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FEDERAL HOME LOAN BANK REVIEW

TABLE OF CONTENTS

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The FEDERAL HOME LOAN BANK REVIEW is the Board's medium of communication with member institutions of the Federal Home Loan Bank System and is the only official organ or periodical publication of the Board. The REVIEW will be sent to all member institutions without charge. To others the annual subscription price, which covers the cost of paper and printing, is $1. Single copies will be sold at 10 cents. Outside of the United States, Canada, Mexico, and the nsular possessions, subscription price is $1.40; single copies, 15 cents.

THE GOVERNMENT'S PROGRAM FOR THE ORGANIZATION OF THE NATION'S HOME-FINANCING SYSTEM

By JOHN H. FAHEY, *Chairman, Federal Home Loan Bank Board*

In the gradual strengthening of its economic structure, the United States has left housing and home financing to the last. It took 150 years and a national crisis to bring the Federal Government to assume any responsibility for housing. During those years the Government threw up safeguards around public use of practically every other necessity of life, helped to organize the machinery for its production, and encouraged its producers. It created the Department of Agriculture to put the production of food on a scientific basis and it set up the Federal land banks to provide credit for agriculture. To foster industry and commerce it provided Federal departments and trade commissions, tariffs and subsidies, and it established the Federal Reserve System to harness the credit resources of the nation in their service.

While it organized and subsidized, the Government also imposed controls in order to protect the public interest in the products of agriculture, commerce, and industry. Thus we have the Pure Food and Drugs Act, the antitrust laws, the Interstate Commerce Commission, and a host of other restraining and regulating acts and agencies. As for housing, however, the Government neither set up any safeguards

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in the public interest nor helped organize the machinery for its construction and financing.

We have paid a price for this neglect. This is not the place to discuss the obvious social and economic costs of our slums and blighted areas; the immense waste in dollars and cents chargeable to the inefficiency of home construction; the costly burden of periodic booms in the construction industry; the load of taxes carried by home owners to support utilities servicing vacant lots. Our concern here is primarily with the home-financing structure. The organization of our credit resources for home purchase has remained so primitive compared with the rest of our financing structure that the home owner has paid from 2 to 5 times as much as a business man for a loan, and every strong wind of economic maladjustment has driven lending institutions and home-owner borrowers alike into distress.

NEGLECT FORCES DRASTIC REMEDY

Eventually this neglect of housing and home financing threatened social disaster. With foreclosures on homes averaging more than 200,000 each year during the depression, millions of our soundest citizens were being turned into embittered malcontents; life savings represented by equities in homes were being lost; values of home properties sank to disastrous levels; the real-estate market collapsed, and mortgage money disappeared; financing institutions with vaults full of frozen real-estate paper were forced to close. A drastic remedy was unavoidable. The task was too great for any private agency. To protect the public the Government was forced to enter directly into the business of refinancing homes. In June 1933 Congress set up the Home Owners' Loan Corporation, the largest home-financing organization in the world, to take over the mortgages of home owners who could not otherwise escape foreclosure.

It is well to recall these facts for they are the spur behind the Government's present program for the organization of the home-financing system.

Up to September 1934 the Home Owners' Loan Corporation has taken over nearly 500,000 mortgages, which means that it has saved nearly 500,000 families from the economic and spiritual defeat of foreclosure. It has enabled financial institutions to pay out tens of millions of dollars to distressed depositors. The money thus released has gone to pay the grocer, and the butcher, and the clothier, and the doctor. It has enabled home owners to pay millions of dollars of back taxes into needy city treasuries. It has ended the chaos of deflation in the real-estate market. In short, it has broken loose an obstruction in the windpipe of the economic body that had threatened to strangle it. It put the Government directly into the refinancing of homes, yet there can be scarcely a banker or businessman in the country who is not the gainer thereby.

THE GOVERNMENT'S DUTY TO HOUSING

The Home Owners' Loan Corporation is strictly a relief and therefore a temporary agency. It has helped to prevent a complete collapse, but its success must not permit us to forget the necessity which created it nor again to ignore society's responsibility for housing and home financing. In the light of past experience the Federal Government's function is quite clear. It is to set forth sound standards for housing and to educate the public to those standards. It is to bring order into the complex mechanism that produces housing, to organize where the need for organization transcends the capacity of individuals or of smaller units of government, but to control only where control is necessary. These tasks cannot be accomplished over night. In so vast and complex a field as housing, improvement must come step by step.

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Fortunately there can be no question about where to begin.

Nowhere is the need for Federal organization more insistent than in the system for financing homes. On the one hand the present faults in this system give rise to the most pressing and the most clearly recognized of the ills affecting housing. On the other, they imperil the entire credit structure of the Nation. The estimated mortgage indebtedness on urban homes reached in 1931 the immense sum of $21,000,000,000. This is nearly twice the present total railroad debt, and nearly half the present combined total of Federal, State, county, and municipal debt. To leave such a mass of credit unorganized and uncontrolled as we have done in the past is as perilous to our economic structure as an unlashed cargo in the hold of a ship.

I. Defects of Nation's Home-Financing System

INSTABILITY OF VALUES FORCES ULTRACONSERVATIVE LENDING POLICIES

The home-financing system of this country is a typically American product. It reflects both the physical environment in which it has grown and our national character. Thus in the exploitation of new land, whether it be on the frontier of a city or on the frontier of the Nation, there is inevitably a large element of speculation. Population may flock to the new development or it may not.

Again, our national passion for betting on land values leads us periodically to oversubdivide and overbuild. Once or twice in every business generation the Nation rides a land and building boom to the precipice of inflated values and inevitably takes the drop. Within these larger cycles, local communities have lesser booms, either periodical or random. The discovery of Florida as a winter resort occasioned a typical random boom.

Many home owners themselves have approached home ownership in the spirit of speculation rather than as the attainment of a major goal of family effort. Instead of bending their efforts to own a home clear, such owners have made the smallest down payment possible, obtained the largest mortgage they could get, and carried it without reduction of principal in the hope (usually unwarranted) of selling the home at a profit. Many building and real-estate interests have materially contributed to this dangerous practice of home buying by encouraging shoe-string down payments and giving second mortgages at appalling rates.

Finally, the mushroom growth of our cities has for still another reason militated against stability of land values. I refer to the instability of use which leads to such rapid decay of American home neighborhoods. The good residential district of today is the garage and rooming-house and small-store neighborhood of tomorrow, with the consequent theft of value from the residential property.

These powerful physical and psychological factors working for instability of land values have forced sound home-financing institutions to insist on wide margins of safety in their loans. The decision, in fact, has not been left entirely to the lending institutions. Government, concerned for the safety of savings, has frequently stepped in to limit the percentage of property value up to which certain financial institutions can invest in mortgages. Thus banks, trust companies, and life insurance companies in most States cannot accept mortgages representing more than 50 percent of the appraised value of the property.

Unfortunately, however, this emphasis upon an adequate margin of property value above the loan has not proved adequate to protect the investment nor the solvency of the lending institutions. The portfolios of thousands of banks which have closed in

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the past 4 years have contained quantities of "conservative" first-mortgage paper. A survey recently made by the Division of Research and Statistics of the Federal Home Loan Bank Board indicates that building and loan associations, savings banks, and insurance companies held, at the end of 1933, urban home real estate representing some $900,000,000 of foreclosed first mortgages.

EMPHASIS ON SAFETY LEADS TO EVILS

Moreover, the tendency to seek such wide margins has led to a number of undesirable results. It has caused many home-financing institutions to ignore the personal risk factor almost entirely. So long as the institution holding the first mortgage felt that it could always get its investment out of the property by forced sale in the event of default, it concerned itself hardly at all with the borrower's capacity and intention to meet his payments, the size of his equity, or the amount of other liens on the property. When the market becomes glutted with distressed properties, the expectation that a conservative first mortgage can always be liquidated for the amount of the loan is shown to be false.

The same reasoning has led many financial institutions to pay no attention to the quality of construction nor to the community's real need for new housing. Those institutions that in times of plenty provided first-mortgage funds for the jerry-builder are now burdened with foreclosed and unsaleable properties.

Associated with this indifference to quality of construction, to desirability of location, and to real need for housing is the inefficiency of our appraisal system. Before the depression it was common practice in many communities for appraisers to judge the value of a house from the running board of an automobile. Obviously, sound appraisals are the very cornerstone of successful home financing.

CAUSE OF SECOND-MORTGAGE SYSTEM

Finally, the practice of restricting the amount which many financial institutions may lend on first mortgages has been the principal cause of second mortgages, and second mortgages have been the outstanding sore spot in our home-financing system. The mortality rate among second-mortgage financing institutions during the depression reached practically 100 percent. Investors in second mortgages have been wiped out as buyers on margin were wiped out in the stock-market crash of 1929. Thousands of foreclosures can be traced to the exorbitant rates charged for second-mortgage financing. With true interest rates on second mortgages frequently running as high as 20 percent a year due to discounts, plus commissions and service charges aggregating 10 percent yearly, the actual cost of obtaining and carrying a second-mortgage loan often ran up to 30 percent of the amount of the loan. These rates are usurious in many States and in consequence many second-mortgage financing agencies have operated outside the law. They have not been a part of the reputable organized financial system of the community and have been subject to virtually no control by law or public opinion.

HOME-FINANCING SYSTEM A MAKESHIFT STRUCTURE

In addition to being a reflection of the physical environment and of our national psychology, our home-financing system has been a makeshift structure, the improvisation of the movement to meet an immediate need. This characteristic has led to evils no less dangerous than the evil of second-mortgage financing. It has put into the business of making loans on homes, many financial institutions which should have confined themselves to other types of investments.

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SHORT-TERM FUNDS FOR LONG-TERM LOANS

Loans on homes are by their nature long-term loans and under conditions that have obtained hitherto, they have not been liquid. Many institutions such as commercial banks, however, have invested demand deposits and time deposits indiscriminately in home loans. Faced with the dilemma of permitting short-term funds to be invested in nonliquid long-term obligations, the Federal and State Governments tried to effect a compromise by legislation. National banks, for example, have been prohibited from holding mortgages made for periods longer than 5 years. (This prohibition is now removed for mortgages in- Some State banks may not hold mortgages sured under the National Housing Act.) made for a period in excess of 1 year.

This compromise has satisfied neither the needs of the investing institutions nor the needs of the home owner. That it has not secured the liquidity essential to commercial banks is evidenced by the more than $500,000,000 worth of frozen urban home mortgages held in closed and restricted State and national banks as of October 1933. To the home owner the short-term first mortgage has caused almost as much distress as the second mortgage. When a short-term mortgage comes due in hard times, the lending institution usually refuses to renew or else demands a substantial reduction of principal. As this demand is made at the very time when the home owner is least able to make that reduction, foreclosure is frequently the only alternative. This situation works a hardship also on the entire real estate market, for foreclosures and inability to borrow on real estate depress the prices of all property.

UNEVEN FLOW OF CREDIT FOR HOME FINANCING

The variety of types of agencies that have financed homes has also contributed to the delay in setting up any reserve system for home financing on a national scale. It has led to the credit isolation of each community and of each lending institution within that community. With the exception of the large insurance companies which lend on a Nation-wide scale, each home-financing institution has been almost wholly dependent upon its own local resources. When hard times have come it has had no reserve of credit on which to draw, no central pool from which to borrow against its sound mortgage collateral, and consequently credit for home financing has dried up regularly at the first sign of danger.

Even in periods of prosperity, this isolation of home-financing institutions has resulted in an uneven flow of mortgage credit. While large financial centers, particularly in the Northeast, enjoyed a surplus of credit for home financing, smaller communities everywhere and the West and South as a whole tended to suffer from an undersupply. The effect of the surplus in those communities where it existed was frequently to start a boom in building, while the effect of the scarcity in other communities was to increase the cost of financing to the home owner and to keep many would-be owners in the tenant class.

HOME FINANCING A SIDE ISSUE

The fact that many institutions have engaged in the financing of homes as a side issue has contributed to the unevenness of flow of mortgage credit for another reason. Because such institutions have many other outlets for their funds they cannot be depended upon to supply the more or less steady stream of credit needed for home financing. An epidemic of stock speculation such as occurred in 1926-29 diverts the funds of such institutions from residential building.

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LACK OF STANDARDS FOR HOME-FINANCING INSTITUTIONS

In addition to these various evils, the multiplicity of types of lending agencies has led to a complete lack of uniformity in lending policies and of accepted standards for home-financing institutions. Whereever standards are lacking, whether it be in sport, in business, or in any other competitive activity, there one may look for all kinds of undesirable results and practices. One undesirable result of the lack of standards among home-financing institutions has been to keep the cost of financing homes unjustifiably high.

Elsewhere in this REVIEW there appears a table of interest rates charged by different types of institutions throughout the United States for loans on first mortgages. This table shows that rates of 7, 8, 9, and even 10 percent are common in many States. High as these rates are, however, they do not always reveal the full burden imposed upon the home owner for the privilege of borrowing money on his home.

On straight mortgages there is generally a brokerage charge, ranging, in different parts of the country, from 1 to 5 percent of the face value of the mortgage. Many institutions impose this fee every time the mortgage is renewed. In addition, the mortgage transaction is bound up with so much red tape, is rendered confusing by so many wordy documents, and involves so many extra services that the opportunity of charging fees out of all proportion to the value of the service is too great for human nature to resist. The charges common to many mortgage transactions in New York City were reported by the committee on finance of the President's Conference on Home Building and Home Ownership in 1931 to include the following:

Interest rate	6 percent.
Title examination	$50 and up.
State tax	One-half of 1 percent.
Conveyancing	$7.50 to $35.
Recording	$5 to $10.
Attorney's fees	$100 to $500.
Brokerage	1 to 3½ percent.

With these multiple charges it was possible for a home owner borrowing $10,000 on a 1-year mortgage to pay as much as 12 percent for his loan, and on a 3-year mortgage 8 percent annually. The smaller the amount of the mortgage the higher its cost under such conditions.

The charges listed occur in what are known as legitimate home-financing transactions. Thousands of home owners unwittingly pay additional tribute to sharpers. Because of the lack of uniformity in home-financing institutions, it has been possible for many agencies to engage in this business whose integrity or desire to deal fairly is not above reproach. The number of such institutions is large enough to constitute a serious problem.

SUMMARY OF DEFECTS

We have now brought to light the major defects that have developed as a result of the haphazard and uncontrolled growth of our home-financing system. It is worth a moment to summarize them in the order in which they have been mentioned.

1. Exclusive emphasis by lending institutions on a wide margin of safety and indifference to the personal-risk factor, to the quality of construction, to the stability of the neighborhood, and to the actual need for housing.
2. Shoe-string buying on the part of home owners.
3. Faulty appraisals.
4. The frequent use of short-term funds for long-term financing.
5. The frozen nature of home-mortgage paper due to the complete lack of organization among our home-financing institutions and the consequent lack of a national credit reserve for home financing.
6. The unevenness of flow of credit for home financing at different times and in different sections of the country.
7. The lack of uniformity in practices and in standards for home-financing institutions.

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8. The high cost of home financing due principally to the extralegal second mortgage structure, and the frequently high-servicing charges and the high interest rates for first mortgages.

In spite of these defects, millions of homes have been successfully financed in this country. Many institutions have made an immense contribution toward sound home ownership and better housing. The aim of organization is to reenforce these institutions, to scrap nothing good in the existing structure but rather to expect from each unit the duties it can best perform.

The particular elements with which we have to deal in a program for organization narrow down to four.

1. The lending institutions.
2. The millions of shareholders, policyholders, and depositors whose savings constitute the funds of these lending institutions.
3. The Government—municipal, State, and National—whose regulations determine to a greater or less degree the activities of the home-financing institutions.
4. The home-owner borrowers, on whose needs and participation the entire structure rests.

We may as well recognize at once that no organization of our home-financing structure will succeed unless it takes all these elements into consideration. If the last 4 years have revealed anything, it is the fact that the well-being of one is the well-being of all and if the home owner sinks, the home-financing institution and its depositors, the building industry, and the economic structure go down with him.

II. Program of Organization

We come now to the Government's program for the permanent organization of our home-financing system. To carry out this program the Government has established or authorized the establishment under Federal charter of five agencies or types of agencies. These are (1) the Federal Home Loan Banks; (2) Federal savings and loan associations; (3) the Federal Savings and Loan Insurance Corporation; (4) the Mutual Mortgage Insurance Fund; and (5) national mortgage associations. These five agencies are planned specifically to eliminate the principal defects in our home-financing system, and to supplement and strengthen existing home-financing institutions. They were designed with full realization both of the ideal to be striven for and of the practical necessities of the situation. The first 3 come under the jurisdiction of the Federal Home Loan Bank Board; the last 2 under the National Housing Administrator. How they are intended to work can best be shown in connection with the objectives sought.

LONG-TERM AMORTIZED LOAN FUNDAMENTAL

The mainspring of the Government's program is the conviction that the long-term amortized loan is essential to sound home financing and secure home ownership in this country. Homes are capital goods intended to provide service for many years. They should be paid for gradually during their use. That is the principle upon which industry operates in financing its capital equipment, and it is sound. It is best for the home owner because every payment made increases his equity in his home, thus reducing the danger of loss if values drop or his income is affected by unemployment or sickness. It eliminates the need and cost of renewing the mortgage periodically and the dangers attendant on the mortgagee's refusal to renew. It encourages thrift and builds up the most desirable kind of an estate. The long-term amortized loan is best also for the lender, because every payment reduces the risk of loss through default. The home owner's growing equity is a guarantee of his intention to carry out his contract.

INSTITUTIONS QUALIFIED TO MAKE LONG-TERM LOANS

The handling of the long-term amortized loan in the small amounts necessary

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for most home financing is a specialized business. The making of loans on homes should be a major interest of the institution, to insure expert knowledge of real-estate conditions and mortgage activity. The business is local and the personal-risk factor is large, so knowledge of the borrower on the part of the institution is highly desirable. The business has profound social significance and affects the entire community, so that as much of the community as possible should participate, benefits should be mutual, and undue profit through exploitation impossible.

Because they disposed of long-term funds and usually were not restricted by law as to period of loan, the institutions hitherto best qualified to make long-term loans on homes have been building and loan associations, the mutual savings banks, and the insurance companies working through local representatives. The business of building and loan associations has been almost entirely in amortized loans; the insurance companies and savings banks are in a most favorable position to adopt that type of loan and in several instances have already done so. In 1931 these three groups together did more than half the urban home financing in dollar volume and the building and loan associations alone held a majority in number of all first mortgages on urban homes. In view of these facts, it is inevitable that the Government's program should seek to strengthen these institutions and to see that all sections of the Nation are adequately serviced by this most desirable type of thrift home-financing institution. Federal savings and loan associations provide the means for attaining this latter objective.

FEDERAL SAVINGS AND LOAN ASSOCIATIONS

These associations are modeled on the features that have best stood the test of time in the operation of building and loan associations and mutual savings banks. They are believed to constitute the ideal type of home-financing institution specializing in the long-term amortized loan on homes. Being under Federal charter, they are free from the impractical restrictions and unwise privileges that have injured building and loan associations in some States. They are mutual institutions under private management and Federal supervision. In short, they offer practical models of operation for the Nation's thrift home-financing institutions. They are recognized as so socially desirable that the Government has made available $100,000,000 for subscription to their shares. The Treasury may invest in full-paid income shares of these associations up to 75 percent of the total paid-in share subscriptions. By September 1934 over 490 associations had been chartered throughout the country. These include many building and loan associations converted from State charters as well as newly created institutions.

NATION-WIDE ORGANIZATION OF HOME-FINANCING INSTITUTIONS

The next step is to give the mutual thrift type of home-financing institution the strength of Nation-wide organization. With all their desirable qualities and potentialities, these institutions have been handicapped by a major weakness—mutual isolation. Each one has stood alone, dependent usually for its resources on its own community. The framework of a national organization is provided by the Federal Home Loan Banks. This is in essence a Federal Reserve System for building and loan associations, savings banks, and insurance companies. It provides a permanent reservoir of credit on which these specialized home-financing institutions can draw in any emergency.

Already some 2,700 institutions are members of the Federal Home Loan Bank System. Every Federal savings and loan

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association automatically becomes a member. The System's possibilities will not be realized, however, until every eligible thrift home-financing institution in the country has joined. Recent amendments to the Federal Home Loan Bank Act make membership more inviting by liberalizing the banks' collateral requirements at the ratio of approximately 1 to 1½ instead of the former 1 to 2. Member institutions whose creditor liabilities (not including advances from the Home Loan Bank) do not exceed 5 percent of their net assets may borrow for 1 year without collateral. Also, all the Federal Home Loan Banks have recently reduced their interest rates, a move which permits member home-financing institutions to benefit by the System's facilities to a greater extent.

OTHER INSTITUTIONS ENCOURAGED TO MAKE AMORTIZED LOANS

Though the Government's program seeks by all means to encourage home financing by mutual thrift institutions, it does not seek to give such institutions a monopoly of the business. As a purely practical matter, it would be impossible to transfer the several billion dollars worth of mortgages held by commercial banks and trust companies to thrift institutions in the near future. Faced with the necessity of encouraging the long-term amortized loan without at the same time excluding institutions subject to heavy demand liabilities, the Government is using the device of mutual insurance to give such safety to long-term amortized mortgages that they will be readily negotiable and therefore suitable investments for such institutions. This is the major purpose of the Mutual Mortgage Insurance Fund, which is empowered to insure only long-term amortized mortgages. It is believed that Federal operation of the Fund and the mutual character of the insurance will prevent the evils and failures that have attended mortgage insurance by commercial companies in this country.

To provide a national market for such insured mortgages Congress has authorized the establishment of private national mortgage associations under Federal charter and supervision. These associations can invest their funds, with the exception of their capital stock, only in mortgages insured by the Mutual Mortgage Insurance Fund. Given the safety of insurance and the liquidity of a national market, Congress has quite logically permitted national banks to invest in such long-term amortized insured mortgages.

CREDIT FOR FINANCING HOMES

We now have a picture of the framework of a more practical and stronger home-financing system. It offers support to all types of home-financing agencies; it encourages them all to adopt the long-term amortized loan. The next problem is to insure an adequate and even flow of funds with which to operate. For purposes of clarity we may divide credit for home financing into two categories—the basic and the marginal. Both are essential, and the Government's program provides means for attracting both.

The basic funds must be ticketed specifically for investment in home mortgages. The flow must be reliable and free from rapid fluctuations in volume. The obvious source is the savings of shareholders and depositors in the mutual thrift type of savings and insurance institutions. The people's savings belong in the basic wealth of the country—its land and homes. To increase the flow of capital from this source is a major purpose of the Federal savings and loan associations and of the Federal Savings and Loan Insurance Corporation. These two agencies are intended to promote thrift and to provide a haven for the savings of all classes of our population—the worker who invests 50 cents a month

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and the capitalist who invests $1,000 or $10,000 at a time. The need for some such haven is particularly acute because of the loss of savings and the destruction of confidence that have attended the financial shipwrecks of the depression.

The public has confidence in federally controlled and supervised institutions. This is proved by the experience of Federal savings and loan associations already chartered. Some months ago a $6,000,000 Kentucky building and loan association operating under State charter converted into a Federal association. Immediately thereafter its receipts from the investments of thrifty people in its shares increased nearly $100,000 a month over the previous rate. The Federal Savings and Loan Insurance Corporation should end the withdrawal of funds from thrift and home-financing institutions that has been taking place recently and invite new investments in building and loan shares. This Corporation must insure the accounts of Federal savings and loan associations and may insure those of sound building and loan associations up to $5,000 for any one investor.

The funds invested in shares of the Nation's thrift home-financing institutions are to be very definitely earmarked as long-term money. The investor will have to understand that he is not making a demand deposit, that he is putting his money where it will be safe, where it will return him reasonable dividends, where he can borrow on it in an emergency, but where he does not have the right to draw it out on demand. The dangerous practice of soliciting demand deposits is not consistent with the principles and purposes of a thrift and home-financing institution. The Federal Savings and Loan Insurance Corporation is authorized in its discretion to prevent the issue by any insured institutions of new securities which guarantee a definite return or a definite maturity.

MARGINAL CREDIT FOR HOME FINANCING

The basic funds for home financing usually are local in origin and invested in local homes. This fact reveals the necessity for what we have called "marginal" funds for home financing, that is, funds which are not tied to any one community but can be easily transferred from an area of oversupply to an area of undersupply. To create such a flow of liquid funds for Nation-wide home financing and to provide the channels for their distribution to any community in need of them are purposes of the Federal Home Loan Banks and of the national mortgage associations.

The Federal Home Loan Banks may lend to their member institutions up to $1,000 against every $1,500 of approved long-term home-mortgage collateral. The national mortgage associations, when they are set up, will be free to purchase outright in any part of the country mortgages insured under the Mutual Mortgage Insurance Fund. In other words, these two groups of federally controlled agencies create a national credit reserve for home financing and a national market for home mortgages. In doing so they do more than end the isolation of home-financing institutions and the isolation of communities so far as home-mortgage credit is concerned. They insure a large degree of liquidity to all investments in home mortgages. This is a new and vital service to the Nation's home-financing system. First-mortgage investments in this country have always suffered from a lack of liquidity or marketability. This has been a principal cause of the hardships incurred by the home-financing institutions and their shareholders in the present depression and for the inevitable withdrawal of mortgage credit at the first sign of hard times. The

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Federal Home Loan Banks insure permanent liquidity to their member institutions and through them to the entire mortgage market.

The third essential service performed by these federally controlled agencies for the supply and distribution of marginal funds for home financing is to supply a desirable type of investment for funds which demand the highest degree of safety combined with liquidity. At any time that calls upon them require funds in excess of their capital, the Federal Home Loan Banks may issue bonds or debentures against their home-mortgage collateral for sale to the public. These issues will unquestionably be quoted on the leading exchanges and will constitute the first standard negotiable security based on urban home real estate to appear in the United States. In many European countries similar central mortgage bank issues have frequently sold on a lower yield basis than direct governmental obligations of the nations concerned. The national mortgage associations will be privileged to sell similar bonds and debentures to the public against their insured mortgages.

BENEFITS TO THE HOME OWNER

So far we have considered the Government's program for organizing the home-financing system as it strengthens lending institutions and protects the investor. Only as it accomplishes these ends can it achieve its ultimate purpose, which is to encourage home ownership and protect home owners. The amortized mortgage gives security to home owners and by eliminating brokerage and renewal fees reduces the cost of home financing. Then, there is the development of standards. The newly created Federal Savings and Loan Insurance Corporation will powerfully supplement the Federal Home Loan Bank System in raising standards. It has the power to reject an application for insurance if in its judgment the character of an institution's management or its home-financing policies are inconsistent with sound and economical home financing. The Mutual Mortgage Insurance Fund will tend to raise the level of lending practices of institutions outside the Federal Home Loan Bank System and provide a uniform type of mortgage. In short, the tendency of the entire program is to bring better standards into home financing. Standardization is the surest means of eliminating the shady lending agency. It is also the key to reduction of the many fixed charges—for appraisals, for title search, for conveyancing, for recording—peculiar to the mortgage business. The operations of the Home Owners' Loan Corporation have shown that these charges can be reduced and rendered uniform.

The Corporation has also familiarized the Nation's home owners with a 5-percent interest rate, and the Government's program for the permanent organization of the home-financing system seeks to make possible low rates on all home loans. The rate of interest is largely determined by the supply of funds, and by the safety and liquidity of the investment. To increase the flow of funds and to insure both safety and liquidity are, as we have seen, major purposes of the Federal program. Because they have lacked liquidity, interest rates on first mortgages have been far higher than on the long-term bonds of railroads, of industry, or of the Government. This is no longer justifiable. There is no longer any excuse for an interest rate on a long-term amortized first mortgage in excess of 7 percent in the South and West, and 6 percent in the North and East. What is more, this should be the real interest rate and not conceal a higher rate made possible by such devices as failing to deduct the monthly payments from the principal as they are made.

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ELIMINATING THE SECOND MORTGAGE

A major question yet to be considered is, How does the Federal program solve the second-mortgage problem? The answer is that the program seeks to eliminate the need for most second mortgages by inducing the lending institutions to grant first mortgages up to 75 and 80 percent of the appraised value of the property, on long-term amortized loans. In some States building and loan associations are already permitted by law to make loans up to 75 percent. All Federal savings and loan associations are authorized to lend up to 75 percent. The Mutual Mortgage Insurance Fund may insure and national mortgage associations and national banks may deal in insured mortgages representing up to 80 percent of the appraised value of the property. However, the making of such loans with a reasonable degree of safety will necessitate the development in every community of a lending technic which is now pretty generally lacking. In the first place, lending institutions that take a 75- or 80-percent first mortgage will have to insist that the home owner supply the remaining 25 or 20 percent on the down payment. No liens junior to a 75- or 80-percent first mortgage can be permitted.

This is not an unreasonable condition. Shoe-string buying has proved one of the principal causes of foreclosure in the present depression. It benefits no one, neither the borrower, the lender, nor the community. If a man cannot save 20 or 25 percent of the price of his home before he buys it, there is serious question as to whether he will be able to save that much after he buys it. On the other hand, if he does save the 20 percent and at once establishes such an adequate equity in his property, his interest in retaining it is the best guaranty of his fulfilling the mortgage contract. Also, the installment payment principle of the amortized mortgage means that the risk to the lending institution decreases every month.

CONTROLLING BOOMS TO STABILIZE VALUES

The second condition to be met if the 75- and 80-percent first mortgage is to be made feasible is that stability of residential property values be increased. This means primarily some control of the periodic booms to which real estate in this country has been subject. Booms are the result of excessive confidence based upon ignorance—ignorance of the real need for homes and of the relation of supply to that need. Booms are typified, of course, by excessive subdivision of land, and by overbuilding with its waste of invested funds and its threat to all home values.

There seems little excuse for the ignorance which encourages real-estate inflation. The population trends and probable needs for housing are ascertainable at any time. To guide their lending policies, the home-financing institutions of Utica, N.Y., for instance, have for years made annual compilations of statistics on local building occupancies, mortgages recorded, real-estate transfers, vacant lots, new lots placed on the market, and foreclosures. Thanks to the guidance of lending policies and the control of building this knowledge made possible, the vacancy ratio in Utica even at the height of the depression never exceeded 5.7 percent, and the city is said to be practically the only one in New York in which mortgage money has been available throughout the depression.

CENTRAL INSPECTION AGENCIES TO CONTROL CONSTRUCTION

Whether home-financing institutions can make 75- and 80-percent first-mortgage loans will depend in part also on quality of construction. Between the years 1920 and 1930 the jerry-builder made great headway among us and contributed effec-

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tively to the subsequent distress of home owners and mortgage holders. It is not only because his own product becomes a common liability that the jerry-builder is dangerous; it is because, like the employer of child labor, he provides unfair competition to the responsible builder and forces the latter to lower the quality of his product.

It is, therefore, a matter of major importance that a technic has been developed to enable home-financing institutions to control the quality of construction of new homes on which they lend money. This technic involves the organization in each community of a construction inspection agency. The agency follows the progress of a home from the submission of plans through all phases of construction to delivery of the finished product to the home owner. Its work is impartial and expert. Against it the jerry-builder has no chance.

Many building and loan associations supervise building on their own construction loans. In some cities several associations have cooperated to establish a central supervising bureau. This is a step in the right direction. It would seem mere good business for home-financing institutions in every community to take the lead in organizing central inspection agencies. Responsible building interests will welcome such agencies for their own protection.

In this connection it should be pointed out that periodic surveys to reveal the real need for housing, coupled with efficient inspection of construction by central inspection agencies, would go far to put our appraisal system on a scientific basis. Sound appraisals are essential to the success of 75- and 80-percent mortgages.

SUMMARY OF PROGRAM

We have now seen the major details of the Government's program for the organization of the Nation's home-financing system. The program is certainly simple in concept and not impossible of execution. It involves five major steps:

1. Concentration of most home financing in the mutual thrift type of institution and the development of such institutions under Federal charter in all communities where they are lacking or which are inadequately served by existing institutions.
2. The organization of these specialized home-financing agencies on a national scale and the pooling of their resources.
3. The insurance of savings deposited in these institutions.
4. The development of mutual mortgage insurance under Federal supervision.
5. The establishment under Federal charter of private institutions doing a Nation-wide business in insured mortgages.
6. The creation of a national market for home mortgages and the authorization of standard bonds and debentures based on home mortgages.
7. The setting up of uniform standards of operation for all home-financing institutions.

SUMMARY OF RESULTS ANTICIPATED

This simple organization will, it is hoped, in the course of time produce the following results:

1. Extend the use of long-term amortized loans to the great majority of home-financing transactions.
2. Develop an even and adequate flow of long-term money to meet the needs of home owners, and give liquidity to mortgage investments.
3. Permit the making of first mortgages up to 75 and 80 percent of the value of a property and largely eliminate the costly second mortgage.
4. Put an end to shoe-string home buying and extend the practice of a 20 to 25 percent down payment.
5. Increase the number of home owners by making home ownership possible to many families hitherto forced to live in rented properties.
6. Eliminate the irresponsible and dishonest home-financing agency.
7. Reduce and standardize the cost of servicing home mortgages—fees for appraisal, title search, conveyancing, recording—and largely eliminate brokers' fees, commissions, and bonuses.
8. Lower interest rates on first mortgages in many sections of the country.
9. Increase the stability of property values and add to the control of booms.

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10. Help eliminate the jerry-builder and improve the quality of construction of small homes.
11. Improve the quality of appraisals.

PROGRAM DOES NOT PUT GOVERNMENT IN BUSINESS

There is nothing paternalistic in this program for organizing the Nation's home-financing system. The Government is merely fulfilling a double duty to aid private industry to organize and to protect a vital public interest. The program does not put the Government into the business of financing homes. It protects the savings of the investor and provides security to the home-financing institutions. It puts a premium on thrift. It encourages wise home ownership. It seeks to prevent home ownership that is not financially sound.

A basic premise of the whole program is that home owners stand on their own feet, that they deserve protection but do not wish subsidization. I do not mean to say that direct governmental aid to improve the housing of the less fortunate members of the lower income groups should not be given. In fact, it is part of the Government's program to give such aid, but that is a wholly separate field of activity from the one here discussed. Slum clearance, low-cost housing, and subsistence homesteads may become a vital part of the national housing program, but they are distinct from the program to organize the home-financing system. So, incidentally, is the necessary organization of the system for financing commercial properties and apartment houses. It would be a great mistake to confuse in any way commercial-property mortgages or the bonds financing them with urban home mortgages and home-mortgage bonds.

The credit system of the country is a single machine of which all the parts are interrelated and interdependent. A wooden piston in a steel motor will not function. Our unorganized home-financing system has been a wooden piston in our credit machine. The Government is seeking to replace it with a steel piston. None will benefit more by this substitution than the private financial institutions of the country.

THE NEED FOR NEW HOMES

For the accompanying summary of Real Property Inventory Statistics and the material on which this article is based, the REVIEW is indebted to Daniel E. Casey, Chief of the Real Property Inventory, Department of Commerce.

Specific information on the need for new homes and consequently for new-home financing is one of the invaluable results of the first extensive inventory of real property ever taken in this country. This inventory, financed by the Civil Works Administration and carried out last spring by the Real Property Inventory Unit of the Bureau of Foreign and Domestic Commerce, gives data on nearly 2,000,000 structures containing the homes of over 9,000,000 people in 64 cities. At least 1 of the 64 cities is located in each State of the Union. The cities were selected to represent different economic types, sizes, ages, and rates of growth. It is felt therefore that the results may justifiably be accepted as a rough cross section of the national housing situation.

The accompanying summary of the inventory shows a vacancy percentage in dwelling units of 7.8. When this percentage is compared with the 7 percent of unit dwellings in which two or more families are doubled up, with the 15.6 percent that are overcrowded, and with the 2.2 percent of structures which are unfit for use, we have a startling picture of the national housing shortage which is developing and will appear the instant that reemployment

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permits our people to enjoy again an adequate standard of living.

The data on the need for repair of American homes is scarcely less startling and significant to home-financing institutions. Only 37.6 percent are listed as in good repair; 44.4 percent of the structures need minor repairs; 15.4 percent structural repairs.

The inventory gives an insight also into the type of home most popular with Americans and the range of rentals both as to type of structure and number of rooms. It establishes the number of owner-occupied dwellings to be 39.4 percent, of which 14.8 percent are owned free and 18.9 percent are mortgaged.

Great as is the value of the information developed by the inventory to real-estate interests, to manufacturers of building materials and equipment, to city planners, to sociologists, to health officers, and other municipal officials, it is doubtful whether any group is more vitally concerned in the detailed information assembled for each of the 64 cities than the home-financing institutions. This detailed information constitutes an analysis of the market of home-financing institutions in each city. It is safe to say that had these institutions been possessed of such analyses in 1925 the over-financing and overbuilding that led to the depression would never have taken place. The hope cannot be too strongly expressed that home-financing institutions in the cities concerned will take advantage of the material made available and that the financing institutions in every other city of the country will take the lead in initiating such surveys and market studies in their cities.

The 64 cities in which the real property inventory was taken and for which data are now available are listed herewith, grouped by geographical divisions to correspond with the summary.

New England

Burlington, Vt.
Nashua, N.H.
Portland, Maine.
Providence, R.I.
Waterbury, Conn.
Worcester, Mass.

Middle Atlantic

Binghamton, N.Y.
Erie, Pa.
Syracuse, N.Y.
Trenton, N.J.
Williamsport, Pa.

East North Central

Cleveland, Ohio.
Decatur, Ill.
Indianapolis, Ind.
Kenosha, Wis.
Lansing, Mich.
Peoria, Ill.
Racine, Wis.
Zanesville, Ohio.

East South Central

Birmingham, Ala.
Knoxville, Tenn.
Jackson, Miss.
Paducah, Ky.

South Atlantic

Asheville, N.C.
Atlanta, Ga.
Charleston, S.C.
Columbia, S.C.
Frederick, Md.
Greensboro, N.C.
Hagerstown, Md.
Jacksonville, Fla.
Richmond, Va.
Wheeling, W.Va.
Wilmington, Del.

West North Central

Des Moines, Iowa.
Fargo, N.Dak.
Lincoln, Nebr.
Minneapolis, Minn.
Sioux Falls, S.Dak.
Springfield, Mo.
St. Joseph, Mo.
St. Paul, Minn.
Topeka, Kans.
Wichita, Kans.

West South Central

Austin, Tex.
Baton Rouge, La.
Dallas, Tex.
Little Rock, Ark.
Oklahoma City, Okla.
Shreveport, La.
Wichita Falls, Tex.

Mountain

Albuquerque, N.Mex.
Boise, Idaho.
Butte, Mont.
Casper, Wyo.
Phoenix, Ariz.
Pueblo, Colo.
Reno, Nev.
Salt Lake City, Utah.
Santa Fe, N.Mex.

Pacific

Sacramento, Calif.
San Diego, Calif.
Portland, Oreg.
Seattle, Wash.

The following tables were compiled in the Statistical Division, Alanson D. Morehouse, Chief Statistician, Real Property Inventory Unit, Bureau of Foreign and Domestic Commerce, U.S. Department of Commerce; preliminary figures subject to change; Sept. 7, 1934:

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Summary of real property inventory statistics for 64 cities, 1934—distributed by geographic divisions

Population figures and data on structures and dwelling units	Total, 64 cities	Percent	New England	Middle Atlantic	East North Central
Total number of cities enumerated	64	....	6	5	8
Population of cities enumerated (1930 census)	9, 793, 371	....	1, 225, 693	740, 785	2, 063, 216
Persons covered by real property inventory—residential only [1]	9, 074, 786	....	1, 112, 767	675, 246	1, 951, 714
DATA ON STRUCTURES					
Total number	1, 931, 055	100. 0	173, 688	125, 475	396, 993
By type:					
Single family	1, 536, 706	79. 6	95, 560	83, 143	294, 609
2-family	250, 670	13. 0	41, 304	29, 984	69, 867
3-family	26, 420	1. 4	21, 753	1, 418	269
4-family	21, 669	1. 1	2, 949	1, 196	4, 729
Row house	7, 051	. 4	424	1, 775	496
Apartment	22, 055	1. 1	4, 063	1, 247	4, 716
Other	66, 370	3. 4	7, 635	6, 712	22, 307
By condition: [2]					
In good repair	726, 180	37. 6	76, 407	56, 444	150, 991
Need minor repair	857, 648	44. 4	79, 153	55, 397	179, 408
Need structural repair	297, 791	15. 4	16, 513	12, 373	56, 633
Unfit for use	43, 068	2. 2	1, 300	1, 039	9, 586
Principal material or type of construction:					
Wood	1, 584, 032	82. 0	165, 493	99, 094	351, 625
Brick	306, 532	15. 9	5, 251	20, 266	36, 258
Stone	4, 545	. 2	254	487	448
Concrete	7, 576	. 4	350	995	1, 201
Stucco finish	115, 918	6. 0	2, 057	4, 021	5, 986
Other	11, 034	. 6	170	367	1, 273
Not reported	1, 453	. 1	113	66	202
Garages and automobiles:					
With garages	1, 165, 402	60. 4	80, 501	68, 727	273, 452
Without garages	762, 049	39. 5	92, 795	56, 478	123, 013
Car capacity reported	1, 704, 974	....	143, 131	117, 293	446, 227
Number of automobiles reported	1, 343, 047	....	121, 609	93, 611	308, 526
DATA ON DWELLING UNITS					
Total number	2, 633, 135	100. 0	304, 126	185, 714	563, 068
By occupancy and tenure:					
Number of occupied units	2, 428, 908	92. 2	280, 628	173, 118	516, 293
Number of vacant units	204, 227	7. 8	23, 498	12, 596	73, 765
Number of owner-occupied	1, 036, 316	39. 4	109, 957	83, 151	224, 833
Owned free	390, 476	14. 8	23, 779	21, 387	72, 123
Mortgaged	498, 753	18. 9	46, 050	37, 651	137, 969
Not reported	147, 087	5. 6	40, 128	24, 113	14, 741
Extra families [3]	183, 192	7. 0	14, 124	10, 156	41, 347
Inadequate housing condition: [4]					
Crowded	376, 850	14. 3	43, 678	19, 185	64, 723
Overcrowded	29, 348	1. 1	1, 913	397	2, 279
Greatly overcrowded	6, 144	. 2	112	54	333
Type of heating apparatus:					
Warm air	818, 088	31. 1	33, 289	105, 863	310, 817
Steam or vapor	316, 733	12. 0	104, 808	21, 523	67, 244
Hot water	194, 845	7. 4	11, 785	15, 258	25, 640
Heating stove	1, 117, 121	42. 4	151, 482	42, 032	154, 297
Other	174, 900	6. 6	1, 554	698	3, 463
None	7, 519	. 3	435	234	616
Principal fuel used:					
Coal	1, 773, 420	67. 4	202, 064	174, 141	519, 488
Wood	310, 328	11. 8	8, 760	1, 777	1, 011
Gas	305, 258	11. 6	711	2, 044	31, 562
Oil	174, 994	6. 6	72, 241	3, 400	4, 903
Other	53, 192	2. 0	18, 237	3, 927	3, 238

[1] Does not include persons having residence in hotels, rooming houses, clubs, and summer cottages.
[2] Totals do not include "Not reported."
[3] Sharing dwelling unit with usual occupants.

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Summary of real property inventory statistics for 64 cities, 1934—distributed by geographic divisions

Population figures and data on structures and dwelling units	East South Central	South Atlantic	West North Central	West South Central	Mountain	Pacific
Total number of cities enumerated	4	11	10	7	9	4
Population of cities enumerated (1930 census)	600, 329	1, 357, 264	1, 452, 891	829, 152	416, 635	1, 107, 406
Persons covered by real property inventory—residential only [1]	560, 462	1, 275, 001	1, 365, 947	763, 926	379, 452	990, 271
DATA ON STRUCTURES						
Total number	129, 220	253, 227	305, 530	181, 256	89, 266	276, 400
By type:						
Single family	110, 787	197, 041	259, 187	160, 646	79, 026	256, 807
2-family	15, 353	36, 839	29, 840	13, 625	5, 666	8, 192
3-family	74	1, 303	660	392	145	420
4-family	754	3, 096	3, 737	2, 216	884	2, 108
Row house	236	2, 823	271	104	585	337
Apartment	489	2, 024	3, 627	1, 253	1, 065	3, 571
Other	1, 527	10, 101	8, 208	3, 020	1, 895	4, 965
By condition: [2]						
In good repair	30, 304	81, 492	122, 191	67, 770	33, 192	107, 389
Need minor repair	62, 862	113, 058	131, 593	79, 313	37, 264	119, 600
Need structural repair	30, 898	49, 837	47, 696	24, 412	16, 018	43, 411
Unfit for use	5, 064	8, 418	5, 364	3, 955	2, 642	5, 700
Principal material or type of construction:						
Wood	117, 584	190, 562	225, 945	152, 940	38, 423	242, 366
Brick	8, 961	50, 523	18, 793	23, 741	34, 593	8, 146
Stone	448	1, 073	802	429	386	218
Concrete	299	1, 306	1, 158	251	1, 165	851
Stucco finish	1, 399	8, 540	56, 008	3, 019	10, 556	24, 152
Other	446	907	2, 599	662	4, 034	576
Not reported	83	307	225	214	152	91
Garages and automobiles:						
With garages	52, 205	112, 849	207, 477	113, 425	57, 596	199, 170
Without garages	76, 830	140, 587	96, 561	67, 340	31, 766	76, 679
Car capacity reported	67, 070	160, 193	285, 361	166, 744	73, 143	245, 812
Number of automobiles reported	52, 224	142, 583	230, 351	126, 120	64, 788	203, 232
DATA ON DWELLING UNITS						
Total number	154, 447	343, 417	400, 610	215, 827	114, 847	351, 079
By occupancy and tenure:						
Number of occupied units	141, 728	318, 698	373, 020	202, 656	104, 920	317, 847
Number of vacant units	12, 719	24, 719	27, 590	13, 171	9, 927	33, 232
Number of owner-occupied	45, 964	112, 850	177, 120	76, 163	49, 282	156, 996
Owned free	22, 079	46, 746	75, 255	31, 587	22, 871	74, 649
Mortgaged	20, 342	46, 737	78, 305	36, 493	20, 499	74, 707
Not reported	3, 543	19, 367	23, 560	8, 083	5, 912	7, 640
Extra families [3]	15, 122	32, 307	26, 510	20, 090	6, 218	17, 318
Inadequate housing condition: [4]						
Crowded	35, 957	67, 496	53, 384	42, 050	21, 350	29, 027
Overcrowded	5, 173	7, 625	3, 303	5, 177	2, 212	1, 269
Greatly overcrowded	957	1, 670	759	1, 407	544	308
Type of heating apparatus:						
Warm air	15, 754	51, 455	153, 283	3, 684	27, 167	116, 776
Steam or vapor	9, 112	27, 331	39, 841	3, 592	10, 961	32, 321
Hot water	2, 207	29, 758	83, 920	1, 238	5, 243	19, 796
Heating stove	48, 524	166, 294	120, 271	200, 499	68, 437	165, 285
Other	78, 587	66, 641	2, 305	5, 500	2, 283	13, 869
None	144	1, 347	687	899	498	2, 659
Principal fuel used:						
Coal	136, 170	268, 386	323, 237	6, 537	83, 927	59, 470
Wood	8, 369	50, 566	16, 721	41, 525	10, 149	171, 450
Gas	6, 808	10, 772	28, 104	164, 850	15, 646	45, 461
Oil	167	5, 543	29, 575	443	2, 592	56, 130
Other	2, 598	5, 833	1, 574	726	1, 696	15, 363

[4] Crowded indicates from 1 to 2 persons per room; overcrowded indicates from 2 to 3 persons per room; greatly overcrowded indicates 3 or more persons; figures only presented for cases of inadequate housing conditions.

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Many other cities, quick to sense the value of such data as that collected by the Federal Government, have either conducted or are conducting similar surveys as local projects, using the same schedule and forms as those used by the real property inventory. Among these cities are:

Connecticut: Bridgeport and Stamford.
Illinois: Chicago.
Indiana: Fort Wayne and Gary.
Iowa: Sioux City.
Kentucky: Louisville.
Massachusetts: Boston, Cambridge, Chelsea, and Springfield.
Michigan: Detroit and Flint.
New Jersey: Atlantic City, Camden, Elizabeth, Jersey City, Newark, Paterson, and Trenton.
New York: Albany, Buffalo, and New York City.
North Carolina: Charlotte.
Pennsylvania: Philadelphia, Pittsburgh.
Texas: Amarillo and Houston.
District of Columbia: Washington.

INTRODUCING THE "REVIEW"

In establishing this REVIEW as its official monthly publication the Federal Home Loan Bank Board has four major objectives in mind.

1. *To provide a permanent official record of the current activities of the four agencies under the Board.*—The operations of the Federal Home Loan Bank Board are Nation-wide. They affect directly the solvency and liquidity of the $21,000,000,000 of urban home mortgage indebtedness and consequently the entire financial and credit structure of the United States. Information concerning the variety and extent of these current operations should be made available in permanent form to all those affected or interested.

2. *To provide the Board with a regular means of contact with member institutions of the bank system and to give a sense of unity to the Nation's principal home-financing institutions.*—The Federal Home Loan Bank System is a unit and the activities of each regional bank and its members are of concern to all other banks and members. Also, isolation is a major obstacle to the spread of new ideas and practices in the operation of home-financing institutions. A monthly bulletin offers perhaps the most effective means of ending this isolation. The need for uniform and high standards of operation among home-financing institutions is a paramount one, and in creating this organ the Board believes it is taking a major step toward the realization of these standards.

3. *To provide a channel for the dissemination of sound principles and sound technic for home-financing and related activities.*—As the leading article in this REVIEW by Chairman Fahey points out, the extension of long-term amortized loans representing as much as 75 percent of the appraised value of the property will necessitate the development of a lending technic which is now generally lacking. The REVIEW will, from time to time, publish detailed studies on such subjects as the direct-reduction plan, the study of their markets by lending institutions, the creation of central inspection agencies, appraisal methods, personal-risk factors, and legal phases of home financing.

4. *To present through the medium of statistical tables, indexes, and charts a factual picture of current activities in home financing and home construction in the United States.*—Home-financing institutions, shareholders, the building interests, and home owners, all have suffered from ignorance of national and local trends in home construction and real-estate activity. This ignorance made possible the overfinancing and the overbuilding which helped bring on the depression. In the reenforcing of

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our system for financing housing and housing construction, facts as to the market are essential. Obviously, information on the situation in each locality is of first importance, but knowledge of national trends—in construction costs, for example—is likewise significant. The monthly publication of fundamental data, both sectional and national, will be valuable as a guide to home-financing institutions and serve as an incentive to them for the collection of more detailed local statistics

Since it is impossible to divorce residential construction or residential real estate from other types of construction and real estate, the REVIEW should cover these larger fields insofar as space and material will permit. It will take time to develop sources of data and the REVIEW will of necessity proceed slowly. The cooperation of lending institutions and of all Federal and private agencies active in the field of home construction and home finance will be essential to success.

HOME MORTGAGE INTEREST RATES BY STATES

The accompanying table, showing the results of a survey of interest rates on first mortgages charged by building and loan associations and banks, was made in the fall of 1931. We know there has been since that time a downward tendency in interest rates. The extent of that downward tendency should be revealed when the financial survey of urban housing of the Bureau of Foreign and Domestic Commerce completes the task which now occupies it. Making use of data gathered by the Bureau's real property inventory, the survey is engaged in the most exhaustive study of home-mortgage interest rates that has yet been undertaken. Through the courtesy of the survey, this REVIEW will publish some of its results in a later issue.

The striking range in rates revealed by the accompanying table—from 6 percent in the Northeast to 10 percent in the South and West—reflects differences in degree of risk which no longer exist. Doubtless there was a time when scarcity of capital and exceptional risks prevailed in States such as Arizona, Idaho, Oklahoma, Oregon, and New Mexico. The factors which justified high interest rates have, however, to a large extent disappeared; yet the rates themselves reflect a traditional tendency of interest rates to become customary and to remain at a high level after the circumstances which caused this level have disappeared.

We may, therefore, count upon a steady leveling down of rates, a movement which is being strongly accelerated by the Federal Home Loan Banks.

It should be noted that interest rates do not always reveal the total cost of the mortgage loan to the borrower. There are some service charges connected with all mortgages; these charges vary as between localities and as between lending institutions. Also, many institutions charge fees and commissions for making and renewing mortgages. On short-term straight mortgages these commissions may considerably increase the real cost of the loan.

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HOME LOAN INTEREST RATES

[Division of Research and Statistics, Federal Home Loan Bank Board, Washington, D.C.]

United States	Legal[1]	Contract[1]	B. & L.[2]	Banks[2]: Straight mortgage	Banks[2]: Amortized mortgage
	Percent	*Percent*	*Percent*	*Percent*	*Percent*
Alabama	8	8	7.3	7.2	6.9
Arizona	6	10	10.0	8.0	....
Arkansas	6	10	9.0	....	....
California	7	(3)	8.2	7.1	7.2
Colorado	8	(4 5)	8.8	6.5	6.0
Connecticut	6	12	5.9	5.9	5.8
Delaware	6	6	6.0	6.0	6.0
District of Columbia	6	8	6.0	6.0	....
Florida	8	10	8.4	7.5	7.0
Georgia	7	8	7.4	7.5	5.0
Idaho	7	10	8.6	....	....
Illinois	5	7	6.3	6.1	6.2
Indiana	6	8	7.1	6.5	6.6
Iowa	6	8	6.8	6.6	6.7
Kansas	6	10	8.7	6.6	7.4
Kentucky	6	6	6.3	6.0	6.2
Louisiana	5	8	7.4	7.8	7.8
Maine	6	(4)	6.2	6.1	6.0
Maryland	6	(6) 6	....	5.9	5.8
Massachusetts	6	(4 7)	6.2	5.9	5.9
Michigan	5	7	7.2	6.7	6.5
Minnesota	6	8	7.0	6.1	6.0
Mississippi	6	8	9.0	7.5	8.0
Missouri	6	8	7.5	6.5	6.0
Montana	8	10	7.8	8.6	10.0
Nebraska	7	10	7.3	....	....
Nevada	7	12	10.0	8.0	....
New Hampshire	6	(4)	....	5.4	5.2
New Jersey	6	(8) 6	6.0	6.0	6.0
New Mexico	6	12	10.0	....	....
New York	6	(9) 6	6.0	5.8	5.9
North Carolina	6	6	6.0	6.0	6.0
North Dakota	6	9	7.7	....	....
Ohio	6	8	6.8	6.6	6.6
Oklahoma	6	10	9.1	8.1	8.0
Oregon	6	10	9.3	7.2	6.7
Pennsylvania	6	6	6.0	6.0	6.0
Rhode Island	6	(10)	6.0	6.0	6.0
South Carolina	7	8	7.9	7.5	7.0
South Dakota	7	10	9.7	6.4	....
Tennessee	6	6	6.0	7.0	....
Texas	6	10	8.7	7.5	7.0
Utah	8	12	8.7	8.1	8.5
Vermont	6	6	6.3	6.0	6.0
Virginia	6	6	6.4	6.0	6.0
Washington	6	12	7.9	7.2	7.4
West Virginia	6	6	6.9	6.0	8.5
Wisconsin	6	10	6.7	6.2	6.1
Wyoming	7	10	8.1	....	....
Alaska	8	12	....	....	....
Hawaii	8	12	....	....	....
Puerto Rico	6	12	....	....	....
Philippines	6	(11)	....	....	....

[1] Source: Rand McNally Bankers Directory, January 1932, p. 2132.

[2] Source: The finance committee of the President's conference on home building and home ownership, 1931 (questionnaires).

[3] Parties may agree in writing to a higher rate of interest than 7 percent but not exceeding 12 percent for 1 year, and not exceeding that rate for a longer or shorter time.

[4] Any rate.

[5] Any rate agreed upon is legal, on loans over $300, but Colorado courts decline to endorse grossly unreasonable rates.

[6] A corporation may agree to pay any rate of interest and may not plead usury.

[7] Legal rate is 6 percent. On loans of less than $1,000, interest shall not exceed 18 percent. Not more than 7 percent can be charged on bonds issued by corporations.

[8] A corporation cannot plead usury. Under small loan act ($300 minimum) interest rate is 1 1/2 percent per month.

[9] Any rate agreed upon in writing is legal on collateral demand loans of $5,000 and over.

[10] On amounts exceeding $50, 30 percent including service and expenses. On amounts not exceeding $50, 5 percent per month for the first 6 months, 2 1/2 percent thereafter. Licensees under the small loans act may charge 3 1/2 percent per month.

[11] 12 percent when there is security; 14 percent when there is no security.

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FEDERAL HOME LOAN BANK INTEREST RATES ON ADVANCES TO MEMBER INSTITUTIONS

The rates charged on advances to members of the Federal Home Loan Banks are set at the lowest levels consistent with the cost of such credit to the banks. Present rates range between 4 and 4½ percent on secured advances, as indicated by the table below, covering the rate schedules of each of the 12 regional Banks. The maximum rate on unsecured loans is 5 percent.

Current rates reflect a recent reduction, for most of the Banks, from a 5-percent minimum on secured advances. The lowering of such rates coincides with general efforts by private home-financing institutions and the Federal Government to restore activity and stability to mortgage finance and to the construction industries by making long-term credit available to home owners on reasonable terms.

The present line of credit available to members through the Federal Home Loan Banks exceeds $230,000,000. This is exclusive of the $50,000,000 which the Home Owners' Loan Corporation has been authorized by Congress to invest in the bonds or debentures of the Banks. Less than $100,000,000 of the $230,000,000 of Bank credit immediately available is currently absorbed in advances outstanding. It is therefore expected that present low rates on such advances will continue in the near future.

In the long run, it is inevitable that the rates must be largely determined by the yield that bonds or debentures of the Banks will command in the investment market. The natural growth of the System's volume of advances will doubtless call for the issuance of such obligations to provide the major source of the System's funds.

Attention is called, elsewhere in this REVIEW, to recent amendments to the Federal Home Loan Bank Act which liberalize the collateral requirements and permit larger advances against a given amount of approved collateral. These steps, in conjunction with the lower rates now in force, are calculated to promote greater lending activity by the banks. Such a development is directly in line with the Federal Home Loan Bank Board's policy of cooperation with private home-financing institutions to permit them to take advantage of the present opportunity to improve their own earning position and assist in the general program of economic recovery by the sound expansion of their mortgage lending operations.

Interest rates—Federal Home Loan Banks

[Rates on advances by member Banks]

Federal home loan bank	Rate in effect on Aug. 31	Type of loan
	Percent	
1. Boston	4	All loans.
2. Newark	4	Reconditioning loans.
	4½	All other loans.
3. Pittsburgh	4½	All loans.
4. Winston-Salem	4	Short-term and long-term billing.
	4½	Long-term contract.
5. Cincinnati	4¼	All loans until Dec. 31, 1934.
6. Indianapolis	4	Secured loans.
	5	Unsecured loans.
7. Chicago	4	1-and 10-year amortized loans.
	4½	1-year straight loans.
	5	Unsecured loans.
8. Des Moines	4½	All loans.[1]
9. Little Rock	4	All loans until Sept. 30, 1934.
10. Topeka	4	All loans.
11. Portland	4½	Do.
12. Los Angeles	4½	Do.

[1] Des Moines has made a special rate to one member of 4 percent on an advance of more than $250,000.

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FEDERAL HOME

Combined statement of

	Combined	Boston	Newark	Pittsburgh	Winston-Salem
Assets:					
Cash on hand—in banks and U.S. Treasury	$4, 377, 381. 92	$1, 020, 799. 15	$334, 885. 40	$162, 285. 59	$580, 509. 78
Loans outstanding:					
Members	84, 875, 136. 96	2, 540, 972. 60	13, 879, 494. 72	10, 568, 766. 20	6, 077, 579. 10
Affiliated banks	600, 000. 00	600, 000. 00			
Other	7, 256. 02				
Total loans	85, 482, 392. 98	3, 140, 972. 60	13, 897, 494. 72	10, 568, 766. 20	6, 077, 579. 10
Accrued interest receivable	587, 521. 07	27, 524. 20	68, 459. 88	73, 317. 82	37, 896. 46
Investments—United States Government	15, 489, 200. 16	2, 701, 468. 76	59, 656. 25	236, 400. 00	1, 010, 468. 75
Other assets	108, 570. 86	18, 541. 64	8, 878. 37	6, 327. 66	6, 553. 36
Total assets	106, 441, 066. 99	6, 909, 306. 35	14, 369, 374. 62	11, 047, 097. 27	7, 713, 007. 45
Liabilities and capital:					
Liabilities:					
Current	2, 588, 285. 25		10, 259. 90	802, 624. 66	5, 659. 00
Fixed					
Total liabilities	2, 588, 285. 25		10, 259. 90	802, 624. 66	5, 659. 00
Capital:					
Capital stock:					
Fully paid—Issued and outstanding:					
Members	17, 815, 100. 00	1, 313, 100. 00	2, 142, 000. 00	1, 401, 700. 00	1, 590, 400. 00
United States Government	81, 445, 700. 00	5, 000, 000. 00	11, 500, 000. 00	8, 500, 000. 00	5, 700, 000. 00
	99, 260, 800. 00	6, 313, 100. 00	13, 642, 000. 00	9, 901, 700. 00	7, 290, 400. 00
Subscriptions to capital stock:					
Members and applicants	5, 020, 600. 00	664, 600. 00	1, 256, 400. 00	338, 200. 00	306, 300. 00
Less: Balance due	2, 517, 392. 38	225, 000. 00	693, 950. 13	200, 500. 00	128, 950. 00
	2, 503, 207. 62	439, 600. 00	562, 449. 87	137, 700. 00	177, 350. 00
United States Government	43, 295, 300. 00	7, 467, 500. 00	7, 463, 200. 00	2, 646, 300. 00	3, 508, 200. 00
Less: Balance due	43, 295, 300. 00	7, 467, 500. 00	7, 463, 200. 00	2, 646, 300. 00	3, 508, 200. 00
Surplus:					
Reserves:					
As required under section no. 16 of act	563, 392. 81	25, 460. 44	56, 603. 25	57, 011. 80	40, 954. 58
United States Government—2 percent dividend	848, 404. 53	112, 290. 46	39, 068. 50	70, 915. 07	146, 389. 04
Other					
Surplus—Unallocated	676, 976. 78	18, 855. 45	58, 993. 10	77, 145. 74	52, 254. 83
Total surplus	2, 088, 774. 12	156, 606. 35	154, 664. 85	205, 072. 61	239, 598. 45
Total capital	103, 852, 781. 74	6, 909, 306. 35	14, 359, 114. 72	10, 244, 472. 61	7, 707, 348. 45
Total liabilities and capital	106, 441, 066. 99	6, 909, 306. 35	14, 369, 374. 62	11, 047, 097. 27	7, 713, 007. 45

NOTE.—Italic figures = deficit.

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LOAN BANK SYSTEM

condition as at Aug. 31, 1934

Cincinnati	Indianapolis	Chicago	Des Moines	Little Rock	Topeka	Portland	Los Angeles
$664, 321. 57	$625, 806. 91	$389, 920. 01	$85, 212. 01	$404, 062. 83	$290, 262. 87	$21, 073. 87	$214, 241. 93
16, 689, 739. 45	5, 870, 990. 33	11, 812, 810. 64	4, 208, 402. 04	3, 957, 816. 52	4, 100, 993. 50	2, 157, 170. 24	2, 992, 401. 62
....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	7, 256. 02
16, 689, 739. 45	5, 870, 990. 33	11, 812, 810. 64	4, 208, 402. 04	3, 957, 816. 52	4, 100, 993. 50	2, 157, 170. 24	2, 999, 657. 64
93, 291. 40	48, 633. 20	78, 196. 97	38, 107. 94	39, 374. 41	35, 681. 24	18, 299. 04	28, 738. 51
838, 496. 73	1, 576, 408. 59	169, 879. 81	1, 349, 370. 04	3, 268, 715. 13	1, 262, 664. 50	1, 685, 374. 72	1, 330, 296. 88
17, 960. 82	3, 703. 93	7, 855. 38	6, 631. 27	9, 885. 85	7, 248. 33	5, 198. 12	9, 786. 13
18, 283, 809. 97	8, 125, 542. 96	12, 458, 662. 81	5, 687, 723. 30	7, 679, 854. 74	5, 696, 850. 44	3, 887, 115. 99	4, 582, 721. 09
682, 245. 70	75, 878. 87	320, 373. 22	243, 478. 49	416, 003. 16	3, 336. 50	28, 409. 23	16. 52
....	....	....	....	....	....	....	....
682, 245. 70	75, 878. 87	320, 373. 22	243, 478. 49	416, 003. 16	3, 336. 50	28, 409. 23	16. 52
4, 087, 300. 00	1, 757, 100. 00	1, 671, 500. 00	732, 300. 00	1, 140, 100. 00	738, 400. 00	434, 100. 00	807, 100. 00
12, 775, 700. 00	6, 000, 000. 00	10, 000, 000. 00	4, 500, 000. 00	5, 900, 000. 00	4, 700, 000. 00	3, 310, 000. 00	3, 560, 000. 00
16, 863, 000. 00	7, 757, 100. 00	11, 671, 500. 00	5, 232, 300. 00	7, 040, 100. 00	5, 438, 400. 00	3, 744, 100. 00	4, 367, 100. 00
666, 900. 00	259, 100. 00	340, 500. 00	316, 400. 00	259, 600. 00	298, 900. 00	62, 200. 00	251, 500. 00
326, 518. 75	95, 775. 00	212, 040. 00	187, 612. 50	163, 020. 00	138, 816. 00	28, 075. 00	117, 135. 00
340, 381. 25	163, 325. 00	128, 460. 00	128, 787. 50	96, 580. 00	160, 084. 00	34, 125. 00	134, 365. 00
....	577, 400. 00	4, 173, 900. 00	2, 894, 900. 00	2, 872, 400. 00	2, 633, 600. 00	2, 650, 000. 00	6, 407, 900. 00
....	577, 400. 00	4, 173, 900. 00	2, 894, 900. 00	2, 872, 400. 00	2, 633, 600. 00	2, 650, 000. 00	6, 407, 900. 00
133, 801. 76	52, 930. 50	82, 583. 30	26, 263, 24	49, 521. 43	13, 942. 88	11, 806. 81	12, 512. 82
43, 402. 38	20, 383. 56	131, 972. 59	37, 726. 01	20, 043. 86	91, 523. 29	64, 827. 87	69, 861. 90
220, 978. 88	55, 925. 03	123, 773. 70	19, 168. 06	57, 606. 29	*10, 436. 23*	3, 847. 08	*1, 135. 15*
398, 183. 02	129, 239. 09	338, 329. 59	83, 157. 31	127, 171. 58	95, 029. 94	80, 481. 76	81, 239. 57
17, 601, 564. 27	8, 049, 664. 09	12, 138, 289. 59	5, 444, 244. 81	7, 263, 851. 58	5, 693, 513. 94	3, 858, 706. 76	4, 582, 704. 57
18, 283, 809. 97	8, 125, 542. 96	12, 458, 662. 81	5, 687, 723. 30	7, 679, 854. 74	5, 696, 850. 44	3, 887, 115. 99	4, 582, 721. 09

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FEDERAL SAVINGS AND LOAN ASSOCIATIONS

In the Home Owners' Loan Act of June 13, 1933, authority was given the Federal Home Loan Bank Board to provide for the organization, incorporation, examination, and regulation of Federal savings and loan associations. The Board was also authorized to convert existing building and loan associations into Federal associations. These associations are local, mutual, thrift and home-financing institutions modeled on the best features of mutual savings banks and building and loan associations. They are privately officered and managed under Federal charter and subject to annual Federal examination. The shares are carefully defined and uniform for all associations and their lending policies are strictly regulated and likewise uniform.

In order to hasten the establishment of Federal associations in communities where other credit for home financing is either totally lacking, frozen, or inadequate and to encourage conversions, the Treasury is empowered to subscribe up to 75 percent of the paid-in stock of any association. The sum of $100,000,000 has been appropriated for governmental subscriptions. The first Federal savings and loan association was chartered in August 1933 and only 67 associations had been chartered by January 1 of this year.

The 498 Federal associations chartered up to September 1 are located in 38 States and the Territory of Hawaii. There is at least 1 in each of the 6 largest American cities. The rapid extension of this model form of private, mutual, thrift home-financing institution in the past few months indicates the wide-spread resumption of confidence in home-mortgage investments and reveals the public faith in Federal supervision and control. This growth of Federal associations is one of the most encouraging signs of an early resumption in home construction. The following table gives the status of Federal savings and loan associations as of September 1, 1934.

Federal Savings and Loan Associations as of Sept. 1, 1934

1. Charters issued:	
a. To new associations	406
b. To associations converted from State institutions	92
Total charters issued	498
2. Charters pending:	
a. For new associations	220
b. For associations converting from State institutions	173
Total charters pending	393
3. Resources:	
a. Of associations chartered	$75, 321, 616
b. Of associations for which charters are pending	212, 944, 400
Total resources	288, 266, 016
4. Subscriptions by the Secretary of the Treasury:	
a. Requested	6, 151, 500
b. Approved and paid for	2, 852, 800

THE FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

The Federal Savings and Loan Insurance Corporation is the Government's agency to protect savings invested in thrift and home-financing institutions from a recurrence of such losses as they have suffered in the last 4 years. The Corporation was authorized by the National Housing Act of June 27, 1934. It has a capital stock of $100,000,000 subscribed for by the Home Owners' Loan Corporation. All Federal

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savings and loan associations are required to insure their accounts with the Corporation. Building and loan, savings and loan, and homestead associations and cooperative banks are eligible to apply for such insurance. The Corporation may insure the share or deposit accounts of any one investor up to $5,000.

This program undertakes to do for small investors in thrift and home-financing institutions what the Federal Deposit Insurance Corporation is doing for the small depositors in our banks. However, as home-financing institutions differ from banks in the type of service they render so their plan of insurance protection must differ. People who deposit their money in banks want to be assured of its immediate availability. Generally they do not expect income on such deposits. Consequently, the Federal Deposit Insurance Corporation insures the liquidity of bank deposits. People who invest in thrift and home-financing institutions want to be assured of its safety; they expect also a share of the earnings from the use of their funds; finally, they want to be assured of recovering their commitments under conditions determined by the nature of the home-financing business. In view of these expectations, the Federal Savings and Loan Insurance Corporation insures the solvency of investments.

Insurance by the Federal Savings and Loan Insurance Corporation is on a strictly mutual basis. The Corporation is authorized to charge a premium of one-fourth of 1 percent of the total amount of all accounts of insured members plus any creditor obligations of the insured institutions. It is authorized also to assess additional premiums, not to exceed one-fourth of 1 percent in any year, to recover losses and operating expenses. The Corporation hopes to keep the operating expenses down to a minimum. It is confident that under the plan of operation which it will establish losses should also be small and therefore not burdensome to the insured institutions. With these ideas in mind, it plans to operate for the first year on the minimum premium of one-fourth of 1 percent, and to let additional assessments, if any, be determined entirely on the basis of experience.

The Corporation has just adopted a set of rules and regulations for its management and operation. The thought behind the drafting of these rules and regulations has been essentially this: A broad program of insurance of savings and loan accounts should be made effective immediately to such institutions as desire to avail themselves of it. It should be actuarily sound in order to minimize future losses. At the same time it should be sufficiently liberal to admit to its advantages all the solvent thrift home-financing institutions of the country that apply for it.

It is generally recognized that the investing public have had their confidence in the security of their investments in many thrift and home-financing institutions shaken severely during the past few years. It is obvious that insurance of such investments will prove a powerful factor in restoring confidence in such institutions, just as insurance of deposits in commercial and savings banks has done. Quick recovery of lost prestige may be expected of those institutions which are able promptly to accept the benefits of this insurance program. The trustees of the Federal Savings and Loan Insurance Corporation are confident that all eligible institutions will recognize the advantages of insurance to them and to their investors and will avail themselves of it.

Copies of the Corporation's rules and regulations may be had by addressing the Federal Savings and Loan Insurance Corporation, Washington, D.C. Inquiries about the insurance plan and the procedure necessary to secure its benefits are solicited from any interested parties.

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ONE YEAR OF THE HOME OWNERS' LOAN CORPORATION

Within approximately a year from the date of the establishment of its last State office, the Home Owners' Loan Corporation reports as of August 31 the completion of refinancing loans on 492,684 homes throughout the country, aggregating $1,476,-913,010. Of the balance of 1,159,000 applications, some 689,000 have passed through the appraisal phase and are mostly in the hands of attorneys for title examination and closing. Of the remaining 470,000 applications a large percentage have been rejected because they do not fall within the provisions of the act and a small percentage are in the earlier processes of examination. In addition to the 1,651,811 applications received up to August 31, the Corporation has interviewed at least 300,000 persons who were not permitted to file applications because of obvious ineligibility.

The social consequences of this intervention to prevent the eviction from their homes of more than 2,000,000 people during a period of great tension and unrest can hardly be overestimated. To save this portion of the population from despair and to prevent complete chaos in the real-estate and home-mortgage fields has been worth an incalculable sum to the taxpayers of the United States.

In addition to the primary social and economic benefits in preserving the existing structure of home ownership, there has occurred a large number of secondary benefits to depositors of closed banks, to municipalities where taxes were in arrears, to small contractors and repair men, to insurance agents and companies, to professional appraisers and attorneys, and, of course, to mortgagees who received liquid for non-liquid paper. Up to September 7, 1934, a total of over $200,000,000 had gone to closed institutions to assist them in opening their doors and to aid their depositors. Taxes and assessments paid to counties and municipalities totaled $103,300,000. Repair and maintenance disbursements to small contractors for repairs and reconditioning totaled $20,274,000. Attorney and appraisers' fees, insurance, and other advances amounted to $26,930,000. This distribution of cash has served the useful purpose of adding to the purchasing power of the country during the emergency.

The accompanying table shows the progress of the Corporation's activities by months from the beginning of its operation until August 31, 1934.

Home Owners' Loan Corporation—Summary of operations

Months	Number of applications received by months	Loans closed by months	
		Number	Amount
1933			
From date of opening to Sept. 30	403, 114	593	$1, 688, 787
October	129, 504	3, 424	10, 164, 678
November	99, 232	10, 946	31, 445, 827
December	90, 946	22, 286	62, 621, 051
1934			
January	123, 189	30, 339	86, 143, 838
February	136, 132	32, 940	93, 499, 995
March	168, 273	52, 260	150, 213, 639
April	145, 772	56, 172	171, 490, 768
May	119, 791	64, 172	208, 293, 766
June	97, 679	71, 768	223, 440, 191
July	66, 157	78, 046	235, 467, 606
August	72, 022	69, 738	202, 442, 864
Cumulative total through Aug. 31, 1934	1, 651, 811	492, 684	1, 476, 913, 010

NOTE.—The total amount of all applications received as of Aug. 31, 1934, was $5,349,379,811. Loans closed averaged $2,998 each.

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VALIDITY OF FEDERAL SAVINGS AND LOAN ASSOCIATIONS

By HORACE RUSSELL, *General Counsel to the Federal Home Loan Bank Board*

In one of the most far-reaching decisions yet made affecting an important measure of Federal recovery legislation which has been in dispute, a Wisconsin State circuit court early in September affirmed the constitutionality of that section (5 (i)) of the Home Owners' Loan Act of 1933 which provides for the creation of Federal savings and loan associations. Thus, for the first time, the validity of such associations is made clear.

The decision fully confirms the authority of Congress both to incorporate savings and loan associations under a Federal charter, and also to authorize the voluntary conversion of a State building and loan association into a Federal savings and loan association, even without the consent of the State. Its immediate effect was to permit the voluntary conversion into Federal savings and loan associations of two Wisconsin building and loan associations which the Wisconsin State Banking Commission and State supervisor of building and loan associations had threatened to restrain from such conversion.

The broader interpretation of the decision is that it will encourage conversion by hundreds of other State-chartered associations throughout the country, including one or two States where, as in Wisconsin, the State banking authorities have previously threatened to oppose conversion. Conversion, however, is purely optional in any instance, and is undertaken only upon the initiative of the majority shareholders in an association. There have been no disputes, with regard to conversion steps, between the Federal and State authorities. Such differences as have occurred in some few States have been between local associations desiring to convert, and State officials who wished to prevent such conversion. The position of the Federal Government toward conversion is merely permissive.

Pending just such a decision as that now rendered as to the constitutionality of the law by which Federal savings and loan associations are provided for, the directors and shareholders of many State-chartered institutions had previously postponed steps toward conversion, which they may now be expected to take, in view of the manifest safeguards which the federally-chartered associations assure the shareholder and the benefit which such an association may enjoy due to the fact that the United States Treasury is empowered to purchase its shares, thus increasing its loanable resources.

In his written decision, handed down on September 11, 1934, Judge Charles L. Aarons, of the circuit court of Wisconsin, points out that, in his opinion—

1. The language of section 5 (i) of the Home Owners' Loan Act does not imply the need of legal consent by the State to the proposed conversion of State savings and loan associations into Federal savings and loan associations.

2. Congress has the power to incorporate savings and loan associations, as affirmed by the Supreme Court with respect to the establishment of the National Bank of the United States early in the last century, the national banking system after the Civil War, and the more recent establishment of Federal land banks and joint stock land banks.

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In this connection, Judge Aarons stated:

"The purpose of this act, as well as the Federal Home Loan Bank Act of July 22, 1932, and the Federal Farm Loan Act, is apparent throughout their content, and from the debates in public committee hearings and in Congress. The ultimate purpose of these acts is fundamentally the same—the rehabilitation of the people of an entire Nation suffering from the most calamitous burden of debt, contraction of credit, and economic and financial depression known in American history. Congress, by its expressions, apparently believed that Government-supervised institutions making long-time loans on homes and receiving savings in exchange for the issue of income shares of stock can be useful in increasing the market for Government obligations and in being employed as fiscal agents for the Government—even though its ultimate purpose was to stimulate a return of wholesome economic conditions."

3. Congress has the power to authorize the voluntary conversion of State building and loan associations into Federal savings and loan associations without the consent of the State, and without the necessity of a State enabling act to permit building and loan associations, organized under Wisconsin statutes, to convert themselves into Federal savings and loan associations.

4. The voluntary conversion of State associations into Federal associations does not infringe upon the just authority of the State, even though the State should withhold its consent.

5. The requirement that conversion may be effected by favorable action by 51 percent of the votes cast at a legal meeting, as contained in section 5 (i) of the amended Home Owners' Loan Act, does not conflict with any provision of the Wisconsin statutes.

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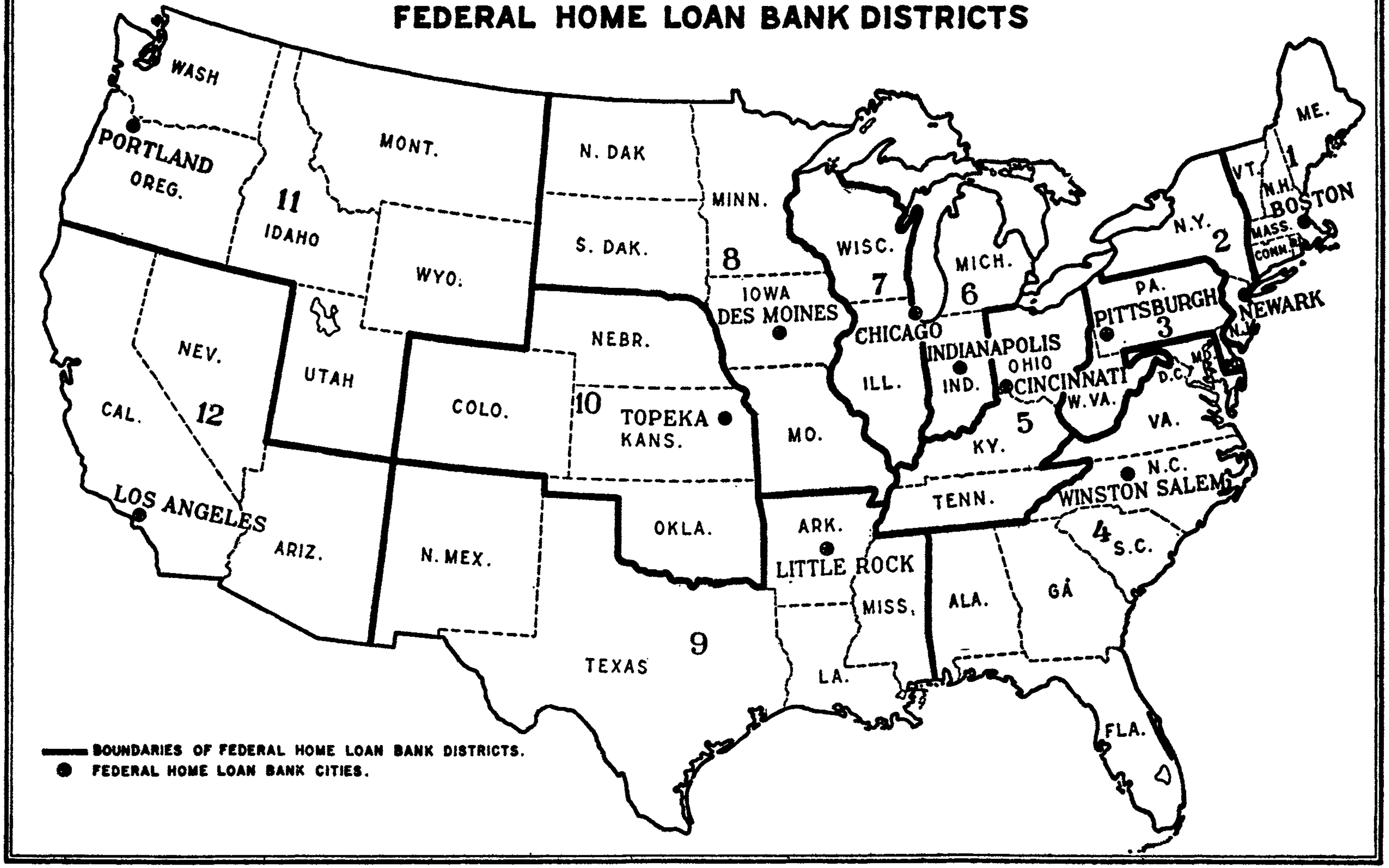
FEDERAL HOME LOAN BANK DISTRICTS



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