

struction Finance Corporation and Agricultural Credit Corporations; in assisting the establishment of Agricultural Credit Corporations provided for in the Relief Act, and in facilitating the adequate functioning of the new Home Loan Banks.

Since the initiation of informal discussions real progress has been made, and some of the programs discussed are already well under way. For instance, our efforts definitely contributed to the creation of the Commodity Finance Corporation; to the capital expenditure movement which Mr. Robertson has under way; to bringing the question of increased employment and stimulation of industrial activity by the expansion of maintenance work and the purchase of new equipment to the attention of the railroad executives, the Inter-State Commerce Commission and Reconstruction Finance Corporation, and to the development of a plan which would make this feasible. Already with the co-operation of the New York banking and industrial committees the American Securities Corporation had come into being, which made a real contribution at a time when there was no real market for bonds and where sound securities were being offered at destructive prices.

In order to avoid any possible misconception, let me conclude by stating that we are not setting up an economic council to endeavor to direct the economic policies of the country. We are creating a central organization for the purpose of contact and co-operation to assist in the task to be performed by the Reconstruction Finance Corporation, Federal Reserve Banking System, the Home Loan Banks, the Banking and Industrial Committees and such voluntary groups as may associate themselves with the latter with a view to developing helpful steps looking to gradual economic rehabilitation and more immediately an increase in employment. The usefulness of the central committee will depend in large measure on the degree to which you gentlemen turn to it for co-operation and for the interchange of ideas.

Aside from the work to be carried on by the Government agencies, the major part of the task and the real field for usefulness of the Banking and Industrial Committees is in developing means and methods for solving the problems arising in their own districts. This meeting will have fulfilled a major purpose if each of you carries away with him a more complete understanding of the agencies that are available for the work of rehabilitation, the fields in which they can co-operate, and the knowledge that you business men have available in your own districts voluntary organizations of co-operation and contact, which, in turn, will now furnish you with a channel through which what may in the first instance be a purely local program can be developed into one national in scope.

Address of Franklin W. Fort, Chairman of Federal Home Loan Bank, at President Hoover's Economic Conference—Plans to Create Liquid Fund of Mortgage Capital—Suspension of Foreclosure Proceedings by National Banks Under Order of Comptroller of Currency.

As was noted in our issue of August 27 (page 1419), Franklin W. Fort, Chairman of the Board of the Federal Home Loan Bank, in addressing President Hoover's Economic Conference in Washington on August 26, announced that Comptroller of the Currency Pole had called upon National banks to suspend foreclosure proceedings for sixty days. Mr. Fort stated that many receivers of banks "to their proper effort to pay dividends to depositors and creditors have been demanding payment of mortgages and bringing foreclosure proceedings." "The Reconstruction Finance Corporation," said Mr. Fort, "can loan to these receivers against the mortgage funds with which to pay out depositors. Therefore, such foreclosures must stop until the Home Loan Banks are functioning and pouring new funds into the mortgage investment field." Mr. Fort stated that "by October 15 we will have available \$134,000,000 of capital to loan against or upon mortgages." His address in full is given herewith:

The Federal Home Loan Bank is the newest instrumentality of the Government. While the studies and plans upon which it was based began at the inception of the President's service as Secretary of Commerce in 1921, the system became law only on July 22, and the Board took office on Aug. 9. Naturally, we are still groping in the dark on many vital matters of organization and policy, and, therefore, particularly need your help and the indulgence of the people.

Plan to Promote Flow of Credit to Aid Home Ownership.

The fundamental plan of the law is to set up a system of regional banks for the rediscounting of mortgages—to give to the great groups of financial institutions engaged in extending long-term credits based upon real estate some measure at least of that liquidity which the Federal Reserve System supplies to commercial banks. The plan in its inception, however, was not concerned with the need of liquidity, as we now understand the phrase. It was not designed so much to prevent the catastrophe of freezing as to promote the steady flow of credit as a beneficent aid to widespread home ownership.

If men are to buy their homes out of their savings before their children are grown, mortgage money must have three qualities: First, it must be available for definite and long periods. Second, it must be willing to charge a moderate rate of interest. Third, it must be ready to accept modest and regular sums in repayment of the principal. Unless money is steadily available to meet all these conditions, men must first save substantially and then buy homes for their older years.

Some say this is the proper way. But the sponsors of the Home Loan Bank believe that in this nation the more men who own their homes in which to rear their children—the more children who are reared in an owned home and not a rented house—the better will be both our social and our economic order.

Liquid Fund of Mortgage Capital.

So the plan was to create a liquid fund of mortgage capital to flow where needed. But, by the time it was ready for presentation to Congress, the depression was upon us. So there were grafted upon the long-range plan certain features forced by the emergency, and now it is a composite of a relief organization and a permanent institution. The problem of the Board is to make it function immediately but to prevent the emergency from leaving imprints of dangerous precedent upon its policies.

The legal forms into which we are to pour the concrete are briefly as follows:

A board of five men, known as the Federal Home Loan Bank Board, has been established by appointment of the President. Our first function was to divide the nation into not less than eight nor more than 12 districts. In each district we are to establish a Federal Home Loan Bank, designating some city as its headquarters. We are to open books in each district for subscriptions to the capital stock, which the law states shall be not less than \$5,000,000 in each district. This stock may be purchased only by building and loan associations, insurance companies and savings banks, at the rate of 1% of the amount of home mortgages held by them. The subscription books are to remain open for 30 days. If by that time subscriptions for the full minimum capital have not been secured, the balance of the capital is to be subscribed by the Reconstruction Finance Corporation, which is authorized to subscribe up to \$125,000,000.

We are to then select a regional board of directors of 11 in each district, who will serve until January, when nine of their successors will be elected by the stockholders, the other two to continue to be appointed by the Board.

The banks, when set up, are authorized to make loans to their stockholders, secured by mortgages owned by these stockholder members. No member may borrow more than 12 times the amount of its holding of stock.

The mortgages pledged as security may not be upon properties worth more than \$20,000 and must be home mortgages on properties designed for the dwelling of three families or less. For the purpose of promoting long-term financing of loans, advance may be made to a building and loan association against a mortgage originally written for eight years or more to the extent of 60% of the unpaid principal but not to exceed 40% of the value of the real estate mortgaged. If the term was originally less than eight years, the advance may be only 50% of the unpaid principal and not more than 30% of the value of the real estate.

Sale of Debentures.

It is proposed to raise further funds for the system by the sale of debentures secured by the obligations of the borrowing stockholders on a basis that guarantees at least \$190 of unpaid mortgage principal back of every \$100 worth of debentures. The debentures will also be secured, of course, by the whole assets of every stockholder borrower to the extent of its indebtedness and the debentures of each bank will be secured by the assets of the entire system.

There is also an interesting provision which makes the debentures tenderable at par in settlement of indebtedness due the banks, which should give them at all times a high degree of marketability very close to par. In addition, they are exempt from all taxes except surtax and estate, gift and inheritance taxes. Altogether they will constitute obligations second only to Government bonds in attractiveness, and should be salable at low coupon rates.

The capital advanced by the Government to meet any shortage in original subscriptions is to be returned at the rate of 50% of each subscription subsequently obtained. Finally, the law provides that until the Government's advance has been repaid, any home owner who comes within the limits of the Act and who is unable to obtain mortgage money from any other source may obtain it from any bank organized under the Act.

To date we have determined to lay out 12 districts and have defined their boundaries. We have fixed the minimum capital for each bank at figures which total \$134,000,000 for the country as a whole. Very shortly we hope to name the cities where the banks are to be located and then to open subscription books. We are determined that every bank shall be open and doing business by Oct. 15. We need your help.

We need it, first, in getting subscriptions to the capital. In some States the institutions eligible to become stockholders may not purchase stock of any kind under existing laws. We want your help in having those laws changed. We want to limit the Government's initial subscription as much as we can, both to reduce its financing needs and to make it easier to repay its capital by having the smaller sum at the start. Some States anticipate special legislative sessions at early dates. We hope that all of them will legalize investment in Home Loan Bank stock for eligible institutions and in the debentures for all institutions and for trust funds.

\$134,000,000 Available by Oct. 15.

We need your help even more on the emergency phases of our work. By Oct. 15 we will have available \$134,000,000 of capital to loan against or upon mortgages. As soon thereafter as more is needed we will issue debentures. Consequently, after Oct. 15 the money we can make available should substantially relax tension and pressure throughout the country. But we don't intend to wait until Oct. 15 for a betterment of conditions.

Comptroller of the Currency Acts to Stop Foreclosure Proceedings.

There are two major evils which can be attacked at once. The first is the foreclosure of existing mortgages—sometimes because of arrearages of interest or taxes, but quite as often because of refusal to renew or continue them. This condition has been accentuated by the tremendous number of receiverships of banks and other lending institutions. Many of the receivers, in their proper effort to pay dividends to depositors and creditors, have been demanding payment of mortgages and bringing foreclosure proceedings.

The Reconstruction Finance Corporation can loan to these receivers against the mortgages funds with which to pay out depositors. Therefore, such foreclosures must stop until the Home Loan Banks are functioning and pouring new funds into the mortgage investment field. I am very happy to be able to say that, upon our request, Comptroller Pole yesterday instantly agreed to order every National bank receiver to suspend foreclosure proceedings for 60 days. We are to-day wiring every State supervising authority, requesting like action. We want your help to see not only that receivers generally grant this 60-day respite, but that other lenders do likewise.

There are times when forced liquidation of indebtedness is indefensible—certainly, if any other means of procuring funds exists. Payment may be nominated in the bond, but as Portia proved, may not rightfully be exacted when payment drains the life-blood. And these days the courage and hope of men and women are the life-blood of our recovery. It would be shameful if, with relief in sight so soon, their courage and hope should be extinguished by taking away their homes and their life savings.

Aid to Municipalities Unable to Collect Taxes.

Then somebody must begin loaning now. There are two types of loans which the public must have and which, if made, will speed the general recovery. Recovery from depression begins when things wear out and must be replaced or repaired. That's why textiles and shoes usually lead the way—are leading it now. Real estate repairs to preserve the value of property will be the first help the building industry can get. The funds must be found. Then our municipalities are starved through failure to collect taxes.

I heard of a city yesterday—a sizable one, too—where the schools may not open next month because tax collections are so bad and the debt limit is reached. Loans to pay taxes help that problem and save interest and penalties. The Home Loan Banks will be ready to rediscount mortgages

within 60 days. The normal lending institutions should begin to make new or additional loans for repairs and taxes at once. Fine work has been done in this direction by some of your committees already. We earnestly hope it will be expanded.

One of the cleverest bankers I know wrote all his mortgagors, in advance of their interest date, not to pay their interest if so doing would prevent their paying taxes and maintaining their properties. As a result, all the properties on which his bank holds mortgages are in fine condition and his deposits have increased because every one feels sure his bank must be in fine shape if it does not have to press for payment of interest. We want your help in spreading the appeal for loans for these purposes. With your help, the relaxation of mortgage credit will begin even before we start loaning money.

We will doubtless make many mistakes in our handling of our problems. But we do not intend that one of them shall be lethargy. The pathos that daily crosses our desks forbids that.

And yet, with all the pathos, no one can come in contact with Americans in trouble as we all do every day and seriously doubt that future. With the steady courage our people are showing, with such gatherings as this here to-day, the lights now visible on the horizon cannot be a mere aurora. They must be the dawn.

Atlee Pomerene, Chairman of Reconstruction Finance Corporation, at President Hoover's Economic Conference, Discusses Functions of Corporation—Major Portion of Loans to Banks in Towns With Population Under 5,000.

At President Hoover's Economic Conference on August 26, Atlee Pomerene, Chairman of the Reconstruction Finance Corporation, spoke of the objective in the creation of the Corporation. Mr. Pomerene also analyzed the loans thus far made by the Corporation, and stated that 69.8% of the total bank loans made by the Corporation have been in behalf of banks in towns with population under 5,000. We give herewith Mr. Pomerene's remarks:

We have the same resources now that we have had in the past. There is but one thing that is lacking, and that is confidence.

During the great World War we drafted all of the young men of military age to fight our battle. Now, in this battle against depression, we are drafting all the men and all the women of the country. We cannot, we must not, fail. I have never lost faith in the destiny of this country for one hour. We must have faith, and we will remove mountains.

I have been asked to talk briefly this morning about the work of the Reconstruction Finance Corporation. I think no other such agency has ever been entrusted with so vast an amount of money. It is being distributed throughout the country for the purpose of aiding those who may be in need of financing.

I purpose first to speak of the powers that are vested in this Corporation, and then to speak for a few moments on what has been accomplished.

Three billion, eight hundred millions of money has been placed at the disposal of this Corporation by the Congress of the United States. Not a dollar of it must be wasted, but it must be put where it is going to do the most good.

The purpose of this Act was to aid in financing agriculture, commerce and industry. And how? By making loans to banks, savings banks, trust companies, building and loan associations, insurance companies, mortgage loan companies, credit unions, Federal Land Banks, Joint Stock Land Banks, Federal Intermediate Credit Banks, Agricultural Credit Corporations, Live Stock Credit Corporations.

But these loans must be fully and adequately secured, and I think they are being thus secured.

On the approval of the Inter-State Commerce Commission, temporary financing may be given to the railroads, those engaged in inter-State commerce, the railroads and railways in process of construction, and to receivers of such railroads.

More than that—the Corporation is authorized to accept drafts and bills of exchange. Many other detailed powers are given that I shall not refer to, but there are one or two other matters that I want to speak about.

Relief Provisions of Act.

First, the relief provisions of this bill:

It was the purpose of the President and the Congress when these provisions were adopted that the hungry should not go unfed and the naked should not be unclothed, but it was further the intent of the Congress of the United States, as I interpret it, that the local authorities—State, municipal—should do their best to relieve the situation for their own people.

Three hundred millions of money were given for this purpose, and it is gradually being distributed, if and when it is necessary.

Again, this Corporation is authorized to make loans to States, municipalities, to political and public corporations, boards and commissions and public municipal instrumentalities to aid in financing projects of a self-liquidating character. Further, it is authorized to provide for housing for the poor in the slum districts, to build bridges, tunnels, docks, viaducts, water-works.

This will be done. The movement is afoot now. The organizations are being completed, but more than that, and one of the things which appeals to me very greatly, is the effort which was made by the Congress of the United States for the purpose of aiding agriculture.

Setting Up of Eight Agricultural Credit Corporations.

We have already provided for the setting up of eight agricultural credit corporations. Two more will be established, and possibly upon further consideration we may add to that number. These corporations are to be provided each with not less than three millions of dollars, and this money is to be loaned for agriculture and for the feeding and breeding of stock.

And now, how much has been done in this behalf? Let me give you a few figures, but before giving those figures let me advert to a criticism that is being made by some people who are always ready and willing to criticize, no matter what the Government may do.

It is said that we are providing finances for the banks and for the railroads, but are doing nothing for the individual.

Financing in Behalf of Banks.

How strange that any thinking man should make a declaration of that kind! It is true, we are financing banks, but let me tell you of the number of banks that have been financed both before and since the Reconstruction Finance Corporation was adopted.

In the six months before this Act was adopted the total bank failures were 1,860. During those six months the smallest number of failures in any one month was 158, the largest number 522.

During the six months which have intervened since the passage of this law, only 604 have closed their doors. The largest number, 149; the smallest number in any one month, 47, and during the current month, up to the 20th of the month, there were 59 that had closed their doors.

And now, what has the Reconstruction Finance Corporation done? It has not only made loans to banks who were embarrassed for ready cash, but it has been making loans to banks that were closed, to enable them to open up and function in their several communities.

Since this law was passed, 6,305 loans have been made to 4,610 banks—a total of \$808,000,000. Six hundred, sixty-three loans have been made to 628 building and loan associations, or \$78,000,000 plus; 91 loans to insurance companies, to 78 different companies. In all there have been made loans to 5,482 of these institutions, amounting to \$1,320,000,000 plus.

And now, to what character of banks are these given? It is said some times that the loans are only made to the big banks and not to the smaller ones. Such a statement does not bear investigation. Sixty-nine and eight-tenths per cent. of the total number of loans made by the Corporation to banks have been made to banks in towns under 5,000 population.

In towns of populations of 5,000 to 10,000, 85%; 10,000 to 25,000, 7.9%; in cities of 10,000 to 500,000, 3½%; 500,000 to 1,000,000, 1.7%; over 1,000,000, 2.1%.

37% of Depositors Aided.

It is estimated that over 37% of the depositors in the United States have benefited by the loans that have thus been made.

Why, then, should anybody take the position that it is the bank that is favored and not the individual?

May I give you a concrete illustration which I think will better illustrate the thought that enters in my mind than anything else? Out in my own State, in one of her goodly cities, last October one of her banks closed with deposits of about \$28,000,000.

Its closing was due to the fact that some mischievous woman sat at a dial phone and called up the people throughout the city, telling them that the bank was going to close and they'd better draw their money out.

And now that bank, perhaps the most popular bank in the city, with over 50,000 depositors; with all that money locked up as a result of the activities of that one woman; having reorganized and having received aid from the Reconstruction Finance Corporation, opened its doors on Wednesday of this week.

On the first day the withdrawals were \$106,000; the deposits were \$450,000.

Were not every depositor and every stockholder of that bank—aye, the whole community—were they not favored by this legislation?

Let me go a step further. A number of loans have been made to the railroads of the country which were embarrassed for ready funds because the banks felt that they were not in condition to refinance them. Was that a proper thing to do?

Nearly all the securities of the country had shrunk in value. I dare say that every man who sits before me to-day has more or less of insurance. These bonds, and often stocks, that had shrunk in value were held by these insurance companies.

As has been stated here this morning, these stocks and bonds have been going up, and every assured man and woman and the beneficiaries under their policies have thus been benefited.

More than that—by making these loans to mortgage investment companies and others, as well as those to which I have referred, the manufacturers, the employer or labor, is better enabled to finance his operations and keep men and women employed. I am one of those who has the supreme confidence that this turn for the better is here to stay.

Now, my friends, we on the Reconstruction Finance Corporation Board realize that we have a very great problem before us. I am happy to say that I have never served with men who are more greatly devoted to their public service than the men who are my colleagues, and I am confident that they are going to do their duty as they see it.

Address of Charles A. Miller, President of Reconstruction Finance Corporation, at President Hoover's Economic Conference.

The belief that the Reconstruction Finance Corporation has "a genuine opportunity for usefulness" was expressed by Charles A. Miller, President of the Corporation, in addressing President Hoover's Economic Conference in Washington on August 26. "If," he said, "the Corporation will act with sufficient courage and can act with sufficient speed, it should be possible to give employment, with funds made available under these provisions, to large numbers of workers in the very trades now least employed." He added:

But already opposition is making its appearance, and there seems a likelihood of the Corporation being obliged to decide, in many cases, a vigorously debated question as to whether the proposed project is really advantageous to the community or even to the very classes to whom employment will be given. In solving these problems the Corporation will have to rely greatly on the advice and assistance of this organization and its constituent local committees.

The following is Mr. Miller's address:

The Reconstruction Finance Corporation is one, and only one, instrumentality of the Federal Government by which the public credit is mobilized and placed at the service of trade, industry and finance. Through it, resources, which unreasoning panic, or, if you prefer to call it so, natural but short-sighted prudence, has locked up in a useless hoard, are, on account of the general confidence which the Government commands, made available at those places and in those departments of our financial system where additional and abnormal credit supplies are necessary for the public good.

Under the original Act its functions were quite as much psychological as economic, and were performed not by supplying new credit, but by substituting time credit for demand credit. Maturing obligations of various institutions which could not be paid without enormous sacrifices were provided by the Corporation and extended as time loans. Deposits payable on demand were changed into bills payable to the Corporation.

Confidence was partly restored by this operation; or, at the very least, the tide of disaster was arrested, without materially increasing money or credit. Such change as it brought about was shown almost wholly by alterations in the items on the debit side of its customers' balance sheet. The footings were unaffected.

The provisions of the Emergency Relief and Construction Act of 1932 greatly enlarged the functions and increased the duties of this Corporation. It now must undertake responsibilities of economic and even of social and ethical significance. Three hundred millions are made available out