believed that they could obtain their money when needed. The second is to strengthen building and loan associations in some States as more aggressive competitors of the banking system, both State and Federal. The third point has not been developed in the testimony, but it is in the minds of the people who have the bill, I will say, within their control, in that sense of control which a man has who is given a job to do as an agent, and may have an interest in it. The third is to open the channel for the apartment-house loans, for commercial-building loans, for all the subjects in the mortgage-loan business, that you get in a mortgage company. Now, that developed originally in the President's home owners' loan conference, and that thought still exists in the minds of people who have much to do with the preparation of this bill.

Let us consider the claim that this is a home loan bank bill, for the purpose of helping the home owner. In what way can any money provided through this legislation get into the pockets of the home owner who is delinquent in his taxes and payments of interest and principal? This question has been met by the proponents in a manner that does not reflect judgment or sound business principles on the part of the institution that says that it will change the character of the mortgage on the defaulted home, this mortgage being held by a building and loan association, the change in the mortgage reducing the payment on shares. Let us consider that for a minute. I think you will find in the question that was submitted by one of the proponents, that a mortgage loan of \$6,000 was in effect and the man fell down on the payments on it, that it would take some money out of Paul's pocket and put it over to pay Peter's share, and Peter's shares are then in agreement with his contract, and Paul is still waiting; and then they change this mortgage, cut it in two so as to reduce the monthly payments. Now, the insurance companies have the same situation to meet.

Mr. CAMPBELL. Peter and Paul are both there?

Mr. CLARK. Beg pardon?

Mr. CAMPBELL. Peter and Paul are both present when the transaction takes place, are they not?

Mr. CLARK. No; Peter is not there. Peter does not know his money is being used to help Paul. Peter, in this sense, is the treasurer, or some individual connected with the association, that lends money to the association on a bookkeeping process, to reinstate Paul, and then by the readjustment he gets his money back.

As I say, the life-insurance companies are meeting this in this way: The borrower is permitted to make payments weekly or

monthly, as his income will permit, and if it means the elimination or waiver or deferring of the principal payment, that will be done, is being done in hundreds of cases every day by the life-insurance companies of this country, and that keeps the borrower in good condition and the security is there; so that an insurance company with its organization, which is handling the work throughout the country—its investment is not jeopardized and the borrower is helped. You do not need anything of the kind suggested here to make a man solvent with you, if you have the desire to help him, you can do it in such a way as not to humiliate him.

In connection with that, a statement has been made here by a member of the committee, from his knowledge of the situation, that the fellow who can not pay should not be helped. Consequently, the mortgagee must determine between the man who can pay some and the man who can not pay anything. A man may not be able to pay to-day, but next week; why not give him a chance?

The CHAIRMAN. Mr. Clark, you are making a very enlightening talk, but let us get down to brass tacks to-day, to where you can help the committee, and I think you can help the committee more that way. This bill is premised on two propositions, as I understand it: One is that a certain number of banks or loan companies are in trouble, and need an instrumentality for liquefying their funds; and the other is that there is a lack of money to build homes that want to be built.

The other proposition touches upon whether or not this bill sets up the proper machinery. Now, this committee would like to hear you further as to what are your views as to whether or not there is any trouble with any of the home-loan banks to-day, as regards the need of some method for helping them to function.

Mr. CLARK. Mr. Chairman, it has been revealed more definitely each day, and it is claimed that this is a building and loan bank bill. Now, if those are the companies that we have got to aid, let us extend them help. How does this committee know that a building and loan association in this country can qualify, under the bill, to get any help? I feel that is important, can they qualify? Determine the help afterwards, but can they qualify?

Mr. REILLY. Could you amend the bill so they could qualify?

Mr. CLARK. No; you have got to fix the associations to qualify. A banker can never fix the borrower's condition to qualify; the borrower himself does that.

Mr. REILLY. What is your judgment, from what you have heard, and your experience, as to whether there is any need for furnishing money to-day to these organizations for legitimate home building?

Mr. CLARK. I know there is absolutely no demand for homes. Now, if you want to do a real work, you have two ways of doing it. Your first way is to go directly to some agent established by this Government, being nonpartisan, being directed by men who have no selfish interest, men who are not looking for jobs, and find the home owner who is distressed, and let us make the dole direct to him, and not through the organization. How is the money going to get to that man, if it goes through a building and loan association? No one has yet been able to say. I will quote you testimony—

Mr. REILLY. Your contention is that, if there is such a demand, this machinery will not furnish it.

Mr. CLARK. Not in one single instance will this machinery furnish any help to the home owner, and this is the man that needs the help.

Mr. REILLY. Are there any home loan institutions, banks and local building and loan associations, in need of any assistance to-day; or is there any demand, any necessity for setting up an institution that will help, financially, any mortgage or loan institution or home building association?

Mr. CLARK. No; no evidence has yet been submitted to this committee, or to the Senate committee, to show the need of helping any building and loan association, not one.

Let us look at this picture: You people have had banking experience, and I have, too. I am a borrower, and borrowing hundreds of thousands of dollars all the time. At present I owe five times my paid-in capital, but it is all secured. If I come to you, you are going to ask me for a financial statement, are you not?

Mr. REILLY. Probably, yes.

Mr. CLARK. Sure you will. You will not loan me just on my statement of what my assets are, but you want to know what my liabilities are.

The building and loan association met that question given to them by Senator Couzens in the committee of the Senate, and Mr. Bodfish says:

We have a statement of our assets, but we have no statement of our liabilities.

Would you loan money for the Government in any less rigid manner, or with less security, than you would as the president of a bank? No; your oath to the Government is just as absolute as your obligation to the bank, and you can not vary it. What is your second proposition, the need of it?

Mr. REILLY. Mr. Clark, you say there is no necessity of assisting any of these home loan mortgage companies, or building and loan associations?

Mr. CLARK. No; I repeat, there is none.

Let us take the testimony of the proponents themselves, and take Mr. I. Friedlander, president of the Gibraltar Savings and Building Association, of Houston, Tex., and that is one of the biggest in Texas. He is, I believe, also the attorney representing the building and loan associations of Texas. However, he is an attorney, and a very bright fellow, and made a very fine witness. What did he say about helping the borrower, either through a new loan, or by financing the old loan? He said:

Our income for 1931 was \$3,250,000. What did we do with it? We gave \$350,000 to the home owners, and we gave \$2,900,000 to somebody else. The withdrawals, demand deposit certificates, maturing shares, took \$2,900,000 out of the \$3,250,000, and the balance went to the borrowers.

Where would the money from the Government go? Would it go to the home owner? Yes; on the same percentage, at the same proportion, throughout the whole country; it would go to the man who went in there and deposited his money and expected to take it out when he wanted it; but as the building and loan people say, they are teaching their people thrift; and at the same time, people

expect the building and loan associations to exercise good judgment in putting loans into building and loan mortgages. You people who are attorneys know that you can not come into court seeking equity, without doing it. That is a principle of law, and you can not evade it, even with a poor ignorant home owner.

Let us get right down to brass tacks, gentlemen. Personally, to the people who are sitting around here on the committee, Mr. Cody and myself, the passage of this bill does not mean a single thing to us in dollars and cents; it would not interfere with my loans one iota. The State laws of Connecticut can be a great deal of help to the people in this country, can be emulated by other building and loans in other States. You can not borrow beyond 10 per cent of your assets in a building and loan association; you can not hypothecate or assign your mortgages; you can not borrow on mortgages. Washington State has a better idea in that particular respect, in that the mortgages are deposited with the commissioner of finance, or a trust company designated by him, and that takes out of the building and loan association's hands the instrument that has gotten the building and loan association into difficulties, and the State controls it.

I put our position clear as to where we stand on it. I say it will not affect my loans one iota. There will be no speculative building in Connecticut, which is one thing that is in the background of this section 3 that I have named. The banking commissioner will not permit a building and loan association to do anything other than that which he has permitted in the past; and I can safely say that the State legislature of Connecticut, made up of hard-headed farmers, is not going to give to these city fellows any more leeway in the distribution of funds than they already have.

Now, we are discussing the building and loan associations, management, purpose, and I want to submit for your information and for the record—by the way, before I get to that, I would like to inject one thing: You raised the question, Mr. Chairman, on the assumption that you have been advised that the borrowers of building and loan associations are in difficulty; is that right?

Mr. REILLY. I raised it on the assumption that that is one of the purposes of the bill.

Mr. CLARK. Then there must have been evidence submitted to somebody who had the preparation of this bill in mind, that the borrowers of building and loan associations were suffering.

Mr. REILLY. Needing financial assistance.

Mr. CLARK. All right, Mr. Morton Bodfish, the executive head of the Building and Loan League of the United States, in testifying before the Senate subcommittee, made this statement, that you will find in part 1, page 88:

Building and loan borrowers are not suffering, in my judgment.

Does that answer the question?

Mr. REILLY. Building and loan borrowers?

Mr. CLARK. Building and loan borrowers; yes.

Mr. REILLY. Well, I am referring to building and loan associations.

Mr. CLARK. Well, the borrower is the building and loan association. He means the mortgagors; they are not suffering. The execu-

tive manager of the United States Building and Loan League says so. Who else should we ask; who should we look to for information, if not from the boss, and I say that in all due respect to Mr. Bodfish and the associations.

Mr. REILLY. Will you explain why his association is for this bill?

Mr. CLARK. Mr. Chairman, I am not acquainted very well with the members of the National Real Estate Board, or the Building and Loan League of the United States; I have never had any contact with them. I do not want to go into any statement to-day that would make the building and loan officials feel that the mortgage bankers, through my own testimony, have attempted to "put them on the spot." I do not know anything about their association, except as it has been revealed here. They have come in to you through channels leading up to you, seeking help; and what have they got to offer to show that they need help? They have not produced a single borrower here to you, or to the Senate committee, that needs help. They have given you stories of pathetic cases, but anybody can do that. We can all be sober souls in certain hours of the day and under certain influences we are sentimental, but when we get down to handling dollars for the Government of the United States we have to be careful. I speak from experience, because I have handled funds of the Government of the United States for 30 years, subject to inspection without notice. You can not fritter away the Government's money, either as an official of the Government or as legislators of the Government; it is not your money.

Mr. REILLY. Where would there be any frittering away of money under this bill?

Mr. CLARK. Oh, my dear man, where would there be any frittering away? You have had experience, not you personally, but I think the Government has had the experience, and I think they have got a sore thumb right now. Why did you give \$125,000,000 to the Federal land banks?

Mr. REILLY. That has nothing to do with this bill. Where is the frittering away to occur under this bill?

Mr. CLARK. If you eliminate it as a basis of judgment, as to what can happen, then one of the principal ideas the country goes on in making a decision is the President's.

Mr. REILLY. I put this question: If you were the head of a building and loan association, would you fritter away the funds of the Government, or your association?

Mr. CLARK. No.

Mr. REILLY. Why should other people do it?

Mr. CLARK. Because you are giving a lot of money out without restriction.

Mr. REILLY. To whom?

Mr. CLARK. To a lot of people.

Mr. REILLY. Your people and building and loan people.

Mr. CLARK. Yes.

Mr. REILLY. You are the manager of a building and loan organization, and this bill gives you the privilege, if you are a member, of getting money to function with by putting up \$2 of securities for the \$1 borrowed.

Mr. CLARK. Yes.

Mr. REILLY. Now, how would such a situation lead you to fritter away the funds of your organization?

Mr. CLARK. If you are speaking personally, I would say "no."

Mr. REILLY. Why have not you the right to assume that any building and loan organization will be managed just the same?

Mr. CLARK. Well, if that be a true premise to base our opinion on, why has any association invested practically 100 per cent of its income in frozen securities?

Mr. REILLY. That may be entirely a matter of judgment.

Mr. CLARK. It is universal.

Mr. REILLY. No; I think the building and loan associations and the banks, the land banks, are to-day in trouble not so much because of errors of judgment, but because of the tremendous and unprecedented shrinkage of real-estate values.

Mr. CLARK. You have opened up a new basis, Mr. Chairman. I would first like to point that out about the amount of money that has been loaned: The testimony of Mr. Bodfish, which begins on page 79 of part 1, states that the building and loan associations have loaned 88 per cent of their income in mortgage loans. No State law will permit an institution, a savings bank at least—and I take it it is a pretty good rule—more than 70 per cent of its deposits.

Mr. LUCE. Mr. Clark, do you overlook that fact that building and loan associations and cooperative banks were created and exist for the primary purpose of lending on mortgages, and the complaint here, and a justifiable complaint, has been that the cooperative banks can at this time furnish no more funds to lend on mortgages? Every dollar they lend on mortgage tends to accomplish the primary purpose for which they exist.

Mr. CLARK. Let us take—

Mr. LUCE. No; answer the question that I asked. I asked you if you are not acquainted with that fact?

Mr. CLARK. I am.

Mr. LUCE. Let it go at that, and go on to your next statement.

Mr. CLARK. I will finish the other statement. I referred to the testimony of Mr. Bodfish in part 1, that 88 per cent of their income was in mortgage loans. Seventy per cent is high enough to go with any degree of safety. I have had the experience this year of buying mortgage loans from banks that were frozen in that situation, simply because of the number and amount of loans that they had, as against the deposits that they had, which are a fluctuating item, and when they went down this year the mortgage loans had to go with them, in order to stay within the law. I examined personally \$6,000,000 of mortgage loans, and bought every single loan that met the requirements of the investors in these loans, and kept two banks from closing up. I know what the banking situation is in reference to mortgage loans. Now, Mr. Luce has injected the cooperative banks, and—

Mr. LUCE. Not injected it, because I have explained to you that cooperative bank is another name for building and loan association.

Mr. CLARK. I know it is, and it is so stated in the building and loan books. The Commissioner of Banking of the Commonwealth of Massachusetts issued in January of 1932, which is pretty close to date—what is the situation in the cooperative banks of Massachu-

setts? You will pardon me, Mr. Chairman, but I have gotten off of this—you have taken me out of line, and I would appreciate very much more if I had been permitted to complete my statement, rather than be interrupted.

Mr. LUCE. As far as I am concerned, Mr. Clark, you can take this up after you finish your statement.

Mr. CLARK. All right. I would rather do that, because it is more orderly. I never, until two weeks ago, appeared before a committee, and you will have to bear with me as being an innocent from New England who has not had much experience in this thing for himself.

Let us consider the home owner who is delinquent in his mortgage payments. Is it fair to assume that all the charity and philanthropy in the treatment of delinquent borrowers is confined to any one institution? Life-insurance officials of unquestioned integrity have stated to you, and to the Senate committee, that their companies are not only renewing maturing mortgages, but accepting weekly or monthly payments of interest, and waving or extending principal payments. I may say that we are just being paid off a mortgage we made in 1921 on five homes owned by one man, and rented out. We renewed it in 1926. It matured in December, 1931, and we are to be paid off in April. This is a specific case of the renewal of a mortgage and of the extension of time on the payment of the loan in full, and we offered to renew the mortgage this time.

Is it fair to assume that the home owner is purchasing and paying for the normal amount of substantial and wholesome rent for himself and his family and neglecting the roof over his head? The answer to this is also "No." The butcher, the baker, the clothier, and department stores are carrying this home owner. Why should not the mortgagee do likewise, and particularly so when he knows he has the security in the real estate for his mortgage.

Statements have been made that the home owner's present condition is due to the high interest rates and the excessive charges in connection with the loan.

Before I go into that, however, I want to say right here that bills have been introduced in this Congress since 1919, repeated hearings have been held, but I am not prepared to go in and give you the dates on that, but I would suggest that you call the proponents and they will give you the dates. This is my first time, but is not it peculiar that the proponents of this bill, and I mean the chief proponents, should think, at this period of time, when everybody is democratic in point of being poor—a man of wealth in September, 1929, is not a man of wealth to-day, and the home owner suffered in the same manner. If he was indiscreet enough to go into the stock market and he has suffered from the stock market, and also because of unemployment and the economic conditions over which he has no control—should that man come in to-day to the Government of the United States and say: "Here we are, down on our knees"—that makes us think of the Publicans and the Pharisees—"We are not like other men; we should not have to do what other men are doing."

This is so absurd that it would be a waste of time to discuss it further than to refer to the testimony offered by Mr. R. G. Smith

before this committee day before yesterday, the 23d, and that of Mr. Cody yesterday.

Gentlemen, this is a terribly important point. I feel that the proponents, or many of them, at least, have stretched a point of the short-term mortgage, with excessive charges, such as commission to insurance company correspondents; but in using the word "correspondent" I would like to make, for the benefit of this committee, a statement of what an insurance company correspondent is. He is not a nondescript picked from the street who has to go around and ring doorbells and ask if people want mortgages. I will give you my history: I was checked up for two weeks, from every angle possible, by an investigator of the insurance company which I have the honor to represent, and if there was anything in my past life that would reflect at all upon my character, I would not have been asked to take the responsibility of investing millions of dollars of widows' and orphans' funds in securities in the company. These correspondents—you can call them brokers, you can call them anything, except what went into the record in the Senate, where they were called "Shylocks" and all that sort of thing. If I were present at that meeting, I would have asked, for the sake of my own reputation, to have expunged that part, but it still stands that way; and there are 450 men who may read that testimony; and it is unfair to call an institution or individual that who has been investigated as closely as this United States Government, through its departments, could do. Insurance companies have institutions similar, but not quite so large. You know what they do, when they are checking up an applicant for a policy, if he has taken two drinks within the last year, he is out.

Speaking of interest, in this connection, I wish to submit a statement prepared by Arthur Mertzke, director, department of education and research of the Department of Commerce, September 23, 1929. This report was issued by the mortgage and finance division of the National Association of Real Estate Boards, under date of October 5, 1929.

Mr. REILLY. What is that about?

Mr. CLARK. That is about interest rates.

Mr. REILLY. What about interest rates?

Mr. CLARK. If you will permit me—I can not answer this question yes or no, Mr. Chairman, in fairness to the committee.

Mr. REILLY. But, Mr. Clark, what has the interest rate got to do with this bill?

Mr. CLARK. It has a terrific lot to do with it; it is one of the burdens. If you are going to add a burden, all right.

Mr. REILLY. Interest rate on the Government?

Mr. CLARK. Interest rate on mortgages. That is an important thing, and I think they will admit it.

Mr. REILLY. All right, go ahead.

Mr. CLARK. I hope you are not disappointed in my urging this.

Mr. REILLY. The only thing, as I view the situation, I do not think these interest rates have anything to do with the bill at all, or the principal underlying the bill.

Mr. CLARK. Well, Mr. Chairman, it is in the record—

Mr. REILLY. Unless you make the statement that the passage of the bill will raise the interest rate on home owners—if you have got some argument on that line—

Mr. CLARK. It will increase the interest rate on the home owners.

Mr. REILLY. In other words, the passing of this bill will make the men who are members of your organization, and home loan organizations, pay more interest, a higher rate of interest?

Mr. WILLIAMS. Let me ask you a question, Mr. Chairman.

Mr. REILLY. I think we had better wait until he gets through, if you do not mind.

Mr. CLARK. Mr. Chairman, if you please, pardon me. I submit this with all respect. I do not think it is quite the thing for the opponents of this bill to be restricted to categorical questions and answers, in view of the fact that you have given your time and taken our time in waiting to go on, to a man to come in here and give you a very fine essay on the woman's desire to own a home, which is secondary to a woman's desire to have a baby, with no interest in the bill himself at that time, not a home owner, but with an income of \$20,000 a year, and advise you people to do the thing that he, himself, is just now doing, just buying a home.

Mr. LUCE. Speaking of the interest rates, did not Mr. Cody put in sufficient on that yesterday?

Mr. CLARK. That is the building and loan interest, and this is the general interest rate. What we have got to get clear, gentlemen, is this:

We have got to cut away this cloud that seems to have obscured every other institution, except the building and loan associations, which is in line with the Government's idea at the present time. If you will give us further time, we will take it out into the noonday sun, and show you some of the other things.

Mr. WILLIAMS. Mr. Chairman, to my mind, the rate of interest that is being charged is very material to the issue in the case. I do not see it just the way the chairman does.

Mr. CAMPBELL. That speaks for several States, in prescribing the interest rate.

Mr. CLARK. Mr. Mertzke made this research and this report:

The fact that the average rate of interest on first mortgages during the past year has increased only one-fifth as much as the average interest rate on commercial loans would appear to indicate a relatively greater money supply available for first mortgages than there was for commercial loans. The policy of insurance companies and other large investors, who either by law or by preference choose real-estate investments, creates an enormous fund of money constantly seeking investment in real estate. When to this large fund are added the sums which many individual investors prefer to put into real estate rather than into more speculative investments the aggregate volume of money seeking comparatively conservative investments in real estate is enormous. Undoubtedly this is the chief explanation for the failure of the average interest rate on first mortgages to keep pace with the rediscount rates of the Federal reserve banks or the interest rate on call loans.

A conclusion which may fairly be drawn from this study, therefore, is that the decline in the number of real-estate transfers in the last two years is due not to a shortage of funds available for investment in real estate, but to other factors.

Mr. Mertzke is in charge of the graphic report, or questionnaire, and is a highly valuable man for institutions of the kind that he is connected with.

Speaking of the cost, let me quote you from page 667, part 4, of the Senate hearings, when Senator Bulkley asked this question:

Granting the security is satisfactory, a man making a loan on \$5,000 houses does three times as much work in making them as a man making a loan on a \$15,000 house; how are you going to absorb it?

Secretary LAMONT. In the fraction of a per cent higher, perhaps, for the loan; enough to cover it.

Senator BULKLEY. And it will have to cost the borrower more money than the life insurance company loan?

Secretary LAMONT. Yes; it will have to cost him a little more money. As I say, the insurance people get the cream.

Senator COUZENS. So we are going to get the skimmed milk?

That is part 4, page 667, and refers to the cost of the borrower of Government funds, as against the present institutions. That is pretty nearly up to date.

Assume that this bill should pass and the banks would be established, how would a building and loan association be eligible under section 8, page 15, lines 3 to 7, of H. R. bill 7620? Line 3 contains one of the qualifications:

If secured by a home mortgage given in respect of an amortized home mortgage loan which was for an original term of eight years or more, the advance may be for an amount not in excess of 60 per cent of the unpaid principal of the home mortgage loan.

I submit that a building and loan mortgage is not an 8-year loan, by its very terms. How can they get in there? They are going to amend that bill again, and since they have had so much to do with it, so much so that their pictures are appearing in the papers in consultation with the officials of this Government in preparing a bill for all the people, not for themselves, but for all the people. They may want to do that. They have the access, but we have not; we never had access, and we represent more people and more money. We never have had access, and why?

Mr. LUCE. Was that a statement, or do you want an answer?

Mr. CLARK. You are free to answer.

Mr. LUCE. So far as I had any part in this matter, did we deny you any access?

Mr. CLARK. Beg pardon?

Mr. LUCE. So far as I had any interest or part in this matter, were you denied any access?

Mr. CLARK. No, Mr. LUCE; and I know I would not have had if you had had charge of it. You told me your position, which I had already understood.

Mr. LUCE. I want to have it recorded that you had full opportunity to present your side.

Mr. REILLY. Right at this point, Mr. Clark, was the original bill acceptable to your association?

Mr. CLARK. No bill setting us, as in the original or in this bill, is acceptable to our association, because we can not see any benefits in it for the people that the bill is supposed to help. I do not even see why they call it a home loan bill, because it is not; and so I submit, gentlemen, under that section, a building and loan association can not get one dollar's worth of help, if you put the bill through.

Mr. REILLY. Could you recommend any amendment that would help that?

Mr. CLARK. No; there is no amendment that can help it.

They have got to start and recharter themselves in order to get any help from anybody. You can not do business on that basis.

Mr. LUCE. On the building and loan basis?

Mr. CLARK. On a basis in order to come within the requirements of this section. Do not misunderstand me. I have great admiration for the building and loan associations, because they are doing a remarkable job, and they are helping a lot of people; they have got the people down to saving. I have in mind the instance of a man who came here from across the water, a foreigner, and he put his first \$10 into a building and loan association, and built his own home, and built his youngster's home, and that man comes home at 6 o'clock every night from an iron foundry.

Mr. LUCE. Evidently our minds did not meet. I wondered what you meant by the word "recharter."

Mr. CLARK. Recharter, in order to come within this bill. I am interested in this bill, because it is so vicious in its exactions, if passed. The building and loan associations urge the passage of this bill to relieve a situation for which they are, in a great measure, responsible, in so far as their associations are concerned. They have taken money in the form of deposits, payments on stock or on shares, or any other method of securing money from 10,000,000 depositors, and they are frozen up in mortgage loans to 2,000,000 depositors.

Mr. LUCE. You do not mean to say that all of the building and loan associations of the country have received deposits, when it has been shown that only Ohio received deposits?

Mr. CLARK. That is, the purchase of certificates or shares, the depositor not being a borrower.

Mr. LUCE. Call it share or certificate, but do not give the impression that these banks outside Ohio are receiving deposits in the ordinary sense, because you know they are not.

Mr. CLARK. I am not attempting to; but I give you some money and you agree to pay me interest on it; it may be called a share certificate, or a debenture, or anything else; and I am willing to have the record include all of those things.

Mr. LUCE. Only two minutes ago you were praising the building and loan associations, and now you are damning them.

Mr. CLARK. No; I am not.

Mr. LUCE. Make it clear, then.

Mr. CLARK. Can you analyze any one individual without taking his liabilities and his assets, or otherwise his virtues and his vices? No. I am making it clear that there would be no demand to-day on the part of the building and loan associations, if they conducted their business on the same basis that the ordinary, substantial mortgage company does. If I am going to lend money on mortgages, by disposing of the mortgages I am going to get funds with which to loan on more mortgages, and that is all there is to it. It is a plain business proposition, and it gets around to the round-bellied stove in the kitchen, where we take the money out of one pocket and put it in the other. They are making money on it. If we had the records of the bankruptcies of merchants of this country of the last two years who did the same thing—

This is your situation, Mr. Luce: Mr. Luce, I realize that you are familiar more with the cooperative banks of Massachusetts, and I

have a lot of respect for the Commonwealth of Massachusetts. I have gone down to Boston and gotten wonderful loans down there, and they are establishing a pretty good basis, and they have organized an association under the authority of the State, so that there will be no failures in their State. Referring to building and loan associations, we understand this: It lends money and gives a report of its assets, and not a report of its liabilities.

Now, taking the Commonwealth of Massachusetts, the report covers, among other financial institutions, the cooperative banks, which are, in effect, building and loan companies. This report is up to October 31, 1931. The report states that, at the close of business on October 31, 1931, the aggregate assets of 227—

Mr. WILLIAMS. You simply refer to a report, and I do not understand what you are talking about.

Mr. CLARK. Nobody has asked the question.

Mr. WILLIAMS. You simply say a report; what are you referring to?

Mr. CLARK. I beg pardon. The commissioner of finance.

Mr. WILLIAMS. I did not catch that.

Mr. CLARK. Incidentally, I have taken this because it was the first and most available report of the State institutions that could be had, and as being the first State, within my knowledge, outside of New York State, and I do not know that they are State organizations by virtue of law—the report states that, at the close of business on October 31, 1931, the aggregate assets of the 227 cooperative banks in Massachusetts amounted to \$506,103,043, a decrease of \$2,359,721 from the previous year. Property held by foreclosure amounts to \$13,733,097.82, and comprises 2,845 parcels held by 187 of the 227 cooperative banks. Property originally taken by foreclosure and now held under common-form mortgages, aggregates \$7,359,840, and is an increase of \$3,000,000 for the year, making a grand total of foreclosed property of \$21,092,938.50, or about 4 per cent of the total claimed assets.

Let us see what the cooperative banks of Massachusetts have: The officers and directors have been elected and the 500,000 people interested in the cooperative banks are now assured of absolute protection in every sense, not only for what they paid on their shares, but for the institution itself, going along until each depositor or borrower has been cleared up, and the institution liquidated.

Now, let us see what the cooperative banks of Massachusetts have done for themselves in the line of dividends. Twenty-nine of these banks paid dividends during the year ending October, 1931, of 6 per cent on the serial shares and some of these paid 6 per cent on matured certificates. One bank paid 6.2 per cent on serial shares and one bank paid an extra 1 per cent dividend in addition to 5½ per cent on serial shares, matured certificates and paid-up certificates. It would seem like good judgment, as well as good common sense, to have applied the billions of dollars paid in dividends, for the relief of the home owners who have been so graphically pictured on the way over the hill to the poor house. In carrying this thought just a bit further, in the sense that we fathers believe to be true, a more important point—it is just too bad that the children, our future citizens, should have seared on their minds the ruthlessness of busi-

ness machinery that is here pleading with the Government for aid and comfort—that which they denied the other man. If such a state of affairs can exist in the proud and intellectual State of Massachusetts, what has happened in other States that might be relieved by a statement of liabilities frankly stated?

I quote you a paragraph of a letter written by S. L. Cantley, commissioner of finance of the State of Missouri, to the bankers of that State, which said:

If moratoriums are ever justified and beneficial, it would be a fine thing to declare an emergency existing justifying one as against dividends on bank stocks for a period of five years. Some of these fancy dividends, unreasonably high, paid in the heyday of imaginary prosperity, would come in mighty nice now if they had been retained by the banks as reserves.

I referred to Massachusetts, and I did so with all the respect in the world, because I believe it is the culmination of the building and loan associations in this country, the salvation of the building and loan associations in this country, in a fair degree, measured with far better supervision than anything the United States Government can do.

Mr. LUCE. Right there, I did not gather whether in putting in those Massachusetts figures—by the way, I am greatly obliged to you for putting them in—whether you were praising or mocking the cooperative banks.

Mr. CLARK. I was not mocking them; I was trying to praise them.

Mr. LUCE. What was the moral you drew from them?

Mr. CLARK. That the building and loan associations of Massachusetts, since they created the economic situation in this country since 1929, were hard-headed and foresighted enough to take the loss themselves, rather than to come down here and ask the Government to do it; and they established a State association, and they are pooling their assets, and no one can—in other words, they are their brothers' keepers in the actual sense, and I admire them for it. I thought I said that, and I was glad I was able to state there had been an association formed as a State cooperative bank.

Mr. LUCE. We are always glad to receive bouquets.

Mr. CLARK. Unfortunately, we do not get so many of them until after we are dead. Take Texas, and Mr. Friedlander states:

We have in foreclosure of real estate about 3 per cent of our assets, an addition of about 100 per cent in the past year, of all we had heretofore accumulated in the last five or six years. We were only able to make about \$350,000 of loans out of \$3,250,000 of income. The balance of our income going to meet the demands of our members for withdrawals on account of the present economic condition.

What has caused the increase in the foreclosure in Mr. Friedlander's district?

Here is one more very important point with reference to the security of the mortgage, which is an important thing for this committee to consider: The fellow who needs somebody to help him, to advise him how to finance, show him how to save his investment in his home—that man is entitled to every safeguard that can be thrown around him by any State or Federal institution. I am not criticizing this building and loan program at all; I am calling the attention of you men who have got to pass on this bill—and I want it in the record for the other 500 men who will see it, in the event you

send it to the House, so they will have the same opportunity to know what has been presented as you people know it, but who did not have to suffer the boredom of listening to it, and who can throw it away, when they want to—it should be borne in mind that the borrower who has, say, a \$5,000 loan and has paid \$4,000 on his shares which he purchased, has absolutely no credit on his mortgage principal. In the event that the building and loan association goes sour, what has that man got? His share of the assets, or what is left of the institution. The building and loan associations have criticized the insurance-company loans.

Some insurance companies have a monthly payment loan which is similar to the building and loan, and which is cheaper for the borrower than the building and loan plan, and that borrower, when he pays \$5 on his mortgage, gets a credit on his mortgage for \$5, and in the building and loan he gets a credit on a share payment for \$5 that has no relation to his mortgage loan. The insurance companies are making these loans. I have made them, and I am making them. We encourage them, but we never go over 60 per cent of the sound appraisal, and I say to you, gentlemen, that I have appraised I do not know how many millions of dollars of real estate, and much of it for loans; when we make an appraisal we will tell you everything there is in that property, not just what it might sell for in the market. When you go over 60 per cent, or 65 per cent at the outside, on any loan, on a home or anything else, you are making that loan on the individual and not on the physical security.

Now, that brings us back again to the question of the building and loan associations' statement of assets. The building and loan associations, like others, made loans in 1926 and 1927 and 1928 on 80 per cent appraisals, and some on 90 per cent, and some made second mortgages, too. Get that in your record, too, gentlemen, because it is an important thing. Building and loan associations in some parts of the country made second mortgages. They made these 80 per cent loans on 100 per cent appraisals in 1926, 1927, and 1928. In 1929 the stock market cracked and the wave has gone right straight down to the little fellow on the street, and it has affected his payment; you take his interest payment accumulation, which is delinquent. You take his tax payments, you take the obsolescence of that property, and take to-day's market—take that 80 per cent and make allowance for any payments that he may have made—and I do not care how much he paid within the contract rate—it is a 100 per cent loan to-day, and there is no equity in it to include in your assets. That is real-estate financing, gentlemen. Mr. Luce will bear me out on this—the life-insurance companies can not save the loans that the building and loan associations have made; but the insurance companies are making loans to-day in any place and to anybody who is entitled to a loan with the security offered. This question of a sectional loan system is all the bunk. You might just as well ask a man if he had stopped beating his wife as to say we have stopped making loans in certain sections where property is poor, when everything is going to pieces. You are representative of a life-insurance company, an institution. I expect that your influence on these other gentlemen will be such that they will see the picture as you do. If your company had loans submitted to it,

say, in a slum district, you would not say yes; you could not say yes, on your oath to the policyholders, and I can not say yes for the insurance company, and even if they did permit it, I would not put it on, because I stand back of every single asset that I invest for the insurance company; and the directors can not take any more chance than I can. We have a dual responsibility.

The proponents tell you that they are representing the unorganized home owners. Is there anything more ridiculous in the world than to say that? What would you think of the man that came to you and said: "I represent the unorganized home owners?" You would think that man was silly. I have no right to represent a man who has not given me that right. I can describe his condition, but I can not come in here and have the nerve to tell you that I represent him. You take what was said before the Senate committee by a lady from Washington. You can find her testimony on page 166 of Part 1, on the unorganized home owners. That is very important, gentlemen, because of the picture that has been presented to you.

The proponents of this bill base their claim in part on the fact that the Reconstruction Finance Corporation, the Federal Land Bank, the Federal Joint Stock Land Bank, and the Glass-Steagall bill to aid commercial banks, have been established: Why not attach another spigot to the money barrel of the United States Treasury for the building and loan associations?

If this is sound reasoning, then why stop at this? The greatest suffering among the unorganized home owners who are so variously represented here is the want of food, fuel, and clothing. This suffering is not only among the home owners, but even more so among his poorer brothers, the rent payers.

We should be sane and logical in our deliberation in order to warrant the respect of the people of this country, and to console us in that period of life when all faculties, save the conscience, have ceased to be active. To do this in the light of the above contention, we should subsidize the butcher, the groceryman, the milkman, the clothier, and the shoemaker. A subsidy for these people in the form of a dole or a gift, as this bill surely will mean, if passed, will do more to relieve suffering than will any other agency under Heaven.

Now, if this is going to pay the Government, as has been contended here, if it is going to be a fine thing and the Government is going to come out of it in two or three years—put all of the money in and pay all of the dividends and get its money back—it is a sad story, it is a poor risk in the eyes of the banks. Why not have the building and loan associations form a group of their own, as the bankers did? We poor laymen, who do not know anything about banking, can take a leaf out of the book of the bankers of this country. They did not let the Government take hold of the situation and form the National Credit Corporation. They did it themselves; they put their own money into it; in other words, they did not do what the building and loan associations are doing, coming and laying their cards on the table and saying: "Take our morale and our characters and our reputations and give us some money;" the Credit Corporation did its own work.

Now, let me ask you gentlemen one more question for our enlightenment. We are here to try to get information from you. You are telling us things we never heard of.

Mr. REILLY. Who do you mean by "we"?

Mr. CLARK. The committee. In your questions you give us information, and we absorb information from this. Is there any provision in this bill to prevent a bank from failing—I mean one of those home loan banks, from failing, in the sense that its capital has been impaired? But one thing. I will answer that question. Now, in the event that happens, what happens to the Government? This bill specifically provides that the members get all of their money, all of their investment, their stock, and deposits, whatever they paid, plus their dividends, and the balance goes to the Government. You will find that in the Senate testimony—

Mr. REILLY. In a failed bank?

Mr. CLARK. In a failed Federal home loan bank.

Mr. REILLY. Do you think it possible for one of those banks to fail if it exercises ordinary judgment in their loans, if they have 200 per cent on their average loans?

Mr. CLARK. How do they know they have got 200 per cent on every dollar they loan?

Mr. REILLY. Because these mortgages are supposed to be appraised at the time they are taken.

Mr. CLARK. A mortgage made in 1928—

Mr. REILLY. It may be made in 1900, but it is appraised at the time they make the loan.

Mr. CLARK. Yes; if the Government follows along the regular order of appraisal, they ought to have 200 per cent. I admit that.

Mr. REILLY. They have that. That is provided.

Mr. CLARK. But suppose there is not enough business in that bank to keep that bank going, with their overhead, and they have bought an office building or have leased one, they have an overhead that is constantly working; and if they do not make any money to pay their overhead, they certainly are impairing their capital, because the money has got to come from some place; and that bank then is not in condition to pay 100 cents to anybody, including the Government.

Now, if that point is understood, I would like to say here there is money everywhere for mortgage loans. In 1931—

Mr. REILLY. Now, just wait. What is that statement?

Mr. CLARK. There is money in some places. Mr. Chairman, you are not legislating for some places that need money; but you are legislating for the entire country, and this money is going to drift into every channel.

Mr. REILLY. If there are parts of the country that have plenty of money, the system will not take advantage of it.

Mr. CLARK. I do not see why they can not, if they can borrow money for 5 or 6 per cent and loan it at 10 to 14 per cent; why can not they borrow it?

Let me make a further observation here. In reading over the testimony I see that Doctor Gries is not sold on the 12 banks or the necessity—

Mr. REILLY. Doctor "who" is not sold on it?

Mr. CLARK. Doctor Gries, of the Department of Commerce, is not sold on there being 12 banks—

Mr. REILLY. What is your view as to the number of banks necessary?

Mr. CLARK. None; no banks necessary. There is only one way to handle this, Mr. Chairman. Granting that there is trouble among the home owners, and granting that the mortgage institutions that are handling this are as hard-headed as pictured here, and are pitching the people on the street, the Government might set up an institution, or either one of two institutions. The first is to appoint a State agency to take care of the people in that State with Government money. What happened when the Government wanted to give money for the roads of the United States? I guess the bill is still in Congress. The States would not take it. The States are taking care of their own people. The other is to set up an institution that will loan the money direct to the building and loan associations, and this is a constructive suggestion. Loan the money to the building and loan associations on their security as may be provided, and their guarantee to pay it back, for the sole purpose of paying the depositors or the shareholders or the stockholders. That would put the building and loan associations back on the plane that they should be on, and it puts them on the plane with other well-organized mortgage institutions. Now, you can not go wrong through establishing good, sound business principles, in making a specific appropriation for a specific purpose. So far as the new loans are concerned, loan from income received on mortgage payments, so that the Government loan could not be used for new financing. Take the State of Massachusetts, with \$506,000,000—if they are getting interest on \$506,000,000, together with the payments, they are getting a substantial sum of money to put out again.

Now, Mr. Chairman, I will be through in just a moment, unless you wish to ask questions.

What has created the demand for these mortgage banks? You know bills have been in since 1919; why were they not pressed between 1920 and 1930? Again, I refer you to Mr. Bodfish's testimony in part 1, in which he says: "The flow of money was so great we did not need the banks," or words to that effect. They did not press it then because there was so much money in the country. They did not press their point from 1920 up to 1930, and now they want it. Now, in 1920 we were in a situation almost as bad as we are in to-day. I know. I was loaning money at 1 per cent less than the average loaning institution in our State, at that time. Now, we are getting back to that again. We are not getting pessimistic because of the statements made here, because we do not believe them; we do not believe the situation is anywhere near like that. It is a case of accusing somebody else, and doing the same thing themselves. They are responsible for it. In two years we will not need these banks, except as an additional source of money to be secured at less than the prevailing rates, to loan out at double the amount that we paid for it; and that makes a fine banking institution for anybody to operate with the Government back of it. But what are you doing to the investors of this country? Have you thought they are entitled to some consideration? You bear in mind that other billions of dollars invested belongs to the investors, to the estates, to widows and to orphans, and you are upsetting their market. I have no individual investors, and I am not speaking for them; but I am calling attention to a picture which seems not to have been considered. Those people are in the market, and coming in more and more all of the time, and

are not they entitled to a source of investment that has been safe and properly handled before?

I want to say that the thing that brought this to a head is organized propaganda more than anything else. No question about that. I want to submit right here a page of a daily newspaper published in Stamford, Conn. I think they published it because the National Real Estate Board brought a man down from Stamford, Conn., to try to contradict my testimony, and a man who knows very little about the real-estate business, because his chief occupation was that of an automobile salesman, and they brought him down here to upset what I had said, and they come out with this. I will not encumber your record, but I would like to leave it for you to read over:

A challenge to Stamford property owners from the Stamford Real Estate Board and the National Association of Real Estate Boards.

Here are a few of the questions:

Have you found a reasonable supply of mortgage money available at reasonable cost? Has it been possible for you to arrange for refinancing of your present mortgages? Have you been able to secure mortgage money to build a new home for your own occupancy?

Mr. LUCE. Mr. Clark, we have but a few minutes left, and I want to ask you some questions; and, unless you deem that of importance, I think we might get to the questions at once. Would you rather come back to-morrow morning?

Mr. CLARK. No; I think I want to leave town to-day. I would like to submit this for the record.

Mr. LUCE. All right; leave it here.

(The matter referred to is as follows:)

A CHALLENGE TO STAMFORD PROPERTY OWNERS FROM THE STAMFORD REAL ESTATE BOARD AND THE NATIONAL ASSOCIATION OF REAL ESTATE BOARDS

Have you found a reasonable supply of mortgage money available at reasonable cost?

Has it been possible for you to arrange for refinancing of your present mortgages—

Have you been able to secure mortgage money to build a new home for your own occupancy?

If the answer to these questions is "No", then write to Senators Hiram Bingham, Senate Office Building, Washington, D. C.; Frederic C. Walcott, Senate Office Building, Washington, D. C.; and Representatives Augustine Lonergan, House Office Building, Washington, D. C.; Richard P. Freeman, House Office Building, Washington, D. C.; John Q. Tilson, Capitol Building, Washington, D. C.; Edward W. Goss, House Office Building, Washington, D. C.; William L. Tierney, House Office Building, Washington, D. C.; and relate your experiences.

The National Association of Real Estate Boards has been fighting your battles for you for many months.

A bill establishing 12 new banks for the purpose of discounting first mortgages on homes will be reported before Congress very soon. The bill is commonly known as the Federal home loan bank bill. The Members of Congress will do what they believe the people want them to do.

Tell them what conditions really are as you have found them to be.

The groundwork has been well laid; now it is up to you.

Further information will be gladly given by calling the secretary of the local board at 4-1146.—The Stamford Real Estate Board (Inc.).

I have not anything else to offer, except on that question of propaganda, both over the radio, by newspaper, and every other way. I will be very glad to answer your questions.

Mr. REILLY. Mr. Clark, is it not customary that, when a bill is up before Congress, that propaganda goes on on both sides?

Mr. CLARK. Not to any extent; no.

Mr. REILLY. It is a question of degree.

Mr. CLARK. If you were a home owner in Stamford, Conn., you would not feel that you were getting a fair deal.

Mr. LUCE. Mr. Clark, in your testimony before the Senate committee, you made this statement:

During the past four months any institution, banking, building and loan, or anything else, that had what they considered sound mortgages, could get all of the money it needed to make it liquid.

And a few moments later, you said:

There is no lack of money. This proposition is entirely emotional and not factual.

After listening to the evidence, the witnesses in the Senate and here, do you still stand by that statement?

Mr. CLARK. Yes.

Mr. LUCE. You will observe, however, that it is positively contradicted by the witnesses that you heard?

Mr. CLARK. It has not been contradicted, Mr. Luce, because the other witnesses—

Mr. LUCE. Have you heard my own testimony on that fact?

Mr. CLARK. Your own testimony?

Mr. LUCE. Yes.

Mr. CLARK. I would rather you would not ask me to pass any judgment on your testimony, Mr. Luce, or any member of this committee.

Mr. LUCE. Again I assert there has not been mortgage money in the State of Massachusetts; and the experiences of all of the Members of the House with whom I have talked, shows that all over the country there is a lack of money and credit; and the President's appeal has authorized this whole program on the ground that your statement is not a fact.

Mr. CLARK. Do I understand you to say the President has set his program on the fact I stated there was no money?

Mr. LUCE. No; on the lack of credit facilities throughout the country.

Mr. CLARK. Mr. Luce, may I answer this question of yours in this way: Is not plenty of money a relative term?

Mr. LUCE. No; not when there is no money.

Mr. CLARK. Who said there was no money?

Mr. LUCE. I say that there are hundreds of places in this country to-day where you can not borrow one dollar. The chairman of our committee, Mr. Steagall, of Alabama, has told us that in the surrounding groups of counties in his State, where every bank has failed, there is no money. You certainly put yourself in contradiction to the great mass of the Members of Congress, in the assertion that there is plenty of money.

Mr. CLARK. Mr. Luce, in the localities where banks have gone bad, there is no relief to be had—there is relief to be had, if they have securities, if the securities they have got are negotiable.

Mr. LUCE. My dear sir, in the case of the central bank, the central cooperative bank that has just been established in Massachusetts,

and the Central Savings Bank also just established, and their only excuse was that there was lack of ready money.

Mr. CLARK. Is that the only reason they were organized?

Mr. LUCE. Yes; they would not have been organized without it.

Mr. CLARK. Then it is a good thing for the country to have to face those situations; but when you are speaking of plenty of money, you are speaking of a relative term. We have not denied—

Mr. LUCE. I am not talking about that. I am talking about your assertion that is further repeated a few minutes later: "As I stated before, there is available all of the money necessary for legitimate projects." Why are you in a position to speak for the whole country?

Mr. CLARK. Mr. Luce, who have you had here outside of the building and loan people as witnesses to testify and show that there was need of money?

Mr. LUCE. I am speaking about what the Members of Congress believe as a whole, and individually. That is stated in all of the testimony we have heard on all of the matters brought before us. Our own personal experiences are just to the opposite of yours. We will simply put up the judgment of everybody against yours.

Mr. CLARK. Mr. Luce, where does this bill give any money—

Mr. LUCE. I am not talking about the bill; I am talking about the fact that you asserted there is plenty of money in the country.

Mr. CLARK. I still assert there is plenty of money for legitimate projects; and I am speaking from the experience of a man who lends money.

Mr. LUCE. Very well, sir. Now, in your further statement in the Senate hearing, you put in an excellent, or very sufficient, from your point of view, summary of objections to this bill, and your views as to the position of the proponents, and you say:

It proposes a mortgage discount bank for the relief of institutions which, through practices inconsistent with sound mortgage banking, find themselves in a frozen condition.

Now, the whole country is frozen. Has everybody followed practices inconsistent with your views of what is sound banking?

Mr. CLARK. No; everybody hasn't.

Mr. LUCE. It has taken its effect upon everybody in the country.

Mr. CLARK. No; because this bill is primarily intended for the building and loan associations, and their policy is the thing that the mortgage bankers, in their first draft, presented to the Senate committee—

Mr. LUCE. I would like to say, for my own part in this bill, that I have always argued for the bill on the ground that it did cover all mortgage credits, no matter what type of institution. So let us forget, for the moment, the part that the building and loan people play in it, and see whether you are correct in your belief that all the mortgage institutions in the country have gone wrong in the matter of practices, and that the frozen conditions are due to the banks. I thought it was due to the drop in the value of property.

Mr. CLARK. Mr. Luce, you have brought two points in there, and the second one is very important. I do not say that all the institutions that have gone bad have gone bad because of poor judgment in their practices; but we can not get away from the point that this is primarily a building and loan bill.

Mr. LUCE. Well, you have covered that, in answer to the questions.

Mr. CLARK. You have also referred, Mr. Luce—you have made a statement that is very important, that it affects the value of real estate and—

Mr. LUCE. No, no; I said that the business conditions throughout the country are due largely to the drop in values of all types of property, and not to the negligence of the financiers.

Mr. CLARK. Yes; the real cause of that being too much money in 1922 to 1928.

Mr. LUCE. Well, in the case of subsequent official investigation of previous crisis there were something over 100 reasons advanced. I think I must have heard 345 reasons for the present situation.

Mr. CLARK. Yes.

Mr. LUCE. So we will not attempt to analyze it now.

Mr. CLARK. Let us apply ourselves to the bill and see—

Mr. LUCE. I wanted to be sure a little further as to what appears on the face of the bill; and I am referring to the statement that I previously took up with Mr. Cody, in part, and your statement covered the same ground.

Mr. CLARK. This is Mr. Cody's testimony.

Mr. LUCE. Now, I call your attention to part 3, page 585, of your testimony where appears a statement that may have influenced opinion more than any other statement that has been circulated. I call your attention to the fact that Mr. Cody's language was this:

According to estimates made public by the Federal Government, it would be possible to construct 3,000,000 residences within the next five years, if the plan should be put into effect.

Now, when you got to this same statement, you said:

Proponents of the plan proclaim its power to stimulate construction of 3,000,000 new houses within the next five years.

The mouth-to-mouth repetition of those statements is doing a lot of damage and making it difficult to get fair judgment on this proposition. Therefore, I inquired as to the source of that statement, and found that it was in an article in the New York Times which, if accepted on its face, might warrant the belief that some Treasury official had authorized it. As far as the inquiry goes, or has gone, and it has gone far enough, nobody connected with the urging of this proposal, from the President down, has ever made any such statement. Are you still of the belief that the proponents of the bill intend, or wish, or expect, that it will result in the building of 3,000,000 homes in the next five years?

Mr. CLARK. Not now, Mr. Luce, I would not. Just a minute, let me finish this. If you will refer to the testimony of Mr. Nelson in part 3—

Mr. LUCE. I do not need to refer to it. I have it right here.

Mr. CLARK. Please permit me to make this statement for the record.

Mr. LUCE. Go ahead.

Mr. CLARK. You are putting me in a position that might be a little bit peculiar later on, and I know you do not want to do that.

Mr. LUCE. No; putting in Nelson's citation there does not seem to me important.

Mr. CLARK. I think it is very important, because as you say, this one institution loan program has disturbed Members of Congress, and it has disturbed some billions of dollars of investors in real estate to-day more than the Members of Congress could possibly be disturbed.

Mr. LUCE. It is on page 549, part 3.

Mr. CLARK. Can I get this into the record? Mr. Herbert Nelson, the secretary of the National Real Estate Board, stood up at a meeting of the Senate Committee on Banking and Currency during the hearing on this bill, as I was concluding the summary for the opponents, and he said:

Senator Watson, I wonder if I could ask Mr. Clark one question?

Senator WATSON. If he is willing.

Mr. CLARK. If I am able to answer it, Mr. Nelson, I shall be delighted.

Mr. NELSON. The statement has been made repeatedly that the proponents of this measure propose to build 3,000,000 homes inside of five years, and I know that no such statement has been made by our group or by the building and loan, or anyone else.

And further he says:

This country does not require 3,000,000 homes in the next five years. The best estimate that we have been able to get for the decade 1920 to 1930 indicates an annual requirement of about 500,000 homes; assuming that, during the next five years, we will have a somewhat declining population, immigration being cut off.

That ties it all on the statement that we need 2,000,000 homes at the maximum. No getting away from that as authority—

Mr. LUCE. Certainly, I can interpret this statement as to the total home-building construction in the United States. The financing of that is an entirely different proposition. It may be necessary for you to build houses for 2,000,000 families, or 2,000,000 homes, but how large a percentage of the money for that will come through institutions concerned with this bill? What you have given out is that we are passing this bill in order that this bill may result in the building of that number of homes. What you have just said to us is the total of what all types of financing may be, whether the man puts in all of the money, without borrowing a dollar, or whether he borrows part of his money from a mortgage broker, or wherever he gets his money. The total of the building in the next few years, from all of these lending agencies, is the figure that you have given. Now, you have changed in your idea—I will not say you have changed, but rather the repetition from mouth to mouth, the way all stories go, has changed the statement that the housing of the country the next five years ought to be a given figure, to the statement that this particular proposition is needed to do it all.

Mr. CLARK. Mr. Luce, the inclusion of 3,000,000 homes in the statement of the Mortgage Bankers' Association was not, and could not be, interpreted at that time, or now, as being the one objection of this; but, your New York Times of Sunday, December 6, 1931, that Mr. Cody had yesterday, I submit for the record, to show where the 3,000,000 homes came from.

Mr. LUCE. I have put that in the record, in my statement. I just said it was in the New York Times.

Mr. CLARK. Yes; it is in the Record, but the President's program included the building and taking care of unemployment.

Mr. REILLY. Now, if you people want to say any more, we will come back to-morrow morning. If not, we will adjourn until Monday morning.

Mr. CLARK. Mr. Chairman, may we put this in the Record, this extract?

Mr. REILLY. Yes; you may.

(The matter above referred to is as follows:)

[New York Times, Sunday, December 6, 1931]

HOMES IN THE UNITED STATES—THE PRESIDENT'S BUILDING PLAN

President Hoover's program for a home-building loan system, to which he referred again in his address last Wednesday at the Conference on Home Building and Home Ownership, will soon be laid before Congress. The President holds that home owners to-day are suffering many hardships and that the building of new dwellings would serve also as a factor in the economic recovery of the Nation. According to reports just made to the Treasury and the Federal Reserve Board, based on a survey of the situation, it would be possible to construct 3,000,000 residences within the next five years if the President's plan should be put into effect.

There is no exact estimate of the present number of dwellings in the United States, for the figures of the 1930 census have not been tabulated and will not be available until March or April. The number of dwellings recorded in the 1920 census was 20,697,204. Taking as a basis the President's statement that 200,000 individual homes are erected annually in normal times, it is probable that the total at present is close to 23,000,000. In 1910 the dwellings numbered 17,805,845, so that in the decade of 1910-1920, the increase was roughly 2,890,000.

There are sharp variations in the estimates of dwelling-house construction. Against the President's statement that more than 200,000 individual homes are built every year, are the figures given by construction companies. One company estimates that over a 25-year period the census figures show an average yearly residential construction of 310,000 dwellings; a second company holds that the normal construction annually is about 400,000 houses.

The 1920 census gave the number of families in the United States as 24,351,676. Of these, 12,943,598 rented their houses, 6,522,119 owned homes that were free of mortgages, and 4,059,593 lived in homes that were mortgaged. The census taken 10 years earlier showed 20,255,555 families. Of these, 10,697,895 lived in rented houses, 5,984,284 owned mortgage-free homes, and 2,931,695 had mortgaged homes.

Mr. Hoover's plan to stimulate construction contemplates the creation of a system of home-discount banks with a capital of \$150,000,000. There would be 12 banks of this character, 1 in each Federal reserve district. The President intends that the banks be privately financed, although Congress will be asked to permit the Federal Government to subscribe capital in the event insufficient funds are subscribed in various communities.

Summary of census figures

	1930	1920	1910
Families.....	29,980,146	24,351,676	20,255,555
Dwellings (houses, apartment buildings, hotels, etc.).....	(1)	20,697,204	17,805,845
Renters.....	(1)	12,943,598	10,697,895
Unencumbered.....	(1)	6,522,119	5,984,284
Mortgaged.....	(1)	4,059,593	2,931,695

¹ Not yet officially released.

(Thereupon the hearing was adjourned until 10 o'clock a. m., on Monday, March 28, 1932.)

CREATION OF A SYSTEM OF FEDERAL HOME LOAN BANKS

MONDAY, MARCH 28, 1932

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE OF THE COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The subcommittee met this day at 10 o'clock a. m., Hon. Michael K Reilly (chairman) presiding.

Present: Messrs. Reilly (chairman), Campbell, Luce, and Williams.

Mr. REILLY. Gentlemen, the committee will be in order.

Mr. Baltz you may proceed to make any statement you care to give the committee.

STATEMENT OF EDWARD C. BALTZ, SECRETARY PERPETUAL BUILDING ASSOCIATION, WASHINGTON, D. C.

Mr. BALTZ. I just want to say to you, Mr. Chairman, that I am from an association that is not in need of any help, but which desires to help. A rather unusual situation, but that is our position.

Mr. REILLY. Have you got a statement you desire to make?

Mr. BALTZ. I have; yes.

Mr. REILLY. Do you approve this bill?

Mr. BALTZ. I do. I have a very short statement that I desire to make, and I have a suggestion to accompany it, but here is what I want to say, very short, but to the point.

Mr. REILLY. Well, all right, go ahead.

Mr. BALTZ. Speaking as the secretary of a local building association and with 24 years' experience in that line of work as a background, I would like to make the following observations regarding the bill you gentlemen are now considering.

I will cite our association as a typical example of the type of institution that desires to become a part of the home loan bank system, to be created by this bill.

If the home loan bank bill becomes law—and I hope it will—our association will immediately have available for loans on small homes the million and a half dollars we now must keep in cash. As a member of the system, we would be secure in the knowledge that, should an emergency arise when funds should be needed, they would be available through the reserve system created by this bill.

Under present conditions, because of the lack of any suitable agency where any part of the \$27,000,000 worth of mortgages owned by our association could be pledged by us as collateral for the borrowing of money, we are obliged to keep on hand between one and a half and two million dollars, money which would be and should be, used in financing the small homes, for which purpose this asso-

ciation was organized. As I say, we have \$1,500,000 of cash, but we are afraid to let it go out; we have to keep it on hand, because we do not know what is going to happen. If we had to borrow, we would not know where to get any money.

It is the custom of our association, and I believe the custom of the majority of the building and loan associations throughout the country, to allow investing members to withdraw on a reasonable notice. Because of the uncertain and unsettled times through which we are now passing and have been passing for the past several years, these withdrawal demands have been abnormal and this has made it necessary for our association to keep on hand a large cash balance, thereby reducing considerably the amount available for home financing.

I am further of the opinion that the majority of life-insurance companies, represented as they are in most cases by brokers, would not have the necessary organization for the handling of the small monthly payment mortgages, as now handled by the building and loan associations, nor does the average building and loan association loan, which is \$4,000, make the class of mortgages desired by insurance companies. Furthermore, due to the restrictions placed upon loans by the insurance companies, such as not making loans on houses over 10 years old and other restrictions placed upon loans by the insurance companies, the average small home owner would have difficulty in securing loans from that source.

Reference has been made in these hearings to premiums charged by building associations, thereby increasing the interest rate. At this point I would like to say, of my own knowledge, that the association I represent, and the majority of those throughout the country, have long since discontinued charging either premiums or membership fees, thereby making the loans secured from building associations in the majority of cases cheaper than those that can be secured from any other source. As the resources of building and loan associations have increased, they have steadily lowered the costs of mortgage funds to borrowers, and it is my belief that this home loan bank system will further increase the flow of money into building and loan associations around the country, with resultant lowered interest costs and liberal terms to worthy borrowers. Building associations deal in one form of security only and the costs to the borrower on real estate first mortgages are very economical. There are no commissions or renewal fees, and no charge or bonus to anticipate payment in full or in part. They run for longer terms, but are curtailed monthly and so the money helps many borrowers (being loaned as it comes in) during the term of the loan, the interest being charged on unpaid principal only.

It should be kept in mind that in these institutions earnings are paid to the members who place their savings in the associations and in this way the building and loan association encourages saving and helps the home buyer at the same time. The reason for the frozen condition that exists in many building associations around the country to-day grows out of the fact that nine-tenths of their money is invested in long-term real estate first mortgages, a policy which emphatically distinguishes our institutions from banks.

This bill proposes a Federal reserve system for building and loan associations, which has always been needed. Our association is

willing to join the home loan bank systems and, under the present terms of the bill, our investment in the stock of the bank would be very substantial; over \$200,000 would be our subscription alone, and we do not expect to get any help from it, either. We desire to join, not because we are in distress and need any help at the present time, but because we believe in the system. Our board of directors has already voted to join as soon as the bill is passed.

In conclusion, I wish to heartily indorse the testimony given by Mr. Best, Mr. Friedlander, and Mr. Bodfish, representing the United States Building and Loan League, and assure you that it is in accord with the thought of the building and loan executives with whom I am acquainted. The measure is conservatively drawn and would be satisfactory to us in its present form. As I see it, there is nothing in the measure that would stimulate undue building and, as a matter of fact, I think the "3,000,000 homes" bugaboo, that has been persistently circulated by the opponents of the bill, is an absolute and willful misrepresentation.

I have here also a 2-page summary and analysis of the home loan bank bill, that was prepared by our building and loan people after they had studied the measure. It occurs to me that it might be helpful and explanatory to many persons who will undoubtedly read the record of these hearings.

Mr. REILLY. That summary and analysis may be inserted in the record.

(The matter referred to is as follows:)

THE FEDERAL HOME LOAN BANK BILL—A SUMMARY AND ANALYSIS

The agency proposed in the home loan bank bill is sound, conservative, and built upon existing institutions, which are subject to inspection and regulation by the States. It is noninflationary and is planned to give financial support to existing home financing, thrift, or savings institutions. It will fill an immediate need, as financial institutions have millions of dollars of preferred first mortgages on homes, upon which they can not raise a dollar to pay withdrawing depositors and shareholders, or to make loans either upon property that is unencumbered at the present time, or to refinance existing mortgages which have been called, come due, or are being foreclosed by receivers, private investors, and banks racing for complete liquidity.

The bill is S. 2959 and H. R. 7620 and is before the Banking and Currency Committees of the House and Senate.

Federal home loan banks.—The bill will create a system of 12 Federal home loan banks in districts determined by the Federal home loan board.

Membership.—Building and loan associations, cooperative banks, homestead associations, savings banks, trust companies, banks with time deposits; and insurance companies, if subject to inspection and regulation, are eligible for membership. The members supply the permanent capital, and upon becoming members subscribe \$2,500 plus 1 per cent of the mortgages eligible for collateral or discount. This subscription can be paid on a quarterly basis and immediately upon payment of the first quarter, a member is eligible to borrow twelve times its subscription.

Eligible institutions in States whose laws do not permit stock purchase are admitted through the waiving of these requirements under procedure prescribed in the bill. All member institutions are subject to examination, although State examinations are accepted, if adequate. Members may withdraw under provisions similar to those in the Federal reserve act.

Capital.—Each of the 12 banks will start with a minimum capital of at least \$5,000,000. Subscriptions are to be opened and at the end of 30 days the subscriptions are to be totaled and the Government subscriptions to stock bring the total initial capital for all 12 banks to \$150,000,000. The Government subscription is merely an advance and is to be repaid as additional institu-

tions join the system. An early retirement of the Government capital is anticipated by the provisions of the bill.

Federal home loan board.—This board is to consist of five members appointed by the President, with 6-year terms, one member of the board to be designated as chairman. This board exercises supervisory control over the general activities, including the issuing of bonds, the capital of the individual banks, the membership qualifications, the rates of interest on notes, debentures, and bonds, the conditions for assignment and deposit of collateral, the borrowing of money, etc.

Management.—Each Federal home loan bank has a board of 11 directors, 9 of whom are elected by the members and two appointed by the Federal board. The nine members represent three sizes or classes of participants, so that small, medium-sized and large members are all represented on the board of each bank. Each director serves for three years. Directors are appointed by the Federal board should individual members of the bank hold capital amounting to less than \$1,000,000.

The directors' compensation is determined entirely by the banks themselves and only persons "connected with the home-financing business" are eligible to be one of the nine directors elected by the members. The board of directors must administer the affairs of the several banks fairly and impartially and extend to members such advances as may be safely and reasonably made with due regard to the maintenance of adequate credit standing of the Federal home loan bank and its obligations.

Loans or advances.—The bill assumes, as does the Federal reserve act, that it can best serve the small savers and the home owners by serving the home-financing institutions in all the small towns and cities in the United States. These home-financing institutions are primarily building and loan associations, and the small or country banks. Therefore, no loans are made direct to home owners, home buyers, builders, or even to private brokerage mortgage companies.

The mortgages which the members may place as collateral are divided into two classes: (1) Amortized, or monthly repayment, mortgages for eight years or more, and on such mortgages a home loan bank may advance or lend not in excess of 60 per cent of the unpaid principal; (2) other home mortgages on which may be advanced 50 per cent of the unpaid principal. No advance can exceed 40 per cent of the appraised valuation of the real estate and there are additional restrictions regarding the relation of the loan to the appraised valuation. No mortgage can have more than 20 years to run to maturity, nor can the unpaid principal exceed \$15,000. These advances, in addition to the mortgages deposited as collateral, are secured by a note; that is, by a primary and unconditional obligation of the member.

Twelve banks liquid.—In order to keep the 12 banks in proper condition, each one must at all times have an amount of money equal to the capital subscriptions of its members, in (1) United States Government securities; (2) interest-bearing deposits in banks and trust companies, and (3) loans to members with a maturity not greater than one year.

Other than above, the funds of the bank, including funds received from the sale of bonds, may be loaned to members for long periods of time.

Bond issues.—The board is given broad powers with regard to the types of bonds, their maturity and interest rates. All bonds are secured by home loan mortgages, the unpaid balance of which have an approximate ratio of \$2 for each dollar of bond issue. The banks are jointly and severally liable, and the bonds are lawful as investment and security for all fiduciary, trust, and public funds under the control of the Government. Tax exemption is provided for the securities in order that they may find a ready and low cost market.

Reserves and dividends, etc.—Each bank places in a reserve account semi-annually 50 per cent of its net earnings until the reserve equals the paid-in capital; after that 25 per cent of net earnings. There are the usual provisions for dividends, examinations and reports, unlawful acts and penalties, restrictions against use of name and the Federal reserve banks are authorized to act as depositories, custodians, or fiscal agents for liquidation purposes.

Mr. REILLY. How many members has your society got?

Mr. BALTZ. About 32,000.

Mr. REILLY. How many are builders, or how many have you loaned money to?

Mr. BALTZ. How many are borrowers?

Mr. REILLY. Yes.

Mr. BALTZ. About 7,200.

Mr. REILLY. What demands have you for money now with which to build?

Mr. BALTZ. We have a great demand for a lot more money than we can supply.

Mr. REILLY. I mean, what is your demand; how many people are asking you for assistance in home building.

Mr. BALTZ. I should say at least 10 or 12 every day.

Mr. REILLY. What percentage do you lend?

Mr. BALTZ. We lend 75 per cent of our appraised value, which is a very conservative appraisal, which represents about 60 per cent of the present-day selling price.

Mr. REILLY. Is it necessary for a man who builds a home through your organization to have a second mortgage?

Mr. BALTZ. No; he could use his own judgment on that.

Mr. REILLY. Do you permit a man to start building before he has on hand the difference between what your loan will be and what the building will cost?

Mr. BALTZ. We satisfy ourselves that the funds are available through some source. Usually, though, they name the amount from the association—they name the amount first, and we lend them the balance.

Mr. REILLY. Are these people who want to build homes now members of your association?

Mr. BALTZ. They are.

Mr. REILLY. Have the money already in it to start?

Mr. BALTZ. The money already there.

Mr. REILLY. Any questions, gentlemen?

Mr. LUCE. Do you operate under the District Code or under the Federal law?

Mr. BALTZ. The District Code.

Mr. LUCE. Have you satisfied yourself, by a careful study, that no change in the code will be necessary in order to allow you to get in?

Mr. BALTZ. I am sure it would not.

Mr. LUCE. That is all.

Mr. REILLY. That is all, Mr. Baltz; we thank you.

Now, Mr. Huddleston, we understand, or this subcommittee understands, that you have introduced a bill at this session of Congress relative to giving assistance to home builders. You evidently have studied the matter and we take it that you are familiar with the pending bill, the Luce bill, and we would like to have your views on this subject involving home-loan financing.

STATEMENT OF HON. GEORGE HUDDLESTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ALABAMA

Mr. HUDDLESTON. On the first day of the present session I introduced H. R. 316, which was the same bill that I have had pending in two Congresses. My bill is entitled "A bill to provide capital for building homes, and for other purposes."

My bill is a very long bill, but it is very easily understood, particularly by members of your subcommittee, who of course are fami-

liar with the farm-loan system. It is modeled closely on the farm-loan act; it applies that act to home builders, and makes it applicable to those who desire to build homes, either in urban communities or in the country. It eliminates the joint-stock land bank, however; and provides for the organization of local loan associations identical with the farm-loan system.

Mr. REILLY. It follows the Federal land bank plan?

Mr. HUDDLESTON. Yes; eliminating the joint stock land bank feature of it; and that is all there is to my bill.

As to Mr. Luce's bill, I am not sure that I am competent to discuss it. As I get it, it seems that you have two bills, Mr. Luce. Did you not introduce two bills, Mr. Luce?

Mr. LUCE. The First bill was hastily drawn and had to be rewritten, and then has been reintroduced.

Mr. HUDDLESTON. It is my understanding of that bill that it proposes to form associations out of financial concerns, such as building and loan associations, banks, and others of that kind; and to provide means whereby they can get money, either to relend to home owners, or to enable them to carry mortgages that they already have; and that it does not propose to make loans direct to the home owners themselves. I do not know whether I am correct in that or not. If I am correct, my bill differs from that bill in the fundamental aspect that I eliminate the financial institutions and provide for the organization of those who want to build homes, or who have built homes, which they themselves occupy. It gives loans to those owners for the purpose of construction, or for the purpose of lifting encumbrances which are now on their homes. As I said, my bill is very simple and it takes a very few words from me to tell you what it is.

Mr. REILLY. Mr. Luce's bill follows the Federal reserve system in setting up banks to deal with existing institutions.

Mr. HUDDLESTON. Yes.

Mr. REILLY. Now, what do you think about the necessity for any assistance, at this time, to building and loan associations and mortgage companies?

Mr. HUDDLESTON. Practically all of them are loaded down with frozen credits; they are pressing their borrowers, and in some cases are foreclosing. I might say, in many cases in my section of the country, they are taking over the properties. Of course, they are in distress. They would be relieved quite a bit either by direct loans, or loans to their borrowers, which would enable the borrowers in turn to pay what they owe the concerns. The only benefit that the borrowers could get, as I see it, out of loans to these lenders, is in enabling their mortgagees to be more lenient with their collections. The same purpose would be accomplished if the loans were made to the borrowers, and the borrowers enabled thereby to pay their debts to the building and loan associations and so forth.

My thought is that the chief value to such legislation at this time would come in the way of enabling home owners to save their homes. I do not think a very big result would come in the way of construction. There are instances in which there would be construction, but the most pressing aspect of the situation is the fact that a great many home owners, particularly the small home owners, have mortgages which they are unable to pay and they are about to be thrown out of their homes. That, undoubtedly, is a very acute situation.

When I introduced my bill, the latter situation was not there. It was an effort on my part to give to the small owners of homes, who were not engaged in agricultural pursuits, the same advantages of borrowing that the farmer has had. Of course, this is applicable to farmers also; in other words, for the building of farm homes. The purpose was to aid the construction of homes, at that time. The situation has so changed, however, that it becomes now a matter principally of saving homes already built; and I may say that, by the thousands, they are now being lost, and I should say a large percentage, something like one-half, of the small home owners are in distress over their mortgages, and their homes will be lost, if this situation continues much longer.

It is my observation that the lenders have adopted a very liberal policy toward the borrowers, and are willing to carry them as long as they can pay what would be rent, but many of these borrowers can not pay rent, they can not pay taxes and even the small rent, and have no prospects of paying the principal. So that unless they can refinance them, when a lender finds that situation, he realizes he might just as well clear it up, and he goes ahead and takes the property.

In my town, which is of something like 250,000 people, and in a county with 431,000 people—that is, before the crash, and I suppose we have lost probably 15 or 20 per cent of our population; I do not know what, but we have lost a lot of them—in that community, we have had as many as 150 foreclosures a week, publicly, probably exceeding that, for the past two years.

Mr. LUCE. Mr. Huddleston, the Federal farm-loan system has had my warm sympathy; and the chief reason has been my interest in, and hope for, the cooperative features of that system, or trying to work to the cooperative idea as that which most promises to lessen the waste in our distributive system; but much to my own disappointment, at any rate, that cooperative basis has not functioned.

Mr. HUDDLESTON. It has not functioned.

Mr. LUCE. We, of the Banking and Currency committee, have been told, generally, that when one of these associations is formed by a group of men desiring to borrow money on their farms, after they have received their money, they lose all interest in the association, itself, and do not try to get other members. They make it a closed corporation; in fact, they become inert; and when we inquired how that came about, we were told that in many cases the secretary, or whoever is the executive official of one of these little associations, is also engaged in placing mortgages for one of the big life insurance companies and other financial institutions, and that it is to his interest that his association shall not function.

So we have, from time to time in the full committee, had proposals to wipe out the cooperative part of it as a superfluous piece of machinery. For one, I have shared in opposing that, in the hope that we might find some way to make these cooperative associations a real part of the structure; and if anybody can suggest a way to do that, I am sure it will have a receptive hearing on the part of the Committee on Banking and Currency.

Mr. HUDDLESTON. My feeling about that is that the cooperatives, the local associations have not functioned. I think that is due,

in some measure at least, to the administration of the act. I think the land banks have not taken enough interest in seeing that the local associations did function. Perhaps that might be remedied, to some extent, by a system of closer inspections; perhaps an officer of the bank should be sent, periodically, to call the members of the local associations together and see to it that they have bona fide meetings. I am impressed that many of these local associations never hold any meetings, never have any notices of meetings, and simply feel that when they have borrowed money all they have to do is pay it back, and that is all they can hope for and that is the end of it. Either the cooperative features should be abandoned or they should be made to function, one or the other.

Mr. LUCE. When drafting this bill I imagine that the authors of the bill—it came out of the Department of Commerce—felt that, inasmuch as they had right at hand the cooperative idea functioning in the shape of building and loan associations, it would perhaps be more prudent to accept the situation as it is than run the risk of having the same result follow if we copied in that respect the farm loan system.

Mr. HUDDLESTON. I think the farm-loan system has been a failure; I would not say a total failure, but it is far from being an unqualified success. That perhaps is due to several things: First, I should say to the making of excessive loans; and, second, not seeing to it what use was made of the money. I have known of numerous loans being made which were used to buy the property, either directly or indirectly. I have in mind just now an instance in which the party agreed with the owner to buy a plantation on terms. The trade included that the owner should borrow all he could from the farm loan association, put that money in his pocket, credit the purchase price with the money, and allow the purchaser to assume this loan that he had contracted for. By the way, that loan is right now in default, about to be foreclosed.

Loans have been made too large in amount, not altogether on excessive valuations—I do not mean that altogether—but more money advanced than the borrower could use for any legitimate purpose. That induces speculation, both in lands and in other things, and I am impressed frequently with the thought that probably agriculture, as a whole, had been hurt by the farm-loan system. Farmers have been induced to involve themselves in debts that they can not pay, or have improved their property, or bought other property, or gone beyond their means. I doubt if agriculture, as a whole, has received any net benefit out of it.

It is a very poor favor to anybody to lend him some money and require him to pay it back—it has a very doubtful value, to my mind. And to encourage a man to go in debt under the farm-loan system has just been merely another installment-sales trouble, which constitutes one of the most serious factors in the present depression.

Proceeding on from the question of loss, I think the second failure of the system has been in the failure of administration, and I do not attribute that altogether to the officers of the banks or to the Farm Loan Board, but to subordinates, to the local officials who have been more interested in themselves than they have been in the system and who have exploited the system in several ways. I have not observed cases where they have discouraged loans in order to make

loans for other companies, but I have seen cases where they have unduly encouraged the making of loans in order to get the fees; they have tried to build them up and make loans which were not sound, so that they might get the fees which came out of it. And, of course, there have been many instances of defalcation and embezzlement in connection with the business, because men of business experience and character could not be found to take these places, or were not found. The farm-loan situation in my State is bad.

Mr. REILLY. Bad all over.

Mr. HUDDLESTON. Yes; it is bad and there are many defaults. I do not know what is going to happen. I do know this, that the effect upon agriculture and the underpricing of farm lands through foreclosures and forced sales has been disastrous.

Now, there is one other point I want to take advantage of my presence here to present to your committee: My territory is under the jurisdiction of the land bank at New Orleans, and they have a system there under which they will not recognize a sale of property mortgaged to them, unless the purchaser will personally assume the debt to the bank. Now, get that! A borrower, having an equity in his land, finds himself unable to go ahead with his payments, and he finds some one who is willing to buy and who is willing to let the mortgage rest on the property and take his chance of paying, and who has other property and solvency outside of that, and who is unwilling to jeopardize his outside property by assuming the debt, personally, but the land bank will not recognize such a transaction. That same thing happened to me, is why I know about it.

One of my friends had a mortgage on his farm to the land bank; he had a second mortgage for a tractor that he had bought, and in a misguided effort, when he was pressed, I told him: "Well, I will take up your second mortgage and carry it for you," and I did so: The time came when it developed that he could not pay his farm loan installments, and I thought he owed more to the land bank and to me than the property was worth. I allowed him to deed me his equity in the property for what he owed me, very much against my will, and when I presented the matter to the land bank they told me: "We can not recognize you, unless you will assume, personally, the amount of this debt," which I was not willing to do, because I had all in it that I wanted to put in it. I did not want the farm, and I regretted very much that I had ever been brought into the picture.

I presented my protest against that practice which, of course, rendered the equity of less value. I presented it to the Secretary of the Treasury, not because I cared about the matter from my personal aspect, but I thought it was a great injustice to borrowers and to others, and hurting the business; and he very courteously replied, referring my letter to the land bank, and that has been several months ago and I am without any further reply.

Mr. REILLY. We thank you very much, Mr. Huddleston.

Now, Mr. Kelly, we are considering particularly the home loan bill introduced by Mr. Luce in the House, and a similar bill upon which they had hearings in the United States Senate. Now, we understand that you have introduced a bill here, and that you have probably given considerable study to this matter, and we would like to have your views on your own bill, and also on this bill.

**STATEMENT OF HON. CLYDE KELLY, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF PENNSYLVANIA**

Mr. KELLY. Thank you, Mr. Chairman. I will not take much time, but I should like to express my interest in the problem you are considering in the subcommittee. I consider it is one of the greatest before the country to-day, the problem of not only promoting home ownership, but of helping to deal with the fundamental question of unemployment in this country. After all, that is the real problem, and in my estimation Congress could not do anything better than to deal with it through such a constructive purpose as the promotion of home ownership and home building. I believe that Mr. Luce's bill is a step along the line that this country must take.

I want to give a brief history of the bill that I have proposed. When President Hoover called his conference on home building and home ownership in December of last year, several men from the Pittsburgh district came here as delegates. They sat through the entire conference, and were very much interested. After the conference was over, I held a conference with them in Pittsburgh, and after many interviews and considerable time, drafted a bill on a somewhat different basis than the measure which was introduced by Representative Luce. It was not, however, to put forward any opposing idea, but to add another suggestion to this committee as to dealing with the problem on a little different basis. My bill is a suggestion and is laid before this subcommittee to be considered along with others.

We aim, in the set-up, not to establish a new form of organization, such as home loan discount banks but to provide for boards within the present Federal reserve districts. We have provided that the mortgages to be issued and the money to be advanced should be on new homes, and on homes less than five years old. We have the idea that the unemployment problem can be met by advancing new building to-day. The task that we desired to direct our attention to was how we could put more workers to work on the building of these homes, which are needed in various parts of the country. We provided for appraisal by appraisers now employed in agencies, such as national banks and State banks, and that mortgages should be approved to 65 per cent of the current values, based on appraisals now recognized under governmental sanction.

We provide that those mortgages should be used as the basis for the issuance of special Federal reserve notes, home ownership notes, of the Federal reserve bank itself within the district, with the homes themselves as security.

My associates in Pittsburgh, who are deeply interested, believe that there should be before Congress a proposal to make the home itself the basis of issue. In their estimation and in mine, no better security exists in the United States to-day than homes in the possession of Americans; and on a valuation of 65 per cent of the current value which, as we all know, is down now to certainly the lowest possible point, it should be the safest and best security possible.

It is this suggestion that I wanted to place before the committee. The home loan discount bank bill, introduced by Mr. Luce is con-

structive and I believe it should be extended along the line I have mentioned.

I believe we have gotten away from the one problem that confronts this country. The unbalanced Budget that we are talking about is not the real problem; it is not the cause; it is a result. The rates that we have in the present taxation laws ought to produce more money annually than we need to run this Government. Three years ago we turned back to the taxpayers \$180,000,000 that we said was in excess of what we needed. Now, with those same rates, we find that the Budget is not balanced, and it has become necessary to put through emergency taxes. So that is not the problem; the problem is the 8,500,000 men in this country out of work. That is the real disease and all the rates that we write in the tax bill and all of the credit that we give the banks and other corporations, are not going to solve that problem. Somehow or other, we must get those men back to productive work, secure a pay envelope on Saturday night for the unemployed man. Then you will find that our tax rates at present are sufficient, and you will find that our business is going along as it was in 1928, before this vicious cycle of unemployment began its disastrous swing.

Therefore, I believe, in this building program, we can strike a blow against the real business depression, this unemployment. I would like to see you, in this committee, work out a comprehensive plan and bring it before the House and give us a chance to deal with it. With the tax bill out of the way, we could get down to the problem of the unemployment; and with this program, of advancing home building and home ownership, we can put the building trades to work over this country, and increase purchasing everywhere. This pay will go into circulation and into channels of business.

Mr. REILLY. What is the fundamental difference between your bill and the Luce bill?

Mr. KELLY. Well, the fundamental difference is, that the Luce bill provides for a system of banks to be established, and that the mortgages will be taken and financed through bonds and debenture issues. The bill that I have introduced and laid before the committee as a suggestion, provides that those mortgages, themselves, are used as the basis for the issuance of home ownership notes by the Federal reserve banks. Those mortgages become the security, and the amortization plan is laid out in the bill as to how they are to be paid, and what is to be done with the payments as they come in, year by year.

Mr. REILLY. In other words, the individual home builder would give a mortgage to the Federal reserve bank and get the money on it?

Mr. KELLY. Yes; through district home-loan boards, and they would guarantee the payment.

Mr. REILLY. Do you not think it is a better method to try to encourage the home builder through an institution already constructed, that is already doing that line of work?

Mr. KELLY. Well, this plan of Mr. Luce's will, of course, mean a new system, but it will take care of the mortgages now in existence which are more than five years old, for instance, and that would help to relieve these frozen assets of the banks. This measure of mine is on a different basis. It is to advance new building and

provide a way by which the money could be secured on what we think is ample security.

Certain bankers that I have talked to insist that it is not the best security. I believe there is no better security in the world at the present time. Under the Federal reserve system, the banks will take the note of a business man and give in notes 100 per cent of the value of that note on rediscount. Should it not be possible to get 65 per cent, or 50 per cent, of the value of a home in the possession of an American, and use it for the issuance of notes, the same as they do on a business man's promise to pay?

Mr. REILLY. That would be regular bonds, would it not?

Mr. KELLY. It would be notes issued by the Federal Reserve Board and retired as the payments are made on the amortization.

Mr. REILLY. Would not that lead to unlimited inflation? What does your bill provide as to the total amount necessary?

Mr. KELLY. It shall not be, at any time, over \$2,000,000,000.

Mr. REILLY. In other words, it might lead to \$2,000,000,000 inflation.

Mr. KELLY. It would counteract the present deflation and every note would be backed by a home in the possession of an American.

Mr. REILLY. Any questions?

Mr. WILLIAMS. I did not get here in time to hear Mr. Kelly's beginning. As I understand it, his plan does not provide for any new set-up at all.

Mr. KELLY. No; the Federal reserve district banks are used. It takes the 12 districts as they are now, and lays the work upon district boards which will pass on these various applications for loans; and of course, the idea of that is not the taking over mortgages that are now in existence, so much as to aid in building new homes, and that would help the unemployment situation.

Mr. WILLIAMS. And it would provide also for the refinancing of present mortgages providing the security is satisfactory?

Mr. KELLY. A home must not be more than five years old. My bill would cover the new and less than 5-year-old home.

Mr. WILLIAMS. Do you not recognize the real need to try to refinance the present home owners?

Mr. KELLY. Absolutely, and for that reason the principle of the Luce bill would have to be carried, anyhow; there would have to be some way of joining it in with this plan of mine. I will say this bill is largely the work of friends in Pittsburgh, who were at this conference of the President. We tried to reach this unemployment problem, and should take new building as the real basis of our bill, realizing that the plan in the Luce bill would have to be carried out to take care of the frozen assets in the banks, and to protect those who have mortgage loans already.

I have a letter, received this morning, from a friend, a very pathetic letter, in which he states that he started building a home last year and was promised by a banker that he would take the mortgage on it. He went ahead and built the home, and the bank refused to take the mortgage. As a result he is going to be closed out by the supply companies and he is losing all he has. Now, that man should be able to get credit some place; and under this bill of mine he would, without doubt, get credit.

Mr. REILLY. Mr. Kelly, you do not think, for a moment, a bill of your kind would ever get by a presidential veto, do you?

Mr. KELLY. I do not know anything about that. I wanted to lay the suggestion before Congress as the law-making body.

Mr. REILLY. Can you make a short, concise outline of your plan and put it in the record, just what you propose?

Mr. KELLY. Yes; I will be glad to do so.

(The statement is as follows:)

H. R. 7920 is a bill to promote home building and home ownership.

Section 1 creates the United States home ownership commission.

Section 2 provides for a district home loan board of five members within each of the 12 Federal reserve districts.

Section 3 provides for loans not exceeding \$6,500 at 65 per cent of the appraised valuation of new home buildings or 50 per cent of the appraised valuation of homes not more than five years old. Appraisals shall be made on current market value by appraisers employed by national or State banking institutions or those appointed by approved real estate boards.

Section 4 provides that the district home loan board shall take an approved mortgage under agreement that the mortgagor shall repay the loan received within not less than 20 years amortized in equal monthly payments. These mortgages shall be security for United States home ownership Federal reserve notes issued by the Federal reserve banks. The total amount of these notes outstanding shall not exceed \$2,000,000,000.

Section 5 provides for the payment from amortization receipts to the various funds for redemption of notes, expenses, etc.

Section 6 provides for an insurance fund for the guarantee of the payment of the mortgage.

Mr. REILLY. We will recess now until 10 o'clock to-morrow morning.

(Thereupon, the committee recessed until 10 o'clock a. m., Tuesday, March 29, 1932.)

CREATION OF A SYSTEM OF FEDERAL HOME LOAN BANKS

TUESDAY, MARCH 29, 1932

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE OF THE COMMITTEE ON
BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to call, at 10 o'clock a. m., in the caucus room, House Office Building, Hon. Michael K. Reilly (chairman) presiding.

Present: Messrs. Reilly (chairman), Luse, Campbell, and Williams.

Mr. REILLY. Gentlemen, the subcommittee will come to order. We have first Congressman McDuffie.

STATEMENT OF HON. JOHN McDUFFIE, REPRESENTATIVE IN CONGRESS FROM THE FIRST CONGRESSIONAL DISTRICT OF ALABAMA

Mr. McDUFFIE. Mr. Chairman, I am relying more or less upon certain suggestions and statements made by a Mr. Irvin, who has had a good deal of correspondence with a member of this committee, Mr. Luse. I am relying upon his suggestions, because I think he knows more about this proposal than I do. Frankly, I am in no wise an expert when it comes to legislation of this kind; and I wish to submit for the record, if you please—that is, if you are permitting pertinent suggestions to go in the record. I do not mean all of these letters, all of this correspondence, but the pertinent suggestions made by Mr. Irvin, who is in the real-estate business in Mobile, and has for many years, and I think is a man whose views are very sound, touching upon this problem, and I want to have the privilege, if I may, to insert in the record, or put into your files, or do whatever the practice of this committee is, with reference to communications for your consideration, letters, or suggestions from Mr. Irvin. Are you copying those in the record?

Mr. REILLY. We are not; but can you not give us just what they are, what points they cover?

Mr. McDUFFIE. They cover the whole proposal. Mr. Luce may be as familiar with his suggestions as I am, but he takes up the question—

Mr. REILLY. Is he in favor of the bill?

Mr. McDUFFIE. Yes; very much so. He is very much in earnest about it, and I would like to have the committee have all of his suggestions, but if you have not got the time now for me to read those—

Mr. REILLY. How long are those?

Mr. McDUFFIE. There are several pages of them, Mr. Chairman.

Mr. REILLY. You may file them with the committee, and we will consider them.

Mr. McDUFFIE. That is the way to do it, and not burden you with a lengthy statement, but with your permission I will give these to the clerk and mark those pages which I think are pertinent and might be considered, if you see fit. There is some correspondence in here from Mr. Luce. I see you ask him some questions in a letter or two, and he sets out the answer with reference to certain phases of this proposed legislation; and it might be of some interest to the committee, because I think that you will find that his views are quite sound. He is a man of unusual ability and fine integrity, and wants to be helpful, of course, like everybody else.

I thank you very much.

Mr. REILLY. Leave them with me, and we will consider them.

Now, Mr. Crosser, the committee understands that you have a bill before the House at this time in regard to home loans and building, and that you have given some study to this question, and we would be glad to hear your views.

STATEMENT OF HON. ROBERT CROSSER, REPRESENTATIVE IN CONGRESS FROM THE TWENTY-FIRST OHIO DISTRICT

Mr. CROSSER. Mr. Chairman, back as far as 1921 or 1922 I became interested in the idea of providing for a home-loan system. Not, however, until 1924, early in the session, did I introduce any measure on the subject.

Perhaps it might be interesting to the subcommittee to know how I reached the conclusion that something of this kind ought to be done. I was out of Congress, practicing law, for about four years, after having first served with Mr. Reilly. After the war was over, when there was a good deal of building going on, we lawyers had, of course, considerable work to do in protecting clients who were purchasing real estate. Almost invariably, at least among the small home owners, those who were building what you might call modest desirable homes, I found that the purchaser was required to pay an unreasonable amount for financing.

Our State, for example, like most States, has a law against usury. If nothing is said about the rate of interest in the contract, the loaner of money is entitled to 6 per cent. Persons may contract for 8 per cent. I found, however, that most of those loaning money for the purpose of enabling people to build or buy homes, were, in addition to the legal rate of interest, collecting as much as 10 and 15 per cent, and I have known it to be as much as 30 per cent. This was called a bonus.

This is about the way in which it was done in most cases: The person desirous of securing a loan would go to a money lending institution and say, "I want to borrow some money to buy a home or build a home." The officer of the loaning company would say, "Well, we will be very glad to take the matter under consideration; I will put it before the committee. You come back in three or four days." At the time specified the man would come back and he would

thereupon be told by the man whom he had interviewed before, "I am very sorry indeed, but our committee feels that it will be impossible to make any advance to you." The man who had hopes of becoming a home owner, immediately became somewhat depressed. Then the financier would say: "Maybe I can help you out. Perhaps I can borrow some money for you some place else, but I will have to charge you a certain amount of money for my services." The man who seeks the loan then says, "Well, see what you can do." He comes back in a day or two and the money lender says, "I find that I can get the money for you." The other man says, "All right, go ahead." Then a mortgage is made to the person who says that he has found where to get the money for the amount of the loan, plus the 10 per cent. The mortgage would then be taken to the man with whom he began the negotiations or some outsider, and it would then be taken to the financial institution that he had originally approached, which would discount it for him. So they feel that in that way they get around all the laws in regard to usury.

I was, therefore, impressed with the idea that provision should be made to help and encourage the man who is eager to acquire a home. Not only would it help those who desire to become home owners but it would help business. I, therefore, introduced, on March 19, 1924, a bill which is entitled "A bill to provide capital at reasonable rates of interest in order to promote the establishment of ownership of homes of people in the United States, and other purposes." It proposed the establishment of the national home loan system with headquarters in Washington. It provided for the establishment in each State in the Union of a national home loan bank, to which the home loan associations, also provided for, might go in order to procure advances of money on the security of mortgages.

My reason for providing for a national home loan bank for each State was to bring the institution more intimately in touch with the people.

Mr. CAMPBELL. Did your bill provide for building and loan associations to become members?

Mr. CROSSER. No. As I was just about to say at that time there was no occasion for that. To explain the bill a little further, I felt that there ought to be an independent institution deriving its authority from the United States Government. I know that it would give the people confidence that they do not now have. That is one of the reasons I had for making this distinctly a Federal institution. The theory of the bill makes the welfare of the proposed home owner the first concern. I make very careful provision, I think, for the stability of the institutions, but I wanted to encourage the people eager to become home owners. Home owning is a most important element of our national integrity. People in every walk of life wish to own their homes without the fear of being pounced upon unexpectedly by the sheriff.

The bill enables the people to initiate the formation of a home-loan association which, in turn, can go to the home-loan bank.

At present those desiring to become home owners are at the mercy of the money-lending institution and if refused a loan can not help himself.

Mr. CAMPBELL. Where would you raise your funds?

Mr. CROSSER. I provide for raising funds in much the same as does the farm loan act. The home-loan associations take mortgages of their members to the national home loan banks and procure money on them. Then the national home loan banks could sell their securities based on these mortgages.

Now, inquiry was made about taking care of the building and loan associations' mortgages, already in existence. Was that what you had in mind?

Mr. CAMPBELL. Yes.

Mr. CROSSER. Of course, that, obviously, is an emergency proposition that was not considered in the preparation of this bill.

Mr. CAMPBELL. The provision I had reference to was suggested by Mr. Kelly, that they use these mortgages and then issue bank notes.

Mr. CROSSER. As I understand, that would be something on the order of the recent amendment made to the Federal reserve act; just a means of meeting the emergency by making certain obligations approved security that have not been so before.

I contemplate more permanent and uniform system than that of simply caring for institutions which, perhaps, have securities they can not dispose of. I do not think that is the true principle underlying the home-loan idea.

So that if it were proposed to do anything in that line, I would suggest, perhaps, temporary provision be made in the bill for handling for a period of 2 or 3 or 4 years the building and loan associations' mortgages. The national home loan banks could take over some of their home mortgages that had already been taken by building and loan companies. That is about as far as I think we ought to go.

Mr. REILLY. Have you read the Luce bill?

Mr. CROSSER. Yes.

Mr. REILLY. What is your judgment as to it?

Mr. CROSSER. Well, of course, as I say, it is more or less an emergency measure, rather than the statement of a permanent plan.

Mr. REILLY. What is your judgment as to the necessity for such emergency legislation at this time?

Mr. CROSSER. Of course, it is hard to say that anything that would provide money at present is not necessary. It is true, of course, that it may provide means of financing a lot of propositions that can not be financed otherwise at the present time. I am not enthusiastic about the general taking over by home-loan banks of a lot of assets of questionable value now held by existing institutions.

Mr. REILLY. They can not, Mr. Crosser, under this bill. The bill provides, you know, that they subscribe a certain amount of stock—

Mr. CROSSER. Yes.

Mr. REILLY. \$2,500 cash and 1 per cent of their mortgage loans then would be accepted for discount—

Mr. CROSSER. Yes.

Mr. REILLY. So they can only rediscount twelve times that sum, and they may rediscount their mortgages at the appraised value at that time.

Mr. CROSSER. Yes; I remember that.

Mr. REILLY. They can not borrow any more than 40 per cent of the value of the property. I can not see, under that situation, where

it is possible for the Government to lose one dollar. Now, the farm banks went wrong largely because of the unquestioned and abnormal shrinkage of land values.

Mr. CROSSER. Yes.

Mr. REILLY. Now, the values that the mortgages will be taken at is the value now.

Mr. CROSSER. Well, it would be the value at the time they were taken—

Mr. REILLY. No; the value at the time they are discounted.

Mr. CROSSER. You mean the old securities?

Mr. REILLY. Yes.

Mr. CROSSER. I thought you meant if you were taking new mortgages.

Mr. REILLY. I can not see how it is possible for the Government to lose, or the banks; the fact of the matter is, I think they are to secure a decided privilege.

Mr. CROSSER. I do not think, in ordinary times, that would be a good idea because it would not give help to the home owner that he ought to have.

Mr. CAMPBELL. Mr. Crosser, where a man can get 75 or 80 per cent from a building and loan association, and the loan association brings those mortgages in turn to the home loan discount bank—

Mr. CROSSER. Yes.

Mr. CAMPBELL. And they have the appraised value of that property.

Mr. CROSSER. Well, my thought is that the building and loan companies would be very likely to be reluctant to make loans except on a very low valuation of the property to be mortgaged, so that they could be sure of selling their mortgages advantageously to themselves.

Mr. CAMPBELL. No; that would not be the idea.

Mr. CROSSER. Unless they would have authority, under this bill, to go further than that.

Mr. CAMPBELL. They can, but they can not get a larger percentage.

Mr. CROSSER. So far as that is concerned, the theory is substantially the same as that of the bill I introduced, except, as I say, that the Watson bill proposes to take in already existing securities. I was more interested in making it possible for the person wanting a home to take the initiative in the matter of financing. Under the terms of my bill, if they have property, citizens can associate themselves and apply to a home loan bank and—

Mr. REILLY. We are certainly providing a basis of permanency to this bill.

Mr. CROSSER. For instance, you may want to build or buy a home, and if there are only the present existing money-lending companies, you are altogether at their mercy, you could not do anything to help yourself; it is all a question whether they are disposed to make you a loan.

Mr. CAMPBELL. We are providing for these building and loan associations.

Mr. CROSSER. Yes; but you do not get my idea. There is no way by which a dozen citizens can initiate action which will assure them of getting a loan, but they can do so under my bill. I think that that is the outstanding difference.

Mr. REILLY. Under your bill, a man could only borrow about 50 per cent of his proposed building cost.

Mr. CROSSER. I thought I said 60 per cent. It has been a long while since I drafted the bill.

Mr. REILLY. Well, say 60 per cent. The theory of the home building associations is that it is done up to 70 per cent and 75 per cent, and some of them 80 per cent.

Mr. CROSSER. Yes; go as far as they can, in other words.

Mr. REILLY. Yes; they go as far as they can in granting credit.

Mr. CROSSER. I am perfectly willing to go as far as we can and be safe.

Mr. REILLY. But, Mr. Crosser, they in turn bring these mortgages in, and they could not borrow 60 per cent or 80 per cent of their value—that is, as they value the property; but they can loan 60 of 40 per cent of their value on these loans that are back of the bonds issued by the home loan bank.

Mr. CROSSER. As I say, what I am chiefly interested in is to make it unnecessary for responsible citizens to go hat in hand to a money loaner and beg for the opportunity to borrow money. My plan would enable a dozen men, building new homes, or buying homes, to put themselves in a position to procure loans.

I have observed good, reliable people unsuccessfully trying to induce old, established institutions to loan money to enable the borrower to acquire homes. My plan would enable such persons to initiate action that would enable them to borrow. I do not care how many national farm loan banks they have throughout the country; but I do think that, if possible, the principle should be established that gives the people, responsible people, the opportunity to come together on their own initiative, without going to existing financial institutions, which are often political headquarters for the neighborhood.

Mr. CAMPBELL. There was a gentleman here from Ohio the other day who made this statement, that every man born in Ohio, man and woman, were born politicians.

Mr. CROSSER. Well, not having been born in Ohio, that does not apply to me. I do not know whether or not I have overstressed the feature as to providing opportunity for people to initiate action to procure these loans, but it is very important. All other features of my bill and the Watson-Luce bill can easily be reconciled. That is the only fundamental distinction that I see. The machinery, I think, in both, is adequate.

Mr. LUCE. Mr. Crosser, for your information, I want to repeat something I have had occasion to say earlier in the hearings, and add one or two comments, to the effect that when I first became acquainted with the farm-loan system I thought one of its admirable features was just what you are now recommending here, using the local association, created for the purpose, as the basis of the structure, and I so thought it was for many years. I have felt that the cooperative activity was the most promising remedy for the waste of our distributive system. As the years went by, it gradually became known to the Committee on Banking and Currency that that feature of the farm-loan system had been a failure, for it turned out that, when the members of these little associations had supplied their own needs, they paid no more attention to the asso-

ciation, made no attempt to enlarge them, and in some cases absolutely refused to allow anybody else to share with those who had already started the movement.

In many cases it turned out that the secretary of the association was also in the mortgage-loan business as a broker, or agent, and that it was to his interest that his association should not grow, but whenever anybody came to talk about borrowing, that he should switch him off to a mortgage by a life-insurance company or other agency; and it has been seriously proposed, from time to time, in the Committee on Banking and Currency that we abolish these associations and no longer try to extend them to what they were meant to be.

I have not read recently much about the foreign systems, and memory is hazy in that regard, but I have the suspicion that that idea was taken from examples of foreign institutions; but for some reason it has not flourished on our soil; and so, the experiences of the farm-loan system would discourage us in using that as a basis. Some opposed the whole farm bill, I am very sure, due to the existing cooperative agencies, primarily the building and loan associations, the cooperative banks, the homestead associations, and the mutual savings banks; and, indeed, the mutual life-insurance companies might be put in the same class in order to get for a foundation a going institution that was flourishing and apparently trying to expand, and throwing open its doors to anybody who uses it.

Now, there was another feature that possibly you have not appreciated: These local associations that were formed by the farm-loan system had no joint and several liability on the part of the members. As I understand it, if one of these institutions has 15 members, and one of them goes broke, one of the borrowers, you can not turn to the other 14 to compel them to pay up his indebtedness.

Mr. CROSSER. Yes; I think that even the farm loan act provides that you can hold each member of the association in proportion to the amount of his holdings. That is my recollection.

Mr. LUCE. I may be quite wrong on that, but it certainly has not developed as a remedy for the present situation when so many of the borrowers in the farm-loan system are threatened with foreclosure, or have had their mortgages actually foreclosed. Certainly in practice, if that principle exists, it does not prove it an essential factor in strengthening the bonds in the market.

Now, in this bill, it is clear that, when one of the institutions joins the system, discounts its paper, its whole resources are behind the obligation, that is specifically set out. So that, in practice, at any rate, whether I am right or wrong in the matter of theory—in practice, at any rate—much greater stability of security is promised by this system than by the other. Now, I would go with you on your idea, if 15 years of experience had not shown it would not work.

Mr. CROSSER. I think that is not quite the correct conclusion, with all due deference, of course. Every institution established by law has, at first, been found to be more or less imperfect. The farm-loan system was no exception. For instance, one way in which it could have been improved would have been to provide that nobody connected with a farm loan association could lawfully engage on his

own account in any loan business. This would prevent officers of associations from working against the interests of their associations.

Then, as to the tendency to confine associations to a small number, that could very easily be remedied by simply requiring that, instead of 10 or 12 members, as the case is at the present time, make it 20 or 30, anything within the bounds of reason. I do not believe they ought to be too big.

Mr. LUCE. That is not the point that I made. It is not a matter of size. You can lead a horse to water, but you can not make him drink; and we can form one of these associations, but there is no way to make them hold meetings, no way to make them invite other people to come in, because they simply will not do it.

Mr. CROSSER. I understand what you mean, but I say you could make it necessary, just as it is necessary now, I think, for you to have 10 or 12 members before you can have a farm-loan association.

Mr. LUCE. Yes.

Mr. CROSSER. You can make such provision as may be best for all concerned; provide for double or treble that before they could do business.

Mr. LUCE. No matter what number it turns out in practice that, after the original members get theirs, they make no endeavor to let anybody else get anything.

Mr. CROSSER. I think that is the very primary purpose in a sound home-loan system. I am not concerned so much about establishing great financial institutions. We want them to be safe, but my purpose is to assure the general public a means of financing their ownership of homes. That is my idea; and that, I think, is where our theories diverge.

I think that the two ideas could be put into force together, but I think it would be a great mistake to overlook the fundamental need of our people. We are thinking constantly in terms of financial institutions, how we can make them prosperous institutions. Of course, I do not desire that any institution be not prosperous, but I am not so much concerned about building huge financial institutions as I am to enable the general public to have means of putting itself safely in a position to finance the ownership of homes. That is what I have in mind.

Mr. REILLY. Congressmen, this bill is the result of certain definite situations that is claimed to exist to-day. First, many building and loan organizations are unable, because of the depression, to take care of the demands of their withdrawing members, who had deposited money with them, and now need it to live on; and they are unable to furnish any money for new home builders now.

Mr. CROSSER. But the chief concern of a home loan system is not, Mr. Chairman, the financial relief of existing money loaners.

Mr. REILLY. They want to pay the old ones. Now, this bill is designed to administer to that situation, to take care of that situation, by giving the opportunity to Federal institutions, to liquefy the bonds or mortgages that are perfectly good, but are frozen to-day.

Mr. CROSSER. That is my understanding. Is not that similar to what was done by the Glass-Steagall bill for banks?

Mr. REILLY. In the Glass-Steagall bill, we legislated to help out the banking institutions.

Mr. CROSSER. Yes.

Mr. REILLY. And in this bill we are trying to legislate to help out the building and loan institutions and the mortgage institutions.

Mr. CROSSER. Yes; neither plan is devised for the purpose of establishing permanent system to supply the public, or rather to enable the public to supply itself, with funds for new projects.

I think we ought not to lose sight of the idea of providing a permanent system. We must have something like what is provided in H. R. 6997. In order at the same time to take care of the emergency you have in mind I do not think it necessary to do more than authorize the national home loan banks to accept mortgages of existing loan companies during a certain period of time sufficient to allow the emergency to pass. I think that could be provided for by an amendment to my bill. After that had been done, Mr. Chairman, and after this emergency has passed, would it not be much better to have a uniform system, a uniform method of enabling the people to finance the acquisition of homes?

Under my bill the National Home Loan Commission could be given discretion to approve the acceptance by home loan banks of mortgages heretofore acquired by existing financial institutions. We desire to get the country out of difficulty as soon as possible. Amend my bill in such way as will make it possible to give emergency relief. Let us assure the every-day man, however, of the opportunity to initiate this community home building, that will be for not only his advantage and to the advantage of the whole community.

Mr. REILLY. Anything further, Mr. Crosser?

Mr. CROSSER. No.

Mr. REILLY. Anything further, Mr. Crosser?

Mr. Bodfish, have you anything additional to offer this committee in the way of authentic information as to the number of States that could avail themselves of the privileges of the bill, if the bill should become a law?

Mr. BODFISH. I have, Mr. Chairman, as I have been checking State statutes, a number of which I have with me, with regard to items affecting the participation of building and loan associations. It seems to me that at the outset we should picture the broad issues involved. If a number of States can not participate, that should not affect your judgment as to the fundamental merits of the proposal. We realize that in building and loan associations we have strictly State corporations, and there is great variety in the statutes governing them. We had not anticipated that every State could participate without enabling legislation, although we know that a large majority can participate, either through direct purchase of stock or through one of the alternative methods now provided in H. R. 7620.

I might say that the language and principles in the alternative methods was originally worked out by several of us in building and loan work; it was discussed by a group of some 200 building and loan executives in Washington in December at the time of the President's Conference on Home Owning and Home Building, after which it was submitted to the Secretary of Commerce and subsequently embodied in the measure approximately as we worked it out. The numerous building and loan witnesses that appeared at the Senate hearings indicated approval of the measure as drawn,

and should the associations represented by these men, who came from a number of different States, have been excluded at the outset, I am sure that their testimony would have so indicated. Naturally, in erecting a Federal reserve system for home-financing institutions there are going to be problems of statute and case law, but there is no doubt in the minds of the building and loan leaders, who have studied this question, that most of the building and loan associations can participate at the present time and that there will be early legislation in States where modification of State laws is necessary before State institutions can participate.

That is the broad aspect of the question.

The further question arises, however, of making the Federal statute, as enacted, as useful as possible to as many as possible. As I study the matter, I would say that, out of the 48 States and the District of Columbia, there are 8 States, and 8 only, who, due to limitations in their powers to borrow money and to assign their mortgages to secure the repayment of the money, can not participate in this act. I am not even sure that all of those eight are barred until there has been further study of the matter and test cases laid before the legal department of the Reconstruction Finance Corporation. The question of the legal right to participate on the part of building and loan associations has been raised almost entirely by opponents and by some of our building and loan association people who desire an amendment, which would permit limited borrowing on the part of at least seven of the eight States out of the capital of the banks supplied by members. We submitted the amendment in the Senate, we urged its inclusion before this committee, and we have seen no disposition on the part of this committee to not grant the request. It should, therefore, not be confused with the broad proposition. It is unfair to the bill to have the impression develop that most of the building and loan associations can not participate when, as a matter of fact, they can.

Now, Mr. Chairman, to direct myself to your question regarding States who can avail themselves of the privileges of this bill, if it becomes law.

Unless there are complications, which our building and loan men who have had the measure before them and their attorneys do not anticipate, I think that 38 States and the District of Columbia can participate under the measure as written at the present time. Two States do not have supervision, a matter which has been dealt with in the testimony before this committee. The principal problem in participation apparently turns on the rights to borrow, which seems to be clearly present in law and in practice in all of the States but one. As the law is now written and as it is being administered by the Reconstruction Finance Corporation, associations must be in position to assign their mortgages as collateral in order to borrow. There are statutory restrictions in the laws of Florida, Missouri, Nebraska, and Oklahoma which apparently prevent any assignment of mortgages whatsoever. Kansas, Minnesota, Vermont, and Washington can not assign, broadly speaking, although I am not sure but that in one or two of these States assignment may be possible under special conditions and for special purposes.

All of the above-listed 8 States have building and loan resources of \$805,145,000, which is 9.1 per cent of the building and loan resources of the 48 States. It is possible that further study of particular conditions may exclude two or three additional States, but I want to point out that there are several States in which associations have borrowed and have assigned their mortgages even to the Reconstruction Finance Corporation, which twice have been here represented as being incapable of borrowing money and assigning mortgages to secure payment of such funds.

The laws of several States, including Iowa and Missouri, declare that the mortgages given to building and loan associations are non-negotiable. This does not, of necessity, mean that they are non-assignable and could not be pledged for borrowings from a Federal home loan bank.

Missouri, so I am advised by competent legal counsel, has Supreme Court decisions interpreting "nonnegotiable" as being synonymous with nonassignable. That stands in contradiction of a probably hasty opinion of the Attorney General of the State of Missouri, who said that, because the law of the State of Missouri was silent on the matter of assignability, that therefore they would have general corporate power to assign mortgages growing out of specific authorization that they have to borrow money.

As far as I can learn, in Iowa, that interpretation of "nonnegotiability" does not obtain. For example, in Iowa an association can assign their mortgages, when borrowing, and do so in such cases. Until recently, Wisconsin fell in this category of being unable to pledge their mortgages, because the State law said they were non-assignable.

I have before me a letter from Mr. C. P. Diggles, who is the building and loan supervisor attached to the State banking department in the State of Wisconsin, which is very brief, and it might be well to put in the record.

Mr. REILLY. Tell us what it says.

Mr. BODFISH. It says this:

Bill 57a, now chapter 31, of our statutes, was approved by the governor on February 6. The man who drafted the bill tried to word it in such a manner that building and loan associations can qualify under the home loan banking measure, or under the Reconstruction Finance measure, both as to the assignment of mortgages as collateral for loans and as to the purchase of stock in the home loan banking system, or whatever agency is established.

I think it is significant, also, in another way, that it shows the intense interest of a number of States and their willingness to change their State laws in this particular, in order to participate in this home loan bank system; and, of course, such a change in any State law is purely in anticipation of the passage of certain legislation by this Congress. In three additional States—Florida, Kansas, and Nebraska—mortgages of an association are, by statute, both nonnegotiable and nonassignable.

There is one thing, however, in the Kansas statute—and I have the statute here with me—which permits them to borrow and to assign their mortgages to a bank, or other building and loan association, when it is for the purpose of paying withdrawals, taxes, or insurance, as contrasted with borrowing to make more loans; and I have a documentary opinion from Kansas that they could borrow money

from the home-loan bank purely under the ruling of their State supervising authority, and there seems to be no question as to the capacity to either make deposits or buy bonds in these banks, which would permit membership.

In the State of Oklahoma, building and loan associations are authorized to borrow money, but they are required, in borrowing money, to give or to issue what they call in law "unsecured evidences of indebtedness" therefor. Amendment XVII would take care of Oklahoma.

Mr. REILLY. A promissory note.

Mr. BODFISH. A promissory note, and nothing else. Now, that means that an Oklahoma association who, by the way, can buy certain limited kinds of bonds—that there is no question of their being able to participate in what we call the "left-handed" method of joining the system, through depositing or through purchasing of bonds, could only borrow if they were permitted to borrow without assigning collateral; and, as you know, the amendment was advanced by the United States League (also urged by Mr. Hall) to deal with these building and loan associations, without creditor liabilities, such as Mr. Williams has in his State, and by which amendment we urge that, as far as the capital of the bank is concerned, they be permitted to borrow without the assignment of notes or the assignment of mortgages. Of course, that amendment will not apply to any of the advances that are to be secured, or money to be obtained from the issuing of bonds.

Mr. REILLY. Mr. Bodfish, will you state the States that are now coming in under this law?

Mr. BODFISH. Probably all of the balance of the States except 8 or 10.

Mr. REILLY. Now, again name those eight.

Mr. BODFISH. Minnesota, Missouri, Florida, Kansas, Oklahoma, Vermont, Washington, and Nebraska; and with the amendment that is being proposed by the gentleman from Mr. Williams's State, Mr. Hall, most of these would be able to participate as far as the capital of the bank is concerned. In other words, that amendment, as you recall, provides for—

Mr. REILLY. What good would it do them to put capital in unless they could use the bank?

Mr. BODFISH. They could use the bank and borrow to the extent of total funds that were invested in the capital stock of the bank.

Mr. REILLY. That would not do them any good.

Mr. BODFISH. Well, if you start this reserve system off with \$150,000,000 I think you would do quite a lot of good, and it will be increased by the subscriptions by the members who join these 12 banks, and these 12 banks will have a very substantial capital fund available without the issuance of a single bond.

Mr. LUCE. That makes eight.

Mr. BODFISH. That makes eight. I have the total assets of those States' building and loan associations, and they total a little over \$805,000,000. That is something less than 10 per cent of the building and loan assets of the country.

I have before me also a statistical table which, by the way, appears in Volume I of the Senate hearings. Ten States that have the

largest building and loan assets, whose assets total six and one-half billion, can probably participate immediately.

Mr. WILLIAMS raised the question yesterday on the matter of, Can they buy stock, or, Can they take advantage of the left-handed entrance, as we call it, through purchase or deposit of bonds, or other deposits? and I would say this:

This bill has been studied by our building and loan men in practically every State, intensively, and outside of the States of Missouri and Nebraska we have had no question raised regarding their capacity to participate under that left-handed or alternative provision.

Mr. WILLIAMS. Pardon me. That is not the question in my mind. It is a question in my mind whether they can buy stock or not. Have you investigated that particular question?

Mr. BODFISH. Whether they can buy stock or not?

Mr. WILLIAMS. Yes.

Mr. BODFISH. Practically all of them can not—that is, the building and loans can not buy stock.

Mr. WILLIAMS. What about the banks?

Mr. BODFISH. In our State of Illinois, there is no question about a bank being able to buy stocks. I was unable to obtain, last evening, a copy of the Missouri banking laws, in order to study the law of your State on the matter.

Mr. WILLIAMS. Then you have not made a study of that particular question; is that it?

Mr. BODFISH. Not as regards to banks. I do not think there is any occasion to make a study as regards banks. Many State banks can buy stocks and there isn't a bank in the United States that can not and does not own Government bonds and, of course, all have broad powers to make deposits in other banks and the Federal home-loan bank should be no exception. All banks have power to borrow money, and I understand that the Reconstruction Finance Corporation has advanced funds to approximately 500 banks and trust companies, and in no case has any difficulty arisen over their rights to assign mortgage collateral.

For the use of the committee in this connection, I would ask your permission to put in your record one page from a recent book, entitled, "State Banks and the Federal Reserve System," by Professor Tippetts of the University of Iowa. It is very suggestive regarding State bank participation, and is Item IX in his chapter, "Why the State Banks Did Not Join":

It was impossible for many banks to join because laws in many States were unfavorable to membership. Some States did not permit State institutions to subscribe to the stock of the Federal reserve banks. Some States had rigid requirements as to where reserves should be kept. This would have prevented States institutions from depositing reserves with the Federal reserve banks. Certain States prohibited the divulging of information, which would have been necessary for reports to the Federal reserve banks, to other than State officials. Some attorney generals ruled that membership was not legal without a change in the State law. This situation is believed by Reed to have been the main reason why so few State institutions joined at first.¹ It was stated in July, 1914, that there were at that time only 20 States in which no modification of the State laws was necessary before State institutions could join.² Wholesale

¹ Reed, Harold L., *The Development of Federal Reserve Policy*, p. 55.

² These States were listed as Vermont, New York, New Jersey, Delaware, Maryland, Virginia, West Virginia, Kentucky, Tennessee, Ohio, Indiana, Illinois, South Carolina, Alabama, Mississippi, Arkansas, Texas, California, and Oregon.

changes were necessary and the State legislatures seemed to be willing to make the amendments.³ Most of the original laws were defective in that while they gave permission to enter the system, they did not permit the State institutions to substitute the Federal reserve requirements for those required by State law so that the total reserve carried by members would have been larger than before. This privilege was soon granted by the majority of the States. Later, the Federal Reserve Board and the American Bankers' Association agreed upon a complete law making full provision for all the difficulties encountered by the conflict of laws, and many States passed this law.

Under present conditions, I do not believe you will have hardly any States in which the banks can not participate, either under the direct stock purchase method, or through the alternative methods. However, I should talk about building and loan associations entirely, as my information is necessarily more direct and complete with regard to them.

Mr. WILLIAMS. Practically none of the building and loan associations can buy stock, as it now stands, in this corporation?

Mr. BODFISH. Except several who have amended their State laws, for example, Louisiana, Alabama, Arkansas, and others, can buy stock. There is a bill in the Illinois Legislature, passed the third reading, permitting them to buy stock. There is the New Jersey bill, which has passed their house and is before their senate, permitting them to buy stock in the Federal system; but, all of them, Mr. Williams, can buy United States Government bonds.

Mr. WILLIAMS. Is it the intent of this bill to bring the national banks into the system?

Mr. BODFISH. I think so.

Mr. WILLIAMS. Can they come in, any of them?

Mr. BODFISH. Yes, sir; they are banks and, if this bill passes, they are included in that general term "banks" which appears in section 4. I would further call your attention to the fact that on page 33 subsection (c) specifically amends section 5202 of the Revised Statutes of the United States, which gives national banks specific authority to borrow; in other words, authorizes them to assume liabilities incurred under the provisions of the Federal home loan bank act.

Mr. WILLIAMS. There seems to be a difference of opinion about building and loan associations in a number of these States that you have not mentioned. Are you prepared to state that they can participate under the law as it is now, with any degree of certainty?

Mr. BODFISH. Yes; I will be very glad to discuss any States that has raised the question. I have their State laws here, and I have some correspondence from many of those States.

Mr. WILLIAMS. I do not know that the additional memorandum submitted by Mr. Hall has been introduced in the record or not.

³ In 1914, Massachusetts, Kentucky, Louisiana, New Jersey, Ohio, Virginia, New York, South Carolina, and Texas gave permission to institutions in those States to join. The next year California, Idaho, Delaware, Iowa, Kansas, Maine, Michigan, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, and Washington followed suit. The Federal Reserve Bulletin of Sept. 1, 1915, p. 263, does not include Delaware and Kansas in its list of changes during 1915, but does include Mississippi and Utah which were omitted in the list cited above. In 1915 State authorities ruled that it was no violation of State law to subscribe to stock in the Federal reserve bank in the following States: Alabama, Arizona, Arkansas, Georgia, Illinois, Indiana, Maryland, North Carolina, Rhode Island, Tennessee, Vermont, West Virginia, and Wisconsin. Federal Reserve Bulletin, Aug. 1, 1915, p. 182. For examples of the amendments passed see Federal Reserve Bulletin July 1, 1915, pp. 150-156, containing the laws passed by Idaho, Indiana, Iowa, Kentucky, Massachusetts, Maine, New Jersey, New York, North Dakota, Texas, Utah, Virginia, and Washington.

If it has not, I will ask that you do that, in order that we may have some definite understanding about those. Mr. Hall, of course, is a building and loan man, and he has got opinions from a great many of the States, some of them you have mentioned, about which there is a very great difference of opinion.

Mr. LUCE. Will this clarify the situation, at all, if we recall that Mr. Bodfish has only, so far, referred to two classes of objections?

Mr. BODFISH. The right to take out membership stock and the right to assign mortgages.

Mr. LUCE. There are also difficulties in connection with Maryland and the South Carolina situation.

Mr. BODFISH. Yes.

Mr. LUCE. And other difficulties besides.

Mr. BODFISH. I think, if you take those three things, you have about covered the difficulty, as far as participation is concerned.

Mr. LUCE. That would make 10 States in all.

Mr. BODFISH. Ten States in all.

Mr. WILLIAMS. You will recall, perhaps, that Mr. Hall stated what had happened, and that it was his information, upon the authority that he gave—in fact, based upon his study of the statutes themselves, as I recall it—that the State of Pennsylvania could not come in.

Mr. BODFISH. The State of Pennsylvania—I have their statute there, and I have a copy of an opinion of their attorney general back in 1905—their problem of the assignment of mortgages arose under an entirely different situation, and it is not a statutory declaration, in any sense of the word; it was an opinion dictated, as I would interpret as a layman, at least, as a matter of association management policy in 1905.

Mr. WILLIAMS. You see, I do not quite understand. You mean this opinion of the attorney general holds that, in his opinion, they should not come in—could not, I mean, negotiate their securities?

Mr. BODFISH. That is the opinion of the attorney general of the State of Pennsylvania back in 1905, indicating that associations can not pledge their mortgages. I find that there is a considerable difference of opinion; that a number of building and loan people are reopening the matter, and competent legal talent indicate that they think they can. I think we ought to look at the bill in all fairness. The principal people that have been greatly concerned about this matter have been Mr. Hall, whose judgment I respect immensely, plus the opponents of this bill. It has been the people that are antagonistic to the bill, outside of the gentlemen from your State, who have been very concerned about this matter; and our own building and loan people, who plan to participate and put their own money into the thing and are anxious to participate, do not seem to have any concern about it.

Mr. REILLY. That is what Mr. Hall says. Of course, Nebraska can not borrow in any amount, for any purpose. Missouri, you have covered that. Illinois, certain mortgages are nonnegotiable.

Mr. BODFISH. But they are assignable, and they are collateral at the present time to secure loans from the R. F. C., and I know they are assignable. I am a director in a modest association in Illinois; and even though you think it amounts to the same thing in Mr.

Hall's mind, it may be, so far as he is concerned, raising the question of the nonnegotiability or negotiability and assignability are decidedly different things in most States.

Again, I am a lay mind who is just trying to study the matter. Assignability is very different from negotiability.

Mr. REILLY. He says that, in Pennsylvania, all notes and mortgages are by law nonnegotiable and nonassignable.

Mr. BODFISH. They are not nonassignable by statute. I have the statute right there and would be very glad to talk to the specific provisions.

Mr. REILLY. I think, Mr. Bodfish, if you will go to work and go through those States, as far as you have got the statutes, and quote the statutes and let that be presented to the committee, so we will know something about the statutory situation—

Mr. BODFISH. I have the statutes in all the States which declare their mortgages and notes are nonnegotiable and nonassignable. I would like to give some little further study to that, however.

Mr. REILLY. You can get that when we go into executive session, after the record is printed.

Mr. BODFISH. Could I have the assistance of Mr. Hall's study of the thing?

Mr. WILLIAMS. I suggest it be put in the record—Mr. Hall's statement. That was the understanding when he left here, that what he said would go in the record.

Mr. REILLY. We are going to have some more testimony to-morrow from a man from the Reconstruction Finance Corporation, Mr. Gardner, and then we can decide. I think what I would like to get from you for the committee is the quotation of the State laws, if you have got them, and we will do our own interpreting, as to what can be done or what steps should be taken for those States.

Mr. WILLIAMS. As I understand, the communication from Mr. Hall was simply a continuation of the testimony here. Am I not right in that?

Mr. REILLY. How is that?

Mr. WILLIAMS. When he was here he had not yet received all of the replies. He put in what he had, and then he asked to forward a statement from those that he received after he left here, and, as I understand, this is what that is.

Mr. CAMPBELL. Included as a part of the record.

Mr. WILLIAMS. Yes; I think that is, in fairness to him—I am not representing him, at all; in fact, I do not agree with him in some respects.

Mr. LUCE. If it is to go in, would it not be more convenient to have it go in together with Mr. Bodfish's statement, rather than—

Mr. WILLIAMS. I suggest it go in following his testimony. The committee will recall that he gave the results of his investigations, as far as they had gone, when he was here. My suggestion is it be continued from there on with what he sent in since he was here.

Mr. REILLY. From Mr. Hall's statement, it would appear that most of the States of the Union could not take advantage of this law. The best way for this committee to get definite information and be able to give it to the House is to have somebody who will give us the law, quote it, and I think Mr. Bodfish is in position to

do that; and then we will exercise our own judgment about whether it goes in or not.

Mr. BODFISH. I have all of the laws of all of the States, every one of them.

Mr. WILLIAMS. I offer that for the record.

Mr. CAMPBELL. Let Mr. Bodfish have it.

Mr. WILLIAMS. Mr. Bodfish wants it, as I understand, and I see no objection, in view of the fact that he has already given testimony along the same lines.

Mr. REILLY. A great deal of this is repetition of his own testimony..

Mr. WILLIAMS. Some of it may be repetition. We have had a lot of repetition here, I think. The point involved in my mind is this:

There seems to be a world of confusion, even among the courts and lawyers, on this. Now, as the chairman suggests, you bring in a quotation of the law, which is entirely desirable, and I have not the slightest idea that we, as a committee, will agree as to what it means, as to its practical application, when the courts and the Attorneys General and the lawyers throughout the country have not been able to do that. Of course, I think we should have the law, if we can get it.

Mr. BODFISH. That is correct. Do you want also the provisions in the statute which authorize the building and loan associations to purchase Government securities? That is universal, as far as my investigation reveals, and it bears on—

Mr. REILLY. Mr. Bodfish, I think the principal thing we want is whether they can join this organization, if we set it up; and while you are looking that up you might also look up the question as to whether or not the other mortgage institutions, that we intend to join it, are covered in those States.

Mr. WILLIAMS. The insurance companies are involved here, I think.

Mr. BODFISH. I would rather not attempt to give you an opinion as to the insurance companies; because I know the building and loan law somewhat, and the building and loan statutes, but I am not a legal practitioner, and—

Mr. REILLY. You have only got the building and loan statutes?

Mr. BODFISH. Yes; I can speak only as to the building and loan statutes.

Mr. WILLIAMS. I have got it, on the authority of somebody else, that the national banks can not come in on this, if it is organized.

Mr. BODFISH. I think that is entirely erroneous.

Mr. WILLIAMS. I have not made an investigation.

Mr. BODFISH. There is no question about the privilege of a bank, for example, to put up collateral. I think that is not questioned in any way, and they can certainly buy Government bonds.

Mr. WILLIAMS. I do not mean that. The question is whether they can buy stock in another corporation, because if you are going to make it a permanent institution—

Mr. BODFISH. They will have to change their law, and they have three and one-half years to do it in.

Mr. LUCE. We can change the national banking law in this bill.

Mr. WILLIAMS. Undoubtedly, we can do that.

Mr. BODFISH. I think the bill already recognizes the national banks participation in it. It authorizes the national banks to include in their liabilities—

Mr. WILLIAMS. That, in itself, does not bring them in, if the law otherwise prohibits it.

Mr. BODFISH. I see.

Mr. WILLIAMS. I have only directed that as an inquiry. I am not taking the position that they can not come in, although I was informed yesterday, on the opinion of the gentleman who was speaking to me, who was somewhat of a lawyer, that he did not think they could.

STATEMENT OF E. E. MOUNTJOY, DEPUTY MANAGER AMERICAN BANKERS ASSOCIATION, WASHINGTON

Mr. MOUNTJOY. Mr. Chairman, may I read a resolution?

For two days I have been expecting a banker to come down here from Wilmington, one who is familiar with this bill. I fully expected him here this morning, and I came up to present this resolution to him to offer, but I know most of the gentlemen here, and unless it would be that gentleman over there, he is not here. So I would like to offer it in his stead, if I may.

Mr. REILLY. What is the resolution?

Mr. MOUNTJOY. In opposition to the bill.

Mr. REILLY. Adopted by whom?

Mr. MOUNTJOY. By the interim committee of the American Bankers Association.

Mr. REILLY. Where, the District of Columbia?

Mr. MOUNTJOY. No, American!

Mr. REILLY. Let it be filed.

Mr. MOUNTJOY. Mr. Chairman, may I read it?

Mr. REILLY. Yes.

Mr. MOUNTJOY. At a meeting of the interim committee of the American Bankers Association held in Washington on March 21, 1932, it was resolved that the American Bankers Association vigorously oppose the home loan bank bill (S. 2959, H. R. 7620) as setting up a permanent banking system which is unnecessary and which would interfere with the operations of the present banking system.

Mr. LUCE. How many members are there of that committee?

Mr. MOUNTJOY. Six.

Mr. LUCE. How many were present when it was passed on?

Mr. MOUNTJOY. All of them.

Mr. LUCE. Then it is clear that six bankers are undertaking to speak in the name of all of the national bankers of the country, all of the banks of the country?

Mr. MOUNTJOY. Well, of course, in an organization as large as ours, it is difficult to get them all together, or to poll them, to get their sentiment. This, as I stated, is by the interim committee, which, by its terms, indicates it is just for the purpose of acting in an emergency, when they can not get the larger group together.

Mr. LUCE. It consists of six men?

Mr. MOUNTJOY. Yes.

Mr. LUCE. We often have before us the statements of these national associations, and it is interesting to know how they speak for thousands scattered over the country.

Mr. MOUNTJOY. Of course, they were elected by the banks at large throughout the United States to be their representatives. That was their purpose.

Mr. LUCE. But you, yourself, would not attach much stress to a resolution of that kind, would you?

Mr. MOUNTJOY. I think I should.

Mr. LUCE. Well, let me assure you that the Members of Congress do not.

Mr. MOUNTJOY. Well, there is no other way to get the sentiment of the larger group immediately. If it were before our national annual convention, we could take the vote.

Mr. LUCE. Several times Congress has had to doubt the wisdom of taking organizations like those of the farmers, notably, in allowing a small group of men to put upon the record, and send over the wires of the country, the statement that an organization with perhaps 50,000 members has committed itself on that kind of proposal.

Mr. MOUNTJOY. Well, this, if I may say so, will be taken up the next time the association is in annual convention, for the members to approve or disapprove, as they please.

Mr. LUCE. But, meanwhile, should it carry much weight?

Mr. MOUNTJOY. I think it should, sir. These people are thoughtful, they are conservative, they are trying their best to represent the membership at large, and I think they are doing it as well as any group of people could.

Mr. REILLY. The American Bankers Association did not pass on this at all in their annual conference?

Mr. MOUNTJOY. No, sir.

Mr. REILLY. This organization is what you call it, an interim committee for the bankers?

Mr. MOUNTJOY. Yes.

Mr. REILLY. Yes. And on their own initiative, they have passed that resolution?

Mr. MOUNTJOY. Yes.

Mr. REILLY. We will adjourn until half past 10 o'clock to-morrow. (Thereupon, the hearing was adjourned until 10.30 o'clock a. m., Wednesday, March 30, 1932.)

CREATION OF A SYSTEM OF FEDERAL HOME LOAN BANKS

WEDNESDAY, MARCH 30, 1932

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE OF THE COMMITTEE ON
BANKING AND CURRENCY,
Washington, D. C.

The subcommittee met at 10.30 o'clock a. m., Hon. Michael K. Reilly (chairman) presiding.

Mr. REILLY. Gentlemen, the committee will be in order. We are pleased to have with us this morning General Dawes, president of the Reconstruction Finance Corporation, and Mr. Gardner of their building and loan division.

General, we should be glad to have any statement from you touching the activities of your corporation, especially with regard to building and loan associations.

STATEMENT OF HON. CHARLES G. DAWES, PRESIDENT RECONSTRUCTION FINANCE CORPORATION; AND A. R. GARDNER, BUILDING AND LOAN EXAMINATION DIVISION

Mr. REILLY. General, can you give us an estimate of the applications you have had from building and loan associations and if you care to do so, your estimate as to the probable demands upon you in the near future?

General DAWES. Gentlemen, of course, we are confronted with the same difficulty in an attempt to appraise future demands upon us in the line of applications from building and loan associations, as we are in connection with banks, mortgage companies, livestock associations, railroads, and so forth.

The demands which will come to us will vary with the general state of confidence in the country, and will vary according to whether the depression continues or not. It is very difficult, therefore, at this early stage for us to talk in any but very general terms.

As to the building and loan associations, at the close of business March 28 we had received a total of 69 applications, amounting to \$10,975,298. Of these 25 applications have been approved, in the amount of \$4,423,750. Applications pending are in number 44, in amount \$4,756,548. These applications are from 13 States, as follows: Alabama, California, Illinois, Louisiana, Michigan, New Jersey, New York, North Carolina, Ohio, Oklahoma, South Carolina, Texas, and Virginia. They cover a wide area.

Estimates of those who are in close touch with the building and loan situation are always accompanied by a statement something like this:

If you can give so much money now, to satisfy these pressing demands the effect will be so to restore confidence in the situation that the demand for withdrawals will cease, the demands by the banks for payment of loans will cease, and the large amount of money which we estimate as necessary may not be called for.

Of course, that is the same situation with which we are confronted in the case of banks. And it is remarkable how true it is.

To what extent our help will check the demand on the building and loan associations for withdrawals, is just a pure estimate.

Mr. CAMPBELL. This money that has been advanced to the building and loan associations so far, has been repaid to the banks, has it not?

General DAWES. I do not know as to that. Mr. Gardner will tell you about that. He can give you more detailed information with regard to this matter than I. My own impression is that the legislation you have before you is good legislation. So far as our corporation is concerned, when it comes to an estimate as to what we can allot to any one of these particular corporations, the estimate will vary from week to week as we get the demands from the twelve classes of corporations with which we deal.

We do not know. The pressure on the banks over the country seems to be lessening. This emergency situation in the case of the building and loan associations may pass, but we do not know. We can not make any fair allotment of our resources to satisfy a situation like that.

All we can say is that we have to pass on each case on its individual merits. We are going ahead now and meeting the demands made upon us. But, of course, we have just started. Our money is not all gone. Mr. Gardner, who is present with me, has been in charge of the building and loan associations and the State banks of the State of Washington. He has had long experience in that work, and he can tell you something about this situation in greater detail. I have just made a very general statement with regard to it.

Mr. CAMPBELL. You would recommend the enactment of this home-loan bank bill?

General DAWES. I would, absolutely; yes.

Mr. CAMPBELL. You give it your unqualified indorsement?

General DAWES. My unqualified indorsement; yes.

Mr. REILLY. Mr. Gardner, how many States are so situated to-day, from the standpoint of the State laws, that their building and loan associations could join this institution?

Mr. GARDNER. So far as I have been able to determine, it is now rather definitely held that nine States would be barred from immediate participation in the home-loan bank system. We are finding, as we inquire into and analyze State laws, that fewer of them have provisions which bar participation than was at first thought. To date the only State from which a building and loan application has been denied because of restrictions imposed by State law is Oklahoma. There are a number of other doubtful States from which applications have not reached us. Of course, no definite ruling is made by the corporation until a test case comes before the board.

We are gradually working out what were first thought to be prohibitions against associations' right to borrow.

Mr. REILLY. What are those nine States to which you refer?

Mr. GARDNER. Oklahoma, Florida, Kansas, Minnesota, Pennsylvania, Washington, Missouri, Vermont. As to Missouri, I understand from our counsel that the prohibition in Missouri is due to the fact that the instruments of indebtedness of these associations are nonnegotiable and it has been held, by the Missouri State courts, that nonnegotiable means nonassignable. The Reconstruction Finance Corporation, however, is every day accepting as collateral nonnegotiable instruments. They are taken upon assignment, subject to defenses, but they are nonnegotiable.

There is a question as to Nebraska. As to Pennsylvania, we had an opinion from one agency counsel that the Pennsylvania associations are eligible, while the counsel for another agency held they were not eligible. A test case is being sent in.

Mr. CAMPBELL. They are not prohibited by statute. It is a ruling of the attorney general of Pennsylvania.

Mr. GARDNER. My understanding is that the Pennsylvania statute is silent on the question of their right to pledge collateral, and the banking department has held they can not pledge it.

Mr. CAMPBELL. Do you have the State of Maine on your list?

Mr. GARDNER. I have not.

Mr. CAMPBELL. I think that is the other State.

Mr. GARDNER. The attitude of our legal department is apparently that where a State statute is silent on the question of the rights of these associations to borrow and pledge collateral, they have general corporate powers in this respect. That is, where the statute is silent as to their ability to pledge collateral, this right is conceded.

Mr. REILLY. Does the same situation exist as to the possibility of savings banks and other home loan mortgage institutions joining this system?

General DAWES. You are speaking of the home bank system?

Mr. REILLY. Yes.

Mr. GARDNER. I have not attempted to study the question other than from the standpoint of participation in the Reconstruction Finance Corporation.

Mr. REILLY. If they could participate in the Reconstruction Finance Corporation, they could participate in this home loan bank.

Mr. GARDNER. Yes. The point I was making is this. My work with the Reconstruction Finance Corporation has been entirely devoted to building and loan associations, not to savings banks or other corporations enumerated in the home loan bank bill. I do not know what prohibitions are imposed by State laws in regard to those institutions.

Mr. REILLY. Then your judgment is, so far as building and loan associations are concerned, that all but nine States could join this system?

Mr. GARDNER. Yes. You will understand, I am not a lawyer. My information comes from our legal department. It has been analyzing rather carefully the State laws and making a digest of them, particularly on this question.

Mr. REILLY. What, if any, information have you to give the committee regarding the needs and demands of building and loan associations at this time?

Mr. GARDNER. Not a great deal other than what General Dawes has given you. The real problem of building and loan associations is the withdrawal problem and just as General Dawes has said, it is a question as to how much we can stem the tide with the funds available from the Reconstruction Finance Corporation. If we can, by limited advances, enable associations, by applying the funds on their withdrawal notices, to begin to restore confidence of the people in their institutions, and get them to cancel their notices and thus ease up the pressure, a distinct service will have been rendered. As a matter of fact, most of the withdrawal pressure is due to hysteria and lack of confidence, rather than to economic necessity. Some of it, of course, is due to economic necessity, but it is very largely shaken confidence.

Mr. REILLY. Mr. Gardner, there are two purposes attempted to be served in this bill. One is to enable these loan institutions to meet legitimate demands for withdrawals based upon the necessities of the withdrawing persons. The other is to supply some money for reconstruction or building purposes where the local institution decides that it is legitimate to advance the money.

Those are the purposes of this bill.

Mr. GARDNER. I might say this, that the reason we have not received more applications to date from building and loan associations is the reluctance and hesitancy of the associations to borrow on six months' maturity. There is no way that you can figure out, without very severe embarrassment to an association, how it can hope to retire a loan made by the corporation on a six months' or even on a 3-year maturity.

For instance, I have on my desk now the first application to arrive from a certain State. The applicant has taken the liberty of changing the terms of the agreement to provide for a year's maturity instead of six months' maturity. Because of demand or short maturity requirements, associations in a great many States have not been heavy borrowers, and they are now reluctant to put in their applications to the Reconstruction Finance Corporation until they can figure out some way of retiring these loans.

Mr. REILLY. Then the Reconstruction Finance Corporation is not the proper set-up, as regards the length of time for loans that can be made, to accommodate and meet the demands and requirements of the building and loan association?

Mr. GARDNER. Absolutely not. My thought is this: In the event of the passage of the home loan bank bill, loans which the Reconstruction Finance Corporation has made to building and loan associations should be picked up by the home loan bank system, re-financed and reorganized on a long-term basis suitable to the needs of these associations.

Mr. CAMPBELL. Do you mean the loans already made by the Reconstruction Finance Corporation?

Mr. GARDNER. Yes. They should be picked up by the home loan bank system.

Mr. CAMPBELL. What is your idea of the necessary capital of such an institution? Would you think \$150,000,000 would be adequate as an advance to be made by the Government?

Mr. GARDNER. I rather think it would, Congressman.

Mr. CAMPBELL. Would any less do?

Mr. GARDNER. I do not know. It is pretty hard to estimate what the requirements will be.

Mr. CAMPBELL. General, this bill provides for 12 home loan bank regions. Are those adequate or would you say that we could do with a smaller set-up; fewer banks? Of course, the idea is the same as that followed in establishing the Federal reserve districts.

General DAWES. Yes. It was a great thing for this country that we have those districts instead of having one big central bank. You remember the original bill provided for one big central bank and the division into 12 areas was a very fortunate change. I think it is important in a matter of this kind to have decentralization, so as to put authority next to the point of necessity. Wherever an agency is acting at a distance, under delegated authority, there is a conflict of ideas in regard to almost every case, between the people at the point of necessity and the reviewing examiners at the central institution. There is always friction, delays in meeting the necessities of the situation, and passing things through quickly.

This provision for the division of central authority into the different sections will make it possible very much better to meet the situation of the different sections than by having any one institution, or by having fewer institutions. I think that is a good provision.

Mr. LUCE. In the case of these States where the laws are impeding resort to your corporation, do you find that there is a disposition to secure a speedy change in the laws? What do they say to you?

Mr. GARDNER. I do. We have found that to be true. As you know, New Jersey has amended its law. Wisconsin and Arkansas have amended their laws, since the Reconstruction Finance Corporation was organized. In those States where legislatures are in session, other amendments have been introduced and are pending.

Mr. LUCE. If the Pennsylvania situation should require it, are they not to have a special session speedily?

Mr. GARDNER. I understand so. That is my information.

Mr. WILLIAMS. From how many States have you had applications from building and loan associations?

Mr. GARDNER. Thirteen.

Mr. WILLIAMS. And do I understand that out of those 13, 9 of them can not qualify?

Mr. GARDNER. No. There has only been one.

Mr. WILLIAMS. Your legal department has made an investigation of the laws of all the States?

Mr. GARDNER. I understand so; yes.

Mr. WILLIAMS. The reason I am asking that is that that opinion seems to be in conflict with some opinion that we have here as to various States.

Mr. GARDNER. The information I gave you as to the nine States came from Mr. Gravem, who has been assigned to building and loan

association work in the legal department. He spent last night going over again the digest of the laws. Nine is the figure he gave me.

Mr. WILLIAMS. Does your information show that Nebraska and Maine can not borrow at all? I am referring to the building and loan associations.

Mr. GARDNER. I do not know about Maine, because we have had no applications and no inquiries from there. It is not my understanding that Nebraska can not borrow for any purpose. The prohibition there, as I understand it, is in the matter of pledging collateral as security for a loan.

Mr. WILLIAMS. Is Illinois one of the States you say can not borrow?

Mr. GARDNER. No; Illinois can pledge collateral. I have an application on my desk now from there.

Mr. WILLIAMS. Oklahoma, I believe, you mentioned was one.

Mr. GARDNER. Oklahoma is the only State which has been definitely passed upon and an application denied, because it could not qualify.

Mr. REILLY. I understand there is a bill pending in the Illinois Legislature to amend the law so that they can come in under the reconstruction finance act.

Mr. GARDNER. I have been informed there is. There are some States with respect to which it is held building and loan associations can not borrow, only because they can not pledge their members' mortgages. They can pledge mortgages on their own real estate, or any other asset. The only prohibition is against pledging the borrowing member's mortgage. Of course, that is the most desirable type of collateral.

Mr. WILLIAMS. But you are taking applications from States where the paper is nonnegotiable, as I understand you.

Mr. GARDNER. Yes; nonnegotiable paper is being accepted.

General DAWES. In all cases our local agency passes upon the security, as to its adequacy. We go into all these questions.

Mr. CAMPBELL. That is within the province of the Reconstruction Finance Corporation.

General DAWES. Our limitation is that we must make loans upon full and adequate security. All these legal questions involved are passed upon by the counsel at the agency as well as our own counsel.

Mr. WILLIAMS. May I ask you this question? What is the relative position of the applications of building and loan associations compared to banks and railroads, insurance companies, and other agencies under this act? That is, how do their applications compare in amount?

General DAWES. So, far, building and loan applications are very much smaller.

Mr. CAMPBELL. Would not that be due to the reason Mr. Gardner mentioned, that they do not care to accept six months' paper?

General DAWES. Exactly. And you must remember that in the case of some of the banks there is a pressing necessity for quick action on their part in view of the decline in their deposits, whereas in the case of the building and loan associations there is not quite as much of an emergency.

Mr. WILLIAMS. That was the purpose of the question, General, to see if we could get a statement as to the comparative necessity and urgency in these different cases.

General DAWES. That is a very intelligent question. We find, for instance, that it takes time to make these applications and get acquainted with the machinery. A good deal depends upon the activity of our agents. In some cases our agents are seeking cases of necessity and encouraging them to make applications. But as to these building and loan associations, in the light of the knowledge we have as to possible demand, the fact that we have dealt with such a small number to date is no indication that there is not going to be a very large addition to the number of applications.

Mr. GARDNER. May I say this in answer to that question? There have been a number of local agencies which have not felt they were fully equipped to handle building and loan applications. For this reason applications from building and loan associations are just beginning to start. For instance, one agency from which only one application has been received estimates it will have in the next two weeks 300 applications. We have in proof now, to be out this week, a special building and loan application form.

Mr. LUCE. Do you happen to know whether the National and State bank applications, in the case of those applications, mortgages are frequently put up as security?

Mr. GARDNER. Oh, yes.

Mr. LUCE. In our hearings testimony has centered about the building and loan. But the bill was drawn to accommodate mortgages from all classes of institutions, and it would be useful if we could get some definite idea about that.

Mr. GARDNER. My information on that is only of a general nature, just from my observation in working with examiners who are handling bank loans. I know that in many instances most of the collateral submitted by banks consists of real-estate mortgages. That is particularly true of the smaller banks.

Mr. WILLIAMS. Can you tell us whether they are what they call long-term loans or not?

Mr. GARDNER. No; I can not.

Mr. WILLIAMS. You do not know as to their length, 1 year or 5 or 10 year mortgages?

Mr. GARDNER. No.

Mr. WILLIAMS. Can you give us some information as to the relative position of the insurance companies? They are also provided for in the bill.

Mr. GARDNER. No. I have had no contact with the insurance department. I do know that some of these institutions have submitted mortgages as collateral, because they have expert mortgage men working on applications of the insurance companies.

Mr. REILLY. If there are no further questions, gentlemen, we are very much obliged to you.

STATEMENT OF NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS

The United States Supreme Court has defined a mutual savings bank as "an institution in the hands of disinterested persons, the profits of which, after deducting the necessary expenses of conducting the business, inure wholly to

the benefit of the depositors in dividends or in a reserved surplus for their greater security."

Mutual savings banks, known in some States as saving-fund societies, and institutions or societies for savings, differ from commercial-banking institutions and other forms of savings banks in that they have no stock or stockholders. Under the principle of mutuality, they operate wholly in the interest of their depositors, and in the exercise of the principle of trusteeship, they lay great emphasis upon the safety and adequate liquidity of their funds. All income from investments and operation, after the setting aside of a sum, in accordance with the laws of the individual States as a surplus or reserve fund, and the payment of current operating expenses, inures to the depositors and is actually paid out to them in dividends or interest. There are 587 mutual savings banks located in 18 States of the Union. The total assets of these institutions on July 1, 1931, were \$11,135,361,259; deposits amounted to \$9,976,967,981 owned by 13,239,782 depositors, or an average of \$753.56 per account. Mutual savings banks have 36 per cent of all savings on deposit in the banking institutions of the country.

Because of the character of these institutions, not being in business for profit but endeavoring to invest the accumulations of the average individual in a way which will provide a satisfactory return consistent with safety, the legislatures of the various States have generally seen fit to set up restrictions as to the types of securities in which they may invest these funds. Naturally, the investments are of the highest type, and safety and liquidity with reasonable return are the three prime requisites. A consolidated statement of condition of the mutual savings banks of the country as of December 31, 1930, shows following distribution of assets:

	Per cent
Loans on real estate and loans and discounts.....	54. 60
Railroad bonds.....	12. 15
United States Government and municipal bonds.....	11. 76
Unclassified bonds and stocks.....	7. 66
Public-utility bonds.....	5. 05
Cash on hand and in banks.....	3. 81
Loans on collateral and personal loans.....	2. 45
Real-estate investment and furniture and fixtures.....	1. 12
Collectible interest, due and accrued.....	. 66
Foreclosure account and other real estate.....	. 46
Loans to municipalities and other corporations.....	. 12
Other assets.....	. 06
Securities acquired.....	. 05
Guaranteed mortgage bonds.....	. 04
Insurance and taxes advanced.....	. 01
	100. 00

The mutual savings banks of this country have accumulated, during their 115 years of operation, a surplus account of \$1,110,095,838, which is 11.1 per cent of the deposits.

The present condition of mutual savings banks of the country is highly satisfactory, considering general economic conditions. Naturally, there has been some reduction in the market value of their bond holdings, but there is no present indication that they will need to dispose of these securities to meet their current demands. The records show that only three mutual savings banks have closed their doors since 1914. A fourth institution is being liquidated at the present time, and a fifth which was closed early in 1931 is being reorganized and is expected to be opened to the public again within a short time.

It may be seen, therefore, that the record of mutual savings banks has been most remarkable. These institutions enjoy to-day the highest esteem and confidence of their depositors and the general public. Moreover, these banks, because of their strength and conservative policies, have served as stabilizing influences during these times when public emotions have been at high tension and the public confidence none too steady. During the year ending June 30, 1931, deposits in these institutions increased by \$831,000,000, which is a practical indication of the faith and trust reposed in them.

Statements which appeared in the press of the country before and during the time of President Hoover's conference on home building and home ownership laid emphasis on the fact that "savings banks" are in a deplorable condi-

tion due to the illiquidity of their investments. Also, the proposal which has been presented to Congress for the establishment of home loan discount banks throughout the country is based upon the conclusion that "savings banks" and certain other forms of financial institutions are in need of relief with respect to their liquid position and that these home loan discount banks would serve to supply that relief. The fact is that there is no need for such relief in "mutual" savings banks, and it would be most unfortunate if any such impression were to become current among the millions of depositors who now avail themselves of the high quality of protection offered by this form of banking.

The National Association of Mutual Savings Banks wishes to emphasize the point that the "savings banks" to which constant reference was made during the President's conference on home building and home ownership, and which the home loan discount banks would be designed to assist, are not to be interpreted as "mutual" savings banks and that "mutual" savings banks have taken no part in the proposal for the creation of an agency to supply such assistance. In consideration of these facts, we respectfully urge the banking committees of the Senate and the House of Representatives to include a statement in the record of their hearings to the effect that the term "savings banks" in their deliberations should be interpreted as exclusive of "mutual" savings banks.

NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS.

Committee on Federal legislation: Jay Morrison, vice president Washington Mutual Savings Bank, Seattle, Wash.; Austin McLanahan, president Savings Bank of Baltimore, Baltimore, Md.; E. A. Richards, president East New York Savings Bank, Brooklyn, N. Y.; Milton W. Harrison, trustee Bowery Savings Bank, New York, N. Y.; W. H. Bennett, president Emigrant Industrial Savings Bank, New York City; R. C. Stephenson, vice president St. Joseph County Savings Bank, South Bend, Ind.; R. J. Rendall, president Hudson City Savings Bank, Jersey City, N. J.; H. P. Gifford, president Salem Five Cents Savings Bank, Salem Mass., chairman.

STATEMENT OF HORACE RUSSELL, SECRETARY FIRST MUTUAL BUILDING AND LOAN ASSOCIATION

COMMITTEE ON BANKING AND CURRENCY, *United States Senate:*

My attention was called to the fact that certain evidence had been given before your committee that there are adequate funds for home financing in America and that these funds are being made available for such purposes and that there is no need for the United States to give any assistance to the home owners of America or provide a better means of organization for home financing, but I do not find these contentions borne out by the facts in my home city and in my section of the country, and I came to Washington to give this statement to this committee. There are not adequate funds, in my opinion, in Atlanta or in Georgia for home financing, and what funds there are are not being made available on account of fear as a result of the poor organization of home financing.

I reside in Atlanta, Ga., am engaged in the practice of law in the firm of Jones, Fuller, Russell & Clapp, and handle loans for clients of that firm, including First Mutual Building and Loan Association, of which I am secretary, and have for many years had an intimate knowledge of the real estate market, and especially the question of home financing in that territory, and having been president for two years of the Atlanta Chamber of Commerce I have a general knowledge of the community conditions.

It has been said by certain insurance executives that there are adequate funds for home financing and that the same are now being made available. The fact is in our city, and over the State of Georgia generally, the insurance companies have entirely withdrawn from the loan market in a very large percentage of the territory, and I believe that I am safe in saying that they decline entirely to consider a loan of any kind or character upon more than two-thirds of the homes of our State. It is true that they continue to make loans in the highly restricted and perfect neighborhoods upon only the most select houses in such neighborhoods, and to the most select personal risks and for a very small percentage of the value. However, the insurance companies do not make loans

of \$1,000 to \$2,000 in our State scarcely, if at all, and this field probably includes half of the homes in the State, who are left almost entirely without financing in these times, and there are many other restrictions which are being applied in these times apparently for the purpose of holding down the amount of money to be put out.

Representatives of the Mortgage Bankers Association, so called, have testified that there is no need of a Federal home loan bank bill. In our State the members of this association are substantially mortgage brokers and not mortgage bankers. They represent largely the insurance companies and must be speaking for them. The fact is, in our State, that one mortgage company for the period 1925-1929, inclusive, was lending from about \$1,000,000 to about \$5,000,000 a year on homes, and, therefore, absorbed a large part of the loan market during that period and it is now, not only out of the market of making loans, but is calling all of these loans which are now maturing and demanding payment in cash and our people are able to find no cash. There are many other mortgage companies in our section which have pursued the same course. It may be that it is best for the selfish interest of the mortgage companies to leave home financing in its present chaotic condition, but it is clearly not best for the home owners of our State.

Georgia has about 30 per cent of her families residing in homes which they own, or in which they are engaging in purchasing, and it would be better for the State and the United States if we had more home owners. We have the most pitiful condition existing now that has ever existed in reference to home ownership. Our people have been induced to undertake good homes with heavy financing and they have been abandoned in these times. Many, many of these people have paid one-half or even much more than one-half of the cost of their home, and have a loan come due at this time and are wholly unable to refinance in any way, and are losing their homes. Not only grave injury is being done to these individual citizens but also the most serious harm is resulting in the case of home ownership when one man gets his home more than one-half paid for and loses it. The experience will not only discourage him but will discourage his relatives and neighbors and friends for a generation. The fact is that our system of home financing is broken down. I do not advocate the Government going into the business of home financing, but I do say that it ought to provide a form of organization which will better serve the home owners, as the banking community is better served by the Federal reserve bank.

The Government has appropriated a large sum of money to the Reconstruction Finance Corporation, and is putting up government money for the relief of the bankers, insurance companies, and industrialists. It ill behooves these people, who have secured their relief to object to some small measure of relief for the home owners of this country, and this is especially true when the Federal home loan bank bill, now pending, does not provide for the Government to go into the business, but merely makes provision for the organization of home financing institutions, so that home owners will be better served. In my opinion the Federal home loan bank bill, now pending, as S. 2959, is perfectly sound from an economic standpoint, and as a plan of finance, and that it will render substantial immediate relief and will be of the utmost benefit to the home owners of America.

WESTERN NEW YORK LEAGUE OF SAVINGS AND LOAN ASSOCIATIONS,
Buffalo, N. Y., February 24, 1932.

To whom it may concern:

At a meeting of the board of trustees of the Western New York League of Savings and Loan Associations, representing 46 savings and loan associations of western New York, the following resolution was unanimously adopted.

Resolved, That the savings and loan associations constituting the Western New York League disapprove Senate bill No. 2959, authorizing the creation of Federal home loan banks. After thorough study and debate it was the unanimous decision of the board that this bill, if enacted, could not be of any

benefit to savings and loan associations in the State of New York, but, on the contrary would cause them irreparable harm; and be it further

Resolved, That a copy of this resolution be forwarded to the United States Senators of the State of New York and to the Representatives in Congress representing the districts included in the territory covered by this league, urging them to use their influence to defeat this bill, it being detrimental to the best interest of the public and our institutions.

CHARLES A. HAHN,
President.

HENRY F. HOLTZ,
Secretary.

Whereas the Government of these United States of America is planning to inaugurate a Government home loan bank plan to relieve the burden resting on the shoulders of the home owner; and

Whereas, it is just and fitting that such relief be given to the home owner, with the least possible expense to the said home owner: Therefore be it

Resolved, That this post, the Metropolitan Water Supply Post No. 185 of the American Legion, in the county of Wayne, city of Detroit, State of Michigan, be on record as requesting this Government of these United States of America to open a Subtreasury office in every state of the Union, and an office in each major city, in order that the home owner desiring this "Government home loan" may attain such loan at cost and without the necessity of paying a bonus, and be it further

Resolved, That the rate of interest charged by the Government of these United States of America shall be the lowest rate possible consistent with business methods.

Attest:

EARL H. BAUER, *Adjutant.*
JESSE WOFFORD, *Commander.*

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