

**REAL ESTATE AND CONSTRUCTION LOANS APPLICABLE
TO NATIONAL BANKS**

JULY 27, 1962.—Referred to the House Calendar and ordered to be printed

Mr. SPENCE, from the Committee on Banking and Currency,
submitted the following

R E P O R T

[To accompany H.R. 7796]

The Committee on Banking and Currency, to whom was referred the bill (H.R. 7796) to amend certain lending limitations on real estate and construction loans applicable to national banks, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

PURPOSE OF BILL

The first section of H.R. 7796 would amend the first paragraph of section 24 of the Federal Reserve Act. Under this paragraph a national bank may now make real estate loans secured by first liens in an aggregate amount not in excess of its paid-in and unimpaired capital stock plus its unimpaired surplus funds, or not in excess of 60 percent of the amount of its time and savings deposits, whichever is greater. The bill would increase the second alternative limit, i.e., 60 percent of a national bank's time and savings deposits, to 70 percent of its time and savings deposits.

The second section of the bill would amend the third paragraph of section 24 of the Federal Reserve Act which regulates the making of construction loans for industrial and commercial buildings and residential and farm buildings. Under existing law construction loans on industrial and commercial buildings are limited to maturities of 18 months or less; construction loans on residential and farm buildings, however, are limited to maturities of 9 months or less. The amendment would increase the limitation on maturities for construction loans on residential and farm buildings to 18 months or less.

REAL ESTATE LOANS

The present aggregate limitation for a national bank with regard to the amount of conventional real estate loans it may make has been the law since 1935. Since that time many things have changed in the field of real estate financing. The most notable change has been the development of and almost universal use of the amortized loan. An amortized loan is considered to be a much safer investment for the bank and generally a much better form of repayment for the borrower than what was available prior to the development of this type of financing. Also the commercial banks' interest in residential mortgages has increased greatly in recent years partly because of the development and use of the amortized loan and partly because of a need for banks to be more effective in meeting the real estate mortgage needs of their communities.

Your committee believes that the simple amendment contained in the bill (which increases the aggregate real estate loan limitation from 60 to 70 percent of a bank's time and savings deposits) would add substantially to the mortgage investment potential of national banks. The witness for the American Bankers Association estimated such increased mortgage investment potential at about \$4 billion. Since the three bank supervisory agencies have reported favorably on this legislation and the hearings indicate that the proposed increase in the aggregate limitation on real estate loans could be made without undue risk to the banks and their depositors and because of the great need for additional sources of mortgage credit, your committee believes the amendment should be adopted.

CONSTRUCTION LOANS

As heretofore indicated, construction loans on residential and farm buildings under existing law may not exceed 9 months and the bill would increase this maximum maturity limitation to 18 months.

Testimony received by the committee disclosed that the proposed change in the law is desirable since experience has shown that often conditions beyond the control of the builder have delayed completion of the construction beyond the now maximum limitation of 9 months. Such testimony cited delays of 6 to 8 weeks in order to obtain a commitment for a governmental guarantee or insurance. The report of the Chairman of the Federal Deposit Insurance Corporation states:

* * * in many instances the construction work financed by residential and farm loans has, because of weather conditions and other conditions which do not affect the risk of the loan, not been completed within the 9 months limit * * *.

Each of the bank supervisory agencies, as well as the Federal Home Loan Bank Board has reported favorably on the bill. The reports are as follows:

TREASURY DEPARTMENT,
July 31, 1961.

HON. BRENT SPENCE,
*Chairman, Committee on Banking and Currency,
House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: Reference is made to your inquiry of June 23, 1961, requesting a report on H.R. 7796, a bill to amend certain lending limitations on real estate and construction loans applicable to national banks.

The bill would amend present law to enable national banks to make real estate loans in aggregate sums not in excess of 70 percent of the amount of time and savings deposits instead of the present limit of 60 percent, and to permit construction loans to be made on residential or farm buildings for periods not to exceed 18 months instead of the present limit of 9 months.

This Department has no objection to the passage of the proposed legislation.

The Department has been advised by the Bureau of the Budget that there is no objection from the standpoint of the administration's program to the submission of this report to your committee.

Sincerely yours,

ROBERT H. KNIGHT, *General Counsel.*

BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM,
Washington, July 14, 1961.

HON. BRENT SPENCE,
*Chairman, Committee on Banking and Currency,
House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: This is in response to your letter of June 23, 1961, requesting a report on the bill, H.R. 7796, which would amend section 24 of the Federal Reserve Act in order to liberalize lending limitations on real estate and construction loans by national banks.

Under the first paragraph of section 24 a national bank may now make real estate loans in an aggregate amount not in excess of the amount of the capital stock of the national bank paid in and unimpaired plus the amount of its unimpaired surplus funds, or not in excess of 60 percent of the amount of its time and savings deposits, whichever is greater. H.R. 7796 would increase the second alternative to 70 percent.

Under the third paragraph of section 24 loans by national banks to finance the construction of residential or farm buildings, maturing in not more than 9 months, are not subject to the limitations and requirements of that section applicable to "loans secured by real estate." H.R. 7796 would increase the permissible maximum maturity on such loans to 18 months.

This is to advise that the Board has no objection to favorable consideration of the bill.

Sincerely yours,

C. CANBY BALDERSTON,
Vice Chairman.

FEDERAL DEPOSIT INSURANCE CORPORATION,
OFFICE OF THE CHAIRMAN,
Washington, August 18, 1961.

HON. BRENT SPENCE,
*Chairman, Committee on Banking and Currency,
House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: Receipt is acknowledged of your communication requesting a report from the Corporation on H.R. 7796, a bill which you have introduced to amend certain lending limitations on real estate and construction loans applicable to national banks.

Under present law the limit applicable to national banks relating to the making of real estate loans secured by first liens upon improved real estate is the amount of the bank's paid-in and unimpaired capital stock plus its unimpaired surplus fund, or 60 percent of its time and savings deposits, whichever is greater. The first section of the proposal would increase the limit from 60 to 70 percent. We are advised that a survey conducted by the American Bankers Association has revealed that approximately 12 percent of the national banks surveyed have reached or are approaching their present lending limitation, as it relates to the ratio to time and savings deposits. It is the view of the Corporation that the lending limits of national banks may be increased as proposed in this section of the bill without undue risk to the banks and their depositors.

Section 2 of the bill proposes to liberalize the rules in reference to temporary construction loans for residential or farm buildings. Under present law loans having maturities of 9 months or less to finance the construction of residential or farm properties are not considered to be loans secured by real estate. The current proposal would change the maturity limitation on such loans to 18 months. We are advised that the basis for this extension is the fact that banks have learned from experience that in many instances the construction work financed by residential and farm loans has, because of weather conditions and other conditions which do not affect the risk of the loan, not been completed within the 9 months' limit and, therefore, it is deemed appropriate that this extension be granted. An 18 months' provision is in the statute for construction loans on industrial and commercial buildings, provided that there is a "takeout" agreement. Notwithstanding the proposal offers some hazard to the soundness of insured banks, we, nevertheless, conclude that the proposal provides a flexibility to bank lending operations that will better enable such lending institutions to provide funds for construction operations throughout the country. The extension of time for maturity of construction loans is reasonable and is justified by experience. The present and continuing prohibition against national banks making construction loans in the aggregate, commercial as well as residential and farming, in excess of the unimpaired capital stock and the surplus of the lending bank provides a restriction against an excessive volume of construction loans in any bank. The Corporation believes that the liberalization of the lending requirements in the bill would not be detrimental to national banks or their depositors.

Accordingly, the Corporation would interpose no objection to the enactment of this bill.

We have been advised by the Bureau of the Budget that it has no objection from the standpoint of the administration's program to the submission of this report.

Sincerely yours,

ERLE COCKE, Sr., *Chairman.*

FEDERAL HOME LOAN BANK BOARD,
Washington, D.C., July 26, 1962.

HON. BRENT SPENCE,
Chairman, House Banking and Currency Committee,
House of Representatives,
New House Office Building, Washington, D.C.

DEAR CONGRESSMAN SPENCE: In accordance with the request of your office, we are pleased to present our views on H.R. 7796. We are fully in accord with the amendment to section 24 of the Federal Reserve Act provided in the bill.

In our opinion, enactment of this legislation would make for more effective participation by national banks in the mortgage market without detracting from the safety or soundness of commercial banks.

Sincerely,

JOSEPH P. McMURRAY, *Chairman.*

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

THE FOURTH SENTENCE OF THE FIRST PARAGRAPH AND THE FIRST SENTENCE OF THE THIRD PARAGRAPH OF SECTION 24 OF THE FEDERAL RESERVE ACT (12 U.S.C. 371)

* * * No such association shall make such loans in an aggregate sum in excess of the amount of the capital stock of such association paid in and unimpaired plus the amount of its unimpaired surplus fund, or in excess of [60] 70 per centum of the amount of its time and savings deposits, whichever is the greater. * * *

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