

Objectives
of the
**Federal Home
Loan Bank Board**

in the Interest of
**American
Home Owners**
and the
General Public

An Address by
JOHN H. FAHEY
Chairman
*Federal Home Loan
Bank Board*



**BROADCAST OVER A
NATION-WIDE RADIO
NETWORK, JUNE 6, 1935**

35-26545 ✦

**FEDERAL HOME LOAN BANK BOARD
WASHINGTON, D. C.**

1935

1835
1835

HG 37129
215F3

Millions of Americans

The people of the United States should understand fully what the Federal Government is doing, not only to relieve home loan distress, but to make better homes possible at lower cost for all home owners, and to protect investors in home mortgage loans. The activities under the Federal Home Loan Bank Board touch the hearts and the pocketbooks of many millions of our citizens. Their main purpose is to give greater security to people of small or moderate means in the ownership of their homes, and in the employment of their savings.

If you have a home of your own in any American town or city, or wish to have one, then you have a very personal stake in the steps which your Government is taking to make home ownership safer and less expensive. More than 10 million families own and live in urban homes in the United States. Yet many of them have very little knowledge of the agencies which the Government has set up to protect them against the destruction of real estate values.

Even if you live in a city apartment, or in a rented house or on a farm, you still have a direct concern in what the Government has done in the field of home finance, in case you carry a life insurance policy, or own building and loan shares or a savings account. The savings of over 50 million American men and women are placed largely in home loans by our savings institutions.

Far-Reaching Legislation

The new Act of Congress affecting home mortgages which the President has just signed and in which he has constantly maintained intense interest, should have far-reaching effects if the people take full advantage of it. It will assist not only the now relatively small number of urban home owners who are in danger of foreclosure, but also the great multitude of families who are not in distress. Mortgage relief is only a temporary and incidental part of the work of the Federal Home Loan Bank Board.

The long-run purposes of the Board in the interest of the entire public can be summarized briefly in three divisions:

First, protecting through insurance the savings of the people invested in home-financing thrift institutions.

JUL 17 1935

Second, making ample credit reserves available to home owners on liberal terms, through the private home-loan agencies.

Third, is the vital purpose of enabling American families to finance or refinance the purchase and ownership of their dwellings at lower cost, through an improved type of long-term mortgage loan from private lenders which can be paid off conveniently over a period of years.

Relief of Mortgage Distress

The only part of the new Federal home loan Act that is concerned with temporary mortgage distress is the authorization of about 1½ billion dollars more for completion of the emergency relief work of the Home Owners' Loan Corporation. It will enable that Corporation to save from foreclosure some 400,000 home owners who have been in involuntary default on their mortgages, and who could not be taken care of under the 3 billion dollars previously authorized.

Nearly all of that 3 billion dollars has now been used up in saving the homes of over 860,000 families which have already received relief loans. During the next three weeks, ending at midnight, June 27th, the Corporation may accept new applications from clearly distressed home owners. Any town or city home owner who is in real danger of foreclosure and unable to secure a new loan from a private institution, should make application to the Corporation's nearest local office without delay. No other home owners are eligible for Corporation loans, and no others should apply.

Who Is Eligible for Relief?

We cannot impair the resources of this Corporation by making loans to those who are not entitled to them, and we cannot give away the money which the public has provided by lending it to persons who plainly cannot repay it at all. It is the purpose of our Board and our organization to see that every honest, worthy application is considered without discrimination of any kind, and solely on its merits. We intend to deal *sympathetically*, in a spirit of helpfulness, with all who are justly entitled to assistance under the law. At the same time, it must be recognized that it is our duty to see that your Government is not imposed upon. It should be remembered also that, unfortunately, there are many cases where it is beyond our power to extend help.

The Public Interest

Considering the tremendous army of home owners and small savers whose welfare depends to such an extent upon the soundness of American home finance, it is easy to see, why it is the duty of the National Government to take such an active part in helping to put home ownership on a stronger foundation. The family home is, after all, the very fortress of our modern civilization. When the security of that home is weakened, the strength of the Nation itself is undermined, by bringing fear and loss and despair upon its people.

When, on the contrary, you protect the home by making its possession more certain and less burdensome for the family, you are helping to assure greater security for all the citizens of this country. When, in addition, you make it possible for many thousands of families to live in better surroundings at more reasonable cost, you have built a strong bulwark against exploitation, discouragement and depression. You have also given a new incentive to the spirit of personal thrift and independence which is one of the great heritages of the American people.

Federal Home Loan Banks

May I outline what has already been done through the four different agencies administered by the Federal Home Loan Bank Board, and explain how they serve the public? The simplest way to make clear the separate purposes of these four institutions is to show why each of them was created.

First of all is the Federal Home Loan Bank System, which is a permanent credit reserve structure for the use of private home-financing institutions. It permits them to expand their lending power by the use of their present resources as collateral, very much as the Federal Reserve System permits commercial banks to increase their credit for industry. The Federal Home Loan Bank System in less than three years has grown to be the largest mortgage reserve institution in the world, with over 3¼ billion dollars of resources.

The Bank System was established to protect home owners against a repetition of the dangers which they faced a few years ago in the scarcity and high cost of home mortgage credit. It is not an emergency institution and does not make loans direct to home owners, for relief or any other purpose. It simply places an additional large volume of credit at the dis-

posal of the private home-lending institutions, so that they may make a larger number of mortgage loans to home owners on reasonable terms, and also meet the cash requirements of their investors more readily.

HOLC

The Home Owners' Loan Corporation is the second of the four agencies administered by the Board. It is entirely different from the Bank System. It deals directly with home owners, and was created under the far-sighted leadership of President Roosevelt in 1933 to meet a great crisis resulting from mortgage distress. During the past two years, its relief operations have been carried on upon a tremendous scale throughout the United States.

The Corporation has helped not only the home owners whose mortgages it has refinanced, but every other home owner, as well as every building and loan shareholder, savings depositor and insurance policy holder. If the forced sale of houses for half of what they were actually worth had been allowed to go on in your town, it meant that the value of your home was being marked down and part of your savings was lost.

When the Corporation began operations two years ago, foreclosures were running a thousand a day—the highest ever known. If this had been allowed to continue with the consequent steady decline in the value of homes on which mortgages are held by the building and loan associations, banks and insurance companies, millions of policy holders, shareholders and depositors would have faced enormous losses. By taking up distress mortgages, the Corporation has stopped the decline in urban real estate values, reversed the trend and protected the value of your property and savings. In cooperation with the Reconstruction Finance Corporation, it has by promptly taking defaulted mortgages out of closed banks made possible cash dividends of over \$400,000,000 to millions of depositors in these banks.

Benefits to Depositors and Borrowers

Like many other recovery measures which the President and Congress have developed, the magnitude and far-reaching character of these operations are realized by but few of our citizens. It is time to appreciate, however, that now, in possession of the tremendous sums which the Government has transferred to them

in exchange for their defaulted mortgages, most of our private lending institutions are fully in position to resume normal mortgage lending, and discharge their full responsibilities to the public.

Moreover, our people are justified in expecting that loans on homes will be made at more moderate rates than have prevailed in the past in many sections, and for terms long enough to permit comfortable repayments. The 15-year 5 per cent loan of the Home Owners' Loan Corporation, when made available by the Government, was the most just and liberal plan offered up to that time in this country, and it will have an important influence on the future of mortgage lending in the United States. Many of the lending institutions have already adopted similar plans and in nearly every state they tell us they are prepared to make loans at attractive rates.

Federal Savings and Loan Associations

Now, as to the third important agency administered by the Federal Home Loan Bank Board: Congress, in June, 1933, provided for a new and improved type of local thrift institution, to be known as Federal savings and loan associations. They are regulated and examined by the Federal Home Loan Bank Board, but are entirely private in management and mutual in operation. Except that they hold Federal charters, and follow a uniform procedure in their service to home-owner borrowers and to thrifty people whose savings are placed in their care, these Federal associations are similar to the building and loan associations and cooperative banks which have long operated in this country under state charters. More than 800 Federal associations are already organized in some 700 cities, serving hundreds of thousands of investors and home owners. Many more charters are pending, particularly for former state-chartered associations converting to Federal associations.

The legislation which for the first time made charters granted by the Federal Government available to mutual savings and loan associations marks an important epoch in the history of home ownership and the encouragement of thrift in our country. To assist the development of these associations, the Government has provided a large fund which allows our Board to buy shares in these associations on exactly the same basis as the smallest shareholder. Through these associations the Government is entering into partnership with

honest savers in providing money for home financing and safety for investments in such associations. As a result of the recent amendments to our Act, we can also take shares or make deposits in state-chartered building and loan associations or savings banks if they are members of the Bank System or insured. We are prepared to treat all these institutions alike provided they are sound, safe and honestly conducted.

Federal Savings and Loan Insurance Corporation

We now come to the fourth and final institution administered by the Federal Home Loan Bank Board. In some ways it is the most important of them all. That is the Federal Savings and Loan Insurance Corporation, created in June, 1934, under which the savings of every person held in any Federal savings and loan association, or in an insured state-chartered association, are protected against loss up to \$5,000, in somewhat the same way that bank deposits are insured by the Federal Deposit Insurance Corporation. There are already 800 insured associations, and more than a million small investors will soon have the safety of their savings insured in this way.

Such insurance for thrift associations fills a long-felt need. It should permit thousands of local institutions throughout the United States to attract a large volume of private savings at reasonable dividend rates. By doing so, they can make loans to home owners on more liberal terms, because their investors know that the safety of their money is properly provided for.

Your Government in your interest has furnished the one hundred million dollar insurance fund which is available through the Corporation to safeguard your savings in the institution to which you wish to entrust them. The Government has done its part. The opportunity is now presented to thousands of thrift associations of the building and loan type to protect the savings of their millions of small investors through the Federal Savings and Loan Insurance Corporation. The people whose savings are involved have every right to demand that their institutions provide them with such protection. The institutions, in turn, have every reason to supply it because, in doing so, they are taking a long step towards the restoration of public confidence in their ability to serve the savings needs of the people.

No individual shareholder can have his own account

insured in an association which has *not* been insured by the Federal Savings and Loan Insurance Corporation. In an *insured* association, *every shareholder* is automatically protected.

A Definite Program for Home Owners

You can, I think, see how consistently these four separate agencies fit together into a definite plan for the benefit of the home owner, and to provide security for great numbers of people whose savings depend upon the safety of home mortgage loans.

When I spoke last year on the National Radio Forum hour, I mentioned that a vital change was taking place in the whole practice of American home mortgage lending, through the agencies operating under the Federal Home Loan Bank Board. I would like to emphasize what that change is, and how it benefits not only the home owners, but investors in home mortgage loans and the public as a whole.

What is happening is that the old style home mortgage, which was made out for a short term of from one to five years, and then fell due in full at maturity, is being rapidly replaced by an entirely different type of mortgage, which has had a better record in the test of depression. It is known as the long-term amortized loan. It is safer for the lender and very much more convenient for the borrower who wants to own his home free and clear of debt. It is paid off gradually in regular small installments, month by month. Ordinarily, a monthly payment of only about \$10 is sufficient to pay both the interest and the entire principal of a \$1,000 loan in ten to fifteen years. Under all four of the agencies I have described, the use of the long-term amortization loan by all types of private lending institutions is being encouraged in every possible way.

The work of the Federal Home Loan Bank Board is not only to the advantage of home owners and investors, but constructive from the standpoint of general business activity as well. Obviously, when a large number of home owners have freed themselves from the millstone of heavy short-term mortgage indebtedness, and have replaced it with a convenient long-term loan which requires only a small monthly installment to pay off gradually, it means that those home owners are in a position to spend a larger part of their incomes for food, clothing, recreation and a thousand other expenditures than merely keeping a roof over their heads.

Higher Standards for Homes

Another objective of the Home Loan Bank Board is to assist in improving the quality of home construction in this country, in order to give the people better value for the dollars they spend for their homes, and to assure a longer useful life for their dwellings. Our American standards in home building and community planning in the past have been far from creditable to us, and the high cost of shelter for the average family is a heavy handicap to our whole economic stability. Home owners have been entirely too tolerant of poor materials, gingerbread architecture, excessive costs and an absolute lack of orderly development of residential neighborhoods.

These great wastes in housing and home construction can be reduced easily by better cooperation for home owners from their private home-financing institutions, through an advisory service to buyers of homes, and insistence by the lending agencies upon sound materials, good workmanship and the elimination of useless expense in building homes. Such a policy is absolutely necessary in the home owners' interest.

Permanent Objectives

In the longer view the great significance of this new Federal Act is in the encouragement which it offers to the thousands of local, private home loan institutions to proceed upon their own initiative in making loans to home owners who are not in distress, for the refinancing of their maturing short-term mortgages, or for building, buying or modernizing their dwellings.

In this connection, let me point out that the Act makes the sum of \$300,000,000 available to the Federal Home Loan Bank Board for direct financial advances to such private institutions. Frankly, I cannot imagine more tangible evidence of the Government's interest in the fundamental purposes of these private lending agencies, and in the soundness of their mortgage loan operations where they make full use of the protective facilities which it has provided for them. May I add that this same \$300,000,000 authorization is the best proof of the Government's intention of restoring American home finance promptly to private capital and private business initiative, in the interest of home owners, investors and the public at large?

Summary of Results Desired

In concluding this survey of the various steps which the Federal Home Loan Bank Board has taken and

intends to take for the benefit of home owners and the millions of people throughout this country whose savings are invested in home loans, I would like to summarize the useful results that should be expected from these activities as time goes by if the people realize the importance of the opportunities offered and will cooperate.

All four of the Board's agencies are designed to increase the volume of private credit available for home mortgage loans, and to make private lending terms lower and more convenient for the home owner. Thus, they open up the privilege of home ownership at lower cost to many thousands of families. Again, by assisting the private home-financing institutions to develop higher standards of home construction, these agencies should help the home owner to get better value for his housing dollar.

Better Homes at Lower Cost

With any measure of success in reaching those various worthwhile objectives, there should also be real progress in reducing the actual cost of shelter, which now takes 30 cents or more out of every dollar that most American urban families earn in wages or small salaries. They should not have to pay over 20 cents of that dollar for rent or home ownership. By cutting the cost of homes, and the cost of financing them, it is obvious that home owners will benefit in many ways, apart from better living conditions in more attractive homes. If a smaller part of their incomes is needed for housing, they will have that much more money to spend for the many other desirable things in life which are now beyond their reach.

There is nothing in the least Utopian about this suggestion. It is not an impractical dream. Great Britain and many of the European nations, I am sorry to say, have been *years* ahead of us in making better homes possible for their people, at lower cost. These nations have shown what may be done in developing a more enduring, more wide-spread prosperity through intelligent home finance. With the generous cooperation which the Federal Government is extending to private business for the benefit of the American public, we should at least equal the constructive achievements of our European neighbors in providing better and less costly homes for our people.