

**TO GUARANTEE BONDS OF
HOME OWNERS' LOAN CORPORATION**

HEARINGS
BEFORE THE
COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES

SEVENTY-THIRD CONGRESS

SECOND SESSION

ON

H.R. 8403 (S. 2999)

A BILL TO GUARANTEE BONDS OF HOME OWNERS' LOAN
CORPORATION, TO AMEND HOME OWNERS' LOAN
ACT OF 1933, AND FOR OTHER PURPOSES

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TO GUARANTEE BONDS OF HOME OWNERS' LOAN CORPORATION—H.R. 8403

WEDNESDAY, MARCH 7, 1934

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

The committee met at 10:30 a.m., Hon. Henry B. Stegall (chairman) presiding.

Present: Messrs. Steagall (chairman), Prall, Reilly, Disney, Spence, Sisson, Meeks, Koppelman, Brown, Luce, Simpson, and Fish.

(The committee had under consideration H.R. 8403, which is as follows:)

[H.R. 8403, 73d Cong., 2d sess.]

A BILL To guarantee the bonds of Home Owners' Loan Corporation, to amend Home Owners' Loan Act of 1933, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That Home Owners' Loan Act of 1933 be amended by inserting at the end of section 4 thereof paragraphs as follows:

“(L) All bonds issued by the Corporation shall be in such forms and denominations, shall mature within such periods of not more than eighteen years from the date of their issue, shall bear such rates of interest not exceeding 4 per centum annually, shall be subject to such terms and conditions, and shall be issued in such manner and sold at such prices as may be prescribed by the Corporation, with the approval of the Secretary of the Treasury. Such bonds shall be fully and unconditionally guaranteed, both as to interest and principal, by the United States, and such guaranty shall be expressed on the face thereof; and such bonds 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. In the event that the Corporation shall be unable to pay upon demand, when due, the principal of, or interest on, such bonds, the Secretary of the Treasury shall pay to the holder the amount thereof which is hereby authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, and thereupon to the extent of the amount so paid the Secretary of the Treasury shall succeed to all the rights of the holders of such bonds. The Secretary of the Treasury, in his discretion, is authorized to purchase any bonds of the Corporation issued under this subsection, and for such purpose the Secretary of the Treasury is authorized to use as a public-debt transaction the proceeds from the sale of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under such Act, as amended, are extended to include any purchases of the Corporation's bonds hereunder. The Secretary of the Treasury may, at any time, sell any of the bonds of the Corporation acquired by him under this subsection. All redemptions, purchases, and sales by the Secretary of the Treasury of the bonds of the Corporation shall be treated as public-debt transactions of the United States. No such bonds shall be issued in excess of the assets of the Corporation, including the assets to be obtained from the proceeds of such bonds, but a failure to comply with this provision shall not invalidate

the bonds or the guaranty of the same. The provisions of this subsection, except the preceding sentence, shall not apply to any bonds of the Corporation issued prior to the date of enactment of this subsection or to any bonds thereafter issued in compliance with commitments outstanding on such date.

"(M) The provisions of the second, third, and fourth sentences of subsection (c) hereof shall, after the date of enactment of this subsection, apply only to bonds issued prior to such date and to those thereafter issued in compliance with commitments outstanding on such date. Such bonds may, upon application of the holders thereof within six months from such date, be exchanged for a like face amount of bonds issued for such purpose pursuant to the provisions of subsection (L) hereof, bearing interest at such rate as shall be prescribed by the Corporation with the approval of the Secretary of the Treasury; but such rate shall not be less than that first fixed after the date of enactment of this subsection on bonds offered in exchange for home mortgages, other obligations, and liens upon homes, and the Corporation is authorized to increase its total bond issue in an amount equal to the bonds so exchanged.

"(N) In the event Home Owners' Loan Corporation calls in for refunding any of its bonds outstanding at the date this subsection takes effect, or issued in compliance with commitments outstanding on such date, it is hereby authorized to increase its total bond issue in an equal amount. The Corporation shall have power to purchase any of the bonds issued by it in the open market at any time and at any price. Any such bonds so purchased may, with the approval of the Secretary of the Treasury, be sold or resold at any time and at any price.

"(O) The loans made or refunded by the Corporation shall be confined to applicants whose indebtedness against their homes was in default prior to the date Home Owners' Loan Act of 1933 took effect: *Provided*, That relief may be extended to applicants whose defaults occurred since that Act took effect is specifically shown to be due to unemployment or economic conditions or misfortune beyond the control of the applicant: *And provided further*, That home mortgages and other obligations and liens against homes held by institutions in liquidation may be refunded, whether in default or not.

"(P) In all cases where the Corporation is authorized to advance cash to provide for necessary maintenance and to make necessary repairs, it is thereby authorized to advance cash or exchange bonds for the rehabilitation, modernization, rebuilding, and enlargement of the homes financed and in all cases where the Corporation has a home mortgage it is authorized to advance cash or exchange bonds to provide for the maintenance, repair, rehabilitation, modernization, rebuilding, and enlargement of the homes financed and to take an additional lien, mortgage, or conveyance to secure such additional advance or to take a new home mortgage for the whole indebtedness, but the total amount advanced shall in no case exceed the respective amounts or percentages of value of the real estate as is provided in Home Owners' Loan Act of 1933. Not exceeding \$200,000,000 of the bonds referred to in subsection (L) hereof may be sold, the proceeds of which may be used for the purposes of this subsection and for advances to provide for necessary maintenance and necessary repairs."

SEC. 2. Home Owners' Loan Act of 1933 is amended by striking out the comma and words as follows: " , and no payment of any installment of principal shall be required during the period of three years from the date this Act takes effect if the home owner shall not be in default with respect to any other condition or covenant of his mortgage ", as the same appears in section 4, paragraph (d), thereof.

SEC. 3. Home Owners' Loan Act of 1933 is further amended by striking out the word "two" from section 4, paragraph (g), and inserting the word "three" in lieu thereof, and the words "such exchange or advance" at the end of section 4, paragraph (g), thereof, and inserting in lieu thereof the words "the filing of any application with the Corporation to accomplish such redemption or recovery."

SEC. 4. Home Owners' Loan Act of 1933 is amended by inserting at the end of section 5 thereof new paragraphs as follows:

"(J) In addition to the authority to subscribe for preferred shares in Federal savings and loan associations, the Secretary of the Treasury is authorized on behalf of the United States to subscribe for any amount of full-paid income shares in such associations, and it shall be the duty of the Secretary of the Treasury to subscribe for such full-paid income shares upon the request

of the Federal Home Loan Bank Board. Payment on such shares may be called from time to time by the association, subject to the approval of said Board and the Secretary of the Treasury, and such payments shall be made from the funds authorized to be appropriated by section 5, paragraph (g), of Home Owners' Loan Act of 1933, and any funds appropriated pursuant to said authorization; but the amount paid in or held by the Secretary of the Treasury, including the amount paid in on preferred shares held under the provisions of section 5, paragraph (g), hereof, and the amount paid in and held under this section, shall at no time exceed 75 per centum of the total investment in the shares of such association by the Secretary of the Treasury and other shareholders. Each such association shall issue receipts for such payments by the Secretary of the Treasury in such form as may be approved by said Board, and such receipts shall be evidence of the interest of the United States in such full-paid income shares to the extent of the amount so paid. No demand for the repurchase and retirement of such full-paid income shares so purchased shall be made for a period of five years from the date of the purchase of the same, and thereafter requests for the repurchase of such shares by such associations shall be made at the discretion of the Federal Home Loan Bank Board, but such requests for the repurchase shall not be made in any one year upon any such association in excess of 10 per centum of the total amount of such investment in its shares. Such association shall repurchase such shares upon such request according to rules and regulations of Federal savings and loan associations established by the Federal Home Loan Bank Board.

“(K) When designated for that purpose by the Secretary of the Treasury, any Federal savings and loan association may be employed as fiscal agent of the Government under such regulations as may be prescribed by said Secretary and shall perform all such reasonable duties as fiscal agent of the Government as may be required of it. Any Federal savings and loan association may act as agent for any other instrumentality of the United States when designated for that purpose by such instrumentality of the United States.”

SEC. 5. (a) The first sentence of the eighth paragraph of section 13 of the Federal Reserve Act, as amended, is further amended by inserting before the semicolon, after the words “Federal Farm Mortgage Corporation Act”, a comma and the following: “or by the deposit or pledge of Home Owners' Loan Corporation bonds issued under the provisions of subsections (L) or (M) of section 4 of the Home Owners' Loan Act of 1933, as amended.”

(b) Paragraph (b) of section 14 of the Federal Reserve Act, as amended, is further amended by inserting after the words “bonds of the Federal Farm Mortgage Corporation having maturities from date of purchase of not exceeding six months”, a comma and the following: “bonds issued under the provisions of subsections (L) or (M) of section 4 of Home Owners' Loan Act of 1933, as amended, and having maturities from date of purchase of not exceeding six months.”

SEC. 6. The Federal Reserve Banks are authorized, with the approval of the Secretary of the Treasury, to act as depositories, custodians, and fiscal agents for Home Owners' Loan Corporation.

SEC. 7. Home Owners' Loan Corporation is authorized to buy bonds or debentures of Federal Home Loan Banks upon such terms as may be agreed upon or to loan money to Federal Home Loan Banks upon such terms as may be agreed upon.

SEC. 8. The Federal Home Loan Bank Act is amended by inserting at the end of section 17 thereof the following: “The Secretary of the Treasury or the Under Secretary of the Treasury, when designated by the Secretary, shall be ex officio a member of the Board in addition to the five appointed members of the Board and shall as such have the right to vote as a member of the Board, but three members of the Board shall constitute a quorum for the transaction of business.”

SEC. 9. To enable the Federal Home Loan Bank Board to encourage local thrift and local home financing, and to promote, organize, and develop Federal Savings and Loan Associations and similar associations organized under local laws, there is hereby allocated and directed to be transferred from the funds authorized to be appropriated by the provisions of section 5, paragraph (g), of Home Owners' Loan Act of 1933, and any funds appropriated pursuant to said authorization, the sum of \$500,000, to be immediately available and to remain available until expended subject to the call of said Board, which sum, or as much thereof as may be necessary, said Board is authorized to use at its discretion for the accomplishment of the purposes of this section

and sections 5 and 6 of the Home Owner' Loan Act of 1933, without regard to the provisions of any other law governing the expenditure of public funds.

SEC. 10. Subsection (a) of section 4 of the Act entitled "An Act to provide for the establishment of a Corporation to aid in the refinancing of farm debts, and for other purposes", approved January 31, 1934, is amended by striking out the eighth sentence thereof reading as follows: "Such bonds shall be fully and adequately secured by such assets of the Corporation and in such manner as shall be prescribed by its board of directors", and by inserting in lieu thereof a new sentence reading as follows: "No such bonds shall be issued in excess of the assets of the Corporation, including the assets to be obtained from the proceeds of such bonds, but a failure to comply with this provision shall not invalidate the bonds or the guaranty of the same."

SEC. 11. 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.

STATEMENT OF JOHN H. FAHEY, CHAIRMAN FEDERAL HOME LOAN BANK BOARD

The CHAIRMAN. We have with us Mr. John H. Fahey, the chairman of the Federal Home Loan Bank Board, who will discuss H.R. 8403, and I am going to suggest that Mr. Fahey be permitted to proceed as long as he desires without interruption, and after he has concluded his general statement, of course, the members of the committee will all be free to interrogate him, and I will now ask Mr. Fahey to discuss the bill without interruption, as long as he desires.

MR. FAHEY. Mr. Chairman and gentlemen of the committee, I should explain at the outset that this bill is presented to you with the recommendations of our Board, has the approval of the President, so far as its terms are concerned, and that we have also checked with the Treasury Department and the Director of the Budget relative to its financial phases. In addition to that, because of its relation to financing in general, we have also discussed it over recent weeks with the chairman and other members of the Board of the Reconstruction Finance Corporation.

To summarize briefly the outstanding features of this bill, I would say that first of all, as you are aware, it provides for the guaranty of the principal of its bonds. Its further purpose is to encourage employment in the country, to stimulate modernization and construction, and, in turn, to help in the restoration of the capital-goods industries of the country, because of the influence on those industries of the construction industry.

More than that, we believe that these amendments will have a substantial influence in restoring the confidence of savers, whose thrift is necessary to the further extension of home building in this country; likewise, that it will have a very definite tendency to encourage the lending institutions to adopt a more liberal attitude in making funds available for the modernization and repair of homes and also for new construction wherever it is needed. Of course, you gentlemen will realize that another incidental factor of importance involved is the strengthening of the assets of the corporation itself, because under the terms of this act the corporation would be allowed to advance money for the modernization of the homes on which it takes over mortgages, thus putting them in better shape than they are today and increasing their value as assets behind the mortgages and bonds of the corporation.

There is also provision in this bill for extending the time during which those who are entitled to assistance may take advantage of the terms of the act. We have also made one other suggestion of amendment here, which we are convinced is important and which we hope will appeal to you gentlemen, and that is remove from the present act its mandatory provision that we shall grant a moratorium on any payment of principal on the part of these borrowers during the next 3 years.

The other, a very important and constructive feature of this act, as we see it, is the encouragement it lends to the further and more rapid development of the Federal building and loan associations, and also in putting some assets at the disposal of the home-loan bank system, and, in turn, its member institutions, so that they, too, may be in a position to extend their aid in home building and home rehabilitation without undue delay.

Dealing with the incidental features of the bill, may I explain that, of course, in the first place, the purpose of the act, so far as the guaranty of principal is concerned, is in general to place the bonds of this corporation on exactly the same basis as those of the Farm Credit Administration. In its terms, the bill provides that those who hold bonds of our issue may, during the next 6 months after the passage of the act, if it be approved, exchange the bonds which they now hold for the new bonds which the corporation will issue. After long consideration of the subject and discussion of it with the Treasury and other financial authorities, this Board was convinced that that was the most equitable plan which could be adopted, and for these reasons: As you know, we encountered considerable resistance in the acceptance of these bonds on the part of mortgagees, largely because of their maturities as investments, because they were due and not understood, and because in some quarters there was considerable resistance to the idea that such an institution as the Home Loan Corporation should be created at all, but there was considerable misunderstanding on the part of financial institutions and of individual mortgagees as to just what this corporation was expected to do and how sound the securities were. The result was that we had to go to considerable expense and carry on quite an elaborate educational campaign to have the bonds understood at all. I say, it was not appreciated in the country generally just what they represented, because it was not realized, for example, that the Treasury Department had ruled that these bonds of the Home Owners' Loan Corporation should be accepted at par as security for United States Government deposits; that the Comptroller of the Currency had ruled that national banks might accept them at their par value in exchange for home mortgages held by such banks and carry them in their balance sheets at par, unless at some time in the future there was occasion for some other ruling; that the Reconstruction Finance Corporation had rated them as in the highest class of investments against which they advanced loans and had agreed to loan 80 percent in cash against these bonds.

Aside from that, we were successful in persuading the various State legislatures to make them legal investments, not only for savings banks but for trusts, and some of the States cooperated with us to the utmost in making them legal investments for municipi-

pal and State sinking funds. All of that took time, however, gentlemen, and it took time to persuade these tens of thousands of mortgagees that they ought to accept these bonds, and it has cost a good deal of money to carry on that campaign.

However, it is fair to say that as the facts were brought to their attention, the organizations representing the savings banks, the building and loan associations, and the individual building and loan societies, and the insurance companies, all gradually came into line and began accepting the bonds without reservation. That is evidenced by the fact that before the proposal was advanced to guarantee principal we had obtained consents from some 450,000 mortgagees to the exchange. Of course it is fair to say, in obtaining consent of the mortgagees, it does not necessarily mean that the Corporation has agreed to take over a mortgage from a mortgagee at its full value, because in a large proportion of the cases it is necessary to negotiate a compromise and secure some reduction in order to effect the exchange and keep within the terms of the law. Moreover, in practically all of these cases where such adjustments are negotiated it is fair that they should be adjusted downward. However, it is a fact that in time and as they understood the facts of the case, the great bulk of these mortgagees with whom we negotiated accepted the bonds on the basis of our representations and accepted them at par and in good faith.

From our point of view, it would be manifestly unjust to now discriminate against those who have cooperated with the corporation in this work, in comparison with those who may now be ready to exchange without objection, in view of the guarantee of principal. We feel, therefore, that the suggestion offered here—that those who have already taken the bonds be given an opportunity to exchange them for new bonds within a limited period—is a sound and fair solution of that particular problem. As to the terms of the act, they are not obliged to exchange, of course. Moreover, you will recall that we have the right to take up these bonds at their par value as funds accumulate in our hands to do so. Of course, aside from those who exchange, we would hope to take up the balance of these 4-percent bonds within a reasonable term and thus reduce the interest charges to the corporation. Under the terms of the act at present the Board has the right to fix the rate on our bonds from time to time. Of course, we would expect, in cooperation with the Treasury, to fix this rate consistent with financial conditions at the time the various issues were authorized. I should say, in conclusion, I believe we are all convinced that the guarantee of principal of these bonds will greatly expedite the work of the corporation in granting relief and it will also have a material influence upon our costs of operation. We would be able to save a lot of expense and effort which would be necessary otherwise in making clear to thousands of mortgagees just what the facts are about these bonds.

I suggested that, in the opinion of this Board, the bill which we have presented to you represents an opportunity to stimulate greatly in this country. I think business men generally—and it is certainly true of the labor organizations, and I assume that you gentlemen are of the same opinion—think that there is nothing more important than the stimulation of employment in the construction

industries in this country and that it should be brought about as quickly as possible. Next to agriculture, construction represents the greatest opportunity for employment among all the groups in the United States. The indirect effect of construction activity is widespread, as everyone knows, in pretty near every line of manufacture, so far as machinery is concerned; and, of course, so far as transportation is concerned, we are all familiar with the influence of the activity in the construction field on transportation.

Ordinarily about 4 billions a year are put into housing in this country by the building and loan associations and the lending institutions. About 2 billion of that represents new construction, new housing, and more than half of it housing for the workers, which is a large part of the problem. From an average of over 2 billions a year for new construction for many years past, the figure dropped last year to somewhere around \$250,000. The latest figures available from the building trades indicate that employment in the building trades affected by work on small houses is down to about 10 percent of the average or normal. I ought to say that the figures are not altogether conclusive. They are somewhat controversial, but the very best estimates available from all directions indicate a drop to about 10 percent, and the construction in that field in the last few months is lower than it has been at any time, I think, for at least 15 years; I would not want to be quoted directly as to the period, but it is for a very long period.

Directly and indirectly, 1,750,000 men are employed in a normal year in house building. It is unnecessary, I think, to dwell upon the influence of construction in this field on the capital goods market, or the necessity for the immediate stimulation of the capital goods industries in this country. In these two fields lie our great failure, so far as employment is concerned, at the present time; they represent the direct challenge, which must be met, so far as employment is concerned, if we are to go forward in our successful attack on depression.

I have ventured to suggest that it seems to us also, of the greatest importance that the revival of buildings should be encouraged in all parts of the country where there is any reasonable demand for it, because of its secondary influence on thrift and saving, and because it will certainly have an influence in restoring confidence on the part of the people generally in the ownership of their homes, and in the value of real estate generally. Many thousands of people who have land and money, and who, by now, would be utilizing these resources to build new homes, have been reluctant to do so because of the panic condition of the real-estate market. When a man owns a vacant lot in a block where two or three houses are sold under the flag, at ridiculous prices, he is persuaded that it is no time for him to use whatever savings he may have to build a home, because he observes that the home of his neighbor is being sold at a price below what it would cost him to build his new home, far below it. You face two problems here in trying to meet this situation; one is the stabilization of the real-estate market and the restoration of confidence in home values, and the other the stimulation of a demand which is chloroformed by the conditions which we have been going through. Again, as modernization and new construction is resumed.

we are of the opinion that you will find more people resuming the process of taking shares in the building and loan associations and saving their money for the purpose of building. Also, it will have an influence in stopping withdrawals on the part of those who already hold shares and having a feeling there are still elements of danger in the situation, are inclined to withdraw their money and thus present extraordinary demands on these very necessary financial institutions.

It is very important that the mortgage-loan institutions of the country should resume normal operations as soon as possible. We do not believe that that can take place while absolutely nothing is being done to modernize existing homes, to repair adequately those which have been neglected for 4 years, now, or to build new homes, no matter how much they may be needed. It is the judgment of this board of ours, strengthened by the experiences of the last 6, 7, or 8 months, that there is no problem before this country than that of the proper housing of our people, and that everything that we might do in this field, not only improve social conditions, but it has economic reactions of the most important character.

I should add, in explaining some of the other provisions here, as I suggested a little while ago, we have suggested an extension of time during which home owners who have lost their property through foreclosure, may recover them, and also an extension of time of the period during which applicants for loans may qualify to receive consideration by the corporation.

Another feature of the bill to which I have referred is that relative to the moratorium. Under the law, as it is at present, any home owner whose mortgage we take over may at once demand relief from any payment of principal for the next 3 years. One effect of that provision has been to bring to us a lot of people who were not in distress, who were abundantly able to take care of their present obligations with the present mortgage lenders, but who thought it would be a nice thing if they did not have to meet any of these obligations for the next 2 or 3 years.

Of course, every loan of that character, which gets by us when it ought not to be granted, limits our opportunity to help those who ought to have relief. It is perfectly plain that with the great burden of mortgage indebtedness in this country, amounting to some 21 billions, it is utterly impossible for this corporation to meet the situation with anything like 2 billions. We have already nearly a million applications, representing \$2,700,000,000 of demand. It should be explained that on the average about 30 percent of those have to be dropped out because the applicants are ineligible, but our conviction about it is, with our ability to help those who are in real need of help, and who ought to be helped, and whom we may legitimately help, ought not to be impaired or curtailed by taking care of people who have no legitimate demand upon the help of this corporation, and it is a fact that a great many of them who have gotten by do not want to pay the very moderate principal payments, because you will remember that these mortgages are amortized over a period of 15 years; they do not want to pay when they are abundantly able to and when the payments do not represent any burden on them at all. We feel very strongly, therefore, that the present provision of the law should be amended.

Now, under the terms of the suggestions presented, some changes are made relative to our participation in the financing of the Federal savings and loan associations. I think I may say, expressing the view of all of the other members of the board, as well as my own, that the experience has convinced us that the provisions made by Congress for the organization of these Federal savings and loan associations was one of the wisest things that has ever been done in the field of finance in this country.

These associations, as you know, are almost ideal in their general character; that is, they represent the best experience down to now in this field of financing homes on a sound basis. Under the terms of the law at present we may take up to 50 percent of the shares of the Federal association with a limit of \$100,000. That is something of an obstacle to rapid development, and not only that, it is a barrier to the conversion of some of the existing associations, where it would be of great advantage if constructive conversion could be effected. We therefore propose that, first of all, where it seems to be desirable to do it, that we may take up to 75 percent in stock of new Federal associations, and we suggest removal of the limits, so far as subscription up to \$100,000 is concerned. As you are aware, in dealing with the financial situation in the commercial banks, the Reconstruction Finance Corporation has taken stock in these banks without limit depending upon the particular conditions in a particular case. Moreover, the Reconstruction Finance Corporation takes in return for the money advanced by the Government a definite junior lien, inasmuch as, of course, the deposits are a prior claim against all of the assets of the bank. The money we put into the Federal savings and loan associations is on exactly the same basis as that of the other stockholders, of the community of stockholders, and it is, with the rest of the money, a first lien on all of the assets of the association. There is no type of financial institution in the country which has passed through this depression with a better record than these mutual community building and loan associations. They have their difficulties, of course, like all other institutions, but by and large the showing they have made is quite remarkable. If you are not aware of it, you may be interested to know that approximately one half of all the counties in the United States have no mortgage-lending institutions of this sort at all, no thrift and savings institutions whatever, and that situation is one that it is very important to meet constructively and as quickly as possible.

We believe that one of the greatest influences which can be developed to help to meet that situation is the Federal savings and loan association. Aside from that, in a good many of the States there are building and loan associations which are in difficulties today, and which ought to be reorganized; where those conditions exist, the opportunity is presented to take their sound assets and transfer them to a newly chartered Federal association and liquidate the slower part of their assets through a liquidating corporation of some sort. With the removal of the limitations on the power of this board to help along the lines proposed in the act, we believe that the corporation and the bank system can help very substantially in improving conditions all along the line.

You will note that we have also suggested certain steps for giving assistance to the home loan bank system. That bank system has been

developing very rapidly. At the beginning of last year, we had about 116 members; now it is more than 2,200. The assets of the member banks and building and loan associations and other lending institutions now run to nearly \$3,000,000,000; lines of credit have been created of about \$240,000,000. There is a large opportunity for these member associations to take advantage of the rediscount privileges of the home loan bank system, to the great advantage of the country and the home owners, to make more money available for loans for new construction and modernization. At the present rate of progress, the banks will utilize all of the resources now at their disposal within a comparatively short time. In the ordinary course of business, they would then begin to issue bonds. The bonds which they are able to offer to the investing public are certain to be rated in the very first class, without a superior in the whole field of investment, but it would be unfortunate for them to issue those bonds under unfavorable circumstances, or whenever the money market was bad. That would mean paying an unnecessarily high rate on the bonds, and it might also impair their general marketability. It has therefore been suggested that the Home Owners Loan Corporation should be in the position where it may take over bonds of these banks temporarily, loan them money on debentures, or maybe on a basis of direct loans; these transactions would be temporary, of course, and the banks, under more favorable conditions, would issue their bonds, and would take over these obligations from us. But it does represent a recourse which we regard as very important, particularly under present conditions.

There is one other incidental provision in the act to which I shall refer. As the law stands, Congress gave us \$150,000 to promote the organization of the Federal savings and loan associations in all sections of the country. We have organizers out in every section now, and that work is going forward very rapidly. Something more than a hundred associations have been granted charters already, and more than that are applying for charters and raising the necessary money to get into action. It is our judgment that there is nothing more important in the home-lending field than to go on with that work of organization without any reservation whatever during the next year, but it would be impossible to do that unless additional resources are provided, and so provision is made here. You will find it in section 9, page 9; the corporation is permitted to appropriate up to a half million dollars to carry on that work. I think that, gentlemen, covers the general scope of these proposals of the board. I have not attempted to deal with any of the strictly legal phases. The other members of the board are both members of the bar, and Mr. Russell, our general counsel is here, and aside from certain general observations as they may wish to make, I am sure that they can deal more intelligently with any legal questions involved than I can.

Mr. PRALL. May I ask a question?

The CHAIRMAN. Yes, sir.

Mr. PRALL. Why is the time for the exchange of bonds limited to 6 months?

Mr. FAHEY. Because we feel that is ample time to make the exchange, and that within that period all of those who wish to exchange

will do so. Moreover, we feel that if they are not exchanged within that time, we would very likely arouse a good deal of criticism and antagonism, because it is extremely likely that after the 6-month period we would be able, from time to time, to issue these bonds at a lower rate than those that are put out at the beginning, and if we extended over a long period, we might meet the criticisms of those present holders, who would say, when we suddenly provide for a new issue and lower the rate, that we were not playing fair with them, because we did not let them know we were going to do anything like that.

Mr. PRALL. You would anticipate doing that within a year?

Mr. FAHEY. Oh, yes; and before the 6 months are up. The bonds first issued will probably carry us for 3 or 4 months, and maybe for 6 months.

Mr. FISH. May I ask a question?

The CHAIRMAN. Certainly.

Mr. FISH. When will you issue the bonds, and what will be the rate?

Mr. FAHEY. Just as soon as Congress gives us authority we will provide for the first issue of new bonds and fix the rate.

Mr. FISH. How much will there be in the first issue?

Mr. FAHEY. We do not know.

Mr. FISH. You have not estimated that as yet?

Mr. FAHEY. No; we have not figured that out yet. That will depend upon the definite consents we have in hand at the time, that are close to closing.

Mr. FISH. Can you give a general estimate? Will there be \$500,000,000 or \$100,000,000?

Mr. FAHEY. Although I am a native of New England, I would rather not go too far in guessing; I would not say it would be anything like that.

Mr. PRALL. I would like to ask another question; how many of the Federal associations have been organized; did you say about a hundred?

Mr. FAHEY. Yes; roughly. How many of the Federals have been actually organized so far, Mr. Russell?

Mr. RUSSELL. It is substantially above 100; 167 was the last charter granted.

Mr. PRALL. That is all, Mr. Chairman.

The CHAIRMAN. Before you leave that, I believe under the original bill we provided for the expenditure of \$150,000 for this work?

Mr. FAHEY. Yes.

The CHAIRMAN. How much of that have you used?

Mr. FAHEY. All of it would be used up by the 1st of July on the present basis.

The CHAIRMAN. And for that work the Board feels that there should be in this measure provision for \$500,000?

Mr. FAHEY. Yes, sir.

The CHAIRMAN. That was a matter of some difference of view in the committee when the other bill was passed, and we finally reduced the amount to \$150,000. I was wondering if that had been enough; we did reduce the amount.

Mr. FAHEY. In the old bill. No; in my judgment it would have been better if it had been at least \$250,000 to \$300,000, because it

would have enabled us to organize very much more rapidly, and the important thing to all these things is expedition.

The CHAIRMAN. Interrupting you, do you think your work in that connection has been somewhat retarded by the lack of funds?

Mr. FAHEY. I would not say that exactly; we would not have been so cautious about it; we would organize on a larger scale.

The CHAIRMAN. You could have done better work.

Mr. FAHEY. We could have done it quicker.

Mr. PRALL. You will organize more associations, pro rata with the funds you wish now than you did with the \$150,000 which you had?

Mr. FAHEY. That is our judgment.

Mr. PRALL. Because a great deal of that, undoubtedly, was used in the work of organizing your force and getting into the field.

Mr. FAHEY. That is right.

Mr. PRALL. Now, you are ready to quickly organize at a very much less expense than formerly.

Mr. FAHEY. Exactly; of course, there is another thing about it; like everything now, you know there has to be a lot of education about these things.

The CHAIRMAN. You have to get started.

Mr. FAHEY. Yes.

Mr. FISH. I hold nothing against anyone coming from New England, and I remember that former President Coolidge was not hazarding any guesses, but could you hazard a guess as to the possible rate of interest below 4 percent on these bonds?

Mr. FAHEY. I think that that is next to impossible to say; that would be taking a pretty long shot; you will have a lot of Government financing here over 5 or 6 months, and other demands on the money market as well, and it is pretty hard to say what that rate will be. I ought to explain why I have mentioned it; we have to agree with the Secretary of the Treasury on the rate on these bonds; we have no right to issue any except with the approval of the Secretary of the Treasury. Our operations are a part of the general financing program, and we have to work with the other departments, the Reconstruction Finance Corporation, and so on.

Mr. KOPPLEMANN. Do you remember my calling on you the latter part of August or the first part of September?

Mr. FAHEY. Yes; I do, Mr. Congressman.

Mr. KOPPLEMANN. Do you remember at that time that I expressed the hope that this act would so function and would be so handled as to reflect credit not only upon the Board itself, but upon the administration?

Mr. FAHEY. Oh, yes; I certainly do.

Mr. KOPPLEMANN. And that I called to your attention at that time a mistake in the matter of the personnel, not only in the State of Connecticut, but in my own district in Hartford.

Mr. FAHEY. I do.

Mr. KOPPLEMANN. And I called certain specific matters to your attention and you promised to investigate them. I want to read from a letter under date of November 21, in which you say—this was November 21, although I saw you in the latter part of August or the 1st of September—

I am sorry I have not had an earlier opportunity to get in touch with you concerning the further complaint you made to me relative to one of the men in Hartford.

Concerning this situation, inquiry was made but we were unable to obtain any evidence that there was any criticism in Hartford of the man to whom you refer. Thus far, we have received practically no criticism of the management of the Hartford office. It may be, of course, that our inquiry has not been sufficiently comprehensive. We are at present engaged in a survey of the work in New England, and if you feel disposed to advise us of specific cases in or about your district which you think call for investigation, you may depend upon it that we will be glad to have them looked into.

I should like to ask if you made any further investigation in view of your statement here:

It may be, of course, that our inquiry has not been sufficiently comprehensive.

Mr. FAHEY. Yes, Mr. Congressman; we did in the State of Connecticut, just as elsewhere. The Corporation has field men and inspectors sent out from time to time to look into conditions, to investigate anything which shows up, as indicating error or mismanagement, and so forth. We have investigators of that type in the State of Connecticut from time to time. We have also gone to some pains, individually, at various times, the members of the Board, in making direct inquiry, personal inquiry, where complaints were made. I can only say, with reference to the particular men referred to in that letter, that your complaint was the only one that ever came into this Corporation with reference to him, and such inquiry as we made in the city of Hartford did not support the claim which we understood had been presented to you, that he was distrusted by the public generally.

Mr. KOPPLEMANN. Did you discover that while a director of the City Bank & Trust Co., and still is—although the bank is out of business—he was conducting an insurance business?

Mr. FAHEY. Yes; we understood that he had been in the insurance business up there.

Mr. KOPPLEMANN. Did you go into the matter of his solicitation of insurance from people who were asking for loans from his bank?

Mr. FAHEY. So far as we could find out, we were unable to get the names of any people who were soliciting loans from the Home Owners Loan Corporation; as to his bank, no.

Mr. KOPPLEMANN. I will get to that, Mr. Fahey. First, I want to get the background of this gentleman. Do you recall that I told you that he solicited me, after I had made a request for a loan from that bank and that I gave him insurance?

Mr. FAHEY. Yes; I remember.

Mr. PRALL. We were called here to discuss this bill, and not to go into any phases of this whole situation. It seems to me our time is too valuable, and we are here to discuss the merits of this particular bill.

Mr. KOPPLEMANN. Let me say to Mr. Prall, if you will, that I voted for the bill in committee last year, and I voted for it in the Congress. I have complaints, and I am trying to make this as short as I can; I have a multitude of matters, but I have an individual case which I intend to bring out. When I go back to my district, I am held responsible, as every other member of this committee, for

the proper administration of this Corporation. I am sure Mr. Fahey ought to be willing to satisfy the members of this committee, as well as myself, and in view of the fact that I have not been satisfied, and I want to be in a safe position as regards whether I will support this measure on the floor or oppose it, depending upon the administration of this Board, and I asked the question yesterday whether or not I could go into this matter and was told that I could.

Mr. FISH. It is now past 12 o'clock, and I would like to know how long we are going to sit; I am in sympathy with the gentleman and would like to see him given a certain allotted time; if he wants 10 minutes, I think it is perfectly proper, since the gentlemen are here, that he should be given that time.

The CHAIRMAN. I suggest to the gentleman that the House is in session, and it is evident that we could not conclude with Mr. Fahey today, and in connection with your intimation that we might adjourn, I think it is almost necessary that we adjourn until tomorrow, for the reason that plans have been made for the session of one or two subcommittees in the afternoon. I am going to suggest that it might be well to adjourn until 10:30 tomorrow morning, if that is satisfactory to the committee.

Mr. SIMPSON. May I ask one question, if you will permit me to break in, Mr. Fish; as a matter of policy, I have not any complaint to Mr. Fahey about the personnel in my State, the State of New York, or so far as the character of anyone is concerned in my own district, but the statement has been made some time ago that your administration, your Board, and insisted that the local managers or agents must be those who have had experience in banking, or in a bank; is that correct?

Mr. FAHEY. No, Mr. Congressman; no such stipulation ever was made.

Mr. SISSON. I guessed that was the fact, but in a specific case, I am referring to a young man about 27 years old, who had been a bank clerk, and was selected; it is not partisan politics, if we get efficient men, but up until the time I came to this session, the 1st of January, not one single loan had been made in my congressional district and scores were losing their homes where I believe, in some instances, they had equities sufficient for these loans to be made; I am not criticizing you.

Mr. FAHEY. I do not know, Mr. Congressman, whether you ever brought that to the attention of the Board.

Mr. SISSON. No, I did not; I brought it to the attention of the State director.

Mr. FAHEY. I am certain we would all feel sure that you have not, because there is only one way we can deal with the questions of personnel.

Mr. SISSON. May I interrupt, because everybody wants to adjourn. I asked that question as to whether experience in a bank was required, because I feel this young man, while a nice fellow whom we all wanted to help, did not know conditions in the district, and had not sufficient business experience to administer the office; you did not select him.

Mr. FAHEY. I do not know the case to which you refer, Mr. Congressman, but we would be very glad, indeed, to look into it, as we

are everywhere where we have a basis for change; of course, we have all kinds of complaints on this Board. Every candidate for appointment who is not selected is perfectly certain that the man who was selected is incompetent.

Mr. SISSON. On that score, I made no recommendation myself; I did not want to be accused of interference with the act.

Mr. FISH. I am not making any recommendations for appointments, but I wondered if it could be possible—I am interested in my own district—for you to provide adequate information as to the number of loans made in Mr. Sisson's district, which is the Utica district, and in my own district which is the President's district; I would like to have the official figures.

Mr. FAHEY. We will see if we cannot furnish those.

Mr. FISH. He represents the Utica district and I represent the President's district.

The CHAIRMAN. We will now adjourn until 10:30 tomorrow morning.

(Thereupon, at 12:15 p.m., the committee adjourned until tomorrow, Mar. 8, 1934, at 10:30 a.m.)

TO GUARANTEE BONDS OF HOME OWNERS' LOAN
CORPORATION—H.R. 8403

THURSDAY, MARCH 8, 1934

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

The committee met at 10:30 a.m., Hon. Henry B. Stegall (chairman) presiding.

The CHAIRMAN. The committee will come to order. We will ask Mr. Fahey to resume his statement. I believe you had finished your general statement, had you not, Mr. Fahey?

Mr. FAHEY. Yes, sir; I had finished, Mr. Chairman, but I believe some members of the committee wished to ask me some questions, which I will be very glad to answer as far as I can.

STATEMENT OF HON. JOHN H. FAHEY, CHAIRMAN OF THE HOME OWNERS' LOAN CORPORATION—Resumed

The CHAIRMAN. In view of the fact that Mr. Kopplemann was last on the record yesterday, I will ask him if he has any further questions.

Mr. KOPPLEMANN. Yes, Mr. Chairman. You said yesterday afternoon, Mr. Fahey, that you had no complaints against your Hartford office?

Mr. FAHEY. No; you misunderstood me, Mr. Kopplemann. I did not say that.

Mr. KOPPLEMANN. Or did you say against the individual in charge of your Hartford office?

Mr. FAHEY. I stated that no complaints had been filed with me along the line of your complaint against the Hartford office.

Mr. KOPPLEMANN. What do you mean by "along the lines of my complaint", Mr. Fahey?

Mr. FAHEY. Well, your complaint to me was that one of the officials of the Hartford office was not well regarded in the community and that you had reason to believe that loans in which certain concerns were interested were receiving favored treatment in the Hartford office. At least, that was the plain implication of what you said to me.

Mr. KOPPLEMANN. All right.

Mr. FAHEY. And in response to that I investigated the matter as best I could, and was unable to get any evidence whatever to support any such allegation. I wrote you on November 21 and reported that fact. I said to you that it was, of course, possible that our inquiry

was not sufficiently comprehensive, but that I would be glad to have any supporting evidence you could give me of specific cases, and you could be confident that they would be investigated to the limit. You never gave me any additional information on that point.

Mr. KOPPLEMANN. Under date of January 29, Mr. Fahey—

Mr. FAHEY. Yes.

Mr. KOPPLEMANN. I wrote you as follows:

Hardly a day passes but what I receive complaints. Because of the unsatisfactory handling of my last complaint I decided it was a waste of time to take the matter up with your office, and, therefore, haven't written you on the many, many other criticisms that have been lodged with me against the Home Owners' Loan Corporation.

Enclosed is a letter from a man whom I have known for a great many years. Because I know him to be honest and not given to exaggerated statements I am sending you his letter, which speaks for itself, with a degree of hope and faith in your department that in this case justice may be done. I am sending you the original letter, and respectfully request that it be returned to me when you are through with it.

This had to do with a Mr. Francis Hyland, of Windsor, Conn., one of the small towns in my district. That was on January 29.

Mr. FAHEY. Yes.

Mr. KOPPLEMANN. On February 2 of this year I wrote you:

Supplementing my letter of January 29 with reference to the mortgage of Francis Hyland, of Windsor, Conn., I enclose a second letter on this subject which I thought you would be interested in having before submitting to me your advice in this matter. Will you please return this and Mr. Hyland's other letter to me when you are through with them.

Both of those letters contained important information, and I wanted you to have the original.

Under date of February 19 I wrote you:

Under date of January 29, and again February 2, I wrote you with reference to the application for a loan of Francis Hyland, of Windsor, Conn., enclosing with my letter letters from Mr. Hyland. To date I have not heard from you. I have heard again from Mr. Hyland this morning. May I trouble you for a reply at your earliest convenience?

It is now March 8 and I have not received the original letters which I entrusted to you, nor have I received even the courtesy of a reply to any one of these three letters.

Mr. FAHEY. I do not happen to have the letter of February 19 here, and that did not happen to come to my personal attention. It was apparently handled by the office, but that is not material, perhaps to the purpose of your questions about this case. You sent me the two letters to which you refer, one of January 23, and another of February 2 from a Mr. F. R. Hyland, in which he complained that the offer which our Hartford office had made to his mortgagor to take over the mortgage on his property was too low. He had some critical things to say about the appraisers.

Mr. KOPPLEMANN. Or about the Hartford office?

Mr. FAHEY. He did not talk about the Hartford office.

Mr. KOPPLEMANN. Well, the appraisers are in the Hartford office.

Mr. FAHEY. He criticized two appraisers of the Hartford office, and claimed that his property was worth \$5,000, and complained that they should appraise it so as to take up a loan of \$4,000. Now, that property had been twice appraised, and the facts of the matter are these: The mortgage on his property was \$3,450; there was accrued

interest of \$305 and taxes of \$175, a total liability against the property of \$3,930. The first appraisal of the property made by a competent man gave an appraisal of \$3,420, and the second appraisal which was made, he not being satisfied with the first one, varied only about \$10 to \$15. On the basis of these appraisals, under the law, all that this corporation had any right to advance was \$2,735 to cover the mortgage, taxes, and everything else. Accordingly Mr. Hyland was advised that it was impossible to advance as much as \$4,000 against a property appraised for \$3,420. He was told that making allowance for the taxes, appraisals, and so forth, the most that could be offered the mortgagee was somewhere around \$2,200 to \$2,300. It was suggested to him that he make an effort to have the mortgagee agree to reduce the claim. Now, what he was asking for was that the appraisal on that property be raised \$1,580, or nearly 50 percent of the appraised value, in order to make a loan of \$4,000. Such a loan would be \$500 more than the total value of the property. Subsequently the mortgagee agreed to reduce his claim to \$3,000, proving conclusively that even the mortgagee did not consider that property as being worth any \$5,000 and the property is not worth any \$5,000, Mr. Congressman.

The last thing that happened about that case and the status of it at the present time is that we told your mortgagor the utmost we could do for the mortgagee—and just a second and I will get you that exactly—that the utmost that could be done was around \$2,300 or \$2,400 in bonds. The mortgagee came down to \$3,000 and our people suggested that Mr. Hyland continue to negotiate and see if he would not do better. That is the last we have heard of it. It is the kind of thing which happens frequently. We followed this case up persistently, and I simply wanted to get the last word as to whether the mortgagee was going to accept our offer or not before sending this material all back to you. Sometimes we send a special appraisal expert into a State when a special question arises about appraisals, but I did not feel that we were warranted in spending \$50 to \$60 in a case like this in view of the status of the case.

Mr. KOPPLEMANN. That has to do with the mortgage itself, but what about the letter with reference to criticism of the appraisal?

Mr. FAHEY. Well, the first criticism of the appraisal applies to the first appraiser. Mr. Hyland claimed that his father was a Republican, and apparently he did not have much confidence in his appraisal on that account.

Mr. KOPPLEMANN. In view of the fact that it is my letter, will you let me take a look at it, please?

Mr. FAHEY. In the first place, I think, Mr. Congressman, that you should have figured this case out yourself from the correspondence. If you had done so you would have observed that what your client was asking was something that our people could not possibly do, and that was to take an appraisal and proceed to raise it nearly 50 percent in order to make a loan.

Mr. KOPPLEMANN. What do you mean by my "client", Mr. Fahey?

Mr. FAHEY. I do not mean your client, but your constituent.

Mr. KOPPLEMANN. All right. In view of the fact that you did not answer any of my letters, and I have none of this information, nor

did I have the original of the letters, don't you think that in some way I should have been advised? Mr. Hyland still insists that he has been mistreated. I received no letter from you and no acknowledgment from you in answer to three letters.

Mr. FAHEY. Mr. Congressman, there is no foreclosure impending in this case, and no threat of foreclosure against this man's property. It is not an urgent case. We have thousands of these cases, and with the tremendous accumulation of applications our job is to deal first with those that are in absolute distress, the cases where people are in danger of losing their homes. Where the other cases are not of that sort we let them take their regular course. We just literally have thousands of cases where Mr. Mortgagee finally comes around and accepts our offer.

Mr. KOPPLEMANN. I know nothing about the merits of the financial end of that. All I am interested in is the administration of the office so that the people do not find fault and complain fairly against the administration. Naturally, when I did not receive letters from you in answer to three of mine, I wondered what is wrong and why no attention was paid to them. We will forget that for the moment, and if you do not mind, Mr. Fahey, I do not want to waste the time of this committee, but I want to get to essentials which are of importance at this time. Here is a letter which I would like to have you give attention and to call the attention of the members of this committee to it. This is signed by Mr. A. M. Leber, 1384 Farmington Avenue, Farmington, Conn. This is a man who has received a loan from your Hartford office:

Being on the ground right in Washington, D.C., I would appreciate it very much if you could get some information for me. On November 16, 1933, the Hartford Home Loan took over my house to save us from foreclosure, and the amount due Home Loan is now \$1,027.96; total amount payable each month, \$4.28, interest only, until June 1936, then \$11.25—

And so forth.

Have never received a receipt from Washington, D.C., nor any papers, deeds, or insurance or otherwise to prove my claim of ownership for my home. I was insured with the Travelers Insurance for \$1,500 due July 1934, which was very satisfactory to me, but Hartford insisted that I take \$2,500 and canceling my own insurance, which I did. I have never received any papers to prove insurance, and now the Washington office reduced my \$2,500 to \$800, which is not even the amount of indebtedness due to the Home Loan. In case of fire I would be \$200 in debt and have no money to rebuild. As yet I have not received any credit from Hartford Loan office, and have written to Washington office and can get no response from them. When I paid the \$25, it was understood the amount was to carry me over 5 months, and have never received any receipt. As I cannot get any satisfaction, could you take this up for me?

Am enclosing you letter, which please return to me.

Thanking you and hoping to hear from you, I am,

Yours very truly.

Now, the letter which he encloses is signed by James A. Hoyt, assistant general manager of the H.O.L.C. in Washington, D.C., addressed to Mr. Van Buren:

Upon examination of the above-numbered loan, we note that we have insurance excessive of our requirements.

Please reduce policy no. 19864 of the Niagara Fire Insurance Co. from \$2,500 to \$800.

Please credit the return premium to the Corporation.

I understand the Corporation pays the insurance premiums.

Now, I wrote to Mr. Thompson under date of February 4, 1934:

Would you be good enough to investigate the matter enclosed and let me have your advice, in order that I may in turn inform Mr. Leber?

I do not understand why the insurance was changed by order of the Washington office of the Home Owners' Loan Corporation from \$2,500 to \$800, when the first figure was directed by the Hartford manager.

Will you also return the enclosed correspondence when you have finished with it?

Thank you.

Sincerely yours.

I received a letter from Mr. Lintner, Chief of the Insurance Division of the Corporation, as follows:

DEAR CONGRESSMAN KOPPLEMANN: Mr. W. F. Thompson, attorney for the Corporation, has referred your letter of February 4 to this office for attention.

We have carefully examined the loan docket on Mr. Leber's property, and our appraisal sheet indicates that the actual replacement value of the improvements on his property is valued at \$800. Our action in reducing this insurance coverage from \$2,500 to \$800 was to effect a saving in the premiums paid by Mr. Leber, since in the event of total loss by fire the insurance company could elect to replace the buildings and are not obligated in any way to pay the face value of the policies.

In cases like this one, where it is evident that our borrowers are paying premiums for protection they could never collect on, we have taken the initiative in reducing their coverage to the proper amount necessary to adequately protect their equity; and in this case the return premium involved would amount to approximately \$15. Our interest is more apparent when you consider that the premiums for this insurance coverage were disbursed by the Corporation, and that this excessive charge is not justified by any equity which Mr. Leber might have in his property.

Very truly yours.

That is signed by Mr. A. L. Lintner, Chief of the Insurance Division.

So I then wrote Mr. Leber:

Inclosed is a letter from A. L. Lintner, Chief, Insurance Division of the Home Owners' Loan Corporation, which contains information of interest to you.

I trust this gives you the necessary information.

Now, my purpose in reading all of this is to bring out several matters: In the first place, you will notice that the insurance was carried by the Travelers Insurance Co. and was ordered increased. The insurance with the Travelers, although it had 5 months to run, was canceled, and placed with the Niagara Insurance Co., another insurance company, and it was increased from \$1,500 to \$2,500. Your people rightfully decided it should be decreased to save money of the Government, which is the correct thing to do, but didn't it occur to your people that you ought to investigate why the insurance should be increased and why it should be taken from one company and given to another company?

Mr. FAHEY. Of course, Mr. Congressman, I am sure you will appreciate that, except by accident, I would know nothing whatever about an individual case of that sort.

Mr. KOPPLEMANN. I am willing to assume that you individually did not, but your department might have at least suspected something about that or made an investigation. I find that this insurance was placed with a man by the name of John M. Van Buren, in the insurance business, and understand yesterday you acknowledged that I had told you that the Hartford manager was in the insurance business. It so happens that Mr. John M. Van Buren's business of-

office is at 57 Pratt Street, Hartford, Conn., room 705. It also so happens that your Hartford manager's office is also at 57 Pratt Street, Hartford, Conn., room 701 to 704, and the rooms are adjoining with doors in that building. Your Hartford manager is the real-estate agent for that building, and surely what occurred to me in my busy life down here as to something that did not look right might have occurred to your people.

Mr. FAHEY. You did not send that information to our people, did you?

Mr. KOPPLEMANN. I sent it to your people.

Mr. FAHEY. You mean what you have now stated?

Mr. KOPPLEMANN. Not only what I now state, but I sent them the letter and this complete. It should have been apparent to your people, when the insurance was raised from \$1,500 to \$2,500 and suddenly switched from one company to another, and you lost your unexpired insurance with the Travelers Insurance Co., that was something that ought to be investigated.

Mr. FAHEY. Now, Mr. Congressman, do you know who placed that insurance, whether the home owner or who placed it?

Mr. KOPPLEMANN. He was ordered by the Hartford office according to the letter which I sent to your office, to increase it.

Mr. FAHEY. Yes; but was it your information that he was ordered to place it with this other insurance company or with the particular agent?

Mr. KOPPLEMANN. No; but I say this to you: It was placed with this particular insurance agent, and it was placed with another company.

Mr. FAHEY. Well, but you see the instructions are, Mr. Congressman, that these people shall not in any way interfere with the placing of insurance, that it is up to the home owner, wherever more insurance is needed, or whenever there is a policy that expires within a comparatively short time it is the business of the home owner to place that insurance. It is very important, therefore, to know whether the home owner arranged that insurance himself or somebody else arranged.

Mr. KOPPLEMANN. Mr. Fahey, am I to understand by the manner in which you are answering my questions that you take it I am arguing against you and your Corporation, or do you take it I am trying to cooperate with you and your organization, selfishly, perhaps, but my selfish reason is this: That the people in my district look to me for proper administration of your Corporation in my district. I want that, and I am not here to quarrel or to fight. Now, your answers to me imply to me that you are trying to defend your office instead of cooperating with me for the purpose of arriving at the trouble and trying to straighten out what is a very bad situation in my district.

Mr. FAHEY. Why, Mr. Congressman, I think you misinterpret my explanations. I am merely trying to tell you what the regular method of operation is.

Mr. KOPPLEMANN. I take it you are trying to defend your office rather than to cooperate in clearing the situation and righting the wrongs where they are.

Mr. FAHEY. No; I should like to know what the facts of it are. If our Hartford office, or anybody connected with our Hartford of-

vice, interfered in that case and forced this home owner to take more insurance than was necessary or should have been taken, then that certainly is our concern. Now, on the other hand, if the home owner placed this insurance himself, of his own volition, simply because he was asked to get more insurance, that is a very different matter. Then our employees are not violating instructions. Our instructions are of the most explicit character that none of our people shall mix in the placing of the insurance.

Mr. KOPPLEMANN. In view of the fact that I had told you yesterday, and you acknowledged that I had told you, that this Hartford manager had been, according to my claim, soliciting insurance before any loans were given to the bank in which he is a director, which bank has gone down, and which practices were well known in the community of Hartford, and then to find that in his business representing the Government something akin to that is again happening, don't you think there is something there to be deeply gone into?

Mr. FAHEY. But, Mr. Congressman, when you brought that to my attention we investigated it.

Mr. KOPPLEMANN. Oh, I am afraid, Mr. Fahey, that your investigation was simply this: To write a letter to your Hartford manager, acquainting him with the fact that Mr. Koppleman had complained about him and asking him for some explanation and he satisfied you individually; that is all.

Mr. FAHEY. On the other hand, we did nothing of the sort.

Mr. KOPPLEMANN. And he knew about it, because he was told about it, and it came back to me. Why should he know you were making an investigation until you had completed it?

Mr. FAHEY. He knew nothing about it until after it was completed.

Mr. KOPPLEMANN. I would be very much interested to know about that.

Mr. FAHEY. I want to direct your attention to the fact that last November I pointed out to you that it was utterly impossible for us—

Mr. KOPPLEMANN (interposing). Not last November.

Mr. FAHEY. Yes; on November 21.

Mr. KOPPLEMANN. You mean in your letter of November 21?

Mr. FAHEY. Yes; and I asked you to give us any explanation or evidence you had on any case, and this is the first one ever brought to my attention.

Mr. KOPPLEMANN. Well, I wrote to your office and did not get any answers to my letters, and wrote to your office again with reference to this insurance business, Mr. Fahey, and I was so disappointed with the treatment that I had received that I wrote, and probably you remember this letter: "Since you do not care to go into this matter about which I am concerned, you may consider the matter closed." That is with reference to another proposition.

Mr. FAHEY. That was with reference to the employment of a clerk in the Hartford office.

Mr. KOPPLEMANN. Mr. Kostin happened to meet your State chairman, and the State chairman, as a friendly gesture to me, said that man would have a job in the office. He was chauffeur for me, and

he was made an appraiser. Look your records up and find out if he was not appraising property there.

Mr. FAHEY. On the other hand, Mr. Congressman, you wrote me that this man was not employed at your request.

Mr. KOPPLEMANN. No, sir; Mr. Kennedy, as sort of a friendly gesture, did that, and then Mr. Kennedy writes me stating he had no control over the Hartford office. He feels instead of me being belittled that he was belittled. Of course, I do not want to go into that, Mr. Fahey, as that is a political situation, and let us forget it. I only want to talk about correct administration of that office.

Mr. FAHEY. You said that you did not have anything to do with the employment of this man in the Hartford office. Here is your letter which you wrote to the manager in Connecticut on October 3 with reference to this same employment.

Mr. KOPPLEMANN. That is right. I did write the letter with reference to it. Of course I did. After he got the job he came back and told me he was fired, and I wrote a letter about it in view of the fact that Mr. Kennedy hired him. I did not hire him.

Mr. FAHEY. Yes; I know.

Mr. KOPPLEMANN. Your reports will show his name attached to appraisals. He is probably as good an appraiser as some of the appraisers in the Hartford office.

Mr. FAHEY. As a matter of fact, he was suspended because he was found not to be a competent appraiser.

Mr. KOPPLEMANN. This is the first information I have about that matter.

Mr. FAHEY. I beg your pardon?

Mr. KOPPLEMANN. That he was discharged because he was incompetent.

Mr. FAHEY. He was suspended as an appraiser because he was incompetent, and I wrote you that months ago.

Mr. KOPPLEMANN. I would like to see that information. That is the first I have of it.

Mr. FAHEY. I beg your pardon. It is in a letter here. I covered it by letter to you.

Mr. KOPPLEMANN. Under date of November 21, and some time according to the statement given to us he was relieved, and then given a chance on appraisal work. He did not qualify and was then taken back on clerical work. For your information he was put back on appraisal work.

Mr. FAHEY. He is not on appraisal work.

Mr. KOPPLEMANN. He was after November 21. He was put back to appraisal work.

Mr. SISSON. Without implying any criticism of you, Mr. Fahey, now that you have this information don't you think that warrants a very careful investigation to determine whether there is collusion between your branch manager and the insurance agent?

Mr. FAHEY. Absolutely, but I do want to point out to you the thing I am trying to emphasize, which is this, that we can only get at facts when we have specific information. Now, that is the only basis for it. There may be any number of explanations of cases of that sort. You can never tell what they are until you get into the facts.

Mr. Sisson. Of course, you appreciate, and I am somewhat in sympathy with this idea, that we are held accountable. Our job should be purely legislative, and it should be so that when we set up the machinery we would not be pestered with those things, but we are bothered with them probably more than you think.

Mr. FAHEY. Of course we are fully aware of that, Mr. Congressman. I would say, on the other hand, that I think Mr. Kopplemann goes pretty far when he suggests that he is responsible for the administration of the Hartford office.

Mr. KOPPLEMANN. In the minds of the constituents they think I am; yes, sir. I have got that many letters [indicating] in which I am complained to as responsible for the administration of your office. Our constituents don't know you are the responsible person. They look to me.

Mr. FAHEY. But somebody has got to be responsible and the Corporation is supposed to be responsible.

Mr. KOPPLEMANN. When it comes down to their registering their approval or disapproval of this administration I am the fellow they get at, and not you. You are out of it. You are apparently nowhere. We are out in the midst of it, and we take the blows.

Mr. Sisson. I have only one question or perhaps an observation, and I want to be entirely fair. I think, gentlemen, you are probably working against great difficulties and we appreciate that. We all appreciate that you cannot possibly know except by accident, even a very small percentage of these particular cases. But, of course, you also appreciate that Mr. Kopplemann does not happen to be a lawyer, I happen to be a lawyer—you should also appreciate that with respect to an investigation those things must be substantiated. You are never going to get a photograph of a man going in or a phonographic or dictaphone record of a man going in and saying, "You have got to place your insurance with such and such a company." It has to be proved by circumstances.

Mr. FAHEY. That is quite true, Mr. Congressman, but when you get specific cases of this sort of the placing of insurance you can readily investigate and find out in a case of that sort.

Mr. Sisson. Yes.

Mr. FAHEY. We can find out and we have found out in other cases. This sort of thing has occurred in some cases where it has been brought to our attention and we have gotten the facts and we have fired the men involved. Now, that is what we do in every case where we do get the real facts, but you cannot, and it is not justice to these employees to fire them merely on suspicion.

Mr. Sisson. That is absolutely true, and please understand that this little observation I made is not intended in any unfriendly spirit.

Mr. FAHEY. I understand that. We are not only not sensitive to criticism, but we invite criticism, because that is the only way we can be helpful here. We want all of the information we can get with reference to our operations in any section of the country on which you have the facts, as it is helpful to us in what we are attempting to do.

Mr. Sisson. Yes.

Mr. FAHEY. But, the truth of the matter, Mr. Congressman, is in scores and hundreds of these cases people who write in either do not

have the facts themselves or they misrepresent the facts. They continually impose upon the Members of Congress.

Mr. SISSON. They do the same with us.

Mr. FAHEY. That is what I say. You are constantly getting letters, those that come along to us, which show conclusively that the representations they make to you are not correct. Now, we can only get at them by making careful investigation and getting the facts, and that we try to do.

Mr. KOPPLEMANN. May I offer a suggestion?

Mr. FAHEY. Yes, Mr. Kopplemann.

Mr. KOPPLEMANN. When I made my first complaint, I did not know anything about it until I received a general clean bill of health in a few words in your letter. Don't you think it would be well if you find that the information given to you is not substantiated that you ought to take just a little bit into confidence your Congressman and say, "Now, here is this complaint, and here are the facts, what do you think about that?" In other words, giving him the real low-down, instead of accepting someone's word and closing the case.

Mr. FAHEY. You suggested when you talked to me inquiring of a number of different persons up in Hartford, various sources of information up there. Now, to the best of our ability, without exciting comment in the community, we endeavored to contact those people directly and indirectly and see what they had to say. We were unable to obtain from a single person, Mr. Congressman, a single case substantiating what you had to say. This case you have brought up here now in response to my letter of last November is the first you have ever brought to my attention.

Mr. LUCE. If we may take up the bill in question, Mr. Fahey, will you address yourself to section 4?

Mr. FAHEY. Yes, Mr. Congressman.

Mr. LUCE. Section 4 says that—

In addition to the authority to subscribe for preferred shares in Federal savings and loan associations, the Secretary of the Treasury is authorized on behalf of the United States to subscribe for any amount of full-paid income shares.

We are likely to be asked when this comes up on the floor, as to what is the significance of that difference. For the sake of the record that ought to be understood.

Mr. FAHEY. Page 6, section 4, is a new provision; lines 19 and 20 authorize the subscription for full-paid income shares in addition to the present authority to subscribe for preferred shares.

Mr. SPENCE. I suggest we are likely to be asked on the floor what is the difference between full paid and preferred.

Mr. FAHEY. Yes. I referred to that yesterday.

Mr. SPENCE. I did not quite catch the explanation of that.

Mr. FAHEY. I explained it in general terms, but Mr. Russell can give that in more detail.

STATEMENT OF HORACE RUSSELL, GENERAL COUNSEL HOME OWNERS' LOAN CORPORATION

Mr. RUSSELL. The original act, as you know, authorized the Secretary of the Treasury to subscribe for preferred shares, which are preferred only in case of liquidation. The shares receive the same

declared return that any shareholder in the association receives, and the amount of those shares subscribed to by the United States are limited to \$100,000 in any one association. This would change it to authorize the Secretary of the Treasury to subscribe to the full-paid income shares, which is the same identical type of share that every citizen subscribes for in the association.

Mr. CAVICCHIA. In other words, is that prepaid share, what is called an income share, really a fully paid up, prepaid share, such as they use in New Jersey?

Mr. CHURCH. Prepaid, and what they call deposited prepaid.

Mr. RUSSELL. That is right. The principal reason for this change is that there is a considerable resistance on the part of the public to putting their money into an institution and giving the United States preference in the shares, and, secondly, to raise that from the \$100,000 top limit, so these associations may rapidly go forward in the larger cities, especially, and in a substantial volume to increase employment and to provide more homes.

Mr. LUCE. In our cooperative banks in Massachusetts we have what are called "matured-share" certificates. I am not quite certain of the name of them, but I think it is paid-up certificates.

Mr. RUSSELL. Yes.

Mr. LUCE. How would that correspond with this class of shares?

Mr. RUSSELL. This full-paid income share is identical with the fully-paid or paid-up share in Massachusetts, and also identical with the matured share in Massachusetts. In other words, the matured share in Massachusetts is a share which a shareholder has accumulated by installments, simply leaves it there and gets the full earnings on that share in a paid-up status.

Mr. LUCE. Yes.

Mr. RUSSELL. A paid-up share in Massachusetts is one which he pays for at one time in a lump sum and gets earnings on his money.

Mr. PRALL. Is there a maturity date on these shares?

Mr. RUSSELL. It is paid up at one time just like it is in Massachusetts.

Mr. PRALL. Is there a maturing date when the shareholder and the purchaser of these shares might get his money back?

Mr. RUSSELL. This provides here for the retirement of these shares subscribed by the United States, namely, at the end of 5 years, the United States may request the association to repurchase those shares from the United States in not exceeding 10 percent of the amount invested in any 1 year.

Mr. PRALL. That is, assuming the association has profited enough to do that, is that right?

Mr. RUSSELL. That is substantially correct. Of course, the association lends this money out over about a 12-year period, and it is coming back over that period, and this method of getting the money out of the association is calculated to follow the loans that the association makes and it is set up on a schedule so that when received, the association may get it back from the home owners rapidly enough to turn it over to the United States, according to the method set up in the statute for retiring these shares.

Mr. LUCE. By preferred shares in ordinary corporations, or in the case of preferred shares there is usually a fixed dividend rate, and

the other shares get what the earnings warrant. I wish you would explain that here. The preferred shares do not have that significance?

Mr. RUSSELL. Of course, there are a great many different kinds of preferred shares in different corporations. Probably the most commonly accepted and approved share is the one with a definitely fixed dividend rate, which may be or may not be cumulative. The preferred share fixed in this statute is not referred as to dividend at all. Its dividend is based on the sum of money which is earned. It is only preferred in the event of liquidation, so that the United States would be paid back that money in the event of liquidation. That is the only preference it has.

Mr. CAVICCHIA. Mr. Chairman, may I ask Mr. Russell a question.

Mr. PRALL. Mr. Cavicchia.

Mr. CAVICCHIA. In other words, I understand these preferred shares would not have a certain amount of interest accrued to them, such as 4 percent or 5 percent as in the case of the ordinary preferred share, but they would get their dividends out of earnings?

Mr. RUSSELL. That is correct. The original act does not require the association to pay any definite return on that preferred share. It is a share which receives or shares in the earnings of the association just like any other shareholder receives out of the earnings.

Mr. CAVICCHIA. How are you going to distinguish at the end of the fiscal year as to what proportion of the earnings is to go to the preferred share and what is to go to the ordinary or common shareholder?

Mr. RUSSELL. At each dividend period all of the earnings after the payment of expenses and the provision for reserve, those earnings are allocated to all of the shares in the association at the same rate.

Mr. CAVICCHIA. At the same rate?

Mr. RUSSELL. Whatever the share pays, be it a preferred share, a full-paid or income share, or what kind of a share it is.

Mr. LUCE. I am anxious to give this system all the help possible; but this, I am afraid, is a deviation from what has been the general policy of our legislation, wherein the investment of the United States in any enterprise gets a preferred status. Possibly Mr. Fahey could show whether it is necessary to depart from that policy here.

Mr. FAHEY. We believe it is, as applying to these home-building associations, and as I pointed out yesterday, Mr. Congressman, in the case of the commercial banks, the United States Government, through the Reconstruction Finance Corporation, has provided great sums of money for which it has taken preferred stock, and it is thus placed in a very much junior position, because that claim is entirely behind that of all the depositors in the bank. So here, under this arrangement, it is placed on an equal basis with the home owners who are paying money into these associations, and when they are operating in normal times the return would be greater than it would be on any preferred stock on which there was a limited dividend. We would probably get back more than 4 percent in the case of preferred stock in the commercial banks. Most of these associations have been able to pay 6 or 7 percent, and some of them even a higher return, under anything like normal conditions, but you will

observe that we would be placed in the same position as all of the other stockholders and would share equally with them, and there would be no claims ahead of us as in the case of the deposits in commercial banks.

Mr. LUCE. Is the ownership of these shares in a building and loan association looked upon as a deposit?

Mr. FAHEY. Of course, in many of them it is. There are numbers of people who place their money in here just as they do in a savings bank, solely for the return on it, and who do not use their shares in order to borrow. As a matter of fact, I think it is estimated that in these associations there are about 8 savers—is it 8 or 10, Mr. Russell?

Mr. RUSSELL. It is eight, I think.

Mr. FAHEY. There are about 8 savers or depositors to 1 borrower.

Mr. LUCE. And is it not a fact that the bank would have more money to lend?

Mr. FAHEY. That is right, and the encouragement of the small savings through building and loan associations is very important. It is from that source that the great bulk of the money has come for the building of the average homes in this country.

Mr. LUCE. I am in thorough sympathy with that. Only, I have shares in various cooperative banks, and I had thought I was a stockholder.

Mr. RUSSELL. You are.

Mr. LUCE. I did not think I was a creditor.

Mr. RUSSELL. You are a stockholder, you are not a depositor, and you are not on the same basis as a depositor in a savings bank or in a commercial bank.

Mr. LUCE. Not at all, sir. I own some shares of stock in a cooperative bank, but in a savings bank I own nothing of the sort.

Mr. RUSSELL. That is true.

Mr. LUCE. Doubtless I should have learned this last year, but this is the first suggestion that comes to me that I have any preferred shares as a stockholder.

Mr. RUSSELL. No; you have no preferred status at all, but you are, in effect, a shareholder, not a borrower.

Mr. LUCE. In effect and legally, I do not see yet why the Government is a depositor and not a stockholder.

Mr. RUSSELL. In a building and loan association or a savings bank you are not in a subordinate position, and you are on exactly the same basis under this arrangement.

The CHAIRMAN. The entire dividend is divided equally.

Mr. RUSSELL. Exactly.

Mr. CHURCH. Crediting the Government and the individual shareholder with the same dividend.

Mr. RUSSELL. That is correct.

Mr. CHURCH. Only in the case of liquidation is the Government preferred.

Mr. FAHEY. The Government would subscribe for the stock as an ordinary depositing member subscribes for the stock.

Mr. CHURCH. And the Government will pay for that stock as the board of directors of the building association calls for it.

Mr. RUSSELL. Yes, sir.

Mr. CHURCH. And they will receive the same dividends on it.

Mr. RUSSELL. That is correct.

Mr. CAVICCHIA. Mr. Russell, I am afraid I do not quite get clearly the distinction or the reason for having the corporation buy either preferred stock or what you call "income shares". Will you tell me that again, briefly?

Mr. RUSSELL. The reason why this legislation requests or suggests a change from preferred shares to fully paid income shares—

Mr. CAVICCHIA. This says one or the other.

Mr. RUSSELL. Yes.

Mr. CAVICCHIA. I understand why this corporation might want to be a preferred shareholder.

Mr. RUSSELL. Yes.

Mr. CAVICCHIA. I want to know why it might want to buy full-paid income shares instead of income shares. What is the difference between the two?

Mr. RUSSELL. The only difference between those two shares, the essential difference, is the preferred share is preferred in the event of liquidation. They get exactly the same earnings on the two types of shares, paid in the same manner, and in other respects they are identical except the preferred share is preferred over the other shareholders in the event of liquidation. The chief reason for suggesting this change is that the average group of citizens in the average institution feel that inasmuch as this is a purely mutual institution that the funds of the United States ought to go into it just like their funds go into it—on the same identical basis.

Mr. LUCE. And the Government is willing, you think, in certain cases, to take that chance—to take the United States Government's money and commingle it with the ordinary shareholder's money and take its chance on getting it back and losing part of it?

Mr. RUSSELL. Yes. I would like to make this much of an explanation to that in addition to that which Mr. Fahey has given—namely, that if you have a \$10,000,000 bank and a \$10,000,000 building and loan association next door, they both would probably have about \$9,000,000 stock; and if the United States comes in and takes \$100,000 worth of preferred stock in that bank and that bank goes into liquidation—and that only brings \$9,000,000 on liquidation the United States gets nothing at all—and the depositors in that bank would get the \$9,000,000. The United States has nothing in a case like that. If it puts \$100,000 in the building and loan association, and it goes into liquidation and it brings \$9,000,000, the United States gets 90 percent of the investment it has made. These shares are that much better than the preferred shares that the United States has been buying of banks in thousands and millions of dollars; and, in fact, in the select associations that are now participating upon this low real-estate market, there is not a glimmer of any possibility that there could be any loss of any of these funds, whether on prepaid, paid-income shares, or preferred shares.

Mr. BEEDEY. In other words, Mr. Russell, this legislation is intended to encourage the United States Government to put its money in this sort of a thing rather than in the commercial banks; is that it?

Mr. RUSSELL. I could not say that, because I think the program of supporting the banks through preferred stock is pretty well disposed

of. On the other hand, I think it is an effort to get some of these Government funds into some of these institutions so that house building can go ahead and make money more available for repairs and additions to houses.

Mr. BEEDY. That is really an extra inducement to the Government to do so.

Mr. RUSSELL. Yes, sir; it is an effort to facilitate the developing of these associations and encourage private savings to come into them, because thus it is encouraging private savings to come into them over and above the plan in the original bill.

Mr. FAHEY. I think the fact should also be pointed out that all of these associations are under close supervision and under constant examination by the Board, and obliged to make regular reports, and with a demand of maintenance of reserve and seeing that the institution is protected constantly. That is part of the regular business of the Board.

Mr. DISNEY. Mr. Chairman, that brings up this suggestion or this inquiry: When we go before the House with this bill, of course we will be asked how far we are going to go with this legislation. Inquiries will be made on that, and it is rather hard to state the answer off hand, but we will probably answer that we are just about going the limit of putting the Government into this work. The next inquiry will probably be: Is there any place or any time fixed when the Government is going to slide out of this, when will business take it over again? We ought to be able to give the House some assurance along that line, with at least telling them of that fine day when the Government is going to get out of this business, and private business is going to take it over again.

Mr. RUSSELL. There was authorized to be appropriated last year, Mr. Disney, \$100,000,000 for this investment. So that is the limit in amount. The bill provides specifically—the law says these funds shall be put back, beginning at the end of 5 years, at the rate of 10 percent a year, so that the Government would be retired entirely, say, at the end of a period of 15 years from the beginning of the investment.

Mr. SISSON. Mr. Chairman, may I ask the witness just one question? I think it is pertinent to the bill. I would like to ask it now, because I will have to leave in a few minutes.

The CHAIRMAN. Yes, Mr. Sisson.

Mr. SISSON. Mr. Russell, with respect to the guaranty under the present law of the interest on the bonds, perhaps you would not care to answer this, and I do not know of anybody heretofore that has answered it: Is there any good reason to hold, or, is there some reason to hold, that this present guaranty of the interest on the bonds is, in effect, a perpetual guaranty of bonds?

Mr. RUSSELL. The Board has caused to be written on the bonds themselves the guaranty in the identical language of the statute, and it is represented to the public that this is the guaranty that the United States has made. I would say that a great many very good lawyers in the United States have been of the opinion, as you suggest, that there is a perpetual guaranty of the interest in the words of this statute as written on the bond. The President of the United States has, in the very message pending this legislation, or suggesting

this legislation, stated, in effect, that the United States is morally bound on these bonds. I would point out in that connection, if I understand what you have in mind, that many consider this to be an absolute guaranty.

Mr. Sisson. What I had in mind is this: If that is so, then that is a pretty good argument now for the guaranty of the principal. In other words, if we guarantee the principal we are really not going very much further than we are going at the present.

Mr. RUSSELL. Under that construction of the act that is true. The other thing I was pointing out is that the guaranty as provided here, instead of putting the United States in a more dangerous position, puts it in a more secure position in that at the present time money is costing the Corporation 4 percent, and the income of the Corporation—therefore, to pay all of its operating costs and losses, the Corporation only has a spread of 1 percent. This guaranty will enable the Corporation to get its money cheaper, and they probably will have a larger spread, a greater gross profit from which to pay its operating expenses and its losses, and therefore much greater surety that the United States will not have to pay anything at all on account of this operation. At the present, the spread assuming all of the funds of the Corporation are advanced on all of these bonds and loans, would be about \$20,000,000 a year, and on the \$200,000,000 of cash capital advance \$10,000,000 a year, making a total of \$30,000,000 with which to pay expenses and losses. If this bill should pass it should secure money at 3½ percent, and it would have \$40,000,000 a year with which to pay expenses and losses. So that I would say that this guaranty will certainly make it more certain that the United States will not have to pay anything at all, whatever, as we are situated now under the present law.

Mr. REILLY. That amounts to nothing more or less than telling the people of the country what we are going to do now, which we would eventually have done if we were only guaranteeing the interest.

Mr. RUSSELL. That is as the President expressed it.

Mr. BROWN. Mr. Fahey, what provision is made by your Board for the retirement of these bonds?

Mr. FAHEY. Under the law as it is we are obliged to retire the bonds as the money accumulates in our hands from time to time through interest and principal payments.

Mr. BROWN. You do not take any of the principal payments that come in from time to time and use that fund for the purpose of paying any of the expenses of the Corporation?

Mr. FAHEY. None of the principal payments.

Mr. BROWN. I think both bills, the one that is now law and the one that is proposed, are defective in that there is no definite method of retirement provided for.

Mr. FAHEY. The Board went on record at the beginning in a resolution providing for that.

Mr. BROWN. Would it be too much trouble for you to get a copy of that resolution and have it placed in the record?

Mr. FAHEY. No, no; of course not.

Mr. BROWN. I feel that we will be asked that question on the floor of the House, how are we retiring these bonds. At the present time is the Corporation making its expenses?

Mr. FAHEY. You mean making its operating expense from its income?

Mr. BROWN. Yes.

Mr. FAHEY. Oh, no.

Mr. BROWN. That is provided for by this \$200,000,000 cash?

Mr. FAHEY. Of cash capital.

Mr. BROWN. I see.

Mr. FAHEY. You see, of course, the expenses of the Corporation will be at their peak until these loans are cleared up and closed.

Mr. BROWN. Yes; I understand.

Mr. FAHEY. Then after that the operating expenses will drop very sharply.

Mr. BROWN. There will be a curtailment as soon as their mortgages are taken care of?

Mr. FAHEY. Yes; but it is an obvious economy of operation to incur the expenses necessary to clear these loans up as quickly as possible, and we are endeavoring to do that.

Mr. BROWN. Now, you greatly expand the powers of the Corporation by section O of the new bill. I think you have written into it a very necessary restriction in the first four lines of section O, on page 4.

Mr. FAHEY. Yes.

Mr. BROWN. In other words, I think we all thought that the former statute was intended to cover distress loans.

Mr. FAHEY. Yes.

Mr. BROWN. I am not sure that you have gone far enough in section O to protect us in that respect. You simply say there that "the loans made or refunded shall be confined to applicants whose indebtedness against their home was in default prior to the date the Home Owners' Loan Act of 1933 took effect." I think that in some manner we ought to get in there the idea that it should be a distress loan. That is not necessarily a distress loan where there is a mere default, but my principal criticism of section O is based upon your statement yesterday that you have applications for \$2,700,000,000 loans now, and Mr. Russell informed me in conference that it has now reached \$3,000,000,000.

Mr. FAHEY. Roughly, it is close to that; but on that point, Mr. Congressman, we ought to explain, and I think I referred to it yesterday that in practice we find that approximately 30 percent of these applications are not eligible at all.

Mr. BROWN. I had that figure in mind, and I recalled your testimony in that respect. That would mean that you had sufficient applications now to cover the entire authorized bond issue, deducting your 30 percent from your total applications.

Mr. FAHEY. Yes.

Mr. BROWN. Now, you propose by the first proviso to grant relief to persons where defaults have occurred, where it is specifically shown that it was due to unemployment, or economic conditions or misfortune beyond the control of the applicants. Have you an idea that that will take a considerable amount of this money?

Mr. FAHEY. One effect of that provision will be to discourage and eliminate applications made purely for the purpose of getting a better interest rate, a better loan. Unfortunately, they result in many misunderstandings of the methods and purposes of the Cor-

poration thousands of people apply and deliberately default on their present mortgages solely for the purpose of getting themselves into a position to apply to us. Now, we do not feel, out of our experience, that applicants of that sort should be granted loans by this Corporation.

Mr. BROWN. Well, such an applicant could not now, under the present statute, get relief from the Home Owners' Loan Corporation, because those defaults must have occurred, according to the present law, prior to the enacting date of this act.

Mr. FAHEY. Yes; but there are many who have defaulted just the same who are not entitled to loans.

Mr. BROWN. Yes; if it is a restriction, and that seems to be the burden of your present statement; but I assumed it was an exception.

Mr. RUSSELL. It is a very definite restriction, Mr. Brown. The present act does not mention the words "distress default" in any respect whatsoever.

Mr. BROWN. Are you addressing yourself to lines 22 to 25?

Mr. RUSSELL. No; I refer to the Home Owners' Loan Act of 1933, as it now exists. It does not refer to distress default in any respect whatsoever.

Mr. BROWN. That is true; but this subparagraph O as incorporated won't put a limitation upon the amount of the applications with which we deal. My point is from line 22 on you have extended the loaning power of the Corporation by permitting loans to be made on defaults occurring since the original effective date of this act. There, in that respect, that is an extension of the power of the Corporation and not a restriction of it.

Mr. RUSSELL. It is not an expansion of the present power. It is an extension of this restriction that is put in the pending legislation. At the present time the Corporation can take up a loan that has never defaulted. Now, as a matter of policy the Corporation is trying to confine its operations to distress cases, but under the statute it can take up a loan that has never defaulted at all.

Mr. BROWN. From the first three lines on page 5 it seems that you can extend the power of the Corporation, "that home mortgages and other obligations and liens against homes held by institutions in liquidation may be refunded, whether in default or not." Now, getting back to the point Mr. Luce made as to the original purpose of this bill it seems to me that goes away beyond it. We did not enact this bill for the purpose of aiding in the liquidation of banks, insurance companies, or concerns of that kind. We would be assisting persons here who are not in distress, and the principal assistance would go to the institutions that were in distress. Do you get my point?

Mr. FAHEY. But, the point there, Mr. Congressman, is this: In the case of these banks in liquidation, in nearly every instance the home owner is faced with the inevitable demand, because the receiver has to wind up the affairs of the institution, and they are all facing foreclosure as a result of that if they are unable to meet their payment and meet their loans. Now, that merely prevents the accumulation of unnecessary cost to those people, because we are going to be faced with applications, in any event, from those who are forced by receivers. There is another phase of that, too, still more important.

In some of these cities until an arrangement was worked out with the Comptroller of the Currency and the receivers to take care of these loans as rapidly as possible, hundreds of foreclosures were taking place, as the result of the necessary action of receivers and the orders of the courts, and sales were going on by the hundred every week with a very bad effect on value so far as the community is concerned, in real-estate values.

Now, in most cases where we have been able to deal with that situation, very great relief has been brought to those communities, because these loans have been taken over in exchange for bonds, the bonds have been placed with the Reconstruction Finance Corporation, they have borrowed against the bonds with them, and they deposited that money in the community. Now, in various cases great advantage has come to those communities as the result of that operation. Not only that, but this process, in many instances, has brought about a reopening of banks to the great advantage of the community. The situation in the State of Iowa, for example, has been greatly helped by that.

Mr. BROWN. That, I think, however, as I understand is not the purpose of this bill, to give assistance to banks.

Mr. FAHEY. Well, the assistance is to the home owner and to the community, because the home owner there has been faced with the necessity of paying that loan or having his home sold by the receiver.

Mr. BROWN. I get the point all right. Now, when we come to section P, I find the same extension again. This is the third provision of the bill which expands your powers. Under section P you are doing for persons who have already borrowed, under the present law that which some people in Congress want done for persons who have not received any assistance. That is, receiving rehabilitation, modernization, rebuilding, and enlargement of homes already financed. Now, I can't see, Mr. Chairman, where you have in section P the idea of helping people in distress. You have taken care of their obligations to their creditors. Now, you are going to take more of this money, \$200,000,000 of it, and you are authorized to use it in modernizing and rebuilding those homes. Now, if you had another billion dollars, and I am not saying I would not propose to give it to you, because I think you have done an excellent job, but if you had another billion dollars, for example, I would like to see sections O and P in the law, but I do not think you have got enough money to do what you are trying to do in these two sections, to do justice to the distressed home owner at the same time.

Mr. FAHEY. It may easily be. We are unable to tell at the present time, because we cannot forecast what the conditions may be, but there is one other factor that we have taken into consideration, and that is, apparently as the result of improved conditions we are also getting regularly a very larger number of withdrawals of applications, because the home owners find that they are no longer in distress. Not only that, but in many of the States, as the result of the intervention of the Corporation, our agents are able to arrange with the present mortgagee to refinance the loan and relieve us of the burden. In some of the States that has run as high as even 20 percent, and that is very helpful, because that takes that much of a burden off of us.

Mr. BROWN. But would that mean payment of your mortgagee?

Mr. FAHEY. No; I mean in the cases where they have applied to us for a loan, we took the case up with the mortgagee and persuaded the mortgagee instead of foreclosing, to refinance that loan.

Mr. BROWN. I see.

Mr. FAHEY. That is being done on a very large scale today. The insurance companies are cooperating, the savings banks are cooperating in it, and the building and loan associations are cooperating, and in thousands of cases our applications are being disposed of in that way.

Mr. BROWN. But you get my point, that I am afraid we are going to be caught between this \$1,000,000,000 and the \$200,000,000 in this additional demand that will come to you by reasons of sections O and P.

Mr. FAHEY. I would say on that, Mr. Congressman, that is entirely possible, but we hope not.

Mr. BROWN. I hope so, too.

Mr. FAHEY. We are satisfied that a great many of those applications which we have had are the result of misunderstanding, and our experience shows that a lot of them can be disposed of without making loans at all.

Mr. BROWN. I think you have done wonderful good in that respect.

Mr. LUCE. Before you go on from there, may I give an illustration from my own personal experience? As trustee, I held a certain dwelling-house property which in former years had paid a reasonable return. It had been originally built by persons who lived in 2 of the apartments and rented the other 2. About 2 years ago tenants began to leave that property, and a year ago I found it wholly vacant. In order to get any income out of it I had to expend, as trustee, over \$2,000 for renovation. Now, since that I have filled 3 of the 4 apartments with tenants. If I had been in distress and had received money from this Corporation solely to meet existing obligations at that time, I should have been left with no money to make the property bring in a reasonable income.

Mr. BROWN. Mr. Luce, if I may interrupt right there, that just illustrates the difference between some of us on this bill. I know some of you people in the East probably had in mind the 2- or 3- or 4-family houses which we do not have in the West. If you have in mind getting that return on it, all right; but if you have in mind relief of a distressed home owner, I do not think it is right.

Mr. LUCE. That was probably because we have so many buildings where the owner occupies a part of the building and rents the rest of it.

Mr. FAHEY. The bill provides for loans on up to 4-family houses.

Mr. BROWN. I understand that.

Mr. FAHEY. It is quite as Mr. Luce suggests, that in this process here we are not getting in the real-estate business, placed in the position of owning thousands of homes across the country, which would only aggravate the situation.

Mr. BROWN. With regard to section 8, and I would just as soon that the Republican members of the committee close their ears for a moment—I am afraid we are going to lose either the Secretary of the Treasury or one of the Democratic members of this Board.

The original bill, section 17, provides that no more than three members of the Board shall be members of any one political party. There will be six members of this Board, of which the present Secretary of the Treasury would be a member. If he is not changed between now and the time it becomes effective, that would put four Democratic members on the Board, and it does seem to me that we ought to change section 17 to provide that the prohibition against Democratic members should not apply to the member ex officio, the Secretary of the Treasury.

The CHAIRMAN. Really a prohibition against the members of the party in power.

Mr. BROWN. I think that is a better way to put it. I mention that, Mr. Russell, and I think an amendment is advisable.

The CHAIRMAN. The law provides for the appointment of five members, and the requirement as to political affiliations relates, of course, to those five.

Mr. BROWN. It does not read that way.

The CHAIRMAN. The Secretary of the Treasury, as I understand it, is simply made ex officio a member, and in that particular sense not a member of the committee, but there is this question with reference to this provision which occurs to me: The Secretary would have the right to vote under this provision and with a board of six members there could very easily come about confusion or difficulties because of a tie vote.

Mr. BROWN. I think that is true, too, but, Mr. Chairman, I think the addition of a few words to the present section 17 of the original home loan bank bill, not the Home Owners' Loan Corporation bill, by inserting the words "not more than three of the appointed members of the Board shall be members of one political party" would clarify it.

The CHAIRMAN. That probably would be the prudent thing to do, but my thought was this would not necessarily be of effect without the right to vote.

Mr. BROWN. He is a member of the committee.

The CHAIRMAN. But this gives him the right to vote.

Mr. REILLY. What is the object of putting a man from the Treasury Department on the Board?

Mr. FAHEY. Our relations with the Treasury Department in connection with financing are very close, and we cannot issue any bonds under the law except with the approval of the Secretary, and it is very important that there should be no conflict between our financing and that of the Treasury for general governmental purposes. The Secretary of the Treasury is a member of the Federal Reserve Board, and he is also a member of the Reconstruction Finance Corporation Board, and for the same reasons.

The CHAIRMAN. Is he connected in any way with the farm-loan organization?

Mr. FAHEY. I think he is also.

The CHAIRMAN. We are patterning this legislation for the relief of urban home owners somewhat after the legislation for the benefit of rural owners, and the legislation is somewhat similar.

Mr. FAHEY. I think there is a similar provision, Mr. Chairman, in the Farm Credit Association Administration bill.

Mr. BROWN. Mr. Chairman, I was not quite through with my line of questions.

The CHAIRMAN. Pardon me, Mr. Brown. I just want to ask this, if you will permit me: A distinguished Senator who will probably have some part in framing this legislation is very stubbornly opposed, or has been opposed in the past, to having the Secretary of the Treasury as a member of the Federal Reserve Board. I do not know how he will feel about this board.

Mr. PRALL. Why should he have a vote, Mr. Fahey? Why couldn't he be ex-officio, a member without the right to vote? What is the object of having the right to vote?

Mr. FAHEY. The chairman suggests that he would really not be a member unless he had the right to vote.

Mr. PRALL. He might have a voice in its affairs, without a right to vote.

The CHAIRMAN. Mr. Luce suggests that he would be like the Vice President.

Mr. BROWN. Mr. Chairman, I have had the feeling for some time, in thinking over this bill because of some experiences back in the State of Michigan, which in part I represent, that it was not good just to extend this guarantee to that class of creditors and mortgagees who forced the mortgagors to pay them the difference between the market price of these bonds and par. Now, that condition was somewhat extensive in the middle west. Bonds were selling as low as 82, and in many instances the banks, and I think in two or three instances the receivers of national banks took those bonds at the market, 82 or 85, and forced their creditors to give them notes or cash for the difference between the market price and par. Now, I admit that administratively it may be difficult to get at that situation, but it just runs counter to my sense of justice to guarantee these bonds for the benefit of that class of people, taking advantage of the misfortune of others.

Mr. FAHEY. Mr. Congressman, we have done everything in our power to prevent practices of that sort.

Mr. BROWN. And you prevent it now?

Mr. FAHEY. No; but from the beginning we issued most specific instructions on that point, and said we would not make a loan, and we have refused to make loans in every case where we knew that practice was resorted to. We have repeatedly circulated publicity throughout the United States on the subject. We went on the radio on national hook-ups and advised home owners everywhere not to submit to any such imposition, and we have used every resource we could to stop it. I have no doubt, and we have no doubt that there have been cases of that sort, but we are bound to say that the number of which we have been able to obtain knowledge is little, very little; it is but a very small proportion.

Mr. BROWN. At the present time you have about \$250,000,000 closed loans?

Mr. FAHEY. Yes; more than that.

Mr. BROWN. Something more than that?

Mr. FAHEY. Around about \$300,000,000.

Mr. BROWN. Of course, it has not occurred in anything like half of the cases, but as a lawyer, I do know it has happened in several

cases, particularly with regard to banks, and it is most distressing to me to give those people 100 cents on the dollar or guarantee bonds acquired under those conditions.

The CHAIRMAN. Wouldn't it be possible, however, for a borrower or mortgagor to find himself in exactly the same distress in that situation that he would in any other situation. If the mortgagee holds the mortgage, which he is about to foreclose, and for which he will not accept the bonds tendered—

Mr. FAHEY. Yes.

The CHAIRMAN. And is about to sell the man's home, the only thing the man can do to get relief is to get such relief as he can from the Home Owners' Loan Corporation, and then deal as best he can with the mortgagee.

Mr. BROWN. He bought an \$82 bond, and I want to let him keep an \$82 bond if I can, and not get 100 cents on the dollar for it.

Mr. RUSSELL. I would like to make clear to Mr. Brown that we have taken the position constantly that any such notes taken by the mortgagee are worthless, without consideration, without the policy of the law, and void. We have just disposed of a case in Baltimore where that had been done, and where the court did not enter a final order or decree in the case for the reason that the court had concluded hearings on the matter and the fellow who charged the mortgagee did not want to press his case any further and it was dismissed. We have constantly taken that position.

The CHAIRMAN. But, adhering to the fundamental purpose of the law, which is to give relief to distressed home owners from the danger of losing their homes, if we fail to extend the provisions to banks that are being liquidated or to any other institutions or individuals where the situation develops necessary foreclosures, as to such borrowers we defeat the purposes of the law unless we give them the benefit of that in situations of that kind.

Mr. REILLY. We have already done that. Under rule 9 the fellows who got those bonds at 85 percent, I do not know why they should not be required to make an affidavit whether they got their bonds below par. If they did, they are not exchangeable for new bonds.

The CHAIRMAN. There might arise a legal difficulty about it, but I will let the gentlemen who wrote the law talk about it.

Mr. BROWN. If there was a sale made, Mr. Chairman, from the man who took the bonds at 82, a sale made at 90, we will say, to an investor.

The CHAIRMAN. Yes.

Mr. BROWN. It might be said that it was unfair to make the present holder in succession, a sale having been made previously to two or three other holders, such as A, B, C, and D, it might be unfair to last holder of those bonds not to give him a guaranteed bond, but it seems to me the answer to that is we are letting him keep the kind of a bond he bought. He is a speculator and it is up to him to know what he is buying.

Mr. REILLY. In other words, a bond of that kind is not exchangeable.

The CHAIRMAN. This thought has occurred to me in connection with this section, it is limited to obligations against homes held by institutions in liquidation.

Mr. BROWN. Yes.

The CHAIRMAN. That would not cover all cases of distressed mortgagors. Individuals might be in bankruptcy, and their estate might be under the process of administration, presenting identically the same difficulty to a mortgagor debtor as would be presented in the case of a bank, or whatever is represented by the language "these institutions." So that I should think if that provision in the bill remains we could broaden that language.

Mr. BROWN. It is on page 5.

The CHAIRMAN. You limit it to institutions in liquidation. That would not cover an individual, would it?

Mr. RUSSELL. No, sir.

The CHAIRMAN. It is just as desirable to relieve the individual.

Mr. BROWN. There are many individuals in liquidation nowadays.

The CHAIRMAN. They are in bankruptcy all over the country, unfortunately.

Mr. REILLY. Those fellows in distress will come under the law anyway.

Mr. RUSSELL. This subsection he refers to is one which is a limitation upon the corporation and first limits the corporation to dealing with cases where a man was in default and therefore being in distress, being in default with his debts.

The CHAIRMAN. Yes.

Mr. RUSSELL. Then the exception he refers to permits us to go into any kind of distress, resulting in a community from an institution in liquidation and to take up mortgages which are not in distress. I think the chairman has in mind the situation where an individual is in liquidation, such as in bankruptcy, for instance.

The CHAIRMAN. Yes.

Mr. RUSSELL. And the mortgagee in question who is not in default—if they were in default we could take it up—

The CHAIRMAN. Yes.

Mr. RUSSELL. But if it is not in default the home owner is not in distress on that account and it is not the same situation you have with reference to a closed institution which has public deposits and the general public has an interest in it.

The CHAIRMAN. But, you do not limit it to banks and deposits. Your language is "institutions in liquidation."

Mr. PRALL. Any mortgage they might hold would be covered by this.

The CHAIRMAN. You will undoubtedly find many instances throughout the country where mortgages are held by individuals in bankruptcy, and, of course, in the same identical circumstances in cases of that kind as in the case of an institution.

Mr. REILLY. Mr. Russell, if a man is in bankruptcy, what help can you give him? You do not give that man any help. He is beyond help.

Mr. RUSSELL. A receiver in bankruptcy may have a large number of mortgages in his possession that are in default.

The CHAIRMAN. And there is nothing left but to foreclose.

Mr. REILLY. You are not providing for the mortgagee. You are providing for the mortgagor. If you are in bankruptcy where they owe you money and they are in default they can come in and take advantage of the law as it is now.

The CHAIRMAN. The difficulty about that is, Mr. Reilly, they might not be in default, but the mortgagee would not be in a position to take and to carry the mortgage.

Mr. PRALL. He would be in distress by reason of the situation of the other man.

Mr. REILLY. This takes care of mortgages, not mortgagees.

Mr. RUSSELL. I would like to answer the chairman's question to this extent, at least, that if this mortgagor in the event of the bankruptcy of his individual mortgagee, were in default, and that default had occurred since June 13, 1933, I think we could clearly construe that under the other exception here.

The CHAIRMAN. Yes.

Mr. RUSSELL. To be an economic condition beyond the control of the applicant or misfortune beyond his control.

Mr. BROWN. But would you, Mr. Russell, construe a private bank in liquidation to be an institution in liquidation? In Michigan private banks are merely partnership associations.

Mr. RUSSELL. I think I would be compelled to if it were an institution.

Mr. BROWN. That word "institution" seems a little difficult to define. A private bank is considered under the law of the State of Michigan as a partnership of individuals.

Mr. RUSSELL. I do not think that would be an institution.

Mr. BROWN. I think they should have this relief.

The CHAIRMAN. There are many of those cases.

Mr. BROWN. Yes; many in liquidation, because like all of the others they can be advanced after June 15 of this year, but my further question is this: I do not know whether I want to press my own amendment on the guaranty or not before either the committee or in the House, but I would like to know if it is physically possible for the Corporation to determine by the number or some other designation on an individual bond where that bond came from; that is, what property it originally was issued against. For instance, we will say that my own home in Michigan was mortgaged, and I got \$1,000 worth of your bonds to turn over to your Corporation. Would you be able to determine by the number of that bond its origin?

Mr. FAHEY. I am not sure.

Mr. PRALL. Would it be identical, though?

Mr. BROWN. Yes.

Mr. REILLY. Why do you want to amend an amendment?

Mr. BROWN. Because we ought to know against what property that bond was issued.

Mr. REILLY. Why don't you make comparison with the home owner's application, which has the bond set out and where he got it.

Mr. BROWN. If it went direct from the mortgagee to the Corporation, that is all right; but if it went through the hands of three or four people, it would be difficult.

Mr. RUSSELL. I think it would be manifestly difficult, and it seems to me impossible to administer such a proposition as this. I believe that the Corporation does preserve in its record the number of bond authorization when it analyzes one of these loans, and in turn when it issues the bond, and also of the number of the bond delivered to the mortgagee. I would like to call attention to this fact in this

connection, that it seems to me perfectly essential to leave this substantially as it is. If we pursue the course suggested, it compels the Corporation either to leave out the 4-percent bonds or else call those bonds at par and pay those fellows that get them at 82, pay them 100 cents on the dollar.

Mr. BROWN. If you have followed the market for the last 3 or 4 months, I do not think the market on your guaranteed bonds would be very good for a while, but the Corporation could pick up a substantial number of those bonds that were not guaranteed.

Mr. FAHEY. On the other hand, Mr. Brown, there is a difficulty there in that we are compelled under the law to retire them in cash at par, and with the limited number out they know perfectly well those bonds have got to be retired within a comparatively short time.

Mr. BROWN. I find that today they are at 96; that is the quotation this morning.

Mr. FAHEY. There are very few bonds ever sold around 83 or 85. That was more or less a fictitious price. There was never any market of that sort, as a matter of fact.

Mr. BROWN. It was fluctuating.

Mr. FAHEY. It was used in some instances as an argument, but it was pretty effectively met by our people all over the country, because we had an organization that was making known the character of these bonds, and we had the opportunity without any expense to the Corporation to explain them on a Nation-wide hook-up over the radio.

Mr. BROWN. Yes; I think you did a very excellent job in that respect.

Mr. FAHEY. I really do not think the number, out of the total number of bonds issued, that the number where they were able to chisel the mortgager was comparatively very large. I think it would be very, very difficult to try to trace that situation.

Mr. BROWN. Would it be too much to ask you to have someone down there give Mr. Reilly, the chairman of our subcommittee, or myself, whichever you choose, a short statement of what the administrative difficulties would be, because if they are too great I do not want to press it.

Mr. FAHEY. I would be glad to do so. I want to look into it, because if we see any way that we can do it at all we would be in entire sympathy with it.

Mr. BROWN. You recognize the justice of my position.

Mr. FAHEY. Yes. In some cases it has been very effective, even in cases where loans were closed, such as Mr. Russell has pointed out, where the mortgager has consented to an excessive figure, we have been able to find it out and have refused to deliver the bonds, and got the thing cut down. Only yesterday we had a case where we knocked off \$1,000 after the whole thing had been closed, and we found that they imposed upon the home owner.

Mr. BROWN. I will tell you what I had in mind, and instances of this have come to my knowledge. When I advised the banks to take notes for the difference, where they insisted they would not take the bonds except at market, I told them that they were to pay, and take a note for the difference, and if by July 1, 1934, these bonds were guaranteed they would then consult the Corporation.

Mr. KOPPLEMANN. Mr. Fahey, one further reference to Mr. Brown's amendment, and one of the reasons I favor it if it is at all possible to put it into effect: I read a very powerful editorial characterizing the giving out of information that those things would be guaranteed as racketeering on the part of some of the present administration. That probably would come to light either in the debate of this bill or shortly after it, or be brought up by the critics of this administration. I think in defense of your own administration and the President who recommended this measure, you ought to make strenuous efforts to, in some way, put language into this bill that would protect the good name of the Government against any who may have "racketeered" in the purchase of these bonds just as soon as it was found that there was a chance of them being guaranteed by the Government. If I can find that editorial I will send it to you, but if not, I am giving you now my best recollection of the substance of it.

Mr. FAHEY. I thought it might be interesting to you to know the facts. A lot of this talk about the market of the bonds has been highly superficial. Before there was ever a talk of a guaranty at all the volume of bonds that actually came to the markets was very small, and indeed it has been since. We have kept in very close touch with the market and we have every reason to believe that out of the entire volume of bonds out, until within the last 2 or 3 weeks, not more than 5 or 6 million have gotten into the market at all.

Mr. KOPPLEMANN. That may be, but, nevertheless, you can see the possibility for criticism.

Mr. FAHEY. I can't conceive of any basis for that. No member of this Board or anybody connected with the administration under any conditions had ever intimated that these bonds might be guaranteed.

Mr. KOPPLEMANN. I want to say to you that I said I was in favor of guaranteeing these bonds.

Mr. BEEDY. I want to call Mr. Fahey's attention to the provisions of subsection N, in section 1 on page 4, the last part of that section, since this subject of dealing in bonds on the market has been brought up, may I ask you if you subscribe to the principle embodied in the authorization contained in lines 14 to 18, inclusive, authorizing this Corporation to gamble in its own bonds on the market?

Mr. FAHEY. Of course, the Corporation would not gamble in its own bonds.

Mr. BEEDY. Why do you say that?

Mr. FAHEY. There is a provision in the act now that the Corporation may buy and sell.

Mr. BEEDY. Why do you say, Of course the Corporation would not gamble in its own bonds? Why wouldn't it?

Mr. FAHEY. I think it would be pretty bad business for the Corporation to go into it and do that.

Mr. BEEDY. In other words, you do not subscribe to this?

Mr. FAHEY. I think the Corporation should be free to buy any of its bonds in the market at any time.

Mr. BEEDY. What for?

Mr. FAHEY. It is up to us to retire these bonds as rapidly as we may, and if bonds are offered in the market at a favorable price, there is no reason in my view why the Corporation should not buy them. We have that authority today.

Mr. BEEDY. Of course, this was considered so contrary to public policy that it has been made a penal offense for banks to buy and sell their own securities. You think a different standard of conduct should be set up for the Government in this business than for a private institution, I take it?

Mr. FAHEY. I do not know about that. If the Government went into a continuous operation and manipulated the market for its bonds, I certainly think it would be open to criticism.

Mr. BROWN. How about gold, Mr. Beedy, manipulating the price of gold.

Mr. BEEDY. I know I do not approve of it. I think it is bad public policy. We suffered from that in 1929. The public was mulcted through inside manipulations by corporations pegging their securities on the market and leading purchasers and prospective purchasers to believe that the quotations thereon represented the legitimate value of the securities, which they did not, and I take it that this authorization would not be given to the Government unless it were for the purpose of pegging the prices of its securities when there was danger of their being driven down. We wanted to put men in jail for doing that in 1929, and we think they ought to be put in jail for doing it today. I am wondering how far we ought to go in sanctioning this practice by the Government.

Mr. KOPPLEMANN. In the case of the banks they did it for the purpose of jacking up the price and selling it to innocent purchasers.

Mr. BEEDY. Yes.

Mr. KOPPLEMANN. But you cannot conceive of the Government going into the market for the purpose of manipulating the prices, insofar as this organization or any other organization of the Government is concerned, for the purpose of selling bonds at a high price and depressing the price and buying them and then raising it and selling them again. It is not conceivable the Government would enter into that kind of a practice.

Mr. FAHEY. There is one other thing that must be remembered in connection with these bonds: As the result of the guarantee you have given complete assurance to the bondholder that he is going to get 100 cents on the dollar, and you have got all of the power and all of the resources of the Government behind that. It is not a matter of trying to raise the price in order to make a profit for anybody. I think it is somewhat different from a private transaction.

Mr. BROWN. It is a matter of retiring them when it is to the advantage of the Government to do so.

Mr. FAHEY. Exactly.

Mr. BROWN. It says they may sell or resell at any price. It seems to me, of course, the Board will say market price.

Mr. FAHEY. I think that same language is in the bill now.

Mr. RUSSELL. That is not quite the language of the bill now.

Mr. BEEDY. I call attention to it to show that the language of the authorization is clearly adapted to the practice which we all say is reprehensible, and which you yourself may attack as utterly inconceivable; nevertheless, we do have a very high precedent set here as to the action that is considered perfectly ethical now, because it is

legal for the Secretary of the Treasury to speculate in international exchange and Government securities in order to hold their price up. If he may do it with propriety, why cannot this Corporation.

Mr. RUSSELL. I think that is where this language came from.

Mr. BEEDY. It is a question of public policy.

Mr. PRALL. I would like to go back, for a moment, Mr. Chairman, to the matter of extending time of exchanging these bonds.

The CHAIRMAN. It is now a quarter to 1, and the House is in session, and we evidently cannot finish today. I am only suggesting it, as I can stay longer, but I imagine that it would be just as well to adjourn until tomorrow morning at 10:30. I did not mean to cut you off, Mr. Prall.

Mr. PRALL. I simply wanted to bring out the matter of extending the time limit on the exchange of these bonds. I believe a 6-month period is not enough. The reason given yesterday by Mr. Fahey was that the rate of interest on subsequent issues of bonds might be lower. It might be advantageous to the Corporation, but in that same section it clearly states that such rates shall not be less than that first fixed after the date of the enactment of this subsection. So that would make no difference. It seems to me that a 6-month limit on the retiring or the exchange of these bonds is not enough. It should be 1 year.

Mr. BEEDY. What page is that on?

Mr. PRALL. That is on page 4.

Mr. KOPPLEMANN. What is the objection to 1 year?

Mr. PRALL. Mr. Fahey said yesterday after a period of 6 months there might be an issue of bonds at a lower rate, and this prescribes that it shall not be lower than that first fixed, which will be upon the enactment of this law.

Mr. FAHEY. There is the other situation, too, Mr. Congressman, and that is that it is impossible to anticipate what the market conditions may be, and the rate may be higher than the initial rate, don't you see; and we want to limit it to those bonds first issued. Not only that, but it was the judgment of the Treasury and trained financial advisors that 6 months would be ample in practice, that in the case of bonds handled in the market generally the period of exchange is largely less than that.

Mr. PRALL. I believe there will be many, many thousands of those bondholders that will not hear of this within 6 months.

Mr. KOPPLEMANN. Yes; they won't know of it. That is right.

Mr. FAHEY. We shall notify everyone of them.

Mr. KOPPLEMANN. But, you do not know who they are; you just said so.

Mr. FAHEY. We know those of whom we have records, but we do not know the present holders that bought in the open market. We do not know those, but that is a limited number.

Mr. PRALL. Is it of greater importance that the rate should govern than that the people holding the bonds should be deprived of exchanging them because of a limit of 6 months being made?

Mr. FAHEY. I would say no; but it has this other possible complication. Of course, we would like to get these 4 percents in that are going to be exchanged as promptly as possible, and also know in

our financial arrangements how many of the 4's we are likely to be required to retire at par. That will involve some of the bonds we market out of this \$200,000,000. I mean, we will have to control that as best we may from time to time, because we probably would not issue them all at once. You see, we want to be in a position to make such a rate on bonds issued from now on as will conform to the best market conditions. We want to get the rates as low as we can. Consequently we would like to know how much of these outstanding bonds we have got to absorb, and know that as soon as possible.

Mr. PRALL. Would that make any difference if you were to extend the time and make it a period of 1 year instead of 6 months?

Mr. FAHEY. Except we may have to set aside or be prepared to issue a very much larger number of bonds in exchange than we would otherwise.

Mr. KOPPLEMANN. But you said you did not have many of them anyway.

Mr. FAHEY. You must have misunderstood me.

Mr. KOPPLEMANN. You said there were not many of such outstanding.

Mr. FAHEY. I said there were not many that had been sold in the open market.

Mr. KOPPLEMANN. Those are the ones that Mr. Prall is talking about, that can't come in in 6 months, and they would be out of the picture.

Mr. FAHEY. That is a small number.

Mr. KOPPLEMANN. Therefore the allocation of money for that purpose would not be very material.

Mr. FAHEY. Yes; but we have got \$300,000,000, approximately, out, and we do not know how many of those will be exchanged or how many of those holders will prefer to keep the 4-percent bonds.

Mr. PRALL. I think Mr. Fahey's idea is that a great many more would be exchanged within a period of 6 months under that rule than if it were a year.

Mr. FAHEY. Exactly.

Mr. PRALL. Perhaps some would wait a longer time for an exchange.

Mr. BEEDY. Mr. Chairman, may I just close what I had to say for the purpose of the record. I take it from what you said, Mr. Fahey, that the legitimate object of this authorization in subsection (n) on page 4 would be to enable the Corporation to retire its bonds. So, would you object to an amendment, writing in after the word "price", in line 16, "for retirement purposes", and striking out the subsequent sentence, which clearly shows that the purpose of the purchase as authorized in this bill was not for retirement but to enable them to hold them and sell them again when they could to their advantage?

Mr. FAHEY. Would you state that again?

Mr. BEEDY. I understand that this authorization, you think, is justified, because it is the duty of the Corporation to retire its bonds from time to time. You see, the last sentence of subsection (n) says: "Any such bonds so purchased may, with the approval of the Secretary of the Treasury, be sold or resold at any time and at any

price", which clearly shows that this authorization was not to enable the Corporation to retire its bonds but to speculate in them. Now, would you object to striking out the last sentence in subsection (n) and writing in after the word "price", "for the purpose of retirement"?

Mr. FAHEY. I would prefer, Mr. Congressman, to take that up with the Board and discuss it with the Board, and with our financial advisers.

Mr. PRALL. Couldn't you cover everything, Mr. Fahey, if you simply eliminated the words "and at any price?" They may sell and resell at any time; wouldn't that cover your purpose?

Mr. FAHEY. It might, but some of it is technical language that has been worked out by the lawyers, and I would rather discuss it with them before expressing an opinion about it.

Mr. BEEDY. Yes; if you will, please, and let us know.

Mr. FAHEY. I understand that this clause has been taken from another bill.

The CHAIRMAN. Your language is "at any time and at any price." Language authorizing the purchase and sale would carry with it the right to purchase and sell anyway.

Mr. BEEDY. If you just leave it to be bought and sold at any time, they could buy them and sell them on the market. If it is simply for the purpose of enabling the Corporation to retire bonds, it ought to be so that the Corporation shall have the right to purchase any of the bonds issued by it in the open market for the purpose of retirement and stop there.

(Whereupon, at 12:45 p.m., the committee adjourned.)

TO GUARANTEE BONDS OF HOME OWNERS' LOAN
CORPORATION—H.R. 8403

MONDAY, MARCH 12, 1934

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

The committee met at 10:30 a.m., Hon. T. Alan Goldsborough presiding.

Mr. GOLDSBOROUGH. Gentlemen, the committee will come to order. Mr. Fahey, I was not here the other day and Mr. Steagall has asked me to proceed with the hearing until he gets here. You were testifying when the committee adjourned, were you not?

FURTHER STATEMENTS OF JOHN H. FAHEY, CHAIRMAN FEDERAL HOME LOAN BANK BOARD, AND HORACE RUSSELL, GENERAL COUNSEL FEDERAL HOME LOAN BANK BOARD

Mr. FAHEY. Yes; and I was answering questions by members of the committee relative to certain features of the law. I do not know what there is still left in the way of questions.

Mr. GOLDSBOROUGH. Mr. Hancock, have you any questions?

Mr. HANCOCK. I have not been able to attend any of the hearings; I do not know exactly where we are.

Mr. GOLDSBOROUGH. Mr. Reilly?

Mr. REILLY. Why, Mr. Fahey was discussing some questions. I do not know whether he has completed his testimony.

Mr. FAHEY. There were two or three questions that were still up. One was there was a request for a certified copy of the resolution of the Board relative to the retirement of the bonds. I do not know which member of the committee wanted it, but it is here and we can turn it in.

Mr. REILLY. I think Mr. Fish asked for that.

Mr. FAHEY. Would you like it read into the record?

Mr. GOLDSBOROUGH. Well, I do not care anything about it myself. Would any member of the committee like to hear it?

Mr. REILLY. I do not think it is material, is it, Mr. Fahey, on the matter in the bill?

Mr. FAHEY. I do not think so. The question was raised as to what provision had been made for retirement of the bonds, and I replied that, consistent with the terms of the act, the Board had adopted a resolution on that subject providing that all principal payments should be applied to the retirement of the bonds. I think the thought that Mr. Fish had in mind was that we might be able to use such

principal payments for operating expenses, or something of that sort. Of course, that is quite beyond our powers; but, in any event, there is the resolution which can accompany the record or may be referred to Mr. Fish for his satisfaction.

(The resolution referred to is as follows:)

MINUTES OF THE FIFTY-SECOND MEETING OF THE HOME OWNERS' LOAN CORPORATION,
THURSDAY, AUGUST 31, 1933 (PP. 286-288)

Be it resolved by the Board of Directors of Home Owners' Loan Corporation as follows: (1) All collections of the Corporation on account of principal shall be kept in a separate account, called "Reserve for the retirement of bonds", and applied exclusively to the retirement of the bonds of the Corporation.

(2) Funds may be taken from the reserve for the retirement of bonds for the purchase of bonds at the market, for the retirement or call of bonds by lot at par, or for the retirement of bonds at maturity.

(3) The reserve account for the retirement of bonds may be used promptly to retire bonds or may be invested in obligations of the United States or in obligations of instrumentalities of the United States and held as a sinking fund, in the discretion of the Corporation.

(4) In the event the Corporation forecloses upon the security for a loan and sells the same for cash at the foreclosure sale, or buys the same in and later sells for cash, the net proceeds of such sale shall be credited to the reserve account for the retirement of bonds up to the amount of the unpaid balance of principal of the original loan, and any balance shall be credited to the interest account. In such event, if a loss of principle results, a sum equivalent to such loss shall be charged to the reserve account for losses or to the profit and loss account and credited to the reserve account for the retirement of bonds.

(5) In the event the Corporation forecloses upon the security for a loan and sells the property at the foreclosure sale on credit, or buys the same in and resells on credit, any cash received shall be credited to the reserve account for the retirement of bonds and all principal collections shall thereafter be credited to said account until the same is paid in full. In any such case, if a loss is taken upon the sale of property to a purchaser, the amount of such loss shall be charged to the reserve account for losses or to the profit and loss account and credited to the reserve for the retirement of bonds.

* * * * *

I hereby certify that the above is a true and correct copy of a resolution adopted by the Board of Directors of the Home Owners' Loan Corporation on August 31, 1933.

[SEAL]

R. L. NAGLE, *Acting Secretary.*

Mr. FAHEY (continuing). There was one other question we were discussing when we adjourned, and that was the possibility of making some provision in this act by which we might prevent the making of extra profits by mortgagees in accepting the bonds. This suggestion referred to those who insisted that the mortgagor should give them notes or cash for the difference between the supposed market value of the bonds and the par value. We were asked if we would look at our records and see how far we could identify the present holders of the bonds, you recall.

In response to that, we have gone over the matter carefully. We find that it is next to impossible to say where the bonds are held at present. Our records, of course, show to whom they were delivered at the beginning, but there is no way we can tell, because they are not registered bonds—unless registration was requested—who now holds them. Consequently, it would be very difficult to separate one group from another and try to impose a condition on the exchange that they should make up the difference, or they should not be allowed more than what they credited to the home owner on account of the bonds.

The only way we see to deal with that is as we are dealing with it now, and that is by advising the mortgagors that legally they are not bound to make any such payments. We have had some success in pursuing this course in the cases that have come to our attention. Of course, wherever we know of the attempts of mortgagees to impose unjust conditions of that kind, we take them up. As I explained the other day, we have from time to time issued emphatic instructions on that point, and we have done everything we could through publicity and over the radio to warn mortgagors about agreeing to any extra payment in connection with the exchange.

Mr. GOLDSBOROUGH. Let us take a case like this: I am a mortgagee and say the bonds are selling at 80.

Mr. FAHEY. Yes.

Mr. GOLDSBOROUGH. So I decline to take the bonds—in the first place, my mortgage was good and I decline to take the bonds unless I receive such additional consideration as you have been discussing. Is it your view that that additional consideration has no legal consideration that is enforceable?

Mr. FAHEY. Our legal staff feels that under the terms of the law it is not. I would like Mr. Russell to please outline that situation, if he will.

Mr. RUSSELL. I would call the committee's attention to the fact that the Board has passed resolutions making it perfectly clear that the Corporation would not exchange its bonds for mortgages except on a face-value basis; that the Corporation would not accept and consent to give bonds for a mortgage except you take the face value of the bonds for the mortgage we are taking up. Therefore, if a mortgagee undertakes to exact a cash payment, or a second mortgage payment, by way of notes or otherwise, it would be a charge made in connection with negotiating the loan not authorized by the Corporation.

Mr. GOLDSBOROUGH. Well, would the mortgagee have notice of that resolution prior to the transaction?

Mr. RUSSELL. I think the mortgagee is on notice, Mr. Goldsborough, from the act itself, that if he makes any charge not authorized by the Corporation, he has violated the criminal section of the act. And I think the burden is on the mortgagee, if he makes any charge, to discover whether that charge is authorized by the Corporation or not.

(At this point Mr. Steagall assumed the chair.)

The CHAIRMAN. Mr. Russell, say a mortgagee is taking bonds as a result of negotiations by which it was agreed that he would receive a cash payment on the outside by the mortgagor, as a part of the consideration upon which he parted with his mortgage. That would not be in actuality and to all intents and purposes such a separate charge as is made a penal offense under the provisions of the act, would it? If that transaction were in good faith, just as I have outlined, would a court hold that was just the same as charging an unauthorized fee?

Mr. RUSSELL. I think the court would be compelled to, Mr. Steagall, in view of the method of operation of the corporation. The corporation has taken the position that it positively cannot exchange its bonds for mortgages except the same be accepted at face value.

Mr. GOLDSBOROUGH. Is there anything in the charter, anything in the act itself, which gives notice to the mortgagee?

Mr. RUSSELL. The act itself, in section 8 (e), says:

No person * * * shall make any charge in connection with a loan by the Corporation or an exchange of bonds or cash advance under this Act except ordinary charges authorized and required by the Corporation for services actually rendered for examination and perfecting of title, appraisal, and like necessary services.

Then follows a provision as to the penalty.

The CHAIRMAN. That is a direct reference to specific charges.

Mr. RUSSELL. Yes, sir.

The CHAIRMAN. And would hardly be construed by a court to cover a transaction involving part of the consideration for which a mortgagee parted with his mortgage, would it?

Mr. RUSSELL. As I was going to explain, the Corporation would decline to negotiate those mortgage transactions on any basis except that the mortgagee releases his mortgage and accepts these bonds at face value. Now, the mortgagee has notice of that at the time of the transaction. The mortgagee not only has notice, but he signs an application to take the bonds at face value. Now a mortgagee, having signed to take the bonds at face value, if he makes a charge in addition to that, in our opinion he has violated section 8 (e) of the act.

Now the mortgagees are on such adequate notice of the decision of the Corporation, in view of what we require the mortgagee to sign before we close any of these transactions, that in all cases where this matter has come to our attention the mortgagees have done this under cover. It was mentioned at the committee's last hearing that some banks in the State of Michigan had pursued this course. We have letters from some of these banks to some mortgagors in which they recited that they were called upon to sign the consent, and that they won't sign it unless the mortgagor comes in and pays them some cash to represent the difference between the market value and the face value, and then they put in a paragraph—

It is understood the Corporation frowns upon this method of dealing and it will be unwise for you to report this matter to the Corporation.

The mortgagee has known perfectly well that if he took these bonds, he must take them at face value; he has signed a written consent to take them at face value and, in our opinion, if he makes an additional charge in connection with the transaction, it would be in violation of section 8 (e) and he would be subject to prosecution for that. And if he sued in a civil suit to recover any money, the suit would be without any basis in law, in view of the fact that what he is trying to collect is a charge made in violation of the policy of the law as fixed by Congress.

Mr. CROSS. May I ask a question right there: I can see from that, of course, that as a matter of consideration, though the bond was only worth, for instance, 80 and the par value is 100, that the mortgagee, before he could take anything between 80 and 100 would be shut out, because he has agreed to take them at 100.

Mr. RUSSELL. Yes, sir; he has contracted to take them at 100.

Mr. CROSS. Yes; but suppose it has been scaled down to where the building appraisalment, for instance, shows the home is worth

\$5,000 and the mortgage on it is \$5,000 and it has been scaled down, we will say, to \$4,000. Now, he says, "I will take bonds to the extent of \$4,000 at the par value, but you will have to give me a note for the thousand dollars that I have scaled down before I will agree to this". Then he could enforce that thousand dollars, could he not?

Mr. RUSSELL. I think so; yes, sir. And for that reason the Corporation has considered that very question and has authorized, where the mortgagee accepts the bonds at face value and releases the debtor in the same amount as the face value of the bonds, that the debtor may give the creditor a second mortgage or open note, or cash, if he has got it, for the balance of his bona-fide debt. But that is quite a different thing.

Mr. CROSS. Oh, yes; I think you are right about the other. It is just a question as to whether or not it is a crime.

Mr. KOPPLEMANN. What did you do in that case of Michigan, where you had these letters you spoke of? How did you follow through on that?

Mr. RUSSELL. We tried to gather all the facts we could and have even sent a man out there, and he is out there now undertaking to get indictments against these people who made the charges.

Mr. KOPPLEMANN. To stop the practice?

Mr. RUSSELL. To stop the practice and undertake to get the cash, that was paid under that practice, repaid, and the notes given under that practice canceled.

Mr. KOPPLEMAN. We had practically the same thing happen in my district. A bank wrote a letter to a prospective mortgagor asking him that very thing.

Mr. FAHEY. Mr. Chairman, I would like to add that, aside from the facts to which Mr. Russell has referred, the Corporation has repeatedly given public notice on this matter in press releases and radio talks, and all the rest of it.

Mr. GOLDSBOROUGH. That would not be legal notice, Mr. Fahey.

Mr. FAHEY. No; I suppose not. I am merely talking about their being informed about it. And that is chiefly the reason why, as Mr. Russell explained, they have tried to carry on those transactions surreptitiously.

Mr. GOLDSBOROUGH. My own opinion is that the acceptance of cash payment or a note would not be a violation of the section referred to. I do think, however, if a mortgagee signs an acceptance of the bonds at par that would be a defense on equitable grounds to any action brought on anything which represented an additional payment, irrespective of the section referred to in the act. That is my own opinion.

Mr. RUSSELL. The first of these cases, Mr. Goldsborough, arose in Baltimore, and a member of my staff here went to Baltimore at the trial of that case, although we were not directly interested in it. The home owner had employed his own counsel there and the suit was about to come to trial and, after a discussion with the judge in the matter, the mortgagee who had taken the second-mortgage notes agreed to and did dismiss his case, paid the costs in the case, surrendered his notes, and canceled the second mortgage. That was the first case that occurred, and it occurred in Baltimore, Md.

Mr. SPENCE. What is the language in the act that limits the charges for the loan?

Mr. RUSSELL. That is in section 8 (e), on page 8, of the law, as printed.

Mr. MEEKS. Mr. Chairman, I would like to call attention that I found in Illinois an instance of this kind, where the mortgagee is what we know as a "loan shark"; he is a short-loan man operating under special statutes, and cases are reported wherein this loan shark, before he will consent to an exchange, requires cash or a mortgage on the property, such as a chattel mortgage including household furniture. Have you ever had any instances of that sort reported to you?

Mr. FAHEY. It may be the legal department has had them; but, personally, I do not recall that sort of thing being brought to our attention.

Mr. MEEKS. The logical result of that would be, in many cases, to put the mortgagor in a worse position than he is in already; because he will agree to that sort of transaction in order to get the extension or relief on his home.

Mr. FAHEY. Exactly.

Mr. MEEKS. And take his chances on being able to pay out on the chattel mortgage.

Mr. FAHEY. That is quite true.

Mr. MEEKS. If there is any way to protect the mortgagor in that State, it would be very desirable. I do not know just how to do it.

Mr. RUSSELL. It is our opinion that such a charge is an illegal charge, in view of the contract we require of the mortgagee, and the home owner can defeat the claim, although he may have secured the claim by other property. Now, we have had almost every kind of device come before us, including the one you mentioned of taking security on other property.

Mr. MEEKS. The practical difficulty is the mortgagor cannot resort to the courts; he has not the money to hire lawyers; so that he is practically at the mercy of his mortgagee. It may be true that he has a defense, but how is he going to exercise it?

Mr. RUSSELL. That is a matter of the utmost difficulty and there is nothing we can do in connection with the matter except to make the best effort we can to let our mortgagors know what the law is and what their rights are, and to give them such advice as we can, and any reasonable assistance we can in protecting themselves against such claims and such oppression.

Mr. MEEKS. Do you think of any way we can incorporate in this measure any further protection to the mortgagor against that practice?

Mr. RUSSELL. I do not, Mr. Meeks. I just do not know how the Congress could reach out and control this local mortgagee against making perfectly invalid claims of that character.

Mr. MEEKS. Unfortunately, we have a great many people operating on the short loan basis and I am afraid the cases will multiply wherein the mortgagors are greatly pressed and ruined.

Mr. CROSS. Is there anything in the act that you think would make such a transaction as he referred to a penal offense on the part of the mortgagee?

Mr. RUSSELL. In my opinion, a charge made beyond the acceptance of the bonds which the mortgagee contracts in writing to accept, unless that charge is specifically authorized by the Corporation, is a penal offense.

Mr. CROSS. In other words, taking this chattel mortgage, you think would be a penal offense?

Mr. RUSSELL. Making that charge secured by a chattel mortgage; yes, sir.

Mr. CROSS. Then it seems to me that if the grand juries or courts in the various counties could be advised of that fact, that would soon shut that out; because they would commence to jerk those fellows before the grand jury and that would put a stop to it.

Mr. RUSSELL. That is the course we have pursued. We have called the attention of the United States district attorneys to it in very many districts of the country and have usually stopped such practice, at least in a very large measure.

Mr. CAVICCHIA. That would not apply however, Mr. Russell, if either the first or second mortgagee accepted bonds the par value of which is less than the amount due him, when he gets additional security for the difference; am I right?

Mr. RUSSELL. The Corporation has specifically authorized, in cases where the Corporation refunds only a portion of a mortgagor's debt, the mortgagee to take the excess in a second mortgage, or otherwise, provided that the excess does not exceed the appraised value of the property when added to the amount of the debt we refund.

Mr. CAVICCHIA. Suppose the man has not paid interest for a number of years on the original mortgage which, plus the accumulated interest, does exceed its appraisal value, and he takes additional security above the bonds that he gets from your Corporation and that additional security, plus the bonds, does exceed the appraisal value: Why should that be a penal offense?

Mr. RUSSELL. Well, the Corporation has taken the position in such a case that it simply would not refund the indebtedness—not due to the excessive demand of the creditor in that case, but due to the fact it would not take over the home owner whose debts were more than the total appraised value of the property, on that property.

Mr. CAVICCHIA. This is only a hypothetical case, but who is to tell you whether the appraisers are correct in appraising the property today, in the depression, as to what the real value might be?

Mr. RUSSELL. Our appraisers tell us what we know about the appraisal, Mr. Congressman, and we have simply taken the position that we will not refund debts against property if that property is to be left with more debt against it than our appraisal, whether our appraisal be right or wrong.

Mr. CAVICCHIA. You still feel that it would be a penal offense for a man to take additional security above the appraisal value?

Mr. RUSSELL. I am of the opinion that if he takes our bonds on the contract which we make, and makes an additional charge we do not authorize, it would be a penal offense.

Mr. MEEKS. Just one more question: In the case that I called to your attention, do you think there is any way we can strengthen the penal provision of this act?

Mr. RUSSELL. Yes, sir. The penal provision can be strengthened, if it is desired to strengthen it. Probably the best method to

strengthen it is to put an additional section in here prohibiting the solicitation of these extra charges and put a prohibition specifically against the making of any charges secured by other property, just as you have suggested.

Mr. MEEKS. Do you mind drafting such a provision, so that I may have it?

Mr. RUSSELL. I will be very glad to.

The CHAIRMAN. Mr. Russell, you have forms on which applications for loans on bonds have to be made.

Mr. RUSSELL. Yes, sir.

The CHAIRMAN. Which require the applicant and the mortgagee to make certain statements.

Mr. RUSSELL. Yes, sir.

The CHAIRMAN. Covering the various material phases of the transaction, have you not?

Mr. RUSSELL. That is right; yes, sir.

The CHAIRMAN. Then the criminal element in the transaction would be covered by the provision of the law under section 8, which provides that anyone who makes a statement knowing it to be false or who willfully overvalues any security, and so forth, and so on. In other words, a willfully material misrepresentation of fact in the application would cover any criminal acts that might be desired, would it not?

Mr. RUSSELL. I think section 8 (a) to which you refer would cover any kind of a false statement that I can imagine, in connection with one of these loan transactions.

The CHAIRMAN. Now, would not almost every act, other than that specific thing of overcharging for services or fees, be necessarily involved and covered by this provision regarding false statements, for the reason that your application would specifically require answers about all of these various material matters of fact?

Mr. RUSSELL. It would cover any question with reference to false statements; yes sir. In the administration of this act so far, the only question that has occurred to me that might be strengthened in the criminal sections of it is a provision such as you have in the Veterans' Act, and the pension acts of the past, which prohibit solicitation. We have not that provision in this act, although you have it in the Veterans' Act and in the pension acts of the past. The result of that has been that in many cases we have found people holding themselves out as making out applications for people for a dollar or two charge, and we cannot do anything about it until we catch them having made the charge. Then we can submit that to the district attorney and, as I have suggested to Mr. Meeks, if this went to the extent that the Veterans' Act does and condemned the solicitation, it would enable us to catch him at a more appropriate time in such cases.

The CHAIRMAN. That would cover an act outside of the transactions; not necessarily a mortgagee or mortgagor.

Mr. RUSSELL. It would catch an outsider or catch such a solicitation as by these banks that were referred to in Michigan.

The CHAIRMAN. And that would be a transaction not specifically covered as to the application, so that the application would require a statement of that fact?

Mr. RUSSELL. Yes, sir; and by making the solicitation an offense, would enable us to convict without the necessity of proving the transfer of the money from one to the other.

Mr. REILLY. Mr. Russell, do you exchange bonds from mortgagors on homes that are going to have a second mortgage up to the full amount of your appraisal?

Mr. RUSSELL. In some cases we have, Mr. Reilly.

Mr. REILLY. What is the use of trying to save a man who will now have a mortgage of the full amount, and what show has your mortgage of ever being paid?

Mr. RUSSELL. Let me illustrate that, if I may. Say here is a piece of property that a man paid \$10,000 for in perfectly good faith in 1928. We appraise it now at \$6,000 and we can refund only 80 percent of that, which is \$4,800. He still owes an even \$6,000 on that piece of property and has paid already \$4,000 of good, hard money. To carry our \$4,800 only costs him about \$40 a month. If the present mortgagee will take his balance of \$1,200 in a second mortgage, payable at \$10 a month, his total payments to let him live in his home would be \$50 a month, approximately. And if he moves out, he has to rent a house and pay \$65 a month, for a house just like it. Now there is some attachment to that place and that family would like to keep that home and pay off the debt.

That man does not want to go into bankruptcy and we are saving him from going into bankruptcy. If he moves out, the mortgagee gets an excess judgment against him, and he has still to pay the full debt anyway, or get a discharge in bankruptcy.

So we feel if we refund \$4,800 and give him about a \$40-a-month payment, and the mortgagee refunds the other \$1,200 and gives him a small monthly payment, that a real service has been rendered to the home owner by saving his home for him in the first place, and by avoiding bankruptcy for him in the second place.

Mr. REILLY. Yes, Mr. Russell; but you have thousands and hundreds of thousands of those people who do not want to lose their homes, and when you people start to furnish money to sustain all of the mortgagors there are other home owners that have something to say. That man has nothing left except just a sentiment.

Mr. RUSSELL. It may be that some people would consider that he has nothing left except a sentiment, Congressman, but there is many a home owner in the country who paid \$10,000 for his home and his home is appraised today for \$6,000, but he says, "they are just all wrong about it; it is the same house I bought for \$10,000, 4 or 5 years ago and is just as good for me and my family as it ever was, and it is unfair to me to compel me to sell that home in the present market and unfair to compel me to go through bankruptcy because, if I sell it at a forced sale now, it will only bring \$3,000 and I will have to go through bankruptcy to discharge the excess judgment." So it has seemed to us that up at least to the amount of our appraisal on the property we should enable the individual to hold his home, which will doubtless increase in value as recovery goes forward, and enable him to avoid an excess judgment and going through bankruptcy to discharge it.

Mr. REILLY. Well, you will need about \$10,000,000,000, not \$2,000,000,000, to carry out that theory, if you are to carry it out.

Mr. BUSBY. Mr. Chairman, I would like to ask first about section 6. You seem to have a variable arrangement there in the date when these different individuals may act in order to take advantage of that provision in the law. In other words, you provide that you strike out certain words in the 1933 act and insert other words.

Mr. CAVICCHIA. What page is that?

Mr. BUSBY. That is section 3 on page 6.

Mr. RUSSELL. The intent there, Congressman, is to extend the period during which we may recover a home which has already been lost, first from 2 years to 3.

Mr. BUSBY. I understand, but that will vary; in each instance you will have a variable date from some other.

Mr. RUSSELL. That is true. As time passes people will lose the right to recover under that on account of this provision that it shall extend back 3 years.

Mr. BUSBY. Well, on what argument or persuasion can one man come in under the benefits when another will be caught by the deadline, when the facts and circumstances are practically the same in both cases?

Mr. RUSSELL. I think that is the theory on which we fix the statute of limitations on debts; namely, the evidence of the good faith of this home ownership and the interest of the home ownership in that property, and so on, and the facts.

Mr. BUSBY. I do not think so. I will tell you why—because it is a matter of proof under the statute of limitations, specifically to preclude you from offering proof because you get into the realm of doubt and uncertainty and back to the point where proof might not be so reliable. That is the basis for the statutes of limitations.

Mr. RUSSELL. Yes, sir. Now, I might make our theory of this clearer by pointing out the major difficulty in the cases we are confronted with is the difficulty of getting bona fide home-owner borrowers. The mortgagees in the country, under this section, are going to be very much inclined to get straw men back in these foreclosed houses and get us to refund those debts and leave us with the house and lot and no bona fide borrower. For that reason, we feel it is a little bit dangerous to go back too far and, for that reason, we think it wise to adopt a definite period on this time as to the period of the transaction, rather than to adopt a definite date, as someone has suggested, such as January 1, 1930. Aside from that question, I do not know of any good reason to adopt this method rather than a definite date.

Mr. BUSBY. But down in my section, a great many of these homes have been sold for a small balance; because of the impossibility of the home owner to raise that balance, the building and loan association I referred to put hundreds and hundreds of home owners out of property of this type. When it came to a question of its accepting bonds, they arbitrarily refused to do so. They were not in good shape financially and went into the hands of receivers, and that receivership holds hundreds of those homes yet. As you say, the owner is sitting there; he would be glad to make an arrangement and get out, say, under an appraisal to take the home back, and the receiver would be glad to turn the home back. But under your limitation here, which is an arbitrary period, he is not able to come

in and accept the benefits provided in this law, although the original owner is ready to take the property back and the holder, the receiver for the building and loan association, is ready to turn it back. That is what prompts me to go into this question. It seems to me that January 1, 1930, would be not such a distant time to which we might let it relate back, and I hope something will be done to make that more liberal than it is.

Mr. RUSSELL. That has been discussed a great deal by the board, Congressman, and I frankly do not think there is a great deal of difference between the two. I am simply trying to point out the problem as an administrative question that we have.

Mr. BUSBY. Well, if the House considered such an amendment, it would not be objectionable to your organization, I guess?

Mr. RUSSELL. There is the chairman of the Board here; I would rather he answered that question.

Mr. FAHEY. Mr. Chairman, I think there is a great deal to concern us in extending these opportunities too far. We already have an enormous accumulation—

Mr. BUSBY. I realize that you have about an \$18,000,000,000 job to do with \$2,000,000,000.

Mr. FAHEY. It just cannot be done.

Mr. BUSBY. Well, who is going to benefit? That is the question.

Mr. FAHEY. Yes; but you cannot deal with it all, and another thing about it is this: You remember that every time we open the door here further and invite the filing of additional hundreds of thousands of applications which cannot be dealt with, we complicate the whole situation; we incur new expense in dealing with all these applications; we interfere with the work already in hand, and, in the end, we cannot help them.

Mr. BUSBY. Now, maybe we will give you plenty of funds to take care of all those. You are presupposing we are not going any further than the \$2,000,000,000. How do you know we won't go to five billion? That is our policy now, to open up and help carry on. I certainly am in favor of putting up for the home owners along with some of the other things we are doing.

Mr. FAHEY. Well, that is a question of merely where you are going to draw the line. It is manifestly impossible for this Corporation to undertake the task of refinancing all of the home loans in the United States. The attempt to do so would just defeat the whole effort.

Mr. BUSBY. I know of some places which sold around \$1,200, where the appraisal value will easily go to \$3,500 or \$4,000.

Mr. FAHEY. I would not doubt that at all. On the other hand, we get thousands of cases where the home owner paid in nothing but a mere marginal fee of \$100 to \$150 against the property, and he never did have any real equity in it. It never represented the value at which his mortgage was placed. We have thousands of cases coming to us where the mortgage placed on the house was in excess of the cost, plus a profit to the builder, and plus the various commissions in connection with it.

Mr. BUSBY. I appreciate that. Do you plan to take care of those?

Mr. FAHEY. No, sir; those cases we cannot take care of. We can only take care of honest and reasonable values.

Mr. BUSBY. That is what I am suggesting by this amendment, that you can scrutinize or cut down as much as you want to as to their being real home owners in small towns where there is no trickery about the first-mortgage obligation against the home. Without any fault on their part any more than these folks you are planning to help, they have been separated from their title and it is still held by the building and loan association, and arrangements could be easily made if they were not cut off by this limitation here, which we all agree is arbitrary and fixed for no particular reason except our capacity to take care of all of the calls that come to the Home Owners' Loan Corporation.

Mr. RUSSELL. Congressman, I might say it was our understanding that most foreclosures came after 1930, and this extends it back, you see, through 1933, 1932, and 1931, back to this date in 1931, and it was our understanding there were not a great many foreclosures in the year 1930.

Mr. BUSBY. Then this would not apply to so much?

Mr. RUSSELL. It would not apply to a very great number.

Mr. BUSBY. It would not burden you so much, would it?

Mr. RUSSELL. No; because there were not a very great number of foreclosures in that year.

Mr. BUSBY. I was just interested in that, because my people are being cut off for no particular reason.

Mr. RUSSELL. I wonder if there were a very great number of foreclosures in Mississippi during 1930?

Mr. BUSBY. I could not give you that information. I know of individual instances.

Mr. RUSSELL. From our study we found that the foreclosures did not start in volume until about 1931.

Mr. GOLDSBOROUGH. Would you go back beyond the date of the beginning of the depression?

Mr. BUSBY. I would go back to January 1. The depression did not begin to separate people from their homes, as has been indicated by Mr. Russell, until the pressure came that was due more to our economic system than it was the default of the home owner.

Mr. RUSSELL. That is right.

Mr. BUSBY. And the system is the thing that has separated the home owner. I mean the financial set-up of falling price levels has curtailed his buying and paying power and, when that system began to work, very properly I think the Government recognized its responsibility in setting up this enterprise.

Mr. KOPPLEMANN. In other words, Mr. Busby, you believe you should not protect the one as against the other, due to the fact the foreclosure happened before the time limitation now set in the bill?

Mr. RUSSELL. That is right.

Mr. BUSBY. You might put it that way, but my idea is that the economic system set up by the Government and maintained by it has caused the trouble, instead of the individual having over-bought or over-estimated his reasonably expected paying power; that there is no reason why we should come along and take care of those who have held on until now over those who have been squeezed out by the same system earlier, because we wiped out their credit.

Mr. KOPPLEMANN. That is all I mean by my question.

Mr. BUSBY. That is all I have in mind.

Mr. REILLY. The people who have lost their homes for 3 years are beyond calamity now, and we want to take care of the people who are going through the present turmoil.

Mr. BUSBY. In other words, because they have already become disheartened and joined the bread line; we need not fool with them any further? That is the force of the argument.

Mr. FAHEY. I think we ought to say, Mr. Chairman, as a matter of fact the number of complaints or suggestions that have come to us as to the extension of the time have been comparatively limited. There has not been very much of it.

Mr. KOPPLEMANN. Mr. Fahey, you are not in as good a position as we Members of Congress. We get more complaints than you think and probably more than you do.

Mr. FAHEY. As to that, Mr. Congressman, I think perhaps some of you gentlemen might have an experience if you put in a few days up in our office.

Mr. KOPPLEMANN. I do not doubt that.

Mr. FAHEY. We get them in there by the thousands and sometimes we have people working all day and all night trying to get caught up with them.

Mr. BUSBY. I would like to offer just one other suggestion in regard to Mr. Russell's statement, that a great many people have been restored to jobs and places and could reasonably see their way clear to supplement the amount that comes from the Government in retrieving or getting back their position or their home, and collecting their family back together again. If they have gotten jobs and if the situation has opened up so that they can be more hopeful towards meeting those obligations, I really think we ought to give them the opportunity, the other parties being willing to do so.

Mr. HOLLISTER. Is not this the real situation: That, no matter what date is selected, any date must be arbitrary; whether it is 2 or 3 years, or January 1, 1930, any date must be an arbitrary date; and it seems to me the Board probably has used its best discretion in picking a date which will, as far as possible, take in the home owner who is distressed at present, that we are trying to help, and not go so far back as to create the possibility that people may come in which the act was not really planned to help at all. There has to be some date selected and, whatever date is selected, it is the one where the most people can be helped that we plan to help.

Mr. BUSBY. Your best date, if you are going to follow the philosophy of the thing, is when the panic conditions began to separate people from their homes, instead of bad judgment in making bad buys, and not being responsible for these distressing conditions which we call the depression, which began to cause certain mortgagees, while it did not others, to separate people from their homes. I think we ought to consider that situation rather than, as you say, just some arbitrary date.

Mr. HOLLISTER. Well, it has to be an arbitrary date. We have to take the judgment of the Board as to what in their opinion would be the most likely to fill the bill.

Mr. BUSBY. I think to have this variable date will cause any amount of confusion in the Department. While I am not the Administrator, I do know the difficulty of the Department getting through investigating and determining this and determining that. If you have to investigate every time you have an application and determine all those variable factors, why, then you have not a thing the individual can depend on, and he has to wait until you get through. I think it would be better to have a fixed date, even if you fixed it at a year and a half or 2 years.

Mr. RUSSELL. We have taken care, Congressman, of our own delay by changing the words "such exchange or advance" to the words "the filing of any application with the corporation to accomplish such redemption or recovery." That is, if a man gets an application filed, as the new wording is, within 3 years, then if we took 6 months, as we have sometimes taken, we could still go ahead and redeem.

Mr. BUSBY. Absolutely; but how is he going to be taken care of if he does not know whether to file an application; and the less astute a man may be and the slower he might be in determining what to do, why, the more his opportunities are hazarded.

Mr. SISSON. What would be the objection, Mr. Russell, to fixing as an arbitrary date, as Mr. Busby suggests, the 1st of January 1930? Of course, I have not had experience in the administration of the act, but I have had a great deal of experience in observing these conditions: I am very much in accord with Mr. Busby's statement. I think what he states is absolutely sound and equitable when he says we ought to help those whose present plight is due not to bad judgment, but the depression, which caught so many people, and, as I understand you—I am sort of recapitulating what has already been said—in your opinion and perhaps that of Mr. Fahey, it would not proportionately greatly add to the number of applications if you put it back to January 1, 1930. That is so, is it not?

Mr. RUSSELL. I think it is true that no very great volume of foreclosures took place in the year 1930. I think it is true, also, we have reason to fear going back too far, for this reason, that the further back we go the less the home owner retains an interest in the property. He has been out of it for a long time and has settled somewhere else, and so many things have happened that he retains less interest in the property, and the more probability there is that the mortgagee would impose upon us by simply going back to that home owner and paying him \$100 to get back in there until he concluded one of our loans, and then to move right out and leave us with the house and lot right on our hands and no bona fide borrower. That is the greatest danger in this question—our getting borrowers who do not expect to pay us back. As a matter of fact, the whole success of the administration of this business depends more on getting willing borrowers who expect to pay us back than it does on anything else. And in this very section 4 (g) it is more likely than anywhere else in the act that we will get borrowers who do not expect to pay us back. That is particularly true of borrowers who have been out of the house for a long time, the mortgagee has foreclosed, took possession of this property in 1930, and has held it since and not rented it, and now he wants to get it off of his hands, and there

is a great temptation to him, if this is extended too far back, to go and get those home owners back in there as straw men until he can conclude a loan with us.

Mr. KOPPLEMANN. But Mr. Fahey says you do not make those loans.

Mr. RUSSELL. We do not if we can help it, Congressman; but sometimes it is most difficult to prevent mortgagees putting over a proposition that we would not put through if we knew all of the underlying facts.

Mr. KOPPLEMANN. Yes; but that is your responsibility, and not the law.

Mr. REILLY. How are you going to read that mortgagor's mind and mortgagee's mind and find out what they are going to do?

Mr. KOPPLEMANN. One hundred percent you cannot, but I take it from what Mr. Fahey has said, that they watch out for that very thing and do not make those kinds of loans.

Mr. CROSS. The only thing that could crop in there is the reliability of the one making the appraisal, where you might have some appraiser of a building and loan association that will give a big appraisal in order to help out the concern he is possibly indirectly connected with.

Mr. FAHEY. Of course, we encounter that difficulty constantly, and we have exercised every caution we can so as to prevent things of that sort, and we correct weaknesses of that kind as rapidly as we find them. That is the explanation of many replacements of appraisers who have been on our lists, which are exciting attention in various directions.

Mr. GOLDSBOROUGH. May I ask, Mr. Fahey, what sort of check-up have you as between your main office and the local offices with respect to that very thought?

Mr. FAHEY. Of course, we have a loan-examination division and a title-examination division; then, we have in the field offices men who are experts in each one of the departments of the work, on the accounting side and on the appraisal side, on the legal side, and on what we call the production side—that is, the general management of an office in the movement of loans through it. And then, of course, we get very full statistical information from these offices on loans that we have made, and these figures, as they come in, also serve to warn us of weaknesses here and there. Whenever we see them, without waiting for a routine examination, we send a man out there directly. We have, therefore, a substantial number of men to cover each of these particular departments and they are constantly at work in the field.

Mr. GOLDSBOROUGH. How do you check up on an appraisal in a particular community?

Mr. FAHEY. Well, what we do very frequently, where we have reason to be suspicious of appraisals, is to send an independent expert into the field, sometimes with assistants, and let him go out and take a considerable number of cases and reappraise them, without the knowledge of the central office at all. We have in some instances taken as many as a hundred appraisals in a community and checked them in that way.

Mr. REILLY. To get back to the point at issue, what will be the procedure when this bill goes into effect, as regards the existing or outstanding bonds?

Mr. FAHEY. The procedure would be, Congressman, that we must immediately announce what the rate will be on the new bonds and change our consents now outstanding to apply to the new bonds. Simultaneously, of course, the bondholders will be on notice that they have an opportunity for exchange (those who hold the present 4-percent bonds), within a period of 6 months. So far as we have the names on our lists right now, it would also be our duty to advise them by mail of the opportunity for exchange, and we would make these exchanges of the new bonds as rapidly as they made us the offers.

Now, we have gone further into the problem of the exchange, in view of the questions asked the other day, and I started to say, when we were discussing this thing, we find it very difficult to devise any scheme of affidavits or anything else to catch the mortgagor who took these bonds at less than par and compelled the mortgagor to give him notes or something else for the difference. As we have gone into it, we are rather fearful that it would help to stimulate speculation and invite speculation, rather than stop it—I mean profits to the speculator. If we put a provision like that in the law, it seems to us extremely likely that any of these people who hold bonds now, taken under such circumstances as those we have discussed, would immediately dump them. If a considerable number were dumped (because this is wholly an overcounter market and not an active listed market in these bonds), the likelihood is that the market price would decline and the bonds would then be bought by those willing to speculate in them.

However, another thing which we might have to confront in that event would be a certain suspension of exchanges the country over, while there was uncertainty with reference to the bonds that we are continuing to exchange. It has been our experience, thus far, that when during a limited period bonds dropped below 87 or 88 there was an almost immediate stoppage of contents all along the line. You may recall this occurred when there was a general weakness in the bond market. It was of no significance from the standpoint of the value of the bonds, but it did have its effect; there is no doubt about that. Now if we raise too much uncertainty about the terms of the exchange on these bonds, there is a strong possibility of our bringing about a similar situation, which would not be particularly helpful under present conditions.

I ought to add this, that we are convinced that the number of mortgagors who have succeeded in imposing unfair conditions on mortgagors and compelled them to give notes or pay the mortgagors in cash unjustly, is really comparatively small out of the total number of exchanges that have been made. We have the feeling that our public statements on the subject and the warnings that we have made public from time to time have been effective. In any event, since back in October or November, the number of complaints or suggestions coming to us relative to transactions of this sort has been comparatively small.

Mr. PRALL. May I ask, Mr. Fahey, do you still hold hard and fast to the time limit placed on this exchange of bonds?

Mr. FAHEY. Oh, I do not think we have any very strong convictions about that, Mr. Congressman. Our point is that we would like to clean this up, clean up the uncertainties with reference to financing as early as we can, not only in the interests of the Corporation itself, but because of its relation to the whole Government scheme of financing. We cannot put out any of these bonds which provide the cash for modernization without the consent of the Treasury Department, and we cannot put them out and do not want to put them out at any time when it would be disadvantageous. Consequently, from every standpoint, we would like to see the financial program made as clear as possible within as short a time as possible.

Mr. PRALL. Well do you think a 6-months period is ample to make the exchange?

Mr. FAHEY. Really we think so. Where such exchanges are made in the case of private enterprises, they tell me not beyond 6 months; generally, it is a much less period.

Mr. BEEDY. May I again call attention to subsection (N), on page 4? Just as you concluded the hearings on Thursday, you had given the only justification for lines 14 to 18, inclusive, as retirement. You said, "We have to retire these bonds; therefore we ought to be able to buy them", and somebody said it would be unthinkable that this corporation would be buying and selling. So I suggested, if that be so, perhaps you would consent to this amendment that would strike out the last three lines, beginning in line 14 with the word "corporation", and to have that concluding sentence read—

The corporation shall have power to purchase any of the bonds issued by it in the open market for retirement purposes.

Mr. FAHEY. The other suggestion was, Mr. Beedy, that the words "at any time and at any price" would be stricken out.

Mr. BEEDY. That is what I did in reading. If you purchase them in the open market, of course you can purchase at any time you want to.

Mr. FAHEY. At any time and at any price.

Mr. BEEDY. That is mere surplusage.

The CHAIRMAN. Mr. Beedy wants to add some language which limits the transactions to the one purpose of retirement.

Mr. FAHEY. I agree, Mr. Chairman, and we discussed that further in the Board—the elimination of those words there "at any time and at any price." We feel it may be regarded as surplusage, and we do not see any objection to that.

As to the other phase of it, we are a great deal in doubt for these reasons: The bill already provides that the Secretary of the Treasury may buy and sell these bonds.

Mr. BEEDY. This bill provides it?

Mr. FAHEY. Yes. The bill itself provides that the Secretary of the Treasury may buy and sell these bonds. This gives the Corporation the same privileges he would have, to buy or sell with the consent and approval of the Secretary of the Treasury.

The bonds, after all, by this act are placed on exactly the same basis as Government bonds. The Government has always felt it necessary to be in a position to protect its market situation on Government bonds. It would, of course, be objectionable from every standpoint if these departments were to engage in any general gambling in the bonds of the corporations. On the other hand, we feel that the Government, in protecting its own interests and market so far as the purchase of bonds is concerned, is protecting the entire business and financial structure of the country. If the Government credit goes down, all credit in the country goes down. It is a very different matter than that of a private financial institution.

Mr. BEEDY. That is, you would justify this in the way of Government operations on that broad ground of public policy?

Mr. FAHEY. Absolutely.

Mr. BEEDY. When you would disapprove heartily of the same conduct by a private concern, for the reason that its operations on a market would affect only the value of its own securities and would not affect the general credit structure?

Mr. FAHEY. Exactly; and it would be for the profit of a limited number of people. In this case, the profit would be for all of the people, the Government of the United States. Consequently, it is not on the same basis as private transactions of that sort would be.

Mr. BEEDY. I am very glad to get that into the record. I think that is a perfectly proper justification for this kind of provision.

The CHAIRMAN. Is it not true there, in view of the fact we are permitting the Government to conduct and take care of the sales side in a general way, if we accept any large amount of bonds for which the Government is directly responsible, it would hamper and seriously interfere with the general authority?

Mr. FAHEY. Exactly. And there is another consideration, Mr. Chairman. It is this—and the experience so far has demonstrated it—that the Government here has to provide a generous amount of bonds to be exchanged for mortgages. If under speculative conditions these bonds, even with the guaranty of principal, went down to 80 or 85, we would be stopped in our tracks again, so far as mortgage-exchange transactions are concerned. When any such price would be absolutely unjustifiable, then the corporation, in its own interests and the public interest, ought to step in and buy those bonds.

The CHAIRMAN. Gentlemen, my attention has just been called to the situation in the House. The work in the House today is a little unusual and there will be a roll call before very long, I imagine, and all of the Members of the House are particularly anxious to be on the floor at 12 o'clock today. So I assume that the committee would like to adjourn and, unless there is objection, I suggest we adjourn until tomorrow morning at 10:30 o'clock.

(After informal discussion:)

Mr. Sisson. Mr. Chairman, I have quite a long letter here, a communication from an organization known as the "Consolidated Home and Farm Owners' Mortgage Committee." I do not know whether any of the other members have received this or not. It is apparently an organization in New York City and I am asked to bring it to the attention of the committee.

With your permission, Mr. Chairman, I would like to hand it to Mr. Fahey and ask if he will kindly look it over and let us know if he has any comments on it. I am asking that partly for information, so as to know how to answer it.

I will say, Mr. Fahey, I think you have probably answered most of the questions here, but there are three things particularly to which they direct the attention of the committee. One is the rate of interest on the bonds. I think you answered that very fully the other day. Another is the matter of local administration, some delays that we appreciate the reason for. The third is the method of making appraisals and they imply, and I have heard that criticism and I understand you need to be conservative, too, that perhaps some of your appraisers are not taking into account the fact that real estate is at an abnormally low point now and are they asked to consider that in their appraisals, that is, to try to arrive at its normal value at the present time.

Mr. FAHEY. I can answer that; of course they are.

(Thereupon the committee adjourned until Thursday, March 15, 1934, at 10:30 a.m.)

TO GUARANTEE BONDS OF HOME OWNERS' LOAN CORPORATION—H.R. 8403

THURSDAY, MARCH 15, 1934

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

The committee met at 10:30 a.m., Hon. Henry B. Steagall (chairman) presiding.

The CHAIRMAN. Gentlemen, the committee will come to order. Mr. Fahey, we will be glad for you to resume your statement, if the gentlemen have any further questions to propound.

Mr. FAHEY. There were some additional questions which members of the committee wanted to ask, and we had not finished.

The CHAIRMAN. Who is there who had not concluded his questions to Mr. Fahey?

Mr. BUSBY. The only thing I was interested in was the amendment of section 3, and I do not know that he ever announced his position with regard to that. We discussed it a long time, but I do not think he announced his position.

I have thought of it quite a bit since we were here, and I am more than ever convinced that the man who was felled by the depression and conditions which brought about the fact that he might not have had such a lenient creditor as some other men, ought not to be cut off by a date fixed so close to the time of filing his application for a loan, that he would not stand on a parity with others who had the more lenient creditor. So I have suggested, and I hope the committee, I might say, may consider it advisable to adopt the date of January 1, 1930, instead of the provision contained in section 3. I say that so he may address himself to my suggestion.

Mr. FAHEY. Your suggestion is a definite date of January 1, 1930, to be fixed on any default since then?

Mr. BUSBY. Yes. Then you can weed it out, inspect the properties, and weigh the circumstances just as well from that date down to now and take care of conditions that would undoubtedly appear had merit, and those that did not have merit you could deal with them just as effectively as you could 1 year later, it seems to me.

Mr. FAHEY. Of course, that is true, but in that year there must have been, I would think, close to 275,000 foreclosures.

Mr. BUSBY. You stated they got worse a little later on?

Mr. FAHEY. Yes, and then they quieted down again. It is possible I have the figures for 1930 here. I do not seem to have them, but that is immaterial anyway—I mean so far as the exact figures are concerned. The only point involved would be this—that the facili-

ties of this organization are already being strained to the limit; there is no question about it.

Mr. BUSBY. I understand that, but is not your position one more of conserving funds against the needy home owner than it is of rendering a service under the original idea that was in the mind of Congress when they set up the act? Conserving funds seems to be the main reason for suggesting the date be not set too far back. In other words, cut off some of them arbitrarily because of lack of funds with which to take care of all of them?

Mr. FAHEY. No; I would not subscribe to that theory, Mr. Congressman. I think it is a question of taking care of those who are most deserving of consideration and whose cases under present circumstances can be handled with reasonable promptness.

Now, the fact is, that because of the pressure of so many demands and the wide-spread inaccuracy of the pleas made to us and statements made to us in connection with applications, a tremendous amount of time is consumed and an enormous cost is incurred in the investigation of cases that prove ineligible, and in fact should not have taken up the time and cost involved. Now, the accumulation of these applications at the present time is a very great burden, and my own opinion is that it is a very serious matter to aggravate conditions further by inviting another three or four hundred thousand applications, a large proportion of which would probably have to be eliminated, but nevertheless they would have to be taken care of.

Mr. BUSBY. They are not of any different class or kind than those that are able to come under the wire if we fix a date as set down in section 3; they run about on a parity with the others, do they not?

Mr. FAHEY. I am not so sure about that. 1930 was not a bad year, and a very large proportion of the foreclosures then, my guess would be, were of the normal character.

Mr. BUSBY. Would they not be cut off by your inspection and appraisal?

Mr. FAHEY. Yes; but my point is that the inspection and appraisal has got to be done, all of it, at a large cost.

Mr. BUSBY. I cannot get your point of view, that because a man whose home was sold under a trust deed that might have run on 2 years longer, but by reason of the lack of leniency of the holder of the mortgage was foreclosed and sold in 1930, he has a different type of character, and has a different status when it comes to applying public funds such as you are administering than the other man who, due to the leniency extended, had 2 years more time before he was sold out.

The question of overhead in administering this seems to be your argument as to why we should not open this up as I have suggested.

Mr. FAHEY. You have got to draw the line somewhere, and that same argument could be made for 1929 or for 1928.

Mr. BUSBY. Let me answer and tell you it could not. The philosophy I have in mind is the depression and things that brought it about, so that even the most far-seeing financial eye, and a man with all of the light before him, who made a conservative buy, later was forced out, not by reason of his bad purchase but by these conditions, the conditions that make it necessary to set up the institution you are administering.

Mr. FAHEY. Yes; but they were not in 1930 alone, Mr. Congressman.

Mr. BUSBY. Let me finish. It is the philosophy back of the causes that required the establishment of the institution you are administering and which brought into play conditions that nobody could foresee, however careful they were, and when those conditions began to clamp down on the home owner and to put him to such a disadvantage that he was forced out of his home by his creditors, then, I think your relief ought to begin to apply. It does not apply in 1927, 1928, or 1929, but afterward.

Mr. FAHEY. Would you say it should apply in 1926 or 1927?

Mr. BUSBY. No; it would not.

Mr. FAHEY. But 1930 was a better year than 1926 or 1927.

Mr. BUSBY. If they are not entitled to it, I think you ought to deny the relief, but if they are entitled to it, I do not think you should ask Congress to deny it.

Mr. FAHEY. Congress has got to decide that. All we can do is to bring to your attention the considerations involved. I think it is also fair to say that the demand for carrying applications back as far as January 1, 1930, so far as it has come to our attention, is very limited.

Mr. BUSBY. Then you would not have such a big job to execute.

Mr. FAHEY. No; I think it is a question of what you would get if you open the doors up.

Mr. BUSBY. What substantial reason can you give this committee, not in rambling phraseology but down to the point, why you do not want to make this apply back as far as 1930 to men who, in your investigation and appraisal, you decide are worthy? Is it the question of overhead and administration?

Mr. FAHEY. I think you are greatly complicating the problem and delaying relief to people by the thousands who are entitled to as prompt attention as possible.

Mr. BUSBY. Then your attitude to the fellow back there whose home has been sold out is just to go on and get in the bread line and make out?

Mr. FAHEY. No; I would not say that. I say there is a point where the line ought to be drawn. Do not misunderstand me; I am not saying it ought not to go back to 1930. All I would do is to call the attention of the committee to what it involves, and then it is for you to decide whether you want to go back to 1930 or any other year.

Mr. BUSBY. Your line of argument seems to suggest to me the man who has been put out and gone through the agony of the sale of his home under mortgage would therefore be less troublesome than the fellow who is about to have his home sold under mortgage, and we should protect him, taking care of this man whose creditor has been more lenient than the creditor of the former one and forget the former one.

Mr. FAHEY. I do not mean to say that. I do mean to say, in my judgment—and I am expressing my own particular judgment—because this has not been discussed before by the Board—you have got to draw a line somewhere. Personally I doubt very much if you will be any more justified in going back to the year 1930 than you would be in going back to 1926 or 1927.

Mr. BUSBY. Then why go back at all? Why do not we just deal with the fellows that have not been sold out and let all of the other fellows go on and forget they ever had a home and adjust themselves otherwise? Why go back even 1 year?

Mr. FAHEY. The bill itself fixed a date, and now it is a question of the advisability of moving that date further back. That is the whole question.

Mr. BUSBY. The bill was just introduced by somebody, supposedly drawn by you. We have waited about 4 weeks, have appointed a subcommittee and all that, waiting for your Department to get a bill in, and the result has been you have presented this bill and we have not acted on it.

Mr. FAHEY. I was referring to the original bill. The original bill fixed a date, and the question is of extending that time. Then it becomes a question, it seems to me, of how far you are going to extend it. If you are going to extend it, what principle should govern its extension?

Mr. BUSBY. Have you not more applications for loans on property that has not been sold under mortgages than you can take care of, even if we did not go back at all and open up the way to these home owners that would be taken care of in section 3, as written?

Mr. FAHEY. Probably.

Mr. BUSBY. You have got more business than you can do on real live present applications where the owner has never been separated from his property, have you not?

Mr. FAHEY. Yes; we perhaps have.

Mr. BUSBY. Then why fool with these fellows that have been sold out, any of them at all?

Mr. FAHEY. That is for you gentlemen to decide.

Mr. BUSBY. If we are going to take care of any of them, why not be reasonable and take care of all that come under the same class, because of conditions which they could not see, as good business men?

Mr. FAHEY. The point I would argue with you, Mr. Congressman, is whether 1930 as a year was that type of a year, and I doubt that. I think we would be pretty happy if the conditions which obtained through 1930 existed right now.

Mr. BROWN. Mr. Chairman, it seems to me it would be advisable to know how many applications for loans of that kind they have had.

Mr. FAHEY. You mean on foreclosed properties?

Mr. BROWN. Yes. It seems to me you have a situation where you have to get an agreement from the man who holds or has acquired the title to the fee of the property, and it seems to me there would be few of those. Is that a fact?

Mr. FAHEY. It would be impossible for me to say how many cases there are of that type, and I doubt if we have them segregated in that fashion at all, so as to be able to tell. What you say is true, and this is also true, that probably in a great many cases the mortgagee who has taken over the property, as a great many of them have been, would be unwilling to release the property.

Mr. BROWN. I raise that point because it seems to me from the standpoint of cost it would not amount to a great deal.

Mr. FAHEY. What I was going to say is this: Now, you have a very different condition, since the price of the bonds has risen, and under the proposal by which the principal of the bonds is guaranteed you are likely to find a great many mortgagees who, under the changed conditions, will be quite willing to get rid of the piece of property they have on their hands today.

Of course, also in a great many of these cases of foreclosed properties, the occupants have moved away and they have been double-decked. The former owners have taken on new homes or have made other adjustments.

Mr. BROUN. I think it would be valuable to us if you have these statistics to give us those figures so that we could determine that question.

Mr. FAHEY. I will see what we have, but I am quite certain it is pretty nearly impossible to supply an accurate figure, because they have never been kept separately.

Mr. BROUN. As I get it, the amendment you propose here would simply give you the authority to do what you could have done a year ago?

Mr. FAHEY. To take care of any applications that were filed and are on file but not reached before the expiration of the time.

Mr. BROUN. Yes; and to put the limit of time back where it was in the statute, when it was originally enacted, if the application had been made.

Mr. LUCE. Mr. Fahey, the secretary of the Massachusetts Co-operative Bank Association sends to me a proposal that is to be submitted to the executive committee of that league, and he understands that it is also being submitted to the New York and New Jersey associations, or to their executive committees, rather. It is quite an important proposal, and if adopted, it would greatly extend the function of the home owners' loan.

You remember last year we put in the hands of the board, or put under their control, money with which to help finance the Federal association desiring to develop throughout the country this general idea of thrift associations, with amortized payments, and at the same time to encourage the building industry of the country.

This proposal would, if adopted, result in the Federal Government adding to the funds for existing institutions, extending to them the same opportunity that new institutions have to get money that may be spent in building.

While it may be a bit premature to ask your judgment on that, you might inform us what, if anything, is contemplated in that direction?

You understand, of course, that we Members of Congress have had a great deal of pressure brought to bear upon us to provide money for building homes, and we are going to face that problem, I have no doubt, presently.

Are you prepared to express any judgment upon this proposal to add to the lending facilities of existing thrift institutions?

Mr. FAHEY. That proposal, or several of the same character, have been presented to the board from various directions. The argument for such a proposal is that these associations outside of the Federals are able to offer to this corporation some of their shares on the same

basis as their present shareholders, that they would then have funds which would be employed by them in their communities for new construction where there was a justifiable reason for it, and under the present circumstances they need money to meet things of that sort.

A further argument is that a plan of that sort is justifiable since it would be consistent with what has been done in the case of the commercial banks by the Reconstruction Finance Corporation, by taking preferred stock in the commercial banks.

Undoubtedly there is opportunity for very useful expenditure of money in that direction, the limitation being building demand and ability to get the money out of the markets of the country by the issuing of bonds to meet that demand.

In the case of the Federals, a hundred million dollars has already been authorized by Congress. As a matter of fact, only \$50,000,000 of that fund has been appropriated and there is still the question of appropriating the other 50 million. The use of that 100 million, as the bill indicates, is confined to the Federal associations. They are asking that similar opportunity be extended to associations other than the Federal associations. That is the gist of that proposal.

If the money were available, I think the board would say it was a very useful and constructive thing to do.

Mr. LUCE. Is your board likely to make any recommendations in that connection?

Mr. FAHEY. It may be prepared to a little later, since this whole question is under further examination now by a committee of the President's executive council appointed at his instance. They have been going on with a series of committee meetings practically day and night for some weeks now trying to figure out ways and means, and some suggestions may be forthcoming later.

Mr. LUCE. I gather, then, you would not deem it advisable for us in this bill to take up that question?

Mr. FAHEY. I would say it is desirable to get this bill passed as promptly as Congress feels it can be disposed of. It would be very helpful to get this legislation through as quickly as you can. As I have said, some other recommendations may be made very soon now. There was a meeting a good part of the day yesterday on the problem.

I ought to add this whole matter is being considered with the Treasury and the Director of the Budget now.

Mr. LUCE. Let me take up another question now. There is a growing interest apparently in the matter of interest. We had here Major LaGuardia at the past sessions who presented views that he repeated before a subcommittee in connection with another phase of the situation. He presented views very strongly for a reduction in the rate of interest on home mortgages. There are some of us who feel that should be left to the workings of the law of supply and demand, but we are going to have to face, either on this bill or subsequently, quite possibly on this bill, a demand that so far as the Federal laws are concerned, the interest rate should be lower.

That would apply in this bill to the question where bonds are to be issued at 4 percent or lower, and there will be demands we change that to below 4, and even to 3.

Mr. FAHEY. You mean the interest on the bonds?

Mr. LUCE. Yes; the interest on the bonds, in order that thereby the rate on the mortgages may be less.

Mr. FAHEY. Of course, the rate on the bonds will be lowered consistent with the money market at the time, as to the basis on which they can be issued.

So far as the rate of interest on mortgages is concerned, of course, the rate which is already being made by the Home Owners' Loan Corporation of 5 percent is a very great relief to those whose mortgages we take over, because that is substantially lower than the rates in many sections of the country.

The question of the interest rate is a complicated one. In some sections of the country money is obtainable at very much lower rates than it is in others. There is also this question: If we carried the interest rate too low, you would probably shut off a very large part of the private money available in the mortgage market. There is a good deal of risk in doing that, because under present circumstances it does not help matters to curtail the flow of private money into the mortgage field.

In other words, what we want to do is to get all of the money possible at work in this field.

The CHAIRMAN. This could be said in that connection: This is an emergency relief measure and does not represent a permanent loaning policy as regards interest rates.

Mr. FAHEY. No.

Mr. LUCE. Have you had anything to indicate what has been the effect of this rate on the money market in the Western Central States—for instance, Colorado, or perhaps that is a Rocky Mountain State—where the normal rates of interest are from 8 to 10 percent?

Mr. FAHEY. In many sections of the country private lenders have lowered their rates quite substantially and have refinanced mortgages on very favorable terms as against a previous practice.

The rate we make of 5 percent is being met by a great many of the private institutions in various sections, and there is generally a tendency toward lower rates.

We have the general feeling that as the Federal home loan bank system begin to operate on a larger scale the effect will be to make money available on lower levels than we have known in the past for home mortgages. We think that is the tendency, and the evidence is in that direction.

Mr. LUCE. Take around the State of Massachusetts, where the customary rate of the cooperative banks has been 6 percent, do you get any line on whether the 5 percent rate is affecting their attitude in that matter?

Mr. FAHEY. We have no definite information on that, but we are told that they are adjusting the rates down to 5 percent in various instances, but how wide-spread that is in the State of Massachusetts I am not able to say.

The CHAIRMAN. Has anyone else any questions for Mr. Fahey?

Mr. WOLCOTT. I would like to ask Mr. Fahey a question along the line we have been discussing as to interest. There is a feeling on the part of some members of the House that these bonds—I believe they are at about 97 now; is that correct?

Mr. FAHEY. They are ranging from 95 to 97 recently.

Mr. WOLCOTT. There is the feeling that when we guarantee the principal they will be even better than Treasury bonds and will be selling at any appreciable premium, and that this premium should be passed on to the home owner; that is to say, any benefit of this premium should be passed on to the home owner, and for that reason it is perfectly safe to reduce the rate of interest which the home owner pays on his obligation to at least the rate of interest which the bonds carry.

I have introduced a bill to reduce the rate of interest to $3\frac{1}{2}$ percent, having in mind that 4 percent is the greatest amount you can pay on the bonds, and you can have any amount under that. Also having in mind that you might feel it necessary to protect the market for governments in reducing your interest rate, and that any benefit accruing from that reduction or from any premium should be passed on to the home owner.

I do not want to make it too mandatory, yet I think there should be some more authority given to the Board to pass on that benefit.

Would you want to comment along that line?

Mr. FAHEY. On the first point, Mr. Congressman, it is rather unlikely that these bonds will sell at a premium, because under the terms of the act we have the right to retire them at 100; consequently that is about the maximum a bondholder can get.

Of course, we will wish to retire any of these 4 percent bonds which may be outstanding as rapidly as we have the funds to do it. Those funds should begin to accumulate in considerable amounts before very long. As a matter of fact, they are already, and consequently with the power to retire them at par it is not likely that they will sell very much above par.

Mr. WOLCOTT. We have not the funds at the present time to control that, I assume, and do you not feel when we guarantee the principal of these bonds that are sold on the open market they might be sold almost immediately at a premium?

Mr. FAHEY. From the standpoint of the investor I do not see why they would.

Mr. WOLCOTT. Let me make this observation. Government bonds have the pledge of good faith behind them, they have the gold reserve behind them, they have the taxpaying ability of the people of the Nation behind them, and these Home Owners' Loan bonds have all of these things behind them, and have the Government behind them, and then they have the specific property mortgages for this purpose behind them; so in my layman's mind I naturally assume that the Home Owners' Loan bonds, after the Government guarantees the principal and puts behind them everything behind the Government bonds, will be a better investment than Government bonds.

Mr. FAHEY. From the standpoint of an investor there would be an incentive to buy them even above 100 if it were not for the fact they might be called at any time at 100 and the investor would take a loss on them and he does not know when they will be called.

Mr. BROWN. As a matter of fact, that did not happen to the bonds we guaranteed on the Farm Loan, and they are quite below 100.

Mr. FAHEY. Of course, that depends on the bond market. Government bonds, or any other bonds, will fluctuate, depending on conditions at the time.

Mr. BROUN. The bonds of 1954 are as low as 95. They are long-time bonds due in 1954, of course.

Mr. FAHEY. Yes; and there enters into it the question of the market price of long-term bonds.

Mr. BROUN. Mr. Chairman, I asked Mr. Russell to give us something of a rewriting of section (O) on page 4 of the bill that would confine the loans to distress balance, and I wonder if there was anything done along that line.

Mr. FAHEY. Mr. Russell was called over to the Senate committee this morning. I believe that bill is up in the Senate today, so he had to go over there, and I am sure he is giving it attention.

Mr. BROUN. We will have that?

Mr. FAHEY. Yes; I will see that is sent along to the chairman.

Mr. BROUN. Then I asked for a copy of your resolution relative to your plan for retiring these bonds.

Mr. FAHEY. I think that is here.

Mr. BUSBY. Yes; you submitted that the other day.

Mr. BROUN. Would there be any objection to writing the retirement figure into the statute? As far as I can see, there is nothing said about the retirement of these bonds, and it seems to me as a lawyer we ought to limit the corporation to a definite plan for the retirement of those bonds.

Mr. FAHEY. The act as it is now, you know, already provides that they shall be retired as rapidly as funds accumulate in our hands for that purpose.

Mr. BROUN. Then I asked Mr. Russell for the administrative difficulties he would find in the way of separating the guarantee as between those bonds which were taken at par or practically so and those bonds that were taken at the very low market rates that were in effect 5 and 6 months ago before the proposal to guarantee became a matter of public knowledge.

Mr. FAHEY. We took that up the other day, and I think perhaps you were not here at the time. At the previous session we were asked to look into that and see if we could suggest any feasible plan for dealing with the problem. We went into the matter rather carefully and found that it is practically impossible to say who now hold the bonds already issued.

We have the record indicating to whom they were originally issued, but, of course, there is no way in which we can tell where they are at the present time. It would be a very difficult matter to try to get at that, and almost impossible.

Mr. BROUN. Of course, my idea was that when that bond was presented for guarantee, you propose now under this bill a plan by which the bonds heretofore issued will be presented and exchanged for guaranteed bonds.

Mr. FAHEY. That is right, but they do not have to do it.

Mr. BROUN. But when they were presented for guarantee within the period of 6 months or a year, as will be finally determined, that an affidavit could be obtained, or some proof satisfactory to the Corporation's board, as to what the original mortgagor received by way of credit for that bond, and it seems to me the question of the present ownership of that bond is of no particular importance.

All we care to determine is that the mortgagor got 100 cents on the dollar when that bond was used to relieve his property from the original mortgage. It seems to me that is the only question. If we can get at that, I personally feel we ought to eliminate from the guarantee these people, speaking of the people now rather than the bonds, that we ought to eliminate those who were hard creditors and forced their people to take those bonds at the market of 82, 83, or 85, whatever it was.

Mr. FAHEY. Bearing upon that, we contend that under the law as it stands, where there is exacted from the mortgagor a cash payment or note alleged to represent the difference between the market price of the bonds and the face value of the mortgage, that is an obligation which the mortgagor is not bound to meet or pay, and that he can decline to pay any obligation of that character forced upon him.

Mr. BROWN. Would not that cast a cloud upon the title you have to the property, then?

Mr. FAHEY. Our legal department does not think so, and as a matter of fact, we have had some court cases which have been decided in favor of the mortgagor, under the terms of the present act.

Mr. BROWN. I don't quite follow, what would be his action and means of recovering back the difference between the market price of 82, we will say, and 100?

Mr. FAHEY. Our contention is that he cannot recover against the mortgagor where he has exacted what amounts to a premium. That is outside of the purpose of the act.

Mr. BROWN. Well, he has already received that, and I am referring to the bonds of the Corporation. He can sell those on the open market or he can get payment from you when they are retired. The action you speak of would have to be an action on the part of the mortgagor to recover the difference between the market price of the bonds and the face value of the mortgage.

Mr. FAHEY. In most cases we know very little cash has been collected that way. Usually it has been a case of a note or a promise to pay, and our belief is that very few payments have been made in that connection.

Not only that, but as I explained the other day, the number of cases of that sort in the country is very small in proportion to the number of exchanges made. We discouraged it, as you know, in every way possible, by public statements, by publicity, by issuance of instructions to our managers all over the country, and by radio talks. We have tried to cover that fully.

Of course, there is one other thing, that so far as the speculative side is important, if we put a provision of that sort in the act, it would appear that it would precipitate a wave of selling on the part of those now holding the bonds, for the very purpose of getting them into the hands of other holders. That might have an unfortunate effect, so far as our present operations are concerned, because a lot of people would stop their exchanges if the price of bonds dropped very materially.

Mr. FISH. What amount of bonds do you estimate will be necessary to carry out the purposes of this act?

Mr. FAHEY. Well, the amount authorized now, Mr. Congressman, is two billion.

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Mr. FISH. You figure that amount will be sufficient to carry out what you have in mind?

Mr. FAHEY. It is impossible to say, but it ought to be sufficient to carry us through this year. Just what may develop is impossible for anyone to anticipate.

Mr. FISH. Are these bonds tax exempt?

Mr. FAHEY. They are.

Mr. FISH. How will they appear in the financial statement of the Government?

Mr. FAHEY. They do not appear in the financial statement.

Mr. FISH. They are bonds issued by the Treasury Department, are they not?

Mr. FAHEY. No; the bonds are issued by the Home Owners' Loan Corporation.

Mr. FISH. They are supported by the Government of the United States?

Mr. FAHEY. They are guaranteed as to principal and interest.

Mr. FISH. Are they not an obligation of the United States Government?

Mr. FAHEY. They are a contingent obligation, not a direct obligation.

Mr. FISH. Will that not show in the Treasury statement if it is an indirect obligation of the Government?

Mr. FAHEY. I do not know how the Treasury carries that.

Mr. FISH. I understand they do not sell the bonds and get the money, but the people who will get the bonds will sell them, and I was wondering whether that would show as an obligation of the Government in the financial statement.

Mr. FAHEY. It is not a direct obligation, and I do not suppose it would show in the financial statement any more than the Philippine bonds or any other bonds of the same sort, in the past.

Mr. FISH. The only guaranty behind it is the act of Congress that makes the guaranty, and therefore it has to be an obligation of the Federal Government.

Mr. FAHEY. What would you say the obligation was? These are bonds of a separate corporation.

Mr. FISH. A Corporation of the Government of the United States.

Mr. FAHEY. A Corporation the stock of which is owned by the Government, but it is not a direct obligation on the Treasury. It is a direct obligation on the Home Owners' Loan Corporation which is guaranteed by the Government.

Mr. FISH. As long as it is guaranteed by the Government they assume that obligation when they do the guaranteeing, is not that a fact?

Mr. FAHEY. Only in the event of default.

Mr. FISH. That is the main thing, that is what the guaranty is for, so I cannot see how you can get away from its being a guaranteed obligation of the Government.

Mr. FAHEY. It certainly is a guaranteed obligation of the Government.

Mr. FISH. Therefore, I was interested in knowing how far it would show on the financial statement of the Government in the amount of money the Government owes, or carries along as one of its obligations increasing its national debt.

Mr. FAHEY. I do not think it increases the national debt. In our judgment such a thing as default on these bonds is practically impossible. It is well to remember that these liabilities of mortgagors are paid off on an amortized basis monthly, quarterly or semi-annually, and as these funds accumulate in the hands of the Corporation, the Corporation applies them to a reduction of the bonded indebtedness. A large part of these mortgages will be out of the way and entirely paid off long before the bonds mature. The bonds mature in 18 years and these loans are made for 15 years, and as I have said, because of the amortization of payments from year to year there will be very little, if any, balance left due from mortgagors at the end of 18 years.

Mr. FISH. I want you to understand I am 100 percent for this legislation, but I am just trying to get clarified some things in my own mind. Suppose these bad years continue and people are not able to pay off their mortgages, and on the interest due, does the Government take over that property?

Mr. FAHEY. I presume it will have to if it cannot recover in any other way.

Mr. FISH. You are very confident of the guaranty, and I am, too, because I am an optimist; but I am not sure we will not have a number of bad years, so I do not know whether a great many people would not be able to pay the interest on their mortgages or the amortizations, and, therefore, the Government has to pay over this fund.

Now, I have one other question: Is it absolutely necessary to make these tax-exempt securities?

Mr. FAHEY. I cannot say as to that. They are consistent with the bonds of the Farm Credit Administration and others. Under the terms of original act they were made tax exempt and are still tax exempt.

Mr. FISH. I feel very strongly about this question of tax-exempt securities, and I hoped the policy of the Government would change and that we would not issue any more. Then I was wondering how seriously it would affect what you are trying to do in a very constructive way if it were not tax exempt.

Mr. FAHEY. Under present circumstances, with other types of bonds tax exempt, it would undoubtedly affect our ability to operate.

Mr. FISH. You think it would seriously affect you?

Mr. FAHEY. Yes.

Mr. FISH. Of course, the trouble of your answer is that it would be the answer of everybody else who wants to issue any kind of bonds, that we have done it in the past and we must do it now. There must be some place to stop unless we are going to destroy the tide of capital flowing freely into industry and commerce.

Mr. FAHEY. As I understand, the Treasury has already made a recommendation on that point so far as issuing future Government obligations is concerned.

Mr. FISH. I do not want to take any time of the committee, and I wonder if you could have one of the people in charge of that end of it submit a small memorandum of a few hundred words as to what effect it would have if we struck out the tax-exempt provision of the bill.

Mr. FAHEY. Unquestionably, in comparison with other bonds now being issued, it would have an effect upon these bonds if they were not on the same basis. There is no doubt about that. It would raise difficulties in exchange.

Mr. FISH. I admit it would seriously affect the situation, but I do not want a discussion of that right here, except to find out how it will affect this particular bill, which is very meritorious.

Mr. FAHEY. My answer would be it would affect it at the present, and in the opinion of our Board it is of great importance that the exchange of our mortgages for the Corporation's bonds should now go on as rapidly as it is possible to do it. The fact that the bonds were not guaranteed and the market price, even if it was more or less fictitious, has heretofore seriously interfered with the operations of the Corporation and has held up its transactions without question.

Mr. BROWN. The present bonds are tax exempt?

Mr. FAHEY. Yes; and what I say is notwithstanding the fact they are at the present tax exempt.

Mr. REILLY. Mr. Fahey, is it not a fact that these bonds you are talking about, if they were not tax exempt, you would probably have to charge the home owner 6 percent to get a sufficient margin to operate?

Mr. FAHEY. I am not clear as to how that would affect the interest. The more direct effect would be that it would delay and hamper the exchange. In other words, if they were not tax exempt, they would sell at a very much lower market level than bonds which are tax exempt. The result of that would be to slow up the operations of the Corporation.

Mr. WOLCOTT. One more question, but along different lines. When we wrote this bill we put in a provision authorizing the Home Owners' Loan Corporation to advance up to 40 percent of the value in cash provided the mortgagee refused to accept bonds of the Corporation. You have been very successful, I understand, in getting the mortgagee to accept bonds, but I am interested in knowing if you can give us an estimate how much cash has been advanced under that section. I do not mean the cash that attends the exchange of the bond or taxes and improvements, but I mean the cash that has been advanced to retire the obligation.

Mr. FAHEY. The number of cash loans has been comparatively small, and there has not been very much demand for cash loans. It runs less than 10 percent of the loans, very much less.

Mr. WOLCOTT. About what would that be?

Mr. FAHEY. It is very much lower than that. Let us take last week, on which I happen to have the figures here. Out of 11,399 mortgage refunds during the week ending March 2, representing a total of over \$29,000,000, there were only 124 of 40-percent loans amounting to only \$173,000; and there were 138 of 50-percent cash loans, amounting to \$82,000 in round figures, so you see it really is very small.

Mr. FARLEY. Do you not think that the guaranteeing of the principal itself will completely eliminate any need for the cash loan?

Mr. FAHEY. Not perhaps completely, but to a great extent.

Mr. REILLY. Have you anything to put in the record to show how many bonds have been issued so far?

Mr. FAHEY. Yes, I have; 104,994 loans were made during the week ending March 2, representing \$295,307,271.

Mr. STEVENSON. I have it up to the 9th. There were 109,070 mortgages financed by bonds amounting to \$322,439,240; 40-percent cash loans were 1,047, and the amount was \$1,532,664; and the 50-percent cash loans, where there was not a mortgage, but paying taxes and things on unencumbered property were 1,794, and they amounted to \$1,179,816.

The total loans to March 9 of all kinds was 114,678, and the amount was \$325,151,720. That is up to last Friday.

Mr. HANCOCK. Mr. Chairman, I think the subcommittee were at work on another bill at the time I will refer to, and I would like to ask what is the real idea of having the Secretary of the Treasury made a member of this Board.

Mr. FAHEY. That question was brought up the other day.

Mr. HANCOCK. I am sorry to take up your time, but I want to get your idea of why.

Mr. FAHEY. It is certainly important that the Secretary of the Treasury should be in the closest possible touch with any of the financial operations of this Corporation.

Mr. HANCOCK. The provisions in this act necessarily put him in very close touch all the time.

Mr. FAHEY. He is a member of the Reconstruction Finance Corporation Board, and also of the Federal Reserve Board and of the Farm Credit Administration; he is represented on all of those agencies. The judgment was, therefore, that he ought to sit in with this Board, at least when we have any financial problems under discussion.

Mr. HANCOCK. He cannot sit in with you now?

Mr. FAHEY. No; only by courtesy.

Mr. HANCOCK. Do you think that is sound public policy?

Mr. FAHEY. I think that is for Congress to decide.

Mr. HANCOCK. Do you not think these boards ought to be independent boards? The idea here originally was to set up an independent bipartisan board, and now I have no personal objection to this, except there have been times here when the matters presented caused serious complications on account of the Secretary being on the Board. I remember that particularly with respect to his membership on the Federal Reserve Board. Do you think it would be very helpful to the work of the Corporation to have him as a member?

Mr. FAHEY. Our point is we are glad to have the cooperation and help in dealing with these problems of any department of the Government that can be of assistance to us. The Treasury Department is, of course, in more close touch with the financial situation in its operation than any department, and it should be of advantage to us to have the benefit of its advice when we are considering such matters.

Mr. GOLDSBOROUGH. That may be true, but I think it is unfortunate this Board does not retain its individuality. That seems to be borne out by the experience of the Federal Reserve Board from what the members say of the Secretary of the Treasury being a member of it, that it is unfortunate. They say, because of his standing and be-

cause of the standing of the office he holds he is too dominant on the Federal Reserve Board. That is their experience, so they say.

Mr. BUSBY. You spoke about the Director of the Budget being at present working on this proposition of financing your institution?

Mr. FAHEY. Not ours alone, but of the whole question.

Mr. BUSBY. I am speaking of this alone. He is specifically considering this as well as others?

Mr. FAHEY. Yes. He is a member of the committee appointed by the executive council which is considering this whole house-financing problem.

Mr. BUSBY. What does the executive council mean, who authorized it?

Mr. FAHEY. The executive council consists of members of the Cabinet and the heads of the emergency administrations.

Mr. BUSBY. Who authorized it, who appointed it, and how many members does it consist of?

Mr. FAHEY. The President appointed it, and I assume he did so under the authority which he has under the Recovery Administration Act. But he could do it, anyway. The President certainly can invite members of these administrations to sit in with members of the Cabinet when their common problems are under consideration.

Mr. BUSBY. Then they are called the executive council?

Mr. FAHEY. That is right.

Mr. BUSBY. Do you apprehend any pressure from the Director of the Budget or the executive council in carrying out your functions within the limitations of \$2,000,000,000 authorized by Congress?

Mr. FAHEY. I do not anticipate anything of the sort.

Mr. BUSBY. Why is it that you have to so carefully take into consideration what the Director of the Budget may say about the funds that are available for you?

Mr. FAHEY. Only that the Director of the Budget watches all of these operations.

Mr. BUSBY. He knows you are authorized to use \$2,000,000,000, does he not?

Mr. FAHEY. Yes.

Mr. BUSBY. Do you regard it his business to censure the amount you shall have from time to time?

Mr. FAHEY. No, sir.

Mr. BUSBY. Does he do that?

Mr. FAHEY. No; he does not.

Mr. BUSBY. Do you want a free hand to go ahead and apply that \$2,000,000,000 as speedily as may be done to relieve these distressed people?

Mr. FAHEY. Absolutely.

Mr. BUSBY. The first year of your organization it failed to function practically altogether, did it not?

Mr. FAHEY. No; I would not say that.

Mr. BUSBY. It did not function down our way. I do not know what it did in any other part of the country, but the limitations placed upon it by reason of the bonds being just to trade and traffic with mortgageholders, it did not get anywhere in the country.

Mr. FAHEY. It was a handicap, that these bonds were of a new type and no market had been developed for them, and the mortgagees did not understand them.

Mr. BUSBY. They never would have understood them if there had not been some talk of the Government's guaranteeing them, do you think?

Mr. FAHEY. I would not say that, because it was our opinion from the beginning, and it is my opinion, most emphatically, that these bonds were excellent bonds.

Mr. BUSBY. They were good but were not good to the financial investors because they did not have Uncle Sam's guaranty.

Mr. FAHEY. That is true.

Mr. GOLDSBOROUGH. Why do you think they were good?

Mr. BUSBY. I think such bonds bottomed on hundreds of thousands of units of value are good, but I do not know how good.

Mr. KOPPLEMANN. May I say for your information that the thing began to function when one of the Federal financial organizations told us there was a sort of guaranty of a minimum of \$80.

Mr. BUSBY. How low did these bonds go?

Mr. FAHEY. They sold on one day, I think, as low as 83 or 83½, but very few were sold. That was at the time of the slump in the bond market.

The CHAIRMAN. Gentlemen, are there any further questions; if not, we will excuse the witness.

Mr. FAHEY. Mr. Chairman, it may be you will want to hear other members of the Board. Mr. Newton and Mr. Stevenson are here, if there are any questions you would like to ask them.

Mr. GOLDSBOROUGH. I want to say that any unfavorable comment about the Secretary of the Treasury's being on the Federal Reserve Board is not made during the present administration, and it was purely impersonal, and anything I say is purely impersonal. Do you object, Mr. Fahey, to indicating to the committee where the suggestion came from that the Secretary of the Treasury should be on this Board?

Mr. FAHEY. I am unable to say about that.

Mr. GOLDSBOROUGH. Personally, I think it would be extremely unfortunate if this Board should not maintain its independence.

The CHAIRMAN. Mr. Fahey, we will excuse you. I think probably the committee should hold an executive session and decide about the order of policy with reference to these hearings.

Mr. REILLY. Mr. Chairman, if the other gentlemen of the Board want to make a statement, I think they should have that opportunity now.

The CHAIRMAN. Mr. Stevenson suggested to me he hardly thought it was necessary for him to say anything.

Mr. NEWTON. I think Mr. Fahey has fully covered it.

The CHAIRMAN. I am sure I speak for every member of the committee when I say we will be glad to hear any member of the Board if it is desired that we hear them.

I had thought maybe we might reach a decision as to how far we would extend the hearing, since there are several gentlemen who want to be heard, and then some members of Congress want to be heard, and I had thought we might discuss that in executive session.

Mr. FAHEY. I would like to express the hope for the Board, Mr. Chairman, that the legislation be expedited as much as possible, consistent with proper consideration.

The CHAIRMAN. That is what I have in mind to accomplish—the very thing you have in mind.

Mr. FAHEY. Our point is this, that all over the country now the organization is being perfected and it is moving fast right now, faster than it has at any time. Our gain last week was 34 percent over any previous week since the Corporation has been in existence, and we would dislike very much to see the operation retarded in any way.

The CHAIRMAN. As a matter of fact, the operations have been expedited, of course, because of the fact the country understands this legislation is expected to go through at an early date, but I think like you, we need to make progress as rapidly as we can.

Mr. DISNEY. I want to ask one question, even at the expense of delay. I am reluctant even to bring it up, but constituents have written me about it, and that is with reference to enlarging the scope of the act to take in the larger apartments rather than the 4-family apartments. There is considerable urge in my particular town, Tulsa, on that subject, and I would like to hear what Mr. Fahey thinks of that being considered, and enlarging the value from \$20,000.

Mr. FAHEY. In the first place, so far as the value is concerned, the figures show conclusively that more than 94 percent of all of the homes in the country come within the \$20,000 limit, and there is less than 6 percent above that.

Now, so far as apartment houses are concerned, unquestionably it would complicate highly the operations of this Corporation if we undertook to deal with apartment houses beyond the limitation of the act.

The country is full of apartment houses that are in distress, and it is not a case of the home owner at all in most cases, but it is a case of relieving the real-estate operators, and we feel the home owner should come first.

Mr. DISNEY. I thank you. As Mr. Luce said, that gives me something to write my constituents.

I was surprised to hear him say that.

Mr. BROUN. Mr. Chairman, it does seem to me it is perfectly proper for the Secretary of the Treasury to go on this Board, for the reason we are now asking the Government to come in and guarantee these bonds, and it is in line with what is done in private industry, the banking business, and every other line of that character, to have a representative of the man who is willing to stand behind these bonds on the Board; and it seems to me it is perfectly right and proper it should be so done.

Mr. CROSS. Mr. Chairman, it is getting late, and I think if we are going into executive session we should do it.

Mr. BUSBY. Make a motion, and I will second it. I second the motion we go into executive session.

Mr. MARSH. Will you let it go in the record that representing the people's lobby I request to be heard as their representative?

The CHAIRMAN. We will decide upon our policy as to further hearings in executive session, and we will be glad to advise you of what the program will be.

The committee will now go into executive session.

TO GUARANTEE BONDS OF HOME OWNERS' LOAN CORPORATION—H.R. 8402

FRIDAY, MARCH 16, 1934

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

The committee met at 10 a.m., Hon. Henry B. Steagall (chairman) presiding.

STATEMENT OF WILLIAM F. STEVENSON, FEDERAL HOME LOAN BANK BOARD

Mr. STEVENSON. Mr. Chairman, the chairman of the Board has gone very fully into all phases of this bill, and I do not know any of the points that the committee wanted to have further hearings upon.

The CHAIRMAN. Mr. Stevenson, you have heard the discussion here. You will remember that there have been two or three suggestions indicating that there might be some changes proposed in the bill. For instance, there has been some discussion of the matter of the interest rate, and you can readily apprehend that in all probability there will be proposals in the House dealing with that question. I should like myself to have you discuss that, because I think what you might suggest in that connection would be very favorably looked upon in the House.

Mr. STEVENSON. The rate in the bonds as guaranteed, of course, is limited, not exceeding 4 percent. Frankly, it seems to be generally conceded that the rate should be a little less than 4 percent. In other words, the idea of the Treasury is that bonds should be issued at such rate as would correspond as near as possible with the bonds of the United States Government that go at par. We as a Board would like to fix a rate at such figure as would make them par bonds; in other words, the earnings to induce investment at par.

Mr. HANCOCK. Right there will you not also let us have the attitude of the Board regarding carrying that reduction on to the borrower?

Mr. STEVENSON. That matter has not been discussed by the Board at all. The 5-percent rate which we now are charging on the old bonds is, of course, a spread of 1 percent, and the Board has not discussed a question of a further reduction to the borrower. I am not prepared to speak for the Board on that subject.

I do not hesitate to say that my disposition, so far as I am concerned, would be to be sure to maintain a sufficient spread to pay the expenses and losses, so that there would not be a loss to the Govern-

ment on this deal. This is a very large transaction, and losses to the Government could be very large if real estate does not respond during the current period of these loans and a great many people make failures and we have the property on our hands and all that. We need to maintain a spread sufficient, and my judgment is that a spread of 1 percent is about as little as is safe to make.

If the rate of interest were reduced to $3\frac{1}{2}$ percent or $3\frac{3}{4}$ percent on the bonds, a spread of 1 percent might be sufficient for us, and to that extent it would benefit the borrower. But I should deprecate any fixing of anything of that kind in the bill itself, because the Board has to have a certain amount of latitude in fixing these things, because it has to be governed by the conditions at that particular time.

For instance, if we issue \$500,000,000 of these bonds at $3\frac{1}{2}$ percent, and immediately put down the rate to the borrower to $4\frac{1}{2}$ percent, and then conditions arose which necessitated raising the rate to $3\frac{3}{4}$ percent, you would find a great controversy and a great deal of complaint, and the demand that we recast our whole loaning system; because the people who have already borrowed and who have been paying would naturally say, "We want the same rate that the other people are getting. You have put the rate down on them, now you must put it down on us."

There are \$350,000,000, in round numbers, out now in 5-percent loans, and the cash ones, of course, are 6 percent, at least the 40-percent loans. There are only a million and a half of them. We would have that clamor, and it would be very embarrassing to the Board, in my judgment, to have that condition arise; and Congress will be passing resolutions demanding us to do that the first thing you know.

Here you have all these mortgages calling for a certain rate, all of the notes calling for a certain rate. To undertake to recast those would be a tremendous job. Binding the Board to make a certain rate to the borrower would not be in the interest of good administration. That is my judgment upon it.

However, I would say to you that the Board is entirely sympathetic with the home owners. If there is a substantial reduction in the interest rate, I cannot speak for the Board at all, but my disposition would be decidedly just to maintain a spread between the rate on our bonds and the rate on our loans that would enable us to make it a successful operation, and not involve the Government in a loss.

Mr. HANCOCK. You do not think the Board would contend for a greater spread than $1\frac{1}{2}$ percent, do you?

Mr. STEVENSON. I have no idea they would, but cannot.

Mr. LUCE. Speaking of the spread, and asking purely for information, will you tell us about the machinery for collecting the payments on the mortgages that come to your hands?

Mr. STEVENSON. At present we are working on a complete organization of that machinery that may involve considerable reorganization, but the machinery now is this: All the mortgages, papers, and everything comes to the corporation treasury here. The Department sends notices of the maturity of every installment. That goes out from here and goes direct to them by mail. They remit

directly here to the Treasury, and the money is put in the United States Treasury when it comes here. It is coming in at about the rate of \$100,000 or more a week. You can see that one fifteenth will be paid every year, and you can see about what the size of the operation is when we have \$2,000,000,000 out. One fifteenth of that \$2,000,000,000 will come in in a year, and that comes in here and is immediately deposited with the Treasury. The part that is payable on the principal is allocated absolutely to the retirement of the bonds, and the part that is payable on the interest is put to paying interest on the bonds and paying the expense of operation. That is the way it is being done.

We are now working on a plan of decentralizing that thing to a considerable extent, or at least making settlement offices in different regions of the United States.

Mr. LUCE. More than the 12 banks?

Mr. STEVENSON. We have no connection with the home-loan banks at all and do not mix it up with them.

Mr. LUCE. You use the same room, do you not? Are the offices separate?

Mr. STEVENSON. The Home Owners' Loan Corporation offices are absolutely separate from the home-loan banks.

Mr. LUCE. What is your experience so far as there is any, as to men who fall down in making their payments?

Mr. STEVENSON. They are given by right a moratorium of 3 years on the principal, but a great many of them are not taking that, and they are requesting extensions.

Mr. LUCE. If you did not hear from a man at all, what would you do?

Mr. STEVENSON. Put somebody after him out in the field. We have people in the field looking after the interests of the Home Owners' Loan Corporation in every State in the Union, and in many cases we have a number of banks. For instance, we take the State of Massachusetts, and the head office, you know, is there in Boston, but there are, I should say, 10 or 12 banks. Of course the head office is the center of activities.

Mr. LUCE. What I was driving at, Mr. Stevenson, was whether the follow-up system, say in the States or the larger territories is developing into a very expensive matter.

Mr. STEVENSON. Not yet, but it will be in the course of time. It will be quite an expensive matter. It is just like life-insurance companies, they have their agents everywhere to look after a man when he gets in default. Of course, when you send the statement to the borrower and he remits at once, that is easy. That is self-acting. But a great many of them are not going to remit at once, and we are developing now the machinery for looking after the delinquents. The financial authorities are at work on the organization of a collection system which will have in every State somebody who is going to be looking after the delinquents. You have to do that, or half the loans will be delinquent in 6 months.

Mr. LUCE. That brings me to the goal of my questions: Is the 1 percent going to be a big enough spread?

Mr. STEVENSON. It will take at least 1 percent, in my judgment, to operate the business. Five percent on \$2,000,000,000 is \$100.-

000,000 a year. The expenses of operation up to the 31st day of January were \$6,000,000, \$6,090,000. That is the entire expense of operation. You must remember that involves the setting up of the machinery in 48 States and the District of Columbia, and in Hawaii and Alaska. We are setting it up in Puerto Rico. But that is \$6,000,000 up to January 31, which is approximately 6 months. It will be \$12,000,00 a year during the loaning period. With \$100,000,000 prospective income, if we had it all out—but we do not have it all out yet—that would be but a small part.

Mr. HOLLISTER. \$100,000,000 is your gross. Your net is only \$20,000,000.

Mr. STEVENSON. Yes; the \$100,000,000 is gross.

Mr. HOLLISTER. Your \$100,000,000 is your gross, but if you are paying 4 percent on your bonds, you pay out \$80,000,000, so you have to get your expense within \$20,000,000.

Mr. HANCOCK. Do you keep the accounts of the Home Owners' Loan Corporation separated from the home-loan bank system?

Mr. STEVENSON. They are no kin, absolutely no connection between them at all.

Mr. HANCOCK. Does not the home-loan bank bear a portion of the expense of the Home Owners' Loan Corporation?

Mr. STEVENSON. The home-loan bank and the Home Owners' Loan Corporation share the expense of the organization here. The Home Loan Board and quite a corps of its employees work for both the home-loan bank and the Home Owners' Loan Corporation.

Mr. HANCOCK. Therefore you have a double spread with which to take care of a portion of the expense of operation.

Mr. STEVENSON. That is a very small proportion of it, however; about \$360,000,000, I think, is about what the whole thing is.

Mr. HOLLISTER. You say those expenses are kept absolutely separate? There is an allocation of so much to one and so much to the other? It just so happens that they use the same individuals, but there is absolutely a different allocation?

Mr. STEVENSON. Yes.

Mr. HANCOCK. How is that expense allocated with respect to the various banks of the home-loan bank system, and particularly what proportion of the expense incurred here in the operation of the home office is borne by the Winston-Salem Home Loan Bank?

Mr. STEVENSON. The Winston-Salem Home Loan Bank is assessed on the basis of its capital for the expenses of the Home Loan Bank Board. The Home Loan Bank Board's expenses are paid at the present time 75 percent by the Home Owners' Loan Corporation and 25 percent by the home-loan banks for part of the employees and 50 percent each for the balance who do work for both.

Mr. HANCOCK. I notice from the statement of the Winston-Salem Bank that they had loans outstanding of \$6,900,000, and their total overhead expenses were \$112,000.

Mr. STEVENSON. Yes, sir. The assessment, I think, for the Home Loan Bank Board is rather light.

Mr. HANCOCK. I also understand, Mr. Stevenson, that within the last 30 days the operating expenses, including salaries, have been up considerable, when the bank has not yet made a sufficient amount to pay its members 1 percent in dividends.

Mr. STEVENSON. The board of directors down there undertook to raise salaries, which was not approved by the Home Loan Bank Board.

Mr. HANCOCK. The raise is still effective, is it not?

Mr. STEVENSON. We think not. In other words, we refused to approve it, and directed them to reinstate the salaries as they were

Mr. HANCOCK. You stated that an effort was being made to decentralize your collection machinery.

Mr. STEVENSON. Yes, sir. We will have to have agencies.

Mr. HANCOCK. When that is done will you have local depositories, or will all the money be deposited here in Washington?

Mr. STEVENSON. No; it will come to the Treasury of the United States just as fast as it is collected. I hope—I am not committing anybody but myself to that—I hope that we can carry out the same plan that the seed loan people did. They have their man to collect wherever it is not paid automatically. They have the man go right there and collect, and they have to remit to the United States here in Washington, I mean to the corporation treasurer's office here, which puts it right in the United States Treasury every night, every dollar they collect, and account for it. That is accumulated from week to week and from month to month. The Board will apply that to the retirement of the bonds insofar as the capital payments are concerned, and, of course, apply interest payments to the payment of interest at interest periods.

Mr. HANCOCK. I also notice from a report that the cost per loan made through the Winston-Salem Home Loan Bank runs up considerably higher than the cost per loan made to a number of the other banks.

Mr. STEVENSON. Yes.

Mr. HANCOCK. What, in your opinion, is responsible for that condition?

Mr. STEVENSON. The principal reason is that the output is much smaller. They have not loaned as much money. On the other hand, you will find a good many of the banks that have loaned a good deal less than Winston-Salem. It is not by any means the smallest of the institutions in loans.

Mr. HANCOCK. No.

Mr. STEVENSON. But the greater the volume of loans, the less the cost per loan. It should be.

Mr. HANCOCK. I notice from the statement, however, that there are a number of banks that state that they loaned out approximately the same amount that Winston-Salem has loaned out, but their expenses run anywhere from 25 to 40 percent less than the Winston-Salem Bank.

Mr. STEVENSON. It is just one of those things that occurs in all administrations. Some institutions are more economically administered than others. It is our endeavor, and we have been doing our best, to get them all in line. But some of them have more economical administrations than others. Some of them have bigger ideas about salaries, and so forth.

Mr. HANCOCK. That applies to Winston-Salem, you think?

Mr. STEVENSON. It has bigger ideas than some of the others. Frankly, we were very much surprised at the attempt to raise salaries

in face of the fact that they had not yet begun to pay a large profit.

Mr. HANCOCK. I am discussing this matter with you because I know you have been greatly concerned, as I have, about that situation down there, and you have done everything in your power to remedy it.

Mr. STEVENSON. I think we will get that on a more even keel in the course of time.

Mr. HANCOCK. You are very hopeful?

Mr. STEVENSON. I am very hopeful, yes. It is just not bad, but there is just a little too much money spent down there. That has been the trouble.

To resume as to the rate of interest to the borrower, the Board is very sympathetic with giving the borrower the very best we can. We have to take care of the Government also at the same time, and if that takes a 1½ percent spread to carry the thing, and prevent heavy losses to the United States we will have to do it. If it does not, the disposition, I am sure, of the Board—I know that is my disposition—is to give the borrower the best rate that we possibly can and still protect the Government of the United States. We necessarily have to have latitude to meet different conditions as they arise.

Mr. DISNEY. Some member of this committee is liable to have to answer this question when we get this bill on the floor of the House, and frankly I do not know. We will probably be asked what is the need now of the home-loan banks, what they are doing.

Mr. STEVENSON. The home-loan banks?

Mr. DISNEY. Yes. Probably very few of us on this committee now know, if any of us do. The Members of the House are going to say, "You have the Home Owners' Loan Corporation, what do you need with the home-loan bank"? They may ask us to state briefly what the home-loan banks are doing, and what is their function as compared to the Home Owners' Loan Corporation.

Mr. STEVENSON. The home-loan banks are for the purpose of maintaining a reservoir of credit for people who want not only to redeem the loans but to build homes. The Home Owners' Loan Corporation has never been authorized to engage in that, and should not be, in my judgment. The home-loan banks are a discount institution for the building and loan associations and similar institutions that encourage the saving by the people who have small incomes, but who can save a little from week to week or from month to month and create a reservoir of credit for people who want to borrow money to build homes and maintain them and pay for them in amortized payments. We have \$100,000,000 loaned by the home-loan banks today, invested in loans to the building and loan associations, who in turn have invested it in loans to home owners. In round numbers, \$100,000,000; and they are continuing that; that is a growing business. The whole idea of the home-loan banks is to create a reservoir of credit for people who cannot buy a home and pay for it in cash, but who can buy and pay for it in weekly and monthly installments.

Mr. DISNEY. Suppose somebody asks what is the need of two set-ups? What will be the answer to that?

Mr. STEVENSON. There are not two set-ups. The one board is running them both, and they are sharing board expenses as stated

a while ago. The need for a separate set-up for the Home Owners' Loan Corporation is the fact it is doing a work which is entirely separate and distinct from the work of the home-loan banks. The home-loan banks deal only with the loaning corporations, who loan on amortized loans, and they do not loan directly to any home owner at all. The Home Owners' Loan Corporation is to relieve an emergency where there was a cataclysm of foreclosures and a destruction of all values of real estate of that character. If the foreclosures that were projected had all taken place, if there had not been a stop to them last year, investments in home mortgages might have been absolutely worthless by this time. Do you know that there were 22,000 foreclosures, notices of foreclosures, given in the city of Detroit at one time last fall, just before we got into action and when we were trying to get into action? If all those had gone to sale, you would put on the block the very heart of the common ordinary man's home in the State of Michigan. It was so in many other places. It was all over the country. The Home Owners' Loan Corporation was to stay that flood, and it has done it to a very large extent. It has been very much reduced. Of course, there are worlds of them. There are foreclosures still. But we find that the mortgagees are very much inclined to wait if their mortgagor is in a position where it appears that he can get a loan from this institution. They are very much inclined to wait and let him do it and accept the bonds. Of course, for a long time few mortgagees would accept the bonds, but that has all been overcome, practically. This bill will enable us to go to them with the absolute assurance you can get a bond as to which there isn't any doubt that you will get your money in the long run, or you can take it and sell it on the market.

Mr. DISNEY. This does not call for an answer, but I want to take this opportunity of getting this information to you. I have only a superficial impression of what I am going to say it is all about. I have not had a chance to follow it through. The State bank commissioner of our State made a statement to the building and loan association meeting that most of them had just as well decide they were going to have to button up and go out of business.

Mr. STEVENSON. There is no occasion for that at all.

Mr. DISNEY. I should not think so, and I am going to follow through and see why that was said and what the motive back of it was.

Mr. STEVENSON. The policy of the Board, as has been and will be demonstrated by a scanning of the history of it for the 8 or 10 months it has been in existence, is as far as possible to cultivate the building and loan associations, to keep out of their territory and enable them to go on and become the final, fixed source of home loaning capital in this country. Instead of wanting to destroy them, it is our drive to relieve the people that cannot get relief through them, and enable them to serve their legitimate constituency, which they are doing. I will say for them they are manfully trying to handle their job.

Mr. DISNEY. I will follow through with the Board on this information, whatever it is about.

Mr. LUCE. Mr. Stevenson, yesterday I was delighted to learn that the Home Owners' Loan Corporation had already exchanged mortgages, secured mortgages, to the number of more than 100,000.

Mr. STEVENSON. Yes.

Mr. LUCE. And we were also then told that 50,000 of these, it was estimated, were in the case of persons in distress. My self-satisfaction at having any small share in this matter was rapidly chilled by discovering that 50,000 people have been helped who were not in distress. I am sure that the thought is that the Home Owners' Loan Corporation never contemplated that that machinery should be used solely for the purpose of helping a man get a lower rate of interest, particularly if the man was in good circumstances and did not need that relief. I gather that on page 4, section (O), there is an attempt made to meet that situation by restricting the relief in case of mortgages not in default prior to the date of the Home Owners' Loan Act of 1933. Will you tell us why that restriction should not be extended to those who were in default prior to 1933?

Mr. STEVENSON. You mean where default has occurred, but there is not any distress?

Mr. LUCE. Not any distress. There are thousands of people who are taking advantage of the situation and are not paying up their mortgages or their interest, because they hope to get out of it some way.

Mr. STEVENSON. I do not concede, although it may be true, that there are 50,000 who have been relieved who were not in distress. It may be true. We, of course, have been bombarded with every kind of a scheme to get loans where people were not in distress, and in many cases I have no doubt that has been done. I do not know where you got the information.

Mr. LUCE. Yesterday, Mr. Fahey told me.

Mr. STEVENSON. He has probably gone into it.

Mr. LUCE. It was simply an estimate.

Mr. STEVENSON. Yes. You cannot absolutely tell whether a man is in distress or not. They come along and they comply with all the regulations, and they make the showing, and our managers in the States reach a conclusion. We have to deal through our State managers, you know, and they reach the conclusion that it is a distress case. When they do, that makes it an eligible loan, and they have a right to make it.

Mr. LUCE. I am informed we made the mistake in drafting the original bill, in not restricting it to persons in distress.

Mr. STEVENSON. Yes; I know you did. We did not make that mistake, however. We impressed it upon them, and every instruction that has gone out has been that they must be people in distress. But they succeed in impressing our managers with the fact that they are in distress.

Mr. LUCE. When you discover later that they have deceived you, is there any way to undo the mischief?

Mr. STEVENSON. If you have made the loan and got their paper and given them 15 years in which to pay it, and if they go along and pay, there is no recourse.

Mr. LUCE. The administration is just putting an end to a lot of contracts because they were supposed to have been secured through collusion and conspiracy.

Mr. STEVENSON. I do not know whether you would call it collusion and conspiracy or not. What is distress is a very difficult proposition. But in this provision that you speak of, we are attempting to put a stop as far as possible to it.

The most common method of imposing on our agents was a method that threatened to ruin many building and loan associations, because the minute this bill was passed everybody that wanted to swap over stopped making payments and got in default and thus came within the act. Then they would get a notice from the creditor that, "If you do not proceed, if you do not pay, we are going to institute foreclosure." That is one of the requisites there, that there must be evidence that foreclosure is imminent before we go ahead and make the loans. That being the case, they have come within the rules.

This provision here will certainly stop that. If they are not allowed to take advantage of a default that occurred since the passage of the original act, why, the fellow who goes and defaults willfully and asks to be foreclosed on, and all that, he will be out. That is the reason of this, to tie that very thing up.

Mr. LUCE. What I am driving at is whether or not there is any way of getting at that part of the 50,000 people who lied to you.

Mr. STEVENSON. If you can establish they have lied to us, they are indictable under the act. We have impressed that upon them.

Mr. LUCE. Have you given any thought to proposing some penalty, hardship or making more trouble, at any rate—

Mr. STEVENSON. Yes, sir.

Mr. LUCE. For the 50,000 people who have gone out of the building and loan associations and the cooperative banks in order to save a dozen dollars a year on interest?

Mr. STEVENSON. We have a legal representative who is looking after the violation of this criminal feature of this act, wherever they make a misrepresentation. Section 8 (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 the Home Owners' Loan Corporation or the Board or an association upon any application, advance, discount, purchase or repurchase agreement, or loan, under this act, or any extension thereof by renewal, deferral, 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 2 years, or both.

That was in there for the purpose of keeping them from doing this, but notwithstanding that, people take that chance.

Mr. LUCE. It looks to me as if \$150,000,000 of the people's money had gone to people to whom it was not intended to go.

Mr. STEVENSON. They may not have been in distress under that view, but they were able to offer proof which entitled them to get the loans. I do not admit, as I said before, that the amount is as large as that.

Mr. LUCE. That proof was not of distress; that proof was of failure to keep up an obligation where they might have been perfectly able to do it. What I am really trying to bring out is that we ought to use every possible effort to prevent the draining of the membership of the building and loan associations and the cooperative banks.

Mr. STEVENSON. Yes, sir. It has been a great misfortune that a great many people have taken that course. They have injured the

building and loan associations, which are the natural source of that class of money, and which are going to have to be relied on for the next decade, at least, to finance the homes of this country outside of this temporary financing we are doing. It has been an abuse.

Mr. LUCE. Still you feel that this language in paragraph (O) is the strongest that we may put in?

Mr. STEVENSON. I defer to our general counsel who drew that language. He knows more about this business than anybody I know of, from a legal standpoint. I think he has done the best he can with that. I am taking his judgment for it, that this is the best we can do.

Mr. LUCE. I submit that we can find a few more teeth to put in.

Mr. MEEKS. Has this kind of a situation been called to your attention: The building and loan association, in cases where they think they have excessive loans on property, beginning immediately upon default—we will say that they may be in default so many months or weeks with the payments—but immediately when the time elapses, the association has the right to foreclose. Have cases been called to your attention where they have demanded of the borrower all payments under threat of foreclosure, although the next term of court in which they can file suit is weeks away or maybe 3 months away—and have pursued the borrower with threats of doing something, dispossessing him if it is his home, in order to drive him into application for a loan from this Home Owners' Loan Corporation? Have you had cases of that kind?

Mr. STEVENSON. I take it that there have been cases of that kind when they want to unload a mortgage that they think is weak. They may be doing that. But before they can unload that on the Corporation, they have to get past the appraisal, and if it turns out that they have loaned more than the property is worth, they cannot get anywhere unless they shave their mortgage. It is 80 percent of the appraised value, which we are trying to make a real appraisal.

It is very hard to fix absolutely what is the value, but by a very careful system of appraisal we are endeavoring to do that. If they do that, if they have overloaned, of course, they are not going to get the full amount of their mortgage. They are going to get only 80 percent of the actual value of the property.

I have no doubt there have been many cases of that kind, although I will say this for the building and loan associations, they have not been offenders in that line so far as it has come to my attention. The building and loan associations have shown a great disposition to continue to carry their members. In many cases when our agent contacts the building and loan association and asks them to carry this and refinance it if necessary, many of them, there have been hundreds, have done it.

I am chairman of the committee that passes on the cash loans, which have to be passed by the board, and they make a very thorough showing there that not only have they no way to meet the loan and are about to be sold out, but that an effort has been made to refinance them elsewhere. In many cases we get them refinanced elsewhere. An effort has been made to get the original mortgagee to refinance and carry them. In many instances they do it.

The building and loan associations by and large have cooperated splendidly with this institution in trying to help to remedy the deplorable situation we were in when this was acted upon. They, of course, get their relief from the home-loan banks in their region.

But there are cases, just as you submit.

Here is another set of cases, and many may have gotten across in that way. There was a tremendous lot of real-estate mortgages in closed banks and conditioned banks. The minute the banks close, the receivers have to proceed to realize. They have to liquidate, and cannot do anything else. In many of those cases we have undertaken to facilitate the taking of those distressed borrowers out of the hands of those receivers to enable them in turn to turn loose deposits that are in those institutions, to enable them to liquidate and turn it loose; because this was one entire financial problem that we had on our hands, and the more deposits you could release, the more depositors that could get relieved, the more the country was relieved of its incubus of debt and distress. In taking those out of the hands of many of the closed banks, which is done under what is known as a "wholesale" operation, I take it that a good many men who ordinarily would have been in distress were relieved.

Mr. BUSBY. Are there any other questions? If not, we will hear Mr. Bodfish.

STATEMENT OF MORTON BODFISH, EXECUTIVE VICE PRESIDENT OF THE UNITED STATES BUILDING AND LOAN LEAGUE

Mr. BODFISH. My name is Morton Bodfish. I am executive vice president of the United States Building and Loan League. We are a national trade organization, representing the building and loan associations. Our members hold about 65 percent of all the small home mortgages in the country. By that I mean the mortgages under \$3,500. We have members in every State, and our business is confined exclusively to the financing of small homes. In that business we rely almost entirely upon the savings of the people in the humbler walks of life in this country.

We have about 2,000,000 mortgages on homes. The capital for those 2,000,000 mortgages has been furnished by slightly over 10,000,000 people, as members of our association.

Mr. Chairman, we are in accord with the general principles and most of the provisions in this bill that is before your committee. We have had the privilege of being before the Federal Home Loan Bank Board, and we have great confidence in their judgment. They work with us very constructively and have considered our views.

There is one phase of this matter that should be clearly before the committee, and that is that the objective of all this legislation should be to establish a resumption of normal activity. In the 11,000 to 15,000 local thrift and home-financing institutions throughout this country, the home-mortgage financing problem of the country is a 20-billion-dollar proposition. That 20 billion dollars has been contributed almost entirely through systematic savings of ordinary folks.

Some of the points that I want to make, Mr. Chairman, have a bearing upon the effect of this and other phases of legislation on the activities of these institutions. I want to touch on the inter-

est-rate question and also on the Home Owners' Loan Corporation matter that has been under discussion.

About 2 weeks ago in this city, we had a meeting of our executive committee. That is composed, Mr. Chairman, of some 65 men from every State in the Union. We spent 2 days discussing the home-mortgage situation throughout the country. At the conclusion of that meeting, we adopted a resolution which has been presented to the President of the United States and to the Federal Home Loan Bank Board, proposing a program to deal with this home-financing situation, both in its emergency aspects and in its long-time aspects.

I have a copy of that resolution here, and I have put some notes in several places in the resolution, because this bill covers and deals with four of the points covered in our resolution. I would like to comment, just for a minute or two, on each of these points, and with your permission possibly submit the resolution for the record, if you care to receive it.

Our group approves thoroughly the guaranty of the Home Owners' Loan Corporation bonds, which is covered in your H.R. 8403.

We are very sympathetic with the proposal to give the Home Owners' Loan Corporation additional funds for the repairing of homes on which they have made loans. They are going to need those funds before very long.

Our resolution is very sympathetic to giving the Federal savings and loan associations additional capital, because that capital is managed by local people, it is participated in by local savings, and it is thoroughly cooperative and local, rather than being paternalistic, so far as its lending import is concerned.

Our resolution, Mr. Chairman, did include this proposition, that there are 11,000 existing institutions, the bulk of which are in satisfactory financial condition. They are carrying on, and they are even lending money at the present time. We see no reason why in a later phase of this legislation this committee should not provide for the purchase of shares in existing State-chartered institutions on condition that those institutions put their money into active service in connection with loan activities.

You do not need to be afraid to give our building and loan associations funds if you want the money reloaned. After 4 years of depression, we still have 87 percent of our money in loans. In the year 1932 we loaned \$522,000,000. We submit that we are the only financial agency that did not get scared and go liquid. In the main, our institutions are small, locally managed, and we have carried on and continued lending right through the depression.

We hope—and we have discussed this with Mr. Fahey—that as this legislation develops, if it seems wise to attempt to give employment in the building field that it will be done through the device of purchase of shares in existing institutions, with them loaning the money. So you have covered half of our proposal in your giving the Federal savings and loan associations additional capital, but you have overlooked, or have not yet come to giving the State institutions such assistance.

Point 4 in our resolution dealt with additional capital for the home-loan banks. We thoroughly approve that proposition, which is in this bill. I would like to call your attention to this one fact,

however: There has been discussion of the interest-rate question, of the desire to get money on to the borrowers at lower rates. Your Home Owners' Loan Corporation is loaning at 5 percent. In the Home Loan Bank System, where a building and loan association is expected to buy stock—and we have bought nearly \$20,000,000 worth of stock, participating in this system which the Government has created—we find in nine of the banks that the charges on money to the building and loan associations on a wholesale basis, where we put up 2 to 2½ for 1 collateral, and our note, plus our stock ownership, are from 5.1 to 5.3. We are expected to exhaust our credit line, use that fund at that rate, and go out and make mortgage loans to home owners. That rate is not low enough, gentlemen, for us to carry on the program on a broad basis to the extent that you gentlemen want.

Mr. LUCE. If you will pardon me, you are not quite clear in that statement. You mean 5.1 to 5.3 is what you pay out, all told?

Mr. BODFISH. Our source of credit in a building and loan association at the present time for more loans is the Federal Home Loan Bank System. When we go to borrow from a Federal Home Loan Bank, we not only pledge our stock, on which are not receiving any dividends, or not more than 2 percent at any banks, but we put up collateral 2 for 1, sometimes 2½ or 1. We use up our credit line, a portion of it, give the note of our institution, which is a prior claim on all assets in the Mutual Building & Loan, and then we pay a rate of 5 percent to 5.3 percent for that bulk money, which we are expected to take and undergo all the risks of lending, and relend it in small loans to the home owners and home borrowers.

One of the things that is a problem in this whole situation of getting cheaper money to the home owners is the fact that the source of supply to the institutions which, after all, are going to carry the bulk of this load—anything you gentlemen can do is going to be a minor portion—

Mr. BUSBY. You get it from the home loan bank?

Mr. BODFISH. The Federal Home Loan Banks, which you are giving additional money to through this bill, from the money raised by the Home Owners' Loan Corporation by the selling of bonds. We would like very much to see that cost of money to our institutions lower, so that we can go on and do a better job of our part of this program. In other words, you are lending out wholesale funds at higher rates than you are charging individual home owners on a retail basis.

Mr. HANCOCK. What is your average rate of relending?

Mr. BODFISH. I would say for the country it would range from 6½ percent to 7 percent. I should like, Mr. Hancock, to discuss that interest-rate question in a minute, a little later.

There was some discussion the other day that I would like to address myself to. Now comes the shock of our proposal, that is this: Item 5 in our resolution proposes an insurance plan for savings and loan shares, in the thrift and home-financing institutions. Frankly, gentlemen, although our institutions are solvent, they are not liquid. We never pretend to make them liquid. We are not receiving new savings at the present time. The class of people with whom we deal have been particularly attracted by the postal savings arrangement and the Federal Government's guaranty of bank

deposits. We find that our withdrawals are going into savings departments of banks, which takes them out of the home-financing field, namely, the long-term mortgage-credit field, and puts them into the commercial field or the short-term credit field.

The situation is such, for example, in one State that a State legislature, the State of Massachusetts, a conservative State, has already created a State guaranty or insurance fund to protect their thrift and home-financing institutions from withdrawals of funds, in order that those funds will not be placed in commercial banking institutions which are under the guaranty by persons who are afraid or scared or nervous at the present time.

Mr. WOLCOTT. That is a very important and fundamental problem. Was not the fundamental purpose of that act to prevent the State and member banks from coming under the operations of the Federal insurance provision of the last Glass-Steagall law, and to prevent them from having to become members of the Federal Reserve System?

Mr. BODFISH. No, Mr. Congressman. This particular act I refer to was signed by the Governor of Massachusetts last week and applies exclusively to the home-financing institutions.

Mr. WOLCOTT. It does not apply to banks?

Mr. BODFISH. No. It applies exclusively to what you call your State building and loan associations. In that State they happen to go under the name of cooperative banks. They are long-term monthly repayment home-mortgage institutions. It was done entirely to protect the thrift and home-financing field from a drain of capital into the commercial field. With public psychology as it is, this is a very important matter.

Mr. HOLLISTER. Does that affect also the mutual savings banks?

Mr. BODFISH. The State has also constituted a separate fund for mutual savings banks, to protect them similarly. It is an odd situation. I might say that a proposal of this kind has been under discussion with the home-loan bank people. The reason I mention this here is that it is included in our resolution no. 1 and in no. 2, which deals with the resumption of financing in these thousands of institutions, a portion of the problem which is entirely overlooked in this bill.

For example, we talk about repairing and maintaining homes. Give the Home Owners' Loan Corporation some money to do it with on their own homes. If the Home Owners' Loan Corporation functions to perfection, it will never do business with more than 1 out of 20 of the homes in this country, because the other 19 are unencumbered or in mutual savings associations or in cooperative banks.

Mr. HOLLISTER. The Federal guaranty of deposits in banks involves that any bank secured in that guaranty shall subject itself to a certain type of protection which the Federal Deposit Insurance Corporation sets up. Does your committee have some plan to put the building and loan associations which might be subject to such a guarantee in such a position that there could be control of the operations so as to protect the funds against improperly operated institutions?

Mr. BODFISH. Yes, Mr. Congressman. There are approximately 2,300 of our members at the present time of our organization that belong to the Federal Home Loan Bank System. We do not propose

that the insurance or guarantee feature of protection will apply to any institutions who do not belong to that system, and therefore by virtue of that membership they are under supervision of the Federal Home Loan Bank Board here.

Mr. BUSBY. Do you desire to insert this statement and the resolution into the record?

Mr. BODFISH. Yes; I would like to insert that into the record. (The matter referred to is as follows:)

RESOLUTION

Whereas the resumption of home-financing activities is a necessary part of the business recovery program of the country; and

Whereas the bulk of the funds for such activities must come from the thrift and savings of the American people to finance the buying, repairing, maintaining, owning, and building of homes; and

Whereas the United States Building and Loan League represents approximately 4,000 thrift and home-financing institutions which in their existence have financed over 8,000,000 American homes and which today hold on behalf of their members 65 percent of the small home loans in the country; and

Whereas the executive committee of the league, including representatives of 42 States, are formally assembled in Washington, D.C., in response to the call of President Lieber; and

Whereas it is the judgment of the committee that a comprehensive program is desirable looking to a resumption of activity on the part of thrift and home-financing institutions: Therefore be it

Resolved, That the committee propose and offer its complete cooperation to the President of the United States in carrying out the following program:

(1) A guaranty of the principal of Home Owners' Loan Corporation bonds, with a clear-cut legislative definition of policy as to the citizens entitled to this relief financing, which should be confined to economically unfortunate persons involuntary in default. (Item covered adequately in H.R. 8403.)

(2) Additional capital in the aid of employment should be allocated to the Home Owners' Loan Corporation to completely modernize and maintain properties upon which it has made advances (estimated, \$100,000,000). (Item covered adequately in H.R. 8403.)

(3) In the further stimulation of employment growing out of home repairs, home maintenance, and home building, provision should be made for the liberal purchase of shares in Federal savings and loan associations and in institutions affiliated with and under the supervision of the Federal Home Loan Bank System (estimated, \$200,000,000). (Item partially covered in H.R. 8403.)

(4) Additional funds should be provided for the Federal home loan banks in order that they may continue their expanding services (estimated \$200,000,000). (Item covered in H.R. 8403.)

(5) Insurance of savings and loan shares for such institutions affiliated with the Federal home loan bank system as desire to purchase this protection for their investing members. This proposal would result in an increased confidence in thrift and home-financing institutions and divert at least a portion of the savings of the people into these institutions by giving them similar protection to that enacted for banking institutions. One of the reasons for the scarcity of home-mortgage capital has been large inactive savings in banks which do not make home-mortgage loans (estimated \$100,000,000).

(6) Establishment of a system of boards of conciliation to serve without pay as a part of the Home Owners' Loan Corporation to increase its services to home mortgagors and home mortgagees. (No cost.)

(7) A small fund to be used by the Federal Home Loan Bank Board in encouraging home maintenance, home buying, and home owning under sound supervision and planning (estimated \$500,000). (Item adequately covered in H.R. 8403.)

This program, involving \$600,500,000, could begin to operate broadly in every part of the country without encouraging speculative building excesses. Carrying on the program through existing institutions would be both timely and efficient, especially where advances are made leading to the employment of labor. The program would also put thousands of local institutions into activity and the funds made available by the Government would be substantially aug-

mented by thrift savings. The projects, being self-liquidating, would repay the Government, amply secured, its entire cost of capital.

I hereby certify that the above is a true and correct copy of a resolution adopted by the executive committee of the United States Building and Loan League at a meeting held in the city of Washington, D.C., on the 27th day of February 1934.

H. F. CELLARIUS,
Secretary-Treasurer.

Summary table of number of associations, total membership, and total assets of building and loan associations, by States, 1932

[Prepared by H. F. Cellarius, secretary-treasurer, United States Building & Loan League, Cincinnati, Ohio]

States	Number of associations	Total membership	Total assets	Increase in assets	Increase in membership
New Jersey.....	1,553	985,470	\$1,146,108,891	1 \$55,864,724	1 122,261
Ohio.....	762	2,213,531	1,097,526,114	1 60,755,757	1 165,280
Pennsylvania.....	2,957	941,682	1,044,256,443	1 206,435,629	1 294,615
Massachusetts.....	227	467,829	527,360,936	1 32,742,106	1 31,694
Illinois.....	905	807,800	437,261,885	1 29,358,746	1 97,700
New York.....	299	531,216	423,676,167	1 19,576,197	1 54,255
California.....	188	494,000	407,146,357	1 45,860,994	1 56,000
Indiana.....	368	375,700	270,857,685	1 17,726,426	1 25,100
Wisconsin.....	184	252,773	260,548,326	1 20,684,941	1 26,022
Maryland ¹	1,075	300,000	197,500,000	1 12,500,000	1 20,000
Missouri.....	235	237,200	193,034,550	1 13,330,093	1 30,882
Louisiana.....	101	181,475	159,480,185	1 11,391,106	1 9,021
Michigan.....	66	218,235	152,933,382	1 12,336,158	1 939
Nebraska.....	83	190,600	124,307,312	1 12,710,257	1 14,650
Kentucky.....	161	181,800	118,475,594	1 3,345,974	1 5,200
Kansas.....	151	174,482	116,162,630	1 10,157,088	1 19,289
Texas.....	144	157,215	114,631,153	1 12,654,825	1 17,335
Oklahoma.....	82	129,339	113,251,396	1 13,092,065	1 85,339
District of Columbia.....	26	90,388	87,420,000	1 5,559,000	1 7,081
North Carolina.....	222	81,897	75,894,023	1 9,454,360	1 13,311
Washington.....	66	205,038	64,973,551	1 7,922,416	1 16,218
Virginia.....	85	62,100	56,321,016	1 4,044,492	1 4,470
Utah.....	23	74,023	50,287,421	1 2,938,103	1 12,631
Iowa.....	74	62,320	44,849,730	1 3,254,766	1 4,085
Minnesota.....	75	95,843	40,746,403	1 2,587,955	1 22,312
Colorado.....	58	55,000	38,472,204	1 20,664,457	1 30,870
West Virginia.....	60	53,480	35,804,108	1 1,937,233	1 2,870
Arkansas.....	56	50,000	35,498,145	1 9,312,629	1 11,571
Rhode Island.....	9	49,499	34,324,701	1 315,097	1 458
Connecticut.....	43	32,376	26,818,269	1 381,689	1 3,757
Alabama.....	37	36,230	25,772,240	1 2,308,147	1 3,210
Maine.....	36	27,565	24,818,627	1 696,809	1 879
South Carolina ²	132	30,000	24,500,000	1 1,050,000	1 2,000
Oregon.....	22	33,800	19,645,142	1 7,364,640	1 12,200
Montana.....	27	32,767	19,150,925	1 1,769,453	1 5,136
Tennessee ³	40	23,470	17,387,000	1 1,109,924	1 1,500
Mississippi.....	46	24,537	16,679,871	1 2,000,234	1 2,843
Delaware ³	44	20,500	16,118,223
Florida.....	65	11,400	14,369,063	1 1,606,509	1 1,000
New Hampshire.....	29	16,613	14,076,044	1 141,381	1 1,012
North Dakota.....	22	19,650	13,135,969	1 1,018,402	1 1,450
Wyoming.....	11	17,850	9,509,864	1 384,083	1 650
Georgia.....	40	18,893	7,265,368	1 250,235	1 474
South Dakota.....	21	10,314	6,241,600	1 87,955	1 454
Vermont.....	14	6,063	5,495,121	1 198,110	1 147
Hawaii.....	11	12,534	5,209,278	1 202,191	1 1,469
Idaho.....	14	7,650	5,039,612	1 129,280	1 200
New Mexico.....	17	4,950	4,717,489	1 289,310	1 300
Arizona.....	8	6,030	4,247,141	1 713,067	1 1,020
Nevada.....	3	1,665	1,183,930	1 157,042	1 225
Total.....	10,997	10,114,792	7,750,491,084	1 666,884,521	1 1,223,909

¹ Decrease.

² Estimated.

³ No report issued 1932; figures for 1931 used.

Mr. BODFISH. There is one more point, then I will go on to the specific bill. That is to the effect that this guaranty we propose is not a guaranty of liquidity. In other words, we do not want a guaranty that if an institution is taken over by State authorities or by a court or a banking commissioner, we do not want that paid out immedi-

ately. We do not make any pretense that a building and loan association is a liquid institution. What we want to do is set up a liquidating fund. We can say to the public, "This institution has been examined by the Federal Home Loan Bank Board, and if it is put into receivership or liquidation, over a reasonable period of time you will receive all the money that you have paid in."

In other words, it is a guaranty of solvency rather than a guaranty of liquidity. The thing is practical. On the basis of our losses, we would have no difficulty in administering it, and the associations stand ready to pay the entire loss, but as far as the operations are concerned, and the losses, we would want a little working fund of capital, because it takes a working fund to handle those liquidations.

Mr. WOLCOTT. Are the large percentage of your depositors small depositors? Is there a limit placed upon what they can deposit?

Mr. BODFISH. No; we do not have a limit, but our average investment—and by the way, we do not have depositors, they are all shareholders; they are all cooperative institutions—our average investment is less than \$700. In other words, we get no large sums. There are several States in which no one's investment can exceed, in one case I know of, \$8,000, and another one, \$6,000. That limitation is not universal, however. Typically, we draw our funds from the working classes and people that save \$5 a week or \$5 a month, that sort of people.

Mr. HANCOCK. That applies to paid-up shares, does it not?

Mr. BODFISH. Yes. The bulk of our money comes from people that save so much a month.

Mr. HANCOCK. Serial shares?

Mr. BODFISH. Serial shares, monthly payment shares, installment thrift shares, whatever they may be named.

In the course of the hearings on H.R. 8403, Mr. Brown raised some questions regarding section (O). I notice that Mr. Luce also interrogated Mr. Stevenson regarding that section. I think there is a very important problem involved there, if Congress is to so arrange this legislation as to carry out the purposes it has in mind.

With these bonds guaranteed, there is no consent that we will not sign as they come in. In other words, when the bonds were at 85, we were signing consents to take the bonds from people that were honest, but without capacity to pay at the present time but, who had some real estate equity. That is the class of people that this act was designed for, the economically unfortunate.

Immediately, when a good borrower came in, and we refused to sign the consent, he set up a hue and cry that we were not cooperating. Now that the bonds are going to go to par, gentlemen, we will sign consents for everything that comes in. Unless you take great pains with this section (O), you are merely going to refinance on a lower interest rate a very substantial amount of indebtedness, rather than give relief.

The extent of the activities of the Corporation has been most surprising. I do not say this in undue criticism, because they have had an almost impossible job of administration; you cannot run a mortgage-loan business that spreads all over the country and do it either economically or efficiently. It is just impossible. The only failures we have ever had in building and loan were when

we tried to do a Nation-wide business. A substantial portion of the loans that have been made so far have been made to people that were in no way in distress.

For example—and I do not want to give the name of the location—I have in mind an instance of the mayor of a city of about 75,000 people, who receives \$6,000 salary a year, getting a loan. It went through, incidentally, in a period of 7 or 8 days, where worthy distressed home owners are still waiting for applications to be acted on—entirely because this individual wanted a 5 percent interest rate instead of a 6½ percent.

In our building and loan associations we find that many of our Government employees who are on steady jobs are not making their payments at the present time in the hope of getting a Home Owners' Loan Corporation loan. I would urge very careful consideration of this section, because you no longer have that back log of the mortgagee unwilling to take the bonds unless it is a distress case, and you are going merely to refinance a lot of indebtedness which does not come under the relief category, unless that provision is dealt with very carefully.

Mr. BROWN. Might I interrupt right here to say that I understood Mr. Fahey was going to request Mr. Russell to rewrite section (O) with the matter of distress contained in the section. Have you done that, Mr. Russell?

Mr. RUSSELL. I have not; no, sir.

Mr. BROWN. We have a very general dissatisfaction here in the committee, I think, against section (O) as it is now written, because it does not confine all loans to distressed homes. Mr. Fahey said that you would give us a rewriting of that section.

Mr. RUSSELL. I will be glad to try to explain that when you come to me, Mr. Brown.

Mr. BODFISH. I merely urge your grave consideration of that section, because right there is the turning point of this whole thing; with the bonds guaranteed all of us will be wide open in our acceptance of consents, naturally.

Passing on to section 2, we are very anxious that section 2 go through as it is now written in this bill. We are perfectly willing that the Corporation be in position to extend every leniency to the borrowers. It is very unwise for the Government to say that everybody is entitled to a 3-year moratorium on mortgage payments. In the effort to take care of some people that are worthy, you encourage four or five people to every one that needs it to discontinue their payments, due to the fact that they feel debt relief is the order of the day and "we will just not make our payments until we see what is going to happen."

With our building and loan associations, when you begin to dry up the payments, due to that fact, it diminishes the amount of money that we have available to take care of necessitous withdrawals of people who are out of employment. I submit that they are the people who are entitled to more consideration than anyone else, the people who in the age of plenty laid aside a little something so that they could take care of themselves. And it diminishes our ability to make new mortgage loans. We are very, very anxious that that section be passed upon by the committee, and by Congress, in its present form.

In section 3, the proposal is made to extend moderately the period in which the Corporation can redeem homes that have been lost by foreclosure or voluntary consents. We are 100 percent sympathetic with the proposal of Congressman Busby that that be pushed back to January 1, 1930. All the amendment that we would submit is the changing of the word "three", which appears in line 8 of section 3 on page 6, to "four". That would take the activities of the Corporation in redeeming homes back just a little bit before January 1, 1930. There are a lot of home owners, honest folks, that in 1930 when the squeeze of the depression began to be felt, came in and conveyed their properties to mortgage-loan institutions.

Mr. BUSBY. May I suggest at that point the Home Owners' Loan Corporation was not set up at that time, and there was not the possibility of having the same opportunity that is afforded to the people that have held on until the Corporation was set up. That was brought out in the Senate debate of yesterday relating to this same proposal.

Mr. BODFISH. Congressman, there are many States in which we have an extremely long redemption period. For instance, in Illinois, Mr. Meeks, we have 15 months in addition to the time it takes to get your sale and your judgment in that State.

Mr. MEEKS. It takes much longer than that, but it is 15 months after sale. But it may run much longer after default, because you have to get into court. You may not be able to get in for 2 or 3 months.

Mr. BODFISH. In Kansas, for example, it is 2 years after sale.

What the mortgage-lending institution does with the right sort of a fellow there, they go and say:

We want to play right with you, but we don't want to spend 2 or 2½ years in the courts getting title to this property. You convey to us, and if you can pay us anywhere near rent or pay an amount equivalent to the interest, we will let you stay right there. If you get going again so that you can carry your payments, we will reconvey to you.

There are a lot of very worthy people that would be helped if that period were pushed back a little bit.

Mr. CROSS. Do the companies only do that in cases where the man practically has no equity, where they make that sort of agreements?

Mr. BODFISH. Yes; where he has a little equity, but where he has been an honest fellow and is in a jam for reasons entirely beyond his control.

Mr. MEEKS. For example, out of employment, cannot get employment.

Mr. BODFISH. That is right. The only argument I have heard advanced against it is that some mortgagees may get in collusion with borrowers and put in straw men, and that sort of thing. If they will do it in 3 years, they will do the same thing in 4 years, if they are dishonest in their intentions.

Mr. REILLY. Any man who deeded away his property in 1930 should not be given consideration, should he?

Mr. BODFISH. Yes. I know some of them that we have taken deeds to in associations, and they have continued to live in their homes, and they have paid the equivalent of rent. The minute they get on their feet we are going to deed it back to them. If there are

on'y 5,000 of those folks in the whole United States, they are the worthiest people in the whole group; in some ways, because when they got to the place where they could not pay their debts, they wanted to pay the mortgage—and the mortgagee is not the “Money bags” of the community, he represents the savings of the people, and he has to be in position to protect himself in connection with the security.

Mr. REILLY. But this home loan institution could not expect to take all the distressed mortgages in the country, and the people who are more in distress and more worthy are the people who have lost their homes after 1930. They made a struggle, and they kept it up during 1930, 1931, and 1932. It is impossible for this law to take care of all distressed home mortgages. It is quite manifest that the more worthy people are the people who held onto their home after 1930.

Mr. BODFISH. I am not sure of that. I think there are a lot of worthy honest folks that came right in and offered the institution a deed when they cou'd not pay.

You talk about the bill not being able to take care of all the distressed home owners. All right. \$2,400,000,000 will take care of all the distressed home owners if the thing is carefully administered. It will take care of all of them that the institutions are not willing to take care of. We are willing to carry a lot of them. We can carry 15 percent of our people right through a depression of this kind, if the ba'ance of those who can carry on their obligations do carry them on. Our problem has come since all the publicity has attended the Home Owners' Loan Corporation, that the people who could meet their obligations have started to coast and lay back in the hope of getting a Government loan later on. That has been our real problem in the building and loan association since this Corporation has started. We are for the Corporation, but we want its activities to go to the type of people that Congress intended it to go to. I think the next 6 months the Corporation will do more business by three times than it has done in the past year, and it will be of assistance.

To pass on to section 4 of the bill, section 4 deals only with the purchase of shares in Federal savings and loan associations. We hope that later legislation will come up—Mr. Fahey alluded to it yesterday—which will provide for the purchase of shares in the better existing State institutions, so that they will be placed in funds on exactly the same basis that you are placing Federal savings and loan associations in funds.

Mr. HOLLISTER. Is it your feeling about these suggestions you made that are not covered in this act, that it would probably be better to cover them by additional legislation rather than change this act as far as it has gone now? Better take it in several bites rather than at once?

Mr. BODFISH. We are discussing those phases with the Federal board. I gather from what Mr. Fahey said yesterday that legislation will come up covering it, but I do not want the committee to consider this bill without thinking of the problem of dealing with the millions of home owners that must depend upon the local thrift and home financing institutions now in existence.

Mr. BEEDY. How much money would a program of that kind take? It would authorize the purchase of shares in all States in the Union in what you call good building and loan associations.

Mr. BODFISH. Mr. Beedy, we deal in large sums very adroitly these days.

Mr. BEEDY. A billion dollars does not mean anything these days.

Mr. BODFISH. Our people in their resolution suggest a half a billion dollars, \$500,000,000. If that much were used with the assistance of a guaranty for the resumption of flow of private savings, we think we could get back into normal conditions. In normal times we would loan in our building and loan associations approximately \$2,500,000,000 a year. Last year we loaned \$500,000,000. We think with \$500,000,000 purchases of shares with a guaranty to reinsure these ordinary folks that have been accustomed to putting their savings in, that we can get up toward \$2,000,000,000 within a year or 18 months at the most, and finance all home construction.

Passing on to section 5 of the act, I note that the Home Owners' Loan Corporation bonds are made eligible for circulation in the Federal Reserve System and made subject to open market operations. That is perfectly all right, but again, if you want the 2,300 associations that are now members of the Home Loan Bank System to have funds and get into operation, why not give those same privileges to the Federal home-loan bank bonds? It will make the bonds more marketable, and it will be by the sale of the bonds of these 12 banks. It will help tap some of the unused cash reserves that we have in our commercial banks at the present time. As a matter of fact, that is the theory of the Home Loan Bank Act as it was originally developed. It would be a device through which we could tap the bond market as a certain amount of the commercial banking assets of the country, and cause that money to flow over into the home-financing field.

That would involve two amendments which we would like to propose, Mr. Chairman, for your consideration; namely, amending section 5 (a), line 20, by opening the quotation marks and inserting "or by deposit or pledge of Federal home-loan bank bonds issued under the provisions of the Federal Home Loan Bank Act." And in section 5 (b) of your present bill, page 9, line 4, open the quotation marks and insert "bonds issued under the provisions of the Federal Home Loan Bank Act, as amended, and having maturities from the date of purchase not exceeding 6 months."

I make that suggestion merely in the interest of developing capital for these Federal home-loan banks who are supplying the existing institutions with funds.

Continuing on this section 5 for a moment, on the amendments suggested, our Federal home-loan bank bonds would certainly be as prime paper as the Home Owners' Loan Corporation bonds or the bond credit administration bonds, which have been accorded this privilege for open market operation and for Federal Reserve bank operations. Our Federal Reserve bank seems to be our principal, I was going to say inflationary, but I should say device for expanding credits. We would like to connect with it, too, in our Federal home-loan banks. We think also that would give us some cheaper money when we issue our bonds, and give them a standing that their intrinsic value merits. They will be very excellent bonds.

We have been checking up recently on our home-loan bank advances, and we find that where the home-loan bank has made an advance, it has about 5 to 1 of real estate behind their advances, and about 2½ of unpaid principal on mortgages, none of which are delinquent at the present time. A bond based on that is pretty good.

Mr. HANCOCK. What do you think about maturities from date of purchase not exceeding 6 months? Do you think that is long enough?

Mr. BODFISH. I used that for the reason that the limitation is put on the other securities in the Federal Reserve Bank Act that are subject to the open market operations. It means that these banks would probably raise some capital by the use of short-term bonds or debentures. I merely proposed that because that same 6 months maturity limitation was placed on the other securities made eligible for open market operations. From my personal view, I see no reason why you should not take a 12 months' bond in there, if it is good enough.

In section 8 there is a subject there that I approach with fear and trembling. I do not want the remarks I am going to make to be construed as a criticism of any individual or of the administration. We are doing our level best to cooperate with the administration.

When we participated in the development of the Home Loan Bank System, we expected it to be the principal instrumentality in the home-financing field and give leadership to the development of sound and economical home financing in this country. We frankly do not want it tangled up particularly with the general fiscal operations of this Government, nor with agencies that are interested more in the bond or concentrated-investment-capital market of the country. That is, the Treasury's contact is largely with the concentrated-investment-capital market of the country. We would just like to have our Federal Home Loan Bank Board frankly a group of gentlemen who are concerned exclusively with the development of sound and economical home financing and the right kind of local cooperative institutions to carry it out. While we cannot give a lot of good reasons, we would be just as happy if the job of Secretary of the Treasury was to supply such money as you gentlemen appropriated for this purpose, rather than to sit on the Board and determine the policies to be carried out by the Federal Home Loan Bank Board. We would just feel a little happier with some independence in that connection. We have been very hopeful that the Board would more and more draw into its service men who have been experienced in the thrift and home-financing activities, and we feel that this is a step in the other direction.

One more comment, Mr. Chairman, and I will be through, unless there are questions.

The program in this bill is absolutely satisfactory to us, but an additional proposal should be considered. I hope the committee will keep in mind that there are \$20,000,000,000 of home mortgages in this country and that this bill can at best only touch 1 out of 20 of them. The interest-rate question has been mentioned several times. Personally, I would like to see the home borrowers of this country receive very low interest rates on their home-mortgage borrowings. As a matter of fact, I see no reason over a period of time

why the home owners should not be able to borrow money to purchase a home at the same rates at least that the great utility and railroad corporations borrow money to finance their operations, because I know that this home-mortgage collateral and security is better from the point of view of investment risk.

While that is a fine ideal and objective, there is one fact that we must not overlook, that the \$20,000,000,000 that we have financing the homes of America today, and we have a more liberal home-mortgage credit system and facilities than any other country in the world, has come entirely from the savings of the ordinary people of this country. Until you get people to a place where they are willing to save their money at less than 4½ percent, 5 or 5½ percent in the building and loan associations, you cannot expect mortgage interest rates to go below 6 percent, 6½ percent, and 7 percent, because it takes from a point to a point and a half to operate these institutions, and they are operated for the benefit of all their people and are the most economically operated financial institutions in the whole country.

It is very fine to feel that a distressed home owner should have 5 percent interest or 4 percent interest, but frankly, gentlemen, his problem has not been created by the rate of interest. On a \$3,500 loan the difference of one point of interest is only \$35 a year at the most. Do not create a Government comparison in terms of interest rates to home owners which will be so low that the existing institutions cannot go ahead and pay rates to investors, and by investors I mean the ordinary citizens who save their money, which will urge those citizens to invest their money in building and loan associations.

We might as well face one fact. While I am not sure is going to be true in this depression, in every other depression we have come out with high mortgage interest rates. Why? Because mortgages are nonliquid investments, and in a depression period people are not willing to put a substantial sum of money into thrift and home-financing institutions when they expect it will be frozen somewhere.

We are as interested in low interest rates as anyone, but I will say frankly that the interest rate of the Home Owners' Loan Corporation so far has dried up a substantial amount of the savings that otherwise we might have received. There is no question but what the Government can raise capital at 1 or 2 points lower cost than we can by going out and getting the ordinary citizens—and that includes all of us right around this table—to put their money into a long-term, nonliquid investment.

I just want to deal frankly with that situation. I have no inclination to defend exorbitant interest rates, I have no patience with 9- or 10-percent lending—there is no excuse for it whatsoever—but let us not sin in the other direction.

I am sorry I took up so much of your time, Mr. Chairman, but that was the message I wanted to get over.

Mr. CHAIRMAN. Mr. Fahey made an announcement on January 3 that an insurance plan for building and loan associations was being studied by their board on the order of the President of the United States. That stirred up a lot of our investors. I would like very much to have that news release of Mr. Fahey's put into this record.

Mr. BUSBY. All right, sir.

(The matter referred to is as follows:)

FEDERAL HOME LOAN BANK BOARD,
OFFICE OF INFORMATION,
New Commerce Building.

[For release a.m. newspapers of Wednesday, Jan. 3, 1934]

It was announced today that by direction of the President the Federal Home Loan Bank Board has been studying and hopes to present soon an insurance plan for building and loan associations, savings banks, and other home-financing institutions along lines similar to those provided for commercial banks by the Federal Bank Deposit Insurance Corporation.

Numerous suggestions have been submitted by bank commissioners, savings banks, and building and loan associations. The American Savings Building and Loan Institute has also proposed a plan patterned after that of the Federal Bank Deposit Insurance Corporation which is receiving the attention of the Home Loan Bank Board.

"The overwhelming success represented by the establishment of the Federal Deposit Insurance Corporation for the greater protection of deposits in commercial banks", said Chairman John H. Fahey of the Federal Home Loan Bank Board, "has aroused wide-spread interest in the possibility of developing an insurance plan adapted to the peculiar needs of building and loan associations, cooperative banks, and mutual savings banks.

"By direction of the President, our Board is giving the matter careful consideration and hopes to suggest changes in the home-loan bank system which will expand and strengthen the system and provide for insurance. The problem is, of course, somewhat different from that presented by commercial banks, in which cash deposits are subject to immediate withdrawal, since the home-financing associations are primarily investment institutions. Those associations receive in large measure the long-term savings of millions of our people and keep these funds invested in long-term home mortgages and other first-class investments, such as the most select bonds. They represent investments of approximately 12 billions of dollars. About 8 billion of this sum is in building and loan associations and 4 billion in mutual savings banks. For those home-financing institutions the Government has established the Federal Home Loan Bank System in which it is the largest stockholder. The system represents a great reservoir of capital which enables those institutions in different parts of the country to render a very much greater service to their customers and to protect their interests to an extent which was impossible before its organization.

"In addition, as a result of the initiative of the Government, Federal savings and loan associations are being organized to extend this system of thrift and home financing into every county in the United States. This is being done because, when properly organized, supervised, and operated, this plan has proved to be the safest for savings and the best for long-term home financing. For the better protection of the public the Federal Home Loan Bank System examines and supervises all Federal savings and loan associations and may examine all institutions which are members of the bank system. It is the policy of the Federal Home Loan Bank Board to take every step practical to insure continued confidence in those institutions and the flow of savings into them. The Board is giving full consideration to every proposal presented to it which contemplates strengthening the system and assisting its members in rendering a great public service.

"The Board hopes to announce certain recommendations in the near future."

STATEMENT OF HON. WILLIAM F. BRUNNER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. BRUNNER. I was not present at any of the other hearings, and some of the things I have to suggest may have been brought up before.

I represent a district which has a million people living in it, of whom 75 percent live in their own homes. It takes in an area of

about 18 square miles, so I am quite familiar with it. In my county (I represent practically the entire county) we have about 10,000 applications. I do not know just how many loans have been made. These suggestions that I have to make, of course, come by way of constituents coming to me with complaints, so I just give them to the committee for their benefit.

I am heartily in favor of the guaranty of the bonds, and I think that will facilitate matters to a great extent. But so long as we are going to guarantee these bonds, I think the interest rate should be reduced to $3\frac{1}{2}$ percent, and I think that the mortgages should bear, instead of 5 percent, as it is now in some cases, $4\frac{1}{2}$ percent, whether that mortgage is made by cash or by bonds. In our State, for instance, you might have noticed recently the savings banks have reduced their interest rate to $2\frac{1}{2}$ percent.

I do not think there should be a limit placed on the value of the homes. If a home is worth \$30,000, the owner should be permitted to get a loan from the Corporation as well as somebody whose home is worth only \$10,000.

There is one more suggestion, which applies directly to this bill—that is, a loan should be made for repairs. I think it should be made about 5 percent of the amount of the loan, but in no instance should that be over \$500.

One other obstacle we have met where I live is that, for instance, a man and wife live in the home, and they have formed a corporation in order to own that home, for no particular reason, but the corporation nevertheless owns it, and the stockholders in that corporation are just the man and wife, the people who really live in the home. I think it should be permissible that they should apply for these loans.

I think that covers entirely everything that I have to say.

Mr. LUCE. When you can go in the market today and buy American Telephone stock that will yield you $7\frac{1}{2}$ percent, how far down on interest do you think we can afford to go in draining the savings banks and the building and loan associations of their investors?

Mr. BRUNNER. The prevailing rate in our State, of course, is 6 percent. In fact, the law limits it to 6 percent in New York State. They do not have to guarantee that Government bond, I do not think.

Mr. LUCE. You can get first gilt-edged bonds and gilt-edged stocks that will pay you anywhere from 5 to $7\frac{1}{2}$ percent. What will be the effect on the depositors in the savings bank and the shareholders in the building and loan associations if we drop the rate as you suggest?

Mr. BRUNNER. I do not just get the question. You mean the people would not put their money in savings banks any more?

Mr. LUCE. Sure.

Mr. BRUNNER. They are getting only $2\frac{1}{2}$ percent in my State now. They are still putting it in if they have any to put in.

Mr. LUCE. Your State is in a different position. My State is paying 4 or $4\frac{1}{2}$ percent.

Mr. BRUNNER. Of course, I can speak only with respect to my own State; that is, New York.

Mr. LUCE. That is a factor that we have to take into account, the effect of what we do here on the savings of the people of the country.

Mr. BRUNNER. Do you not think the added guaranty you are giving the bondholder when you guarantee the principal should be considered?

Mr. LUCE. Oh, yes; that has to be taken into account, but taking all the factors into account, I wanted to point out that a change of interest rate such as you suggest would have a very serious effect upon the investments of the life-insurance companies of the country, who are the great holders of mortgages.

Mr. BRUNNER. I cut it down only a half of 1 percent, you notice. My thought is, the security back of the bond would be so great with the guaranty of the principal that the people would be not only glad but anxious to take it even at the reduced rate.

Mr. BUSBY. The committee will stand adjourned until 2:30 o'clock this afternoon, when we will gather back here to hear the other witnesses.

(Whereupon, at 12:05 p.m., the committee adjourned until 2:30 p.m., March 16, 1934.)

TO GUARANTEE BONDS OF HOME OWNERS' LOAN
CORPORATION—H.R. 8403

MONDAY, MARCH 19, 1934

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

The committee met at 10:30 a.m., Hon. Henry B. Steagall (chairman), presiding.

The CHAIRMAN. The committee will come to order. Gentlemen, we have with us this morning several Congressmen who desire to be heard on this bill.

We will first hear from Mr. Sweeney, of Ohio.

STATEMENT OF HON. MARTIN L. SWEENEY, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF OHIO

Mr. SWEENEY. Gentlemen, I am seeking to amend this bill, H.R. 8403, by way of a rider, and I am going to give you this amendment particularly to the section ending on page 5 and to be known as "subsections Q, R, S, and T", immediately preceding line 24 of section 2.

Subsection Q will read as follows:

The Corporation is further authorized for a period of two years from the effective date of this act to make loans in cash or to exchange bonds for repairs, modernizations, or alterations of homes on which the Corporation does not have a home mortgage, but no such loan shall exceed sixty per centum of the value of the structure and the land before the improvement is made, or the sum of \$3,500. Each such loan shall be a first lien on the property covered thereby, and shall be secured by a duly recorded mortgage bearing interest at the rate of five and one half per centum per annum and shall be amortized by means of monthly, quarterly, semiannual, or annual payments sufficient to retire the interest and principal within a period not to exceed 10 years. No such loan shall be made for the purpose of changing a home into any other type of structure.

Subsection R would read as follows:

The Corporation is further authorized, for a period of two years from the effective date of this act, to make loans for the construction of homes, but no such loan shall exceed 75 per centum of the value of the structure and the land, or the sum of \$20,000. Each such loan shall be a first lien on the property covered thereby and shall be secured by a duly recorded mortgage bearing interest at the rate of 5½ per centum per annum and shall be amortized by means of monthly, quarterly, semiannual, or annual payments sufficient to retire the interest and principal within a period not to exceed eighteen years.

Subsection S will read as follows:

The Corporation is further authorized to purchase or agree to purchase from any building and loan association, savings and loan association, cooperative

bank, homestead association, insurance company, savings bank, or mortgage loan company any mortgage which the Corporation might have obtained under the provisions of paragraphs Q or R of this section, or to exchange bonds therefor. Such mortgage shall have been executed after the effective date of this act, and the purchase thereof or the agreement to purchase it shall be made under such rulings and regulations as the board may prescribe, and all such purchases shall be consummated within four years from the effective date of this act.

Next, subsection T will read as follows:

The amount of the loans which the Corporation may make under paragraphs Q and R of this section and the amount which it may use to make purchases under paragraph S of this section, shall not exceed, in the aggregate, \$2,000,000,000, and the aggregate amount of bonds which the Corporation is authorized to issue and sell shall be increased to \$4,000,000,000.

Now, I come from the section of Cleveland where we have approximately 40,000 union men out of work, and sooner or later you have got to take up the slack of the C.W.A. and the P.W.A., in what is being done by them today, and we feel there is the opportunity, if you can include this amendment either as a rider, which I would prefer, or as subsequent legislation to take up this slack.

Let me give you an illustration of the conditions up there and the demand for new homes. I will give you that illustration, which, I think, is a very good cross section throughout the country.

Here is a man, C. S. Kinney, who sent out a questionnaire to builders and real-estate men. He asked this question first:

In your opinion, what demand is there in the area in which you operate for homes ranging in price from \$8,000 to \$25,000?

This is a typical answer:

There are from 75 to 100 lot owners who are in the market for loans on new houses, who wish to start at once and have jobs with a good income, and many more people who are making inquiry daily on loans and prices of lots who wish to move to this locality.

The second question he asked was as follows:

Of how many lot owners or prospective home buyers has your office definite knowledge, who would build if financing were available under this plan?

To which this is a reply:

In September I personally interviewed 300 lot owners, first, by sending a form letter inquiring how many were interested if they could secure financing, and then I followed up with a personal call, and I secured 77 signed agreements that they wanted to build houses on their lots if they could borrow on first mortgages to build with.

The third question asked was as follows:

What has been your experience with the following types of institutions with regard to securing financing of any kind within the past 2 years—building and loan associations, banks, insurance companies?

To which this is a reply:

I have visited banks and building and loan companies without any success and have been flatly refused, no matter how good a prospect I had or how large the man's income was. The insurance companies have made a few very small loans on new completed houses, and I have only found one of these, and a large bonus fee was charged for making the loan.

Mr. BROWN. I understood you to say in conversation before the meeting this morning that you proposed to increase the amount of money available to the Home Loan Corporation?

Mr. SWEENEY. Yes; to increase this money from 2 to 4 billion dollars.

Mr. BROWN. It would be absolutely impossible to do anything like you outline there without doing that.

Mr. SWEENEY. Why?

Mr. BROWN. Because the testimony here the other day showed there are applications now for \$3,000,000,000 in loans. We have \$2,000,000,000 and a little stock money which is, of course, largely used for expenses, as I understand it, so your proposal is absolutely correct in that respect, and you cannot do it with the present money.

Mr. SWEENEY. You will probably have to find a way to get it, because I think this is the only way to get up that slack, and you can either do that through an issue of more bonds, or through the C.W.A. or P.W.A.

We have here this morning a gentleman who would like to be heard very briefly after the other Congressmen who want to be heard get through.

Mr. MEEKS. May I ask a question? I just came in and did not get all you said. What does the survey in your city show as to the number of vacant houses available, with a little repair, or something of that kind? In other words, what are your actual needs in home building?

Mr. SWEENEY. I can give you some figures on the amount of individuals who are willing to build if that is what you want.

Mr. MEEKS. No; I don't want that. I want to know how many vacant houses have you, approximately.

Mr. SWEENEY. I can give you some figures for certain sections out there, but no figures are available until the Government finishes the survey which the Department of Commerce is making, but in a certain section in Cleveland there are less than 10 vacant family houses, and out of 43 apartment houses there are less than 20 vacancies, and in that same area there are 87 families doubled up.

The only way you can find the man who wants a home is by actual contact with your people; otherwise you can make all of the surveys you want with regard to vacancies and doubling up, but the only way you can find out whether a man wants to build a home or not is by calling on him, by personal contact, and there is no way you can do that except through a sales force.

Mr. MEEKS. The point I had in mind, gentlemen, is this: Here we are engaged in loaning hundreds of millions of dollars to distressed mortgages to save these homes for the people, and why do we want to go right back and put ourselves in the same hole again; that is what I would like to find out.

Mr. SWEENEY. The reason is that the financial institutions will not loan money out for this purpose today.

Mr. MEEKS. Why do we want to start a program of that kind, is what I want to know.

Mr. SWEENEY. There is no opportunity to go to the home-loan bank to get money for repairs, and when the owner goes to a building and loan company he is turned down.

I have taken up my time, gentlemen, and I will not burden you with further comment.

Mr. FARLEY. What information can you give us as to the reason given by the building and loan associations in your State, and the

banks, as to why they do not loan these applicants money—what reason is given for that?

Mr. SWEENEY. I do not know; it is just an arbitrary rule; and also, most of them have their assets frozen now.

Mr. FARLEY. It is lack of available funds, then?

Mr. SWEENEY. Yes.

Mr. BROWN. This approval by the Treasury Department of the type of security they get is one of the principal reasons we are not getting our money out to the people, because the Treasury Department will not stand for the kind of loans the banks can make.

Mr. SISSON. I think possibly Mr. Farley did not get the preliminary statements on your statement we had before he came in. A large part of this relief which you are proposing in this amendment here would be, I take it, expended for repairs, would it not, Mr. Sweeney?

Mr. SWEENEY. Yes; that is correct. We have in Cleveland probably one plumber at work out of three, and the carpenters are that way and all of the other trades in our town. I suppose that is true in New York City and all throughout the country. We all know the distress, we meet these people when we go home on vacation, and they are asking us what are the chances of looking for some sort of relief.

You gentlemen will probably get a letter in a few days from Mr. McDaniel, giving a complete survey and endorsing this kind of legislation.

Mr. SISSON. Mr. Chairman, there is at least one bill before a subcommittee of this committee for an amendment of the Reconstruction Finance Corporation Act for practically the same purpose as the amendment of Judge Sweeney.

That was introduced by Mr. Wadsworth, who appeared and discussed it, and I remember somebody on the subcommittee made the suggestion to him that there was not any set-up in the different localities to pass upon these loans, making appraisal and so forth in the Reconstruction Act or administration. I think Mr. Wadsworth made the reply that might be done through the Home Owners' Loan Corporation.

Governor Christianson, who is here this morning and interested in this legislation, made the suggestion before the meeting this morning that it would be much better to start this year rather than in the Reconstruction Act, because we are practically sure this is going through.

I am calling it to Judge Sweeney's attention, because I think Mr. Wadsworth, if he knew this purpose was going to be accomplished here, he would be glad to join with you, Judge Sweeney.

Mr. REILLY. Mr. Chairman, there are several bills before the subcommittee of this committee involving the matters Judge Sweeney has spoken of. I think it is generally recognized by the committee we ought not to cumber up this bill guaranteeing bonds with any question of this kind.

Mr. CROSS. I think an amendment of that kind will defeat the whole bill.

The CHAIRMAN. It is generally understood the Home Loan Administration is considering legislation of this type to accomplish this

purpose, and I think their suggestions as to this legislation will be submitted very soon. But to what extent or just what will be done as to this has not been determined, although it is earnestly desired this particular legislation be expedited.

Mr. REILLY. Mr. Chairman, just as soon as this committee gets through with this bill I intend to call a meeting of our subcommittee and take up this whole question of all of the bills of the character of the one submitted by Mr. Sweeney.

The CHAIRMAN. We will next call Congressman Ellenbogen.

STATEMENT OF HON. HENRY ELLENBOGEN, A MEMBER OF THE HOUSE OF REPRESENTATIVES FROM THE STATE OF PENNSYLVANIA

Mr. ELLENBOGEN. Gentlemen, I will try to be as brief as I can, and I want to say to the committee before I make my remarks that I have made a study of the authorization of the Home Owners' Loan Corporation, extending from the time the corporation became functioning in June of last year, and I have been in very close contact with the offices in Pennsylvania and the national office here. I have with me some figures and material I believe will be of assistance to the committee.

I have introduced three bills on the subject, some of them quite extensive, which were very favorably received by the administration. I would like to say I agree with the gentleman from New York, Mr. Sisson, that in this bill we are dealing with, we are not dealing with simply the guarantee of the principal of the bonds, we are dealing with the subject of the Home Owners' Loan Corporation, and every amendment or change relating to it should come at this time and not at some future time, because there may not be a future time.

I do not want to deceive the committee and do not want to deceive myself that when the Home Owners' Act was drawn it was drawn purely for the purpose of relieving distressed home owners. I feel, however, that the time has come when we shall somewhat deviate from the purpose.

I believe it should be changed so that it should not only be a bill really for home owners, but a part of the recovery program, and I feel encouraged in that position by the bill that has been submitted by the Board of the Home Owners' Loan Corporation.

For instance, I find in the amendment, section 2, paragraph P, dealing with repairs, that the corporation has submitted to this committee and to Congress a plan which deviates from their original purpose.

You will remember that the act as passed in Congress provided only for such repairs as were necessary to preserve the lien, for instance, if a roof were leaking or a wall caving in, and it was necessary in order to preserve the lien of the mortgage, the Corporation had the power to repair that under the act passed last year.

But now, gentlemen, the corporation proposes to go into the field of repairs generally, and modernizations and extensions and so forth. Therefore, I say they have agreed fundamentally, and I think we should develop the fundamentals before we get to the details. So I say they have fundamentally agreed with the view-

point some of the Members of Congress, including myself, have, that this machinery we have set up which is functioning in every county in this country to some extent, should now be used for the purpose of recovery as well as for the purpose of relief to home owners, and the Home Owners' Loan Board has officially endorsed that position in the amendment they suggest in paragraph P on page 5.

Mr. BROWN. Section P relates solely to houses on which they have heretofore issued mortgages?

Mr. ELLENBOGEN. Yes, I understand; and I was coming to that presently. You see until now the only repairs permitted were those absolutely necessary to prevent the house from falling down.

Mr. BROWN. We are going now into the subject that our subcommittee is supposed to go into as soon as it meets, and I personally do not think we should occupy the time of the full committee with an extended statement relative to a matter which the subcommittee has jurisdiction over.

Mr. ELLENBOGEN. I will say to the gentleman I am going to bring it up on the floor of the House. This is germane to the bill, and it is right in the bill.

On the subject of repairs, gentlemen, this bill, H.R. 8403, proposes that the repairs should be limited to houses on which the Corporation has a lien. But I cannot for the world see that at all, because I think the amendment can only be for the purpose of stimulating the building trades and to put money into circulation.

If that is the purpose—and anyone who reads it and thinks about it I feel can come to no other conclusion here—then why should we limit it to houses on which the corporation has a lien. For instance, suppose someone has a dwelling which is free and clear, certainly a lien on that is good, it is superior to the lien proposed in this bill, and he should have the privilege of applying to the Home Owners' Loan Corporation and obtaining a loan for the purpose of making repairs.

Mr. REILLY. I might say the purpose of this was to give the Corporation a chance to improve its own property and rent it and make it rentable. The Corporation may have to take back a home, and this would give them the privilege to put it in repair and rent it.

Mr. ELLENBOGEN. But the amendment does not give that power to the Corporation; it gives it power to make loans to make repairs.

Mr. REILLY. It is to improve their own property they have the mortgage on.

Mr. ELLENBOGEN. I feel very strongly we have come to a place where we must do something for the building industry, for two reasons: First, there is no surplus of dwellings but there is a shortage. Different agencies have made a survey, and while they disagree as to the figures, they all agree there is a shortage. The lowest figure they have is that 500,000 homes should be built in the next few years, and the highest figure we have is 800,000 homes should be built in the next few years.

I think we should make provision, not only for repairs, but for new construction. My suggestion on that is a billion and a half dollars of bonds be issued by the Corporation for the purpose of repairs and new construction, and that the bonding power of the Corporation be extended to that extent, and those bonds be included in the bonds in addition to the 2 billion dollars now authorized.

Mr. BROWN. Would you have this low rate of interest on those bonds?

Mr. ELLENBOGEN. Yes.

Mr. BROWN. I do not see how you can justify it.

Mr. ELLENBOGEN. I justify it on this basis, and I don't think I am alone in this sentiment; I think the President has expressed it, that in the next few years we are going through a period of low interest rates, and the homeowner is entitled to the benefit of these low interest rates as well as anybody else.

As a matter of fact, I do not believe you can carry on extensive building operations for some time in the future unless you have a low rate of interest. I think 5 percent is plenty high.

Mr. SISSON. What about the banks, what do you think of the interest they should get?

Mr. ELLENBOGEN. The banks will have to do the same; not charge in excess of 5 percent.

Mr. SISSON. How about the mortgage companies, do you not think they are in a position to take care of loans for these purposes you have in mind?

Mr. ELLENBOGEN. They are not doing it at the present time, but I think they should not be permitted to charge more than 5 percent.

I feel also that the bonding power of 2 billion dollars is utterly out of relation to the facts. As has been pointed out to you, there are applications pending for a total of more than 3 billion dollars, while the bond authorization is only 2 billion dollars, and how can that amount take care of it? Are they going to throw them out; are they going to say, since we have only 2 billion dollars we will try and throw out worthy applications that should be considered? Let no one tell me 30 percent will be rejected and that they will come close to 2 billion dollars, because I have statistics submitted by the Home Owners' Loan Corporation that over 2½ billion dollars, or to be exact, \$2,491,161,089 of applications have already been approved preliminary to appraisal. Still they only propose to issue 2 billion dollars of bonds.

I feel, gentlemen, that the bonding power for ordinary purposes should be raised to approach 3½ billion dollars, or perhaps even more. I think in addition to that we should have a billion and a half earmarked for repairs, modernization, and for new construction.

In addition, if you will pardon me, I would like to point out one injustice observed throughout many counties in each State, including my own. At the present time many banks, instead of taking a mortgage from a person in good standing, take what is called a "judgment note." They do not put it on record, because it is good, therefore that note is not eligible under this act, and I think that should be made so, because when the bank took the judgment note it was on the lien of his home, while the act says no lien recorded shall be considered.

Mr. BROWN. The original act so provided, but that has been changed, and the act does not require now that it should be recorded.

Mr. ELLENBOGEN. As I read it, that provision has not been changed.

Mr. HANCOCK. A judgment note is not a lien, it is an agreement to confess judgment in case of nonpayment.

Mr. ELLENBOGEN. I feel even though those notes were not put on record, they should be entitled to a loan.

I have some figures on the extent of the mortgage indebtedness of the country in numbers and totals, and if the committee wants to have them I will be glad to submit them for the record.

Mr. Chairman, unless there are some questions, I think I have made plain my purpose.

Mr. BUSBY. You say you have completed your statement?

Mr. ELLENBOGEN. Yes, sir.

Mr. BUSBY. I believe the time limit has been agreed upon, and we will now hear from Governor Christianson.

STATEMENT OF HON. THEODORE CHRISTIANSON, MEMBER OF THE HOUSE OF REPRESENTATIVES FROM THE STATE OF MINNESOTA

Mr. CHRISTIANSON. Mr. Chairman, it has been my experience when I have anything to say and confine myself to what I know, I have no difficulty in getting through in 5 minutes.

I want to call the attention of the members of the committee to this fact, that in the recovery works so far we have been fairly successful so far as consumers' goods industry is concerned, that industry is satisfied and making money 100 percent today. But the reason for the persistence of the depression lies in the fact that the capital goods industry is almost dormant.

To make money it is necessary to employ 5 million men, out of which only 1 million are working today, leaving approximately 4 million out of 8 or 10 million out of work, as belonging to the industries that would be helped directly or indirectly by the passage of this legislation.

It appears to me if this committee wants to do anything substantial to bring about recovery, it must be something to put these 4 million back to work.

We are trying to attack the problem by the expenditure of huge sums of money in public works, and I call your attention to the fact that in the type of work and building done by the P.W.A. program, machinery plays a great part and manual labor much less.

Last summer I observed the construction of the huge post-office building in St. Paul, and I was shocked to see the small number of men actually employed. The placing of one great stone upon the other, the pouring of mortar, do not involve the expenditure of very much human labor. On the other hand, in the erection of a home a different situation obtains, and a very great percentage of the effort that goes into the erection of homes is human labor, and consequently the largest part of the money expended is expended for wages.

I am for this bill because to me it presents one of the most efficient and one of the most hopeful measures offered so far to bring enough of these people back into the ranks of the employed so as to revive our situation.

I have some figures from my own State of Minnesota where inquiries were made that elicited answers from 64 dealers in building material, living in 38 counties of the State. Of these 64 there were 42 who reported absolutely no facilities for new construction;

17 reported facilities were limited; and only 5 reported there were adequate facilities, and that report comes from a county which happens to be the site of a number of finance companies which finance their own construction.

Mr. KOPPLEMANN. Who do you get these figures from?

Mr. CHRISTIANSON. They were from questionnaires sent out to 64 building trades people.

Now, these 64 reported that in their respective communities there were 1,296 bona fide home-building projects that awaited only financial assistance in order to proceed with the erection of homes that would involve an expenditure of from two to five thousand dollars each, that is, modest homes of the average working man.

I am not going to proceed to encumber the record with a lot of extraneous material, but I would call your attention to the fact that these projects would involve the use of 30,710,000 feet of lumber and would take over 30,000,000 feet of lumber out of the local lumber yards, and this would make necessary the restocking of those lumber yards to the extent of 17,843,000 board feet. That, of course, would reach back into Washington, Oregon, and down into the southern lumber district, revivifying industry, not only in the lumber mills, but back in the woods where the trees are cut. So that it appears to me that the result of the expenditure of the amount of money here proposed, or any other sum, making it available for loans of this kind, would make an effect that would be felt throughout the country. I think it would do infinitely more to restore prosperity in America than the \$300,000,000 we have furnished and thrown into the hopper for the P.W.A. work in erecting \$100,000 post offices in 25,000 towns.

The CHAIRMAN. If there are no questions from the members, we thank you, Governor Christianson, for your statement.

We will now call upon Congressman Hoepfel.

STATEMENT OF HON. JOHN H. HOEPEL, MEMBER OF THE HOUSE OF REPRESENTATIVES FROM THE STATE OF CALIFORNIA

Mr. HOEPEL. Mr. Chairman and gentlemen, I will try to confine myself to 5 minutes or less.

When this Home Loan Act passed Congress it was understood it was to bring relief to the mortgagor, and instead of bringing relief to the mortgagor it has perhaps in half of the instances brought additional mortgage indebtedness.

Instead of bringing relief in the case to which I will refer here, and which will be an example of hundreds of thousands, it brought additional indebtedness. This individual I refer to is a personal friend of mine living on the same street I do. In financing a mortgage of \$4,199, to which was added a certain foreclosure expense, he was saddled with an additional sum of \$671, which amount went to the original mortgagor. As a matter of fact, he gave \$671 to the original mortgagor to accept the depreciated bond.

Mr. BROWN. The attorney for the Home Owners' Loan Corporation has ruled, as I understand, or has said that such a note is given without consideration and cannot be enforced.

Mr. HOEPEL. It may not be enforceable, but I saw papers of the Home Owners' Loan Corporation in Los Angeles where in their own

papers prepared themselves, on a \$3,000 mortgage, the mortgagor was required to accept \$150 less, that amount to be given back to the mortgagee.

I would suggest a provision be written in this bill that the holder of a bond—

Mr. HANCOCK (interrupting). In the last case you mentioned, where the Home Owners' Loan Corporation prepared the papers themselves, is it not a fact that the mortgagee had allowed the full face of the bond to be accepted in lieu of the mortgage, and this was the difference between that value and the appraisal of the Home Owners' Corporation?

Mr. HOEPEL. No; he took the full face of the mortgage in bonds, and the depreciation in the price of the bonds the mortgagor was forced to absorb himself. They have been doing that throughout southern California everywhere, and I think, while I am in favor of the bill as written, that provision should be written into it to provide that the holder of any bond must obtain a release from the original mortgagor before any bond which he holds will be guaranteed as to principal.

If you do that it would protect the interest of this man here, for instance, he would be absolved from paying that note of \$671. Unless we have something of that kind in this legislation over half of the people who are supposed to have received mortgage relief will be under an additional burden, in some cases a second mortgage, but in most cases a note.

Mr. BUSBY. Mr. Russell, would you object to that kind of an amendment?

Mr. RUSSELL. I would like to make clear the gentleman has stated two different propositions. One of them is a case where the corporation took up all of the indebtedness.

Mr. HOEPEL. No; they only took up the mortgage for foreclosure making a total of \$4,573.

Mr. RUSSELL. In the first case cited, he states the Corporation took up the indebtedness of the home owner and some other person took an additional note. In that case we take the position that the note is not only without consideration and it is void, but it is also void because it is contrary to the policy of the law.

The second case is one where the Corporation did not take up the full bona fide indebtedness of the home owner, but took up 80 per cent of the appraised value of the home, permitting the original mortgagee to take a second mortgage for the balance on a bona fide debt owing to the original mortgagee. Those two propositions are entirely separate.

Mr. HANCOCK. In the second case the mortgagee allowed the full value of the bond, did he not?

Mr. RUSSELL. According to his statement, that is the way I understood it. In this first case he mentioned, we do not countenance such a transaction, but we even go to the trouble of assisting the home owner to defeat this second note, or second mortgage, or to recover the money if he has paid out the cash.

In the second case, where the home owner has given out a note for a difference that is bona fide, we are not concerned.

Mr. HOEPEL. In the two cases I have cited the note was given to absorb the depreciated value of the bond, in both cases.

Mr. RUSSELL. As I understood, you stated the Corporation wrote the debt down a few hundred dollars.

Mr. HOEPEL. Before the mortgagee would accept the bond the home owner had to subscribe to an additional indebtedness to absorb the depreciated value of the bonds.

Mr. RUSSELL. In those cases we take the position it is a criminal act for the mortgagee to take a note, and that the note is void because it is without consideration, and because it is contrary to the policy of the law.

Mr. BEEDY. Mr. Russell, under the existing law, in this kind of a case, the mortgagor under such facts is protected without any additional law.

Mr. RUSSELL. The first case is covered by the law at present, as we take it, but in the second case he has given a note for the difference in the value of the property and the amount of the mortgage, which is a bona fide debt of the mortgagor to the mortgagee.

Mr. HOEPEL. In both of these cases the home owner was forced to give, one of them a note for \$671, in order to absorb the depreciated bonds, and in the other he was forced to give \$450 on a \$3,000 mortgage to absorb the depreciated value of the bond. Hundreds of those cases have occurred in southern California, and perhaps in other places throughout the United States, and in some cases I was told they even gave back a second mortgage.

Mr. BEEDY. All Mr. Hoepfel has to do is to write these people that the note is void, and that it is a criminal offense to take it, and the Home Owners' Loan Corporation has so held.

Mr. WOLCOTT. What makes it a criminal offense?

Mr. RUSSELL. That is the position we take. If a home owner has been required to give some additional note, he can ignore the note, or he can bring suit to cancel it. It is not only a void note as being without consideration, but it is a note like a gambling debt, given in the first instance in violation of the policy of the law. It is a question also of violation of the criminal section 8 of the act.

Mr. HOEPEL. Your agencies in California are permitting that every day. All I did the past summer was to confer with people in mortgage distress, and your organization in Los Angeles is inefficient.

Mr. RUSSELL. I am not disputing that question, but I do think on your first statement of this proposition, as you stated it yourself, there is a difference in the two cases. We do permit the home owner to give an additional note where we are not able to finance the whole of his debt.

Mr. HOEPEL. That is not the question I am advancing. I am advancing the case where the mortgagor is having additional indebtedness foisted on him because the mortgagee will not receive the bonds unless the mortgagor accepts that additional indebtedness to absorb the difference in the value of the bonds.

Mr. RUSSELL. We condemn that practice.

Mr. HOEPEL. Yes; I know you condemn it, but why don't you have it stated in the statute that it shall not be paid?

Mr. BEEDY. Will you listen to this a minute, Mr. Hoepfel. The original act, section 8, subdivision (e), reads as follows:

No person, partnership, association, or corporation shall make any charge in connection with a loan by the Corporation or an exchange of bonds or cash advance under this act except ordinary charges authorized and required

by the Corporation for services actually rendered for examination and perfecting of title, appraisal, and like necessary services. Any person, partnership, association, or corporation violating the provisions of this subsection shall, upon conviction thereof, be fined not more than \$10,000 or imprisoned not more than 5 years, or both.

Mr. HOEPEL. That does not prevent the man giving a note, does it?

Mr. KOPPLEMANN. Is it your argument that the officials of the Home Owners' Loan Corporation of Los Angeles countenance such a practice?

Mr. HOEPEL. They know of that. Their appraiser spoke to me in reference to it, and they were suggesting to the mortgagor that is the way they could get relief.

Mr. KOPPLEMANN. Have you written to the Home Owners' Corporation in regard to it?

Mr. HOEPEL. I wrote to them and told them about their inefficient force.

Mr. KOPPLEMANN. Did you get any replies?

Mr. HOEPEL. They begged me not to expose it.

Mr. WOLCOTT. If it is not brought to the attention of the Home Owners' Loan Corporation here in Washington, or in their local administration, there is no remedy the law can give them.

Mr. HOEPEL. In Los Angeles their Home Owners' Loan Corporation worked in connivance with a crooked lawyer and worked a family out of a farm, and I am still working on that.

Mr. BUSBY. Let me ask you, Do any of those people go into the courts to maintain their rights, because, of course, that is their only forum?

Mr. HOEPEL. In this case they went into court on the advice of the Home Owners' Loan Corporation, and the lawyer not only permitted their property to be taken away from them, but they were procured to sign an assignment of their crop, and now they have taken their crop away from them.

Mr. WOLCOTT. Who was the lawyer representing that did that?

Mr. HOEPEL. The lawyer I speak of was recommended to the distressed people by a representative of the home owners' bank in Los Angeles.

Mr. WOLCOTT. They just got the wrong lawyer?

Mr. BUSBY. I am sure this committee would like to see the law made air-tight in that regard, but, after all, you have got to administer rights of that type in court, and if you get the wrong lawyer or the wrong court, it is no fault of the statute.

Mr. HOEPEL. That is an extraneous point, anyway.

Mr. BUSBY. Do you have a memorandum prepared to submit for the correction of that condition?

Mr. BROWN. Mr. Chairman, the amendment I have introduced is for that purpose, and this is the way it reads:

That before any bond issued prior to the effective date of this amendatory provision shall be exchanged, the applicant for such exchange shall be required to satisfy the board that the mortgagor who first obtained said bond for the purpose of paying his obligation to his creditor received the full face value of said bond prior to the application for exchange into a guaranteed bond. The Corporation is authorized to make such rules and regulations as are necessary to carry into effect this provision. Substituted bonds so issued shall not be included in ascertaining the aggregate amount of bonds which may be issued under this section.

Mr. BEEDY. You suggested an amendment on that a while ago, Mr. Hoepfel, in a few words and very clearly; can you restate that?

Mr. HOEPEL. I suggested these bonds be not considered valid as to principal unless the original mortgagor signs a statement to the effect that he did not suffer loss in the transfer of his mortgage for the bond.

Mr. BROWN. That is the same thing, but I may say I became convinced after bringing this to the attention of Mr. Fahey, and talking to Mr. Russell, that the fault I sought to remedy was very small; but if it is large I change my attitude in that respect. I know it happened in northern Michigan to some extent, but I did not hear of it happening anywhere else.

Mr. WOLCOTT. May I make this statement, under section (e) the attorney referred to by you would be liable for a penalty of \$10,000 or imprisonment for 5 years in that case?

Mr. HOEPEL. It was turned over to the United States attorney, and they are doing nothing.

Mr. WOLCOTT. That is not the fault of the act, yet I quite agree with you we possibly should make it more definite, but under section (a) of section 8 Mr. Russell just informed me that the mortgagee, before these bonds were turned over to him, makes a statement that it is in full consideration of the mortgagor's indebtedness to him.

Now, I cannot see for the life of me where any suit would lie upon any additional paper, notes, mortgages, or anything else in connection with that transaction, because the mortgagor has a perfect defense under this act and under that agreement which was signed, and I assume those agreements are available for that purpose.

Mr. HOEPEL. What I would like to ask, Mr. Brown, are you going to introduce that as an amendment to this pending bill?

Mr. BROWN. I was convinced by the Home Owners' Board's testimony here that the evil was very small.

Mr. HOEPEL. Why couldn't you incorporate that amendment in this pending bill?

Mr. REILLY. If it is deemed advisable by the committee, it will be incorporated, but the difficulty of administering it is the evil. However, any of your constituents who signed a note have a complete defense, and you should so notify them.

Mr. MEEKS. I have something to say on this subject. At first, when Mr. Brown suggested his amendment, I was a little skeptical about it, but I have been making some investigation since and I was interested in hearing what Mr. Hoepfel was telling us about it today.

There is, however, one point that is not covered in his discussion, and that is, in States where they have judgment notes and a mortgagor is obliged under moral duress to sign such a note, if that note should be put in judgment in any court of record, it becomes a lien against all property which he possesses, and the moment it gets in the hands of the sheriff it is a lien against his chattel property, household goods, and other property.

Now, there is nothing said here which would relieve the mortgagor from the necessity of going into court on his own initiative to get rid of that lien. He must hire a lawyer, he must appear in court with his case and move to set it aside, setting up these facts. It is not in fact a defensive action but an affirmative action on his part.

Mr. BUSBY. May we hear Mr. Russell's reply to your statement, if he will, please?

Mr. MEEKS. Just a moment, please. Mr. Brown's amendment to the bill might be broadened to cover that sort of case. I don't know whether you have judgment notes in your State or not.

Mr. HOEPEL. No; I don't know anything about that.

Mr. BUSBY. We have one or two other witnesses, and in fairness to them, in view of the time limit, I believe we might get to that point quickly if we would hear from Mr. Russell, the attorney for the farm-loan organization, briefly, in reply to you, Mr. Meeks.

Mr. RUSSELL. Mr. Chairman and gentlemen, on this question of the enlargement of the penal section of the statute I do not think the board has any objection to enlarging that section.

It is our opinion that the practice referred to by the Congressman of the mortgagee taking bonds for the amount of his debt and, in addition, making a cash charge or a charge by way of an open note or second mortgage securing a note, is already completely condemned by the statute.

Mr. BUSBY. Mr. Russell, you understand that a person who is not advised of his rights under the law is often imposed upon illegally, and ninety-nine times out of a hundred he will not go out and incur the expense of employing a lawyer; and don't you think there should be some positive assertion outstanding in this statute declaring to him his rights and declaring to the mortgagee his wrong and setting up a penalty for that wrong in the event he strives to use duress or in any other way imposing on the uninitiated?

Mr. RUSSELL. I think we understand fully every possible effort ought to be made to avoid such a practice.

Mr. BUSBY. The best way to avoid that would be to assert boldly what you say the law already is, if the court is called upon to administer it, and clarify the act by saying that this shall not be done, by reference to the mortgagor; and if he does, this penalty is provided for the mortgagee.

Mr. CROSS. I think it should go further. Take the average man—he knows nothing about courts; and having been a district attorney for many years, I know. He goes to the loan company, and he will agree to almost anything, and I think it not only ought to do that but it should have a provision in there calling on the Federal judges to call attention of the Federal grand juries to it, and the Federal district attorney should look into it at every grand-jury meeting, and that will keep these birds from doing that kind of thing. Otherwise the fellow doesn't know; he just gets a loan, and he is imposed on.

Mr. BEEDY. Mr. Chairman, I do not think there is any member of this committee who would not vote for an amendment even broader than Mr. Brown's, and I don't think there is any need for further discussion of this.

Mr. KOPPLEMANN. I want to make this statement: All of these people are depending on the Government and its agencies for justice and fair dealing; and it is very evident, not only from what I have heard in my district but what I have heard from other districts, that the administration of this law is not being carefully safeguarded in the interest of those we are trying to help.

Mr. BROWN. Mr. Chairman, as the man who wrote this amendment, I think I will have to agree with some of the things that have been said here, but I do not see anything wrong about a man with whom I am attempting to change these bonds saying to me, "Here, Brown, these bonds are selling at 85; I will take the bonds, but I will take them at the market price, and I want you to give me the difference."

I do not think, if you will read this act carefully, any criminal liability would lie. I do think possibly a civil action would lie on the ground there was no consideration, but I am not certain about that.

However, my amendment seeks to clear up the evil from another angle. What does the Government do when it guarantees the bond I take at 82? It makes it worth 100 today. I say we want to get the difference between the market value at which the mortgagee took that bond and the present value into the hands of the original mortgagor. That is all my amendment seeks to do.

It would simply say you cannot have your bond guaranteed unless you get an affidavit from the original mortgagor that he, prior to the date of application for the exchange and guarantee, received 100 cents on the dollar.

That is what he can do, Mr. Beedy; he can say, "Here, you took that bond at 82, and it is now worth 100, and I will give you \$18 credit on it", and then the exchange is quickly made.

Mr. RUSSELL. On this question I would like to make one short statement. We think it is impractical and improper to restrict the guaranteeing of the bonds for two or three reasons.

First, we think very few of the bonds have been dealt with under par. We think it is improper for the corporation to conduct refunding operations, because these are bearer bonds and are hard to trace.

We think, as far as the people who have taken these bonds are concerned, they have taken the bonds on the faith of the statement of the President of the United States that they were going to be guaranteed and on the statements of many Members of Congress that they would be guaranteed.

We think people bought them yesterday and the day before and every day at about 96 on the faith of these statements that have been made, and it would be a hardship on the people who have relied on the administration and paid 96 for the bonds to prove they are innocent purchasers. They do not know what the original purchaser paid for the bonds.

And finally the result of such a course would be to leave a certain amount of the bonds outstanding, and, those being 4-percent bonds, it would do nothing except hit back at the corporation itself, because the corporation would be compelled to continue to pay 4 percent for that money over the 18-year period, or until it took the bonds up, or be compelled to call those bonds in at par and pay them off. We think for those reasons it is improper. Then, the last reason is the vital reason, and it is this: If you put these conditions on, and there are a hundred million of these bonds out, we cannot refund the whole, and we have got to pay them off at par if we do not carry them, and when you put that condition on we cannot hurt the man who holds the bond, because we will have to pay them or we will have to re-

deem them at once at par, so it will cost the corporation pretty heavily either way.

Mr. BUSBY. We thank you, Mr. Russell, for your statement and information.

Congressman Hoidale, of Minnesota, desires to be recorded as having appeared in favor of the bill we are now considering, so we are glad to have his backing and support for the proposed bill.

We now have another Member of Congress, Mr. Kenney, to appear before us.

STATEMENT OF HON. EDWARD A. KENNEY, A MEMBER OF THE HOUSE OF REPRESENTATIVES FROM THE STATE OF NEW JERSEY

Mr. KENNEY. Mr. Chairman, I appear here to urge the guaranteeing of the principle of the bonds as quickly as possible. I come here because I feel I would be derelict in my duty in case there should be any change of mind or heart on the part of this committee or others responsible for this legislation. The last requirement for the successful refinancing of the mortgages of the distressed home owners of the country lies, I believe, in the guaranteeing of the principle of these bonds.

If you read the act as originally written—and there, of course, is where the lawyers will go—there seems to be some question as to whether or not interest would not continue as an obligation on the part of the Government even after the maturity of the bonds. Of course, the bond actually given in exchange for a mortgage limits the payment of interest up to the maturity of the bond, but, after all, there has been some hesitation on the part of lawyers who go to the act itself in advising their clients as to the advisability of accepting the corporation's bonds.

In my section of the country we have very conservative investors who have been accustomed to put their money in first mortgages in reasonable amounts, yielding a profit of 6 percent. Many of these people have had their mortgages guaranteed by the title companies, and the title companies and other institutions are not now in their former condition, so that many of the mortgagees have had to take mortgages over, bereft of the guaranty of some of the companies whose guaranty is no longer what it used to be. That class, of course, is accustomed to some kind of guaranty of their mortgage.

There is another class of investors today who need cash, and there is some hesitation on the part of such people, feeling if they exchange for bonds of the corporation that they will be held up indefinitely or else suffer a loss, and I had an instance of that the other day. The mortgagee felt he would like to cooperate in every way, but he needed cash and did not like to take a loss and declined to exchange his mortgage for the bonds. When I pointed out the principal of the bonds would unquestionably be legally guaranteed, and that the bonds selling pretty close to par on the market, there was a change of heart and the mortgagee consented to accept bonds in the hope of going into the market and getting the cash without a loss.

Building and loan associations and other institutions have shown a disposition to cooperate in the saving of distressed homes, but

the failure to guarantee the principal of the bonds has influenced their action in the interest of their shareholders.

The Home Owners' Loan machine is a new one, of course, and has been slow in getting under way. The drivers operating the machine have been going slowly, but all too slowly. That has been true in my State and other States. But the machine has been broken in now, and it is time "to step on the gas." This bill removes the only remaining drawback and we can henceforth go ahead at full speed with the refinancing of homes throughout the country.

I would like to give you for a moment a picture of my local office, which is located at Hackensack, covering Bergen County and also Passaic. There have been filed as of March 10, 1934, 9,287 applications, but of these only 172 loans have been closed, although they aggregate \$974,065.17. Most of the applications are still pending, and the delay in effecting a greater number of loans has been in some measure at least caused by the fact these bonds have not been guaranteed as to principal.

The bonds of the Home Owners' Loan Corporation have discounted the guaranty of principal already and there is a very good market for the bonds today. They are offered at $97\frac{3}{4}$ with a bid of $97\frac{3}{8}$, and with a market like that, anticipating as it does the passage of this law, I believe when this law actually does go into effect we are going to have a better market, so that the price of bonds will be maintained at par or better and will prove to be very beneficial to those mortgagees who cooperate.

Not only that, I feel such a guaranty will open the market for existing straight old-fashioned mortgages, and people who have money to invest—and there are some—will again perhaps purchase outstanding mortgages, realizing that if they should become distressed there would be a chance, although limited, of exchanging the mortgages for bonds of the Corporation.

One other thing I would like to mention, and that is this: I think every Member of Congress, including myself, ought to resolve to act as a traffic officer to speed up the traffic in these mortgages and make it our business to see they are put through speedily and not brook any delay from now on. If we will do that we do much good; we will help the investor, individual, and institution alike, make available taxes for needy municipalities, and, most of all, lift the worry and anxiety from the backs of the home owners of the Nation.

Mr. BUSBY. We thank you, Mr. Kenney.

The committee will now go into executive session.

(The committee thereupon went into executive session.)

TO GUARANTEE BONDS OF HOME OWNERS' LOAN CORPORATION—H.R. 8403

TUESDAY, MARCH 20, 1934

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

The committee met at 11 a.m., Hon. Henry B. Steagall (chairman) presiding.

The CHAIRMAN. Mr. Marsh wants to be heard briefly, and, if you gentlemen are willing, we will hear him 1 or 2 minutes. There are also one or two Members of the House what want to be heard this morning.

STATEMENT OF BENJAMIN C. MARSH, SECRETARY OF THE PEOPLES' LOBBY, WASHINGTON, D.C.

Mr. MARSH. Mr. Chairman and members of the committee, I would first like to ask whether I correctly construed this bill, the Steagall bill, H.R. 8403, to mean that the Government guarantees the principal of \$2,000,000,000 of bonds under the Home Owners' Loan Act of 1933, and 4-percent interest on that principal? Am I correct in understanding the bill as doing that?

The CHAIRMAN. The bonds will be floated along with other Treasury operations, and they may be lower or higher, as it is impossible to suppose or anticipate just what conditions will be.

Mr. REILLY. The understanding is to take up all of those 4-percent bonds and to issue new bonds that will pay up to 3½ percent.

Mr. MARSH. And to guarantee the interest?

Mr. HOLLISTER. Absolutely; the interest and principal?

Mr. MARSH. Not to exceed 4 percent annually, as the bill states. I would suggest that if it is known that a guaranty up to 4 percent, an interest rate of 4 percent is going to be guaranteed, it will certainly have quite an influence upon the public in withholding subscriptions to any loans until they get the maximum which you have provided.

Mr. HOLLISTER. Why?

Mr. MARSH. Because there is a tendency on the part of all of us, which I do not criticize but simply state, to think of the Government as the greatest purveyor of unearned income which there is and that its resources are unlimited. I say that will be the tendency. I cannot say that is going to be so positively, but we therefore want to suggest that the maximum rate of interest which should be guaran-

teed should be 3 percent because that will seem to comport with reasonable payment.

Mr. CAVICCHIA. Don't you think it would be possible for the Treasury Department to give some money at perhaps 2½ percent, as it has done in the past? Didn't it borrow money some time ago at 2½ percent?

Mr. MARSH. I think unquestionably it would be possible, but any such provision as this would make it more difficult. I stated a maximum of 3 percent. I would prefer 2½ percent as the maximum as suggested, and the Government might raise it.

Mr. CAVICCHIA. No; I am not suggesting 2½ percent. I say it might be possible for the Government to borrow at less than 3 percent.

Mr. MARSH. It would depend a great deal upon whether the Government adopts a policy of paying most of this so-called "emergency expenditures" which is bound to be recurrent for several years, or whether it adopts a policy of paying by taxes on borrowings. Up to date we have adopted a policy of borrowing practically entirely for the so-called "emergency expenditures", which I think is a mistake, but frankly, it seems to us inequitable to guarantee 2½ percent or 3 percent upon any bonds until the Government guarantees everybody a chance to earn a living at a fair return, or to have a living, because that charge ought to come first.

Mr. CAVICCHIA. Isn't the whole purpose of this legislation to help people so that they will earn a living?

Mr. MARSH. In answering your question, Mr. Congressman, I think perhaps I have been very frank in discussing this matter from Minneapolis to New Orleans, and from Boston to Seattle and Los Angeles. The purpose of the most of this legislation is fatal; it is to maintain the present capitalization of corporations and the present indebtedness which cannot be maintained. I do not want to take your time, but just to get back to the subject, I have three clip-pings here that I might submit.

Mr. HOLLISTER. Pardon me, I did not get your affiliation?

Mr. MARSH. The People's Lobby, of whom Prof. John Dewey is president, with offices in Washington. I have pointed out the necessity for writing down capital debts. I want to give some figures showing why we do not feel it is proper for the Government to underwrite indebtedness, but that the proper thing to do is to write down interest rates and principal of a lot of these debts.

The CHAIRMAN. How are you going to have the Government say to some man who has a mortgage that is about to be foreclosed that you cannot collect your debt or avail yourselves of your legal right to collect?

Mr. MARSH. I will answer from a decision 2 weeks ago yesterday, I think it was, of the United States Supreme Court, an opinion written by Mr. Justice Roberts, and concurred in by Chief Justice Hughes, and Associate Justices Brandeis, Cardoza, and Stone:

Neither property nor contract rights are absolute. The Federal Government cannot exist if the citizen may at will use his property to the detriment of his fellows or exercise his freedom of contract to work harm.

I cannot see that we are going to get any improvement unless we do exactly that.

Mr. HOLLISTER. That may be, but how can we do it; that is the question.

The CHAIRMAN. Haven't you got to have the question limited in this manner, if you consider the fact that this is only an effort to deal with a very small portion of debts that are secured by mortgages on homes with the purpose of saving those homes from foreclosure, temporarily, to keep citizens from being turned out into the streets so far as that can be accomplished by the use of funds provided in this legislation?

Mr. MARSH. Naturally with the purpose of that I am in entire agreement.

The CHAIRMAN. Can you go beyond that in this bill and deal with this larger problem to which you referred, not for the moment attempting to say how it should be done?

Mr. GOLDSBOROUGH. My friend's contention, whether valid or not, is that it is a creditor's bill and not a debtor's bill.

Mr. MARSH. Precisely; that the creditors should not be given so much consideration, but you have set a precedent, Mr. Chairman, to a relatively small amount; and in this book of the Twentieth Century Club they state, giving the total of urban mortgages, it is \$27,554,000,000, and farm mortgages amounting to \$8,500,000,000, or a total mortgage debt of all individuals estimates at \$35,000,000,000 as of December 31, 1931. The amount of this mortgage indebtedness to which this bill is confined, \$2,000,000,000, is roughly a little under one seventeenth, and, assuming there have been many foreclosures since 1931, I address myself to the fact that it seems to us a step in the wrong direction, and it is quite logical that other creditors should come in and say, "Well, if you guarantee mortgage holdings on small amounts"—and if I correctly understand it, it does not affect any home of over \$20,000.

The CHAIRMAN. That is right.

Mr. MARSH. That is quite a sizable home. A person must be pretty well fixed to be able to have a \$20,000 home. If you start on this thing, the pressure is going to be cumulative, in my judgment, and continue along this line; and we may well make up our minds in which direction we are going—to protect the creditors or the debtors.

Mr. GOLDSBOROUGH. We all agree with you.

The CHAIRMAN. We recognize that tendency.

Mr. MARSH. We will say that you guarantee only 25 percent, to be reasonable. I am trying to practice what I preach. I have a small amount of mortgages, and I am trustee for my father's estate, and I have been taking a lower interest rate and writing down the capital.

The CHAIRMAN. Experience has shown that there is great difficulty in persuading mortgagees to accept these bonds even at the present rate. We had to resort to this method of securing the principal, or having the Government secure the principal, in order to make the law effective. If we put that interest rate at the figure that you are talking about, what assurance have we that this bill will function to accomplish its fundamental purpose, which is, namely, to save homes from foreclosure in this emergency.

Mr. MARSH. May I answer your question? I am glad you raised the point, because I think it is a very fair one. It seems to me that the Government can, as an emergency measure or in this crisis, the Federal Government can pass legislation prohibiting foreclosures. Personally I have adapted myself as a very small creditor to that view, not only on account of the ethics of it but as a practical proposition; you deprive people of their homes and they are embittered. They cannot even think straight, and I do not blame them. I would be in exactly the same situation myself. That is a measure apart from this; nor do I know to what extent you are going to be able to get people to exchange their bonds. It was suggested that it is not the Federal Government that makes itself responsible; it is the Home Loan Corporation. If that be the case, the Home Loan Corporation is sort of a holding company. Of course, it is actually an agency of the Government. I am not a lawyer, and I hesitate to express an opinion on that; but anything that the Corporation does is because it is an integral part of the Federal Government, and the Federal Government assumes the responsibility.

May I just finish this one clause, continuing the quotation from Mr. Roberts' opinion?

Mr. GOLDSBOROUGH. Justice Roberts.

Mr. MARSH (reading):

Equally fundamental with the private right is that of the public to regulate it in the common interest.

Mr. BUSBY. Suppose you had a 2½-percent interest rate guaranteed, that is all the holders of the bonds could expect, thereby the borrower or the mortgagor would benefit by reason of the difference in the interest rate; that is your idea?

Mr. MARSH. Yes; they would be beneficiaries to that extent.

Mr. BUSBY. As you pointed out, we are only proposing enough money to take care of the greatest distress or \$2,000,000,000 of the liability of individuals. You understand that.

Mr. MARSH. Yes.

Mr. BUSBY. I suppose there are \$15,000,000,000 or more of loans made by home owners who could qualify if they could allow their payments to lapse and present the facts required to be presented by this bill. They are now paying the building and loan associations 6 percent or better. What would prevent everyone who could qualify by altering his condition in a premeditated way, or otherwise from coming in here to the extent of \$17,000,000,000 or \$18,000,000,000 and asking the Government to put them on a 2½-percent basis of loans?

Mr. MARSH. You mean if this bill were enacted?

Mr. BUSBY. If your contention that 2½ percent ought to be the rate of interest is correct.

Mr. MARSH. We would be willing to consider 2½ or 3 percent at the maximum. I do not know what would prevent it. I do not think anything in this bill is going to prevent it.

Mr. BUSBY. You are not answering the interest part of the question. It would be an incentive to the borrower to default with his present mortgage and qualify with all of the facts necessary for him to have so as to come under the terms and provisions of this bill and get refinanced at 2½ percent. Don't you think if the interest rate

was that low that private institutions that are now financing homes to the extent of \$15,000,000,000, including building and loan associations and other institutions that hold these mortgages at a higher rate of interest, that the borrower under those circumstances would default and qualify and come in and say, "Now, I am in a position to ask for a 2½-percent loan", although they need not have done so?

Mr. MARSH. It seems to me, Mr. Congressman, that there is a middle ground. You might simply make a certain percentage 2½ percent or 3 percent. You might leave it optional. I am not a lawyer, so I am not able to construe the bill and to know whether it does give that provision, but I did so understand it, allowing the creditors to collect a higher rate of interest, if he can, due to the circumstances of the borrower. In some cases they can and in others they cannot. But it is the question of the Government guaranteeing, sir, any return.

Mr. BUSBY. Don't you think it would be just as well to not pass any legislation to take care of the distressed home owners if we are going to pass such legislation as will cause a break-down of the entire set-up? In other words, we should provide many times more than \$2,000,000,000 if we are going to make a situation which would disrupt a sufficient number of financed homes by this kind of legislation?

Mr. MARSH. No; I frankly think what we need is a complete moratorium or prohibition on foreclosures.

Mr. BUSBY. That would undoubtedly stop foreclosures.

Mr. MARSH. Yes; that would stop foreclosures.

Mr. BUSBY. How long would that moratorium last?

Mr. MARSH. Well, I do not know how soon we are going to get back to what may properly be called the normal in economic conditions.

Mr. CAVICCHIA. Isn't what you are advocating more radical than what we are trying to do here? Have you had much experience as to how the Home Owners' Loan Corporation works in certain States?

Mr. GOLDSBOROUGH. I wonder if Mr. Marsh is thoroughly familiar with the fact that the Home Owners' Loan Corporation does not make loans on the basis of 100 percent of the market today. What it proposes to do is to induce the mortgagee whose security is bad to accept bonds which are in amount lower than the principal of the debt.

Mr. CAVICCHIA. Which is a cut of the principal.

Mr. GOLDSBOROUGH. Yes, which is a cut of the principal. I do not know whether this is clear to Mr. Marsh or not.

Mr. MARSH. You endeavor to induce him to do that.

Mr. GOLDSBOROUGH. If he does not do it he has to get along as best he can with what he has got.

Mr. MARSH. It is a question of foreclosures.

Mr. GOLDSBOROUGH. Yes; it is a question of foreclosure. If he has to take a loss in foreclosure he will prefer to take his bonds, especially if they are guaranteed by the Government. There are two schools of thought here, one of which is that the best way to protect debtors of the country and to prevent national bankruptcy is to raise price levels. The other one is that the best thing to do is to try to cut down the debt. Now, this is one of the latter measures. It is

an attempt to do that. Isn't that the idea, that that is what the bill means? Now, your criticism of the bill is that it does not go far enough, that we ought to act to prevent any foreclosures, and arbitrarily tell the creditor whether it is against his will to accept the amount of interest rate which the Government arbitrarily fixes.

Mr. MARSH. Except that it should also include the amount of principal.

Mr. GOLDSBOROUGH. The amount of principal and the rate of interest which the Government arbitrarily fixes contrary to the terms of the contract.

Mr. MARSH. May I illustrate my reason for thinking that that has to be done?

Mr. GOLDSBOROUGH. That is your theory, isn't it?

Mr. MARSH. Yes; that is my theory, that the Government has to adjust it. For instance, in New York City there are roughly \$8,000,000,000 of mortgage bonds, real-estate mortgages, and some \$3,000,000,000 of those were guaranteed by different companies. It was found on investigation, just about a year ago, that the largest reserve that any of these so-called "guarantees of real estate loans" had was 10 percent, and the smallest was 2 percent. That was not a complete investigation, but it took in most of the concerns, the great leaders. Now, it is quite obvious that real-estate values in New York City are too high, and probably in other cities of the country too, that loans have been made which are out of all possibility of repayment, and they have got to be cut as well as the interest rate has got to be cut.

Mr. BUSBY. Why do you pick out New York, when everybody knows that that is a sham financial organization that never had any bottom, that they have pyramided on certificates, and they had no value back of them? Why don't you go out in the country, to those small towns which this bill applies to? Let us deal with the situation that this is addressed to meet.

Mr. MARSH. Do you prefer to take up the farm mortgages?

Mr. BUSBY. No; this bill does not apply to the farm mortgages.

Mr. MARSH. I thought you said the farm mortgages?

Mr. BUSBY. No; I did not. I said in the smaller towns.

Mr. MARSH. I do not know the situation in the smaller towns, but I would be surprised if there has not been about the same pyramiding there as elsewhere.

Mr. BUSBY. No; absolutely not; there has not been.

Mr. MARSH. Not to the same percentage, but the same principle.

Mr. BUSBY. The thing that you are talking about got to be a racket and was so recognized by everybody.

The CHAIRMAN. Mr. Marsh, they would have a first mortgage which would cover the entire cost of the ground and building, and then a second mortgage, and a general mortgage, and additional trust notes. That occurred all over this country—financing of that kind—in cities like New York, Washington, and Philadelphia.

Mr. BUSBY. That is not true in the small places. You have a building and loan mortgage which is well within the value of the property, but the individual now is faced with raising cash, which he cannot do.

Mr. HOLLISTER. And even on the present values they equal 75 percent of the value of the property and 90 percent.

Mr. MARSH. I was trying to remember figures in a report made 3 or 4 years ago by Dr. John H. Gray on this very question of pyramiding real-estate mortgages all over the country. I cannot recall the figures, but I know he pointed out that in a number of cities about the same sort of a situation obtained. Whether they have been remedied since I do not know. So that I do not know whether it is confined to New York and Washington.

Mr. HOLLISTER. It is in all big cities.

Mr. MARSH. Yes; in all big cities; and I am raising the question as to what extent the loans that have already been made in these large cities and to what extent in the smaller places, whether you are contemplating limiting the loans under this bill, whatever the interest rate may be.

Mr. CROSS. Mr. Chairman, may I ask a question?

The CHAIRMAN. Mr. Cross.

Mr. CROSS. I simply wanted to ask a question in connection with your suggestion that we have a moratorium, apparently an indefinite moratorium, because you do not know when it would come back. If we now have these mortgages piled up to the extent you say, in excess of the value of the property, those mortgages nevertheless continue to draw interest, and the poor devil in the house—instead of seeing the clouds begin to move or the stars shining, it is getting darker and darker all the time, and he knows what is coming. In addition to that, wouldn't you break down completely the line of capital furnished by individuals and private concerns who would say, "No. If you pass a moratorium, we will never get our money back", and you thereby paralyze the whole financial system. I think this bill is a good thing. Don't you think it is a good thing for the country to bring down the purchasing power of the dollar to where it was in normal times like in 1926, and that a bill like this keeps people from being put out and from being anarchists, because the more homes you have the more patriotic people you have, and that it would be better than a moratorium to allow the debts and interest to pile up?

Mr. MARSH. I am not suggesting that to the exclusion of the principle involved in this bill, but merely with it; that they ought to go along together as a financial measure. I agree that if a person's income is not going to increase he cannot pay up arrears. Some time ago a mayor of one of our large cities said he was going to ask for a year's moratorium on all of their municipal debts. I said, "If you do get it, do you think you can pay up any better in a year or two than you can now?" And he said, "No". The question here is whether if we pay the mortgagee a 4-percent return, if I construe it correctly, if there be a default, that it is the Federal Treasury which will have to make good.

The CHAIRMAN. That is society you are talking about as a whole?

Mr. MARSH. Yes; society as a whole. You have heard me discuss it before, and you know my views on it. May I just read you two or three figures from reports that have come to me on what is happening, and how creditors are being protected. This is a report of the Twentieth Century Foundation.

The CHAIRMAN. Mr. Marsh, I might say right there, sir, that this committee is very familiar with the fact that the creditors are the ones that have chiefly received benefits from legislation. The question that is before us now is whether this bill is a legitimate attempt to help home owners in this country, whether or not it is better than no legislation at all. May I suggest to you that if you have any suggestions that will improve this bill they would be more appropriate than to go into a philosophical discussion of what we ought to do in general. What we are trying to do is do the best we can at the present time to prevent the home owners of America from being thrown out of their homes.

Mr. MARSH. Well, I will then confine myself and just read you one series of figures on comparisons of 2 or 3 years of interest payment. I would suggest that certainly 3 percent would be all that I think should be guaranteed on \$2,000,000,000 which is guaranteed, and which the public is ultimately responsible for, through taxation or through taxation ultimately. Of course, I would not throw away this bill; I do not mean that would be a destructive criticism, in my judgment, because I think this has to be done.

Mr. REILLY. Under the theory of this bill the Government is not supposed to lose a dollar. There will be no exercise of taxing power to pay either the interest or the principal.

Mr. MARSH. If it is paid by the debtors.

Mr. REILLY. The property is there to protect it. Theoretically there is 20 percent more of present-day valuation than the cash amount to protect the Government. The expenses of operating are paid by the mortgagors. Now, let me ask you another question: What is the use of fixing a rate of interest so low that it might prevent the sale of the bonds? Don't you think the Secretary of the Treasury is going to exercise the best wisdom possible to get the lowest rate of interest on those bonds?

Mr. MARSH. He undoubtedly will, and the rate of interest he is able to obtain will largely, in my judgment, depend upon whether the Congress of the United States decides to tax more or to borrow, because whatever rate you may want to pay, if you incur indebtedness running up to \$31,000,000,000 it is obviously going to be somewhat difficult to borrow at a low rate of interest.

Mr. REILLY. This is not a part of the Government debt at all.

Mr. MARSH. Not under the terms of this bill, but it is something that the Government underwrites.

Mr. REILLY. If times pick up, people can handle these mortgages without any doubt. If they do not pick up, it may not cut much figure whether you have bonds or mortgages.

Mr. MARSH. I am not prepared to argue about whether people can pay these mortgages if times pick up.

Brookings Institute is now making a study of what is the actual condition of the people and what were the real conditions when we were considered to be in prosperous times in 1929, and it is made clear that the burden of interest was crushing America in 1929, and we were hiding it from ourselves by purchases in that year, paying \$4,500,000,000 of interest on the installment system. May I just

read these figures? It is alarming how interest payments have kept up, and this is from the National Bureau of Economic Research, Inc., a report issued January 26. In 1932 salaries paid in selected industries were 59.3 of 1929 and wages were 39.8 percent. Technical salaries and wages with interest were 69.9 percent; labor income was 59.8 percent; and dividends were 43.4 percent. Interest was in 1932, 96.8 percent of 1929 payments. So, you see, the interest collectors have been pretty well protected. I wanted to read into the record—but I do not want to take the time to read it now—an article from the Federated Press giving further figures on that.

Mr. BUSBY. How does that apply to this bill? Don't you see that is encumbering the record with a lot of general information that we already all know.

Mr. MARSH. I withdraw the request.

Mr. BUSBY. I am not saying that you should withdraw it but I am saying that is encumbering, filling the hearings on the legislative proposal before us with material in the nature of a general lecture on economics, interest, and national income, all of which the Department of Commerce has repeatedly announced, and I think every member of the committee is very familiar with it. I am just suggesting what I believe to be pertinent to the hearings.

Mr. MARSH. My chief point was the request that you reduce the interest rate guaranteeing it up to 3 percent.

Mr. BROWN. Mr. Marsh, you recognize that along about the 10th of February the President asked the Congress to guarantee these home-loan bonds. There was considerable rise in the market in the value of those bonds. At no time, to the best of my information, have they exceeded 97, except possibly for a few eighths over 97. I do not think they ever reached 98. Having in mind that our purpose is to get money for these distressed home owners, I fail to see how we could carry this project through unless we fixed the maximum somewhere around 4 percent. Our bonds would be forced right back down to where they were, to about 82 or 83. If we are going to carry out the purposes of the bill, we must give the Treasury Department some leeway, and that is why we feel that 4 percent is reasonable. They will get the money, of course, at the lowest rate possible. We fix a maximum of 4 percent. I personally do not see how we can do other than that.

Mr. MARSH. It would be very difficult unless you entirely revamp the revenue act.

Mr. BROWN. Of course, we cannot do that.

Mr. MARSH. But Congress can. It is rather difficult to compartment Congress into its various functions. I would say this, however, that I hope you will draft a supplementary measure so as to prevent foreclosures so far as possible.

Mr. BUSBY. I have no desire to cut you off or to prevent you from putting anything in the record that you desire to put in. If you have that article there, it might go in as an exhibit to your statement, letting the stenographer just copy it in.

Mr. MARSH. It is very brief and I would not ask to get a long one in.

(The article referred to is as follows:)

INTEREST TOLL CONTINUES ITS UNBROKEN RISE—DEPRESSION LEAVES HOLDERS OF BONDS ENTIRELY UNTOUCHED

Just as in every other year, with no exception for more than a decade, the coupon clippers got more in dollars during 1933 than they did in 1932. Thus the record remains unbroken. Throughout the years of expanding business preceeding 1929 the amount of interest paid to the bondholders and mortgageholders climbed steadily. That was expected. The amounts paid in rent, dividends, and possibly wages climbed during most of those years.

National income had big fall. Then came the stock-market crash of 1929, followed soon by the devastating collapse in industry. Wages fell 60 percent and a bit more between 1929 and 1932. Total national income fell 40 percent. But interest payments continued their steady climb. Every depression year was a new picture of decline in practically every activity, meant new suffering for the workers, and new disasters for business. But the interest gatherers raked in a little more every year.

Here are the annual figures over a period of 11 years: 1923, \$2,621,964,000; 1925, \$3,017,028,000; 1927, \$3,471,396,000; 1929, \$4,109,952,000; 1930, \$4,374,408,000; 1931, \$4,553,124,000; 1932, \$4,564,673,000; and 1933, \$4,585,663,000.

The figures are gathered by the New York Journal of Commerce and do not cover the entire field. The Journal of Commerce estimates that they get about 70 percent of the interest payments. But they compare with the same figures for the other years, so that they show the trend.

Never a drop since 1923. They show that when business booms interest payments leap forward; when business collapses they crawl upward. But never in the years since 1923 has there been even 1 year in which the Journal of Commerce has reported a drop. Perhaps most astounding of all is the fact that in that first quarter of 1933, when banks were collapsing, the stock and bond markets closed, even the banking system stopped for days, the interest payments were larger than they had been in the first quarter of 1929.

With the slight pick-up in 1933 business, the gain in interest payments nearly doubled over 1932's gain.

Mr. BROWN. As to debts in lower amount, that is not anything to be put into a Federal measure; and as to a moratorium on mortgages, we have a moratorium in Michigan, and there is also one in Minnesota and possibly some other States, but that, it seems to me, would have to come from the State legislatures, and not from Congress.

Mr. MARSH. Well, the functions of the Federal Government as a whole have been so vastly expanded that this would not seem to overburden the expansion, and, particularly, I do not believe a constitutional question would be raised. After all, we are figuring on what we have to do to save people from getting out of those homes. It is a question that has not been satisfactorily answered yet.

Mr. WOLCOTT. That might be controlled by the Federal Government through a tax bill of the Congress of the United States.

Mr. MARSH. Possibly, following out the suggestion, there might be some provision in this bill that it would not apply to States the legislatures of which did not enact legislation prohibiting moratoriums for a year, or whatever period it was. I assume that stipulation could be put in this bill. There was one point that was referred to as to how we could start up heavy industries. Just in passing I would like to suggest that writing down the capital structure of the United States Steel, that started out with water of \$175,000,000 in capital structure, would help, and other corporations would be very materially affected. There will be a resolution introduced shortly in the Senate for an investigation of the capital structure of large corporations. They must write down the capital structure, as well as the interest rates.

If you decide that you cannot pass this legislation with less than 4 percent, it will probably be helpful, but we hope you can see your way fit to fix the maximum rates at 3 percent.

Mr. GOLDSBOROUGH. Thank you very much, Mr. Marsh. It has been a pleasure to hear you.

Congressman Howard, of Nebraska, is present, and we will hear him if it is agreeable to the committee.

STATEMENT OF HON. EDGAR HOWARD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

Mr. HOWARD. Mr. Chairman and gentlemen of the committee, very early in the session I introduced a bill to accomplish just what this committee is trying to accomplish by the bill it is now considering. Quite naturally I should have viewed with approval the action of the committee and the Congress if it should have taken up my bill and carried it to enactment, but my great desire is not for undue publicity or for promotion of myself, but really my great desire is to see this legislation or the principle of it enacted into law as quickly as may be. In other words, I am after results.

I do not feel that I ought to burden the committee by any extended remarks with reference to the pending bill. I am quite satisfied that this committee and indeed that the Congress has now made up its mind that legislation of this character involving the principle must be enacted and will be enacted during the present session of the Congress, and I believe that nothing we could do as a representative body in behalf of the home interests of the American people could be done better than passing the proposed legislation you have before you.

It is not for me to deal with details; I am not a detail man; I see the principle. I see it clearly, and I believe that the bill you have before you if enacted into law will accomplish all that I as the endorser of a measure similar to this bill could hope for or indeed could ask, and so, Mr. Chairman, with this brief statement I thank you for the opportunity to appear before you in behalf of this principle, and it is great. The strength of our Republic was well said 100 years ago by a sage as resting upon the American home. That is true today. Those of us who have had the opportunity, and practically every one of us in the Congress has had the opportunity to hear or read appeals of people who in good faith have gone along doing the best they could, had mortgaged their homes, and then had to meet the situation under the terms of which it was impossible for them to free their homes from the mortgage covering them. Now, here we are, as a Government extending the helping hand to every interest in America, wherever we can, seeking to lift ourselves and our country out of the ditch of depression, into which some of us believe we were pushed by unholy hands, and I see no legislation so well calculated to lift us out of that ditch as the enactment of the legislation which your chairman has presented to you in the bill now before the committee. [Applause.]

The CHAIRMAN. We are very glad to hear you and thank you very much. Mr. Seger had asked to appear before the committee for 2

minutes, and I have been trying to get word to him in order that he might be heard. I think that closes the hearing.

Mr. GOLDSBOROUGH. Just one question before you adjourn, if you please.

The CHAIRMAN. Yes.

Mr. GOLDSBOROUGH. Who has got to pay the interest on these bonds, the Treasury direct, or is the Corporation going to pay that?

The CHAIRMAN. What I understand is that the Treasury is not paying anything out, simply stands back of this business. They do not conduct the details, but the Treasury stands back of it.

Mr. HOLLISTER. The Corporation does as long as it is able to.

Mr. CAVICCHIA. If you are going to pay 3 or 4 percent on these \$2,000,000,000 of bonds, isn't that a revenue bill to be made up out of the tax collections?

Mr. HOLLISTER. The Corporation is an independent entity, it has an obligation to pay its interest.

Mr. CAVICCHIA. I want to make sure that I understand that question.

Mr. REILLY. Mr. Chairman, I think you ought to have Mr. Russell here this afternoon. We have some amendments that have been proposed here.

The CHAIRMAN. You want to have him here when we take them up?

Mr. REILLY. We want to have him here this afternoon.

Mr. HOLLISTER. Did he ever submit that rewriting of the teeth we were going to put into this?

Mr. HANCOCK. No.

Mr. HOLLISTER. You remember Mr. Russell was going to write in some kind of a criminal liability on a person who is not in distress.

The CHAIRMAN. I thought they had all kinds of criminal provisions in the bill. You see, any man who made a false representation to get a loan would be covered in all human probability by existing laws, even if there were nothing in there.

Mr. HOLLISTER. I am not urging that, Mr. Chairman, but if it is there we might go into that.

The CHAIRMAN. We ought to make sure of it.

Mr. HOLLISTER. That is all I was interested in.

The CHAIRMAN. Gentlemen, if you are willing, we will meet at 2:30, and we will get Mr. Russell here and we will see if we can vote this bill out.

Mr. REILLY. Have you got a copy of the Senate bill?

The CHAIRMAN. I am going to try to get copies.

Mr. HOLLISTER. Has there been a memorandum submitted of the various amendments that have been suggested?

The CHAIRMAN. I assume each member suggesting an amendment will take care of that. If I understand now it is agreed that the hearings are closed.

(Whereupon, at 11:45 a.m. the committee adjourned until 2:30 o'clock of the same day.)