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R. F. C. and Federal Housing loans for municipal and flood relief,...
Hearing on S. 3903, S. 4328, and S. 4396,...
74th, 2nd. April 1, 1936.

# R. F. C. AND FEDERAL HOUSING LOANS FOR MUNICIPAL AND FLOOD RELIEF



# HEARING

BEFORE A

## SUBCOMMITTEE OF THE COMMITTEE ON BANKING AND CURRENCY UNITED STATES SENATE

SEVENTY-FOURTH CONGRESS

SECOND SESSION

ON

## S. 3909

A BILL PROVIDING FOR LOANS BY THE RECONSTRUCTION FINANCE CORPORATION TO MUNICIPALITIES IN CERTAIN CASES

## S. 4328

A BILL RELATING TO THE AUTHORITY OF THE RECONSTRUCTION FINANCE CORPORATION TO MAKE REHABILITATION LOANS FOR THE REPAIR OF DAMAGES CAUSED BY FLOODS OR OTHER CATASTROPHES, AND FOR OTHER PURPOSES

AND

## S. 4396

A BILL TO AMEND THE NATIONAL HOUSING ACT FOR FLOOD RELIEF PURPOSES, AND FOR OTHER PURPOSES

APRIL 1, 1936

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# RECONSTRUCTION FINANCE CORPORATION AND HOUSING LOANS FOR FLOOD RELIEF

WEDNESDAY, APRIL 1, 1936

UNITED STATES SENATE,
SUBCOMMITTEE ON BANKING AND CURRENCY,
*Washington, D. C.*

The subcommittee on home-loan bank and related matters and the Subcommittee on Reconstruction Finance Corporation matters met at 10:30 a. m., in the committee room of the Committee on Banking and Currency, Senate Office Building.

Present: Senators Fletcher (chairman of the Subcommittee on Reconstruction Finance Corporation Matters), Barkley, Adams, Radcliffe, and Couzens.

Also present: Senator Lewis B. Schwellenbach, of the State of Washington, and Senator David I. Walsh, of the State of Massachusetts.

Senator FLETCHER (presiding). This is a joint meeting of the Subcommittee on Reconstruction Finance Corporation Matters and the Subcommittee on Home Loan Bank and Related Matters. We have under consideration this morning Senate bills 3909, 4396, 4328, and 4357.

Senator COUZENS. Are you going to take up Senator Schwellenbach's matter first?

Senator FLETCHER. Are you ready to take that up, now, Senator Schwellenbach?

Senator SCHWELLENBACH. Yes. It will not take very long. I want to make a brief statement, and then Mr. Ogburn wants to make a short statement. I do not want to interfere with any of the plans of the committee.

Senator FLETCHER. All right. We will go ahead with S. 3909.

(S. 3909 is as follows:)

[S. 3909, 74th Cong., 2d sess.]

A BILL Providing for loans by the Reconstruction Finance Corporation to municipalities in certain cases

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That the Reconstruction Finance Corporation Act, as amended, is amended by inserting after section 5e thereof the following new section:

"SEC. 5f. The Corporation is authorized and empowered to make loans to municipalities to be used for refunding, at a discount, existing obligations accrued against surface street railways and bus lines owned by such municipalities, and for repairs, extensions, betterments, or improved maintenance or service on such municipally owned surface street railways and bus lines. Such loans shall be made upon the same terms and conditions, and subject to the same limitations, as are applicable in the case of loans under section 5 of this Act, as amended, except that the Corporation may take as security for such loans income bonds issued by the borrowing municipality against such municipally owned properties."

## STATEMENT OF HON. LEWIS B. SCHWELLENBACH, A SENATOR OF THE UNITED STATES FROM THE STATE OF WASHINGTON

Senator SCHWELLENBACH. Mr. Chairman, this is a bill which I have introduced in the nature of an enabling act, authorizing the Reconstruction Finance Corporation to make loans to municipalities for street railway purposes. It provides that the Corporation shall take as security for the loan income bonds issued by the borrowing municipality against such municipally-owned properties. I would like to call attention briefly to the history behind this.

In 1918, during the wartime excitement, the people of Seattle were sold by the Puget Sound Power & Light Co., which is a subsidiary of the Stone & Webster organization, the street-railway system in the city of Seattle. It was sold for $15,000,000, for which the city of Seattle issued income bonds. Between 1918 and about 1929 the debt was reduced from $15,000,000 to $8,333,000. Since 1929 no payments have been made upon the principal, although interest payments have been made every year.

Senator ADAMS. Have any of the bonds been in default?

Senator SCHWELLENBACH. No. There has been each year, some 3 or 4 months before the maturity date of the issue maturing in that year, a moratorium by which that year's issue was extended to the end of the term.

The city of Seattle proposes now to borrow $5,000,000 from the Reconstruction Finance Corporation and to secure $2,000,000 from the Public Works Administration, that $2,000,000 to be expended in the rehabilitation of the line, the rebuilding of street cars and the building of new cars, and $5,000,000 to be used to take care of the balance due to the Puget Sound Power & Light Co. and any warrants that may be outstanding that need to be taken care of. Some question has been raised, as I understand, as to the fact that the bill provides for income bonds from the property itself, and I recognize that a very proper argument to be made——

Senator BARKLEY. What was that statement, again, about income bonds?

Senator SCHWELLENBACH. That they are payable out of the earnings of the line itself. I was not in Seattle during the wartime; I was not there at the time this sale was made. Since 1919 I have been one in that city who has consistently opposed any effort to put the street railway system upon the tax roll and make the taxpayers as a whole bear the burden. I contend that when a municipality enters into a public-ownership venture, that venture should and must stand upon its own feet.

This bill is purely a bill which would give the authority to the Reconstruction Finance Corporation to make such loans. Whether or not it is going to be possible under this arrangement, if the bill is passed, for a loan to be made is a question which will be decided by the Reconstruction Finance Corporation. I have found in my short experience here that they are very competent in passing upon the question of loans.

I want to assure the committee that it is my belief that if this loan is made and the loan not paid, that then the general credit of the city of Seattle would require that the loan be placed as a tax burden upon

the city. I am certain that that is never going to happen. I want to assure the committee that if the bill is passed and the Reconstruction Finance Corporation has authority to grant this loan, I am not going to permit it to go through the Reconstruction Finance Corporation until I know that it is going to be possible to pay the loan out of the earnings of the system.

In 1930 there came to the city of Seattle a man by the name of McNair from Chicago, who attempted to put through a deal by which the city of Seattle would borrow $11,000,000 and make similar disposition. They were going to pay $8,000,000 to the Puget Sound Power & Light Co., $2,000,000 for the rehabilitation of the system, and a million dollars commission on the bonds which were sold. I was the only individual in the city of Seattle who was opposed to it. I was a private citizen, occupying no public office and having no public authority, but I went out alone and defeated that proposal. The city council had already approved it, and I went out without any support. Every newspaper was in favor of it; every bank, every business institution, every commercial club and chamber of commerce and everybody else in the city was for it except myself, and I was able to go out all alone and defeat the proposition. The reason I was able to do that was the fact that I know something about street railway operations. My job was handling the general books of account of the Spokane Traction Co. I know something about street railway operations and I know something about the statements of street railway companies; and the only reason I was able to convince the people of Seattle that they should not enter into this proposition was the fact that I knew something about street railway operations.

I can assure the committee that when application is made to the Reconstruction Finance Corporation I am going to be in a position to know whether or not it is going to be paid, and I intend to take the time and make the effort to see to it that the application is in satisfactory form and that the possibility of a return upon the loan will be sufficient, and I will be absolutely positive that the loan will be paid out of the earnings.

Senator BARKLEY. How many other cities are in a situation to take advantage of the law if this bill should be enacted?

Senator SCHWELLENBACH. The city of Detroit and the city of San Francisco. San Francisco has one line. Those are, as far as I know, the only municipally operated street-railway systems in the United States.

I want to say this, just offhand. You listen to the statement that we have not made any payments upon this obligation since 1929——

Senator BARKLEY. Excuse me for interrupting you, but this only applies to past obligations. It would not run for the future in behalf of cities that might become similarly situated, would it?

Senator ADAMS. It refers to "existing obligations."

Senator BARKLEY. The word "existing" is a continuous word, and it might apply to any city which in the future got itself into the same position. It could be said that it refers to an obligation already existing before application was made for the loan.

Senator SCHWELLENBACH. I would have no objection to an amendment to read "existing at the time of the enactment of the act." You

are correct that when it says "existing" it means at the time when the application was made.

Getting back to the point I was making, this street-railway system was appraised and carried upon the books of the Puget Sound Power & Light Co. at the time of its sale at 7½ million dollars. It was sold to the city of Seattle for $15,000,000. The difficulty that the city of Seattle has had in its financing of the municipal operation has been exclusively the excessive cost at the time of its acquisition. During the time I had this fight up I spent 2 months at it in the spring of 1931 opposing the $11,000,000 loan, and I made an analysis of 114 street-railway systems in the United States, all of them privately owned except the Seattle municipal line; and I made a careful analysis of the operating statements of those 114 companies and found that the operating statement of this municipally operated railway was the best of the 114 that I examined. I examined 114 because they were all that were available to me.

Senator COUZENS. Did you examine the Detroit Street Railways?

Senator SCHWELLENBACH. No; I made my comparison between municipal operation and 113 private operations as a part of the argument that was used in favor of this plan in 1931. That was the argument, that this be a municipal operation, and it was proposed to set up a self-perpetuating board of businessmen to run it for a period of 25 years, and I was making my examination in order to attempt, if I could, to answer the argument, and I succeeded in demonstrating that the difficulty was not the operation but rather the excessive cost that was involved in the purchase price.

I will tell you frankly that I do not propose that the city of Seattle shall pay the entire amount of this loan to the Puget Sound Power & Light Co. What I propose is that when the application is made, if the city of Seattle cannot carry more than $2,000,000 or $3,000,000 of that obligation and still pay off the obligation to the Reconstruction Finance Corporation, I am going to cut that obligation down to whatever it is possible to pay and tell the Puget Sound Power & Light Co. that that is what they are going to get, or we are not going to get the loan through the Reconstruction Finance Corporation. I am determined that the obligation shall be upon a basis where it can be paid out.

Senator BARKLEY. In other words, it is not the purpose of Seattle to make application for this loan unless it can be used to liquidate the entire indebtedness to the Puget Sound Power & Light Co. You would not want the Reconstruction Finance Corporation to make a loan and then make a partial payment and still have a balance due?

Senator SCHWELLENBACH. No. It would have to completely liquidate the balance due to the Puget Sound Power & Light Co., and it will have to be in an amount that will be possible to determine with as high a degree of accuracy as we can determine it ahead of time.

Senator ADAMS. Mr. Chairman, I am compelled to go. I personally can see where, in the city of Seattle, with someone like Senator Schwellenbach, who is an accountant and a lawyer, it would be possible to recognize the situation and to protect the Reconstruction Finance Corporation. But this is an open bill. There may be other cities that will want to take advantage of it. Personally, I am unwilling to have the United States Government finance any opera-

tion for a city where the city itself is not willing to undertake to back up the obligation. So I want my vote cast against the bill, Mr. Chairman. I am sorry that I have to go now.

Senator BARKLEY. It is not necessary for the committee to act today on the bill, is it?

Senator FLETCHER. No.

Senator SCHWELLENBACH. That completes my statement, Mr. Chairman.

Senator COUZENS. I do not get the purpose behind the proposal not to have the citizens of Seattle protect their own baby. Just why does the city of Seattle not desire to protect its own industry, namely, the street railway system? It does not mean that because it guarantees it, it is going to have to pay anything out of its own pocket, any more than if I should guarantee a note and the maker of the note paid the note I would lose nothing. I would not lose anything. My long experience with street railways and municipal ownership, I think, extends back to when the Senator from Washington was in short breeches, and I became convinced that unless the people of themselves, just as Senator Adams has stated, are willing to protect with their own credit the whole system, there is no reason why anybody else should finance it.

Senator SCHWELLENBACH. You get back to the fundamental question of municipal ownership.

Senator COUZENS. Yes. I do not overlook that.

Senator SCHWELLENBACH. It is my contention that no municipality or no State should enter into private enterprise unless the enterprise can carry itself. We have public power developments out there, and I have been active in supporting them, and I have always taken the position that no municipality, no county, no power district, should be permitted to go into any operation unless that operation will take care of itself. I am not willing, personally, to let the city of Seattle break down that rule and attempt to use the tax rolls to support them.

Senator BARKLEY. What is the nature of the obligation on the part of the city of Seattle to the Puget Sound Power & Light Co.? Is the whole credit of the city back of it?

Senator SCHWELLENBACH. No. It is a peculiar contract, and there has been a controversy for a great many years. During the wartime we had shipbuilding concerns down on the water front and the flu epidemic was on and they had a great wartime scare there that they were not going to be able to get the shipyard workers down to the shipyards, and so the city must buy the street-railway system which was carried on the books at $7,500,000. The price was $15,000,000, and the newspapers and everybody else came out for it and it was put through in that period of excitement.

Senator BARKLEY. Did the people vote on it?

Senator SCHWELLENBACH. Yes; but only a small percentage of the people actually voted on it. Every bank and every businessman and every newspaper endorsed it. It was a great wartime endeavor. The contract provided that the Puget Sound Power & Light Co. was to be paid only out of the earnings of the system; but the contract contained another provision that commencing either 60 or 90 days prior to the time that each annual payment was due the city

treasurer should take all of the funds that came in, all of the nickels collected from the street-railway system, and sequester them and have them on hand and send them back to the trustee in Boston. The result of that was that each year as the time came around they collected all the available funds and had to go on a warrant basis to pay their expenses between that and the time of the maturity date of either principal or interest; and the result has been that the street-railway system has been in constant difficulty because of the fact that they had to go on this warrant basis for 60 or 90 days and it would take them the rest of the year to pull themselves out of it.

Our candidates for mayor always run upon the platform that they are going to refuse to make those payments, and then the duly elected mayor turns around and does exactly the same thing. I have always contended that if we had an administration that had the courage to stand up and say, "No; we will not do this. Our contract is to pay out of earnings only", the balance of the contract would be either canceled or cut down to a pretty low amount. We pay more than the total value of the system at the present time.

Senator FLETCHER. How is it being maintained?

Senator SCHWELLENBACH. We go on making the interest payments every year but not paying on the amortization of the principal.

Senator FLETCHER. Are they keeping up the system?

Senator SCHWELLENBACH. Oh, yes; and, as I say, my examination for the year 1929 showed that it was being operated on a more profitable basis than any one of the 113 other systems privately operated throughout the country.

But, going back to Senator Couzens' question, as far as I am concerned, it is just a fundamental proposition that a municipality or a county or a district or a State should not enter into public ownership of any proposition unless it can stand on its own feet.

Senator COUZENS. I agree with that, but the people to make it stand on its own feet are the voters themselves. They put it there; they endorsed it; they entered into the contract; and they should guarantee the contract. That does not interfere in any sense whatever with making the enterprise self-supporting and self-sustaining. In other words, what you propose is that you bring to us your son and say, "I want you to accept his note but I will not guarantee it." If it is not good enough for you to guarantee, then it is not good enough for the Congress to guarantee. That is my viewpoint. It does not interfere with the operations of the company at all. I entirely agree with you that every time a community or a city enters into an enterprise it ought to be self-supporting out of is own revenues, but you must have the will of the people back of it to see that it is self-supporting. The people have absolutely lost interest in it, after they have accomplished the purpose, if they have no continuing obligation to see that the enterprise is self-supporting.

Senator BARKLEY. I suppose if this bill should pass and the Reconstruction Finance Corporation should make the loan, it would make it upon the credit of the city of Seattle as a municipality; it would not have any such contract as that between the city of Seattle and the Puget Sound Power & Light Co.?

Senator COUZENS. That is what I object to in the bill.

Senator SCHWELLENBACH. I am not asking the committee to pass the bill without that in it. I should be opposed to it otherwise.

Senator BARKLEY. You mean that the Reconstruction Finance Corporation would only pay the debt back out of the earnings.

Senator SCHWELLENBACH. The income bonds of the operation itself.

Senator COUZENS. If the enterprise does not pay, they will pay. That is all the guaranty I want. If Seattle wants to own and operate its own street railway system, it ought to take the responsibility of it. If the Reconstruction Finance Corporation assumes this responsibility, and the people of Seattle say, "We are through with street cars; we don't want any more street cars", there is no recourse to the Reconstruction Finance Corporation, none at all. The Reconstruction Finance Corporation does not want to go out and take possession of the tracks and the cars and try to operate the system if the people of Seattle do not guarantee them an income that will make the enterprise self-supporting.

Senator FLETCHER. The bill provides—

Except that the Corporation may take as security for such loans income bonds issued by the borrowing municipality against such municipally owned properties.

Senator COUZENS. That is what I oppose. I have stated to Mr. Ogburn by correspondence, and I have said it to others, that if the people of Seattle or any other community do not want to guarantee the Government, I do not know why the Government should assume any responsibility.

Senator SCHWELLENBACH. Will the committee hear from Mr. Ogburn now?

Senator FLETCHER. Yes. We shall be very glad to hear from Mr. Ogburn.

## STATEMENT OF CHARLTON OGBURN, WASHINGTON, D. C.

Senator BARKLEY. Will you state your name and whom you represent?

Mr. OGBURN. My name is Charlton Ogburn. My office is in the Union Trust Building, Washington, D. C. I am appearing for the city of Seattle. It is unnecessary for me to say little more than has been said by Senator Schwellenbach. I would like to address myself for a few moments, however, to the question which is under discussion here, and that is the duty of the city of Seattle to guarantee its bonds. I think that Senator Schwellenbach has stated the issue rather fundamentally with regard to public ownership generally. It is increasing, especially with regard to the desire of cities to own their local plants.

The city of Seattle has a debt limit beyond which it cannot legally go. That debt limit has been wisely placed there, and the city of Seattle necessarily has borrowed, and may have to borrow, for the general purposes of the city, such as the construction of sewerage systems, and so forth.

The city of Seattle also owns a lighting system. The total debt limit of Seattle, I think, is about $24,000,000 for general obligations. The lighting system which carries a bond issue similar to the issue provided here runs the debt of the city of Seattle up to about $85,000,000. The lighting system and the street railway system stand on their own bottom.

Senator BARKLEY. They are separate departments, separate corporations, and there is no connection between the lighting plant and the street-car system?

Mr. OGBURN. No; they are not incorporated, but they are operated separately and carried separately. The lighting system has been able to borrow in the market funds from time to time. As a matter of fact, there was offered this week by bankers in New York an additional 2½-million-dollar loan to the lighting department. The desirability of those bonds, which are income bonds not guaranteed by the city, is shown by the fact that they bear only 3½ percent interest and they are sold on that basis. As a matter of fact, some of them are sold on a basis of only 2 percent interest, although they are income bonds not guaranteed by the city.

The reason that the city cannot do the same thing with respect to the street railway is this. There is a fashion in securities just as there is in other things. Street-railway and bus obligations are not as highly thought of by the public as are power and light bonds. There was a time when street railways were regarded somewhat as a dying industry. Buses were rapidly taking their place. The importance, however, of a transportation system is very great, and it is necessary, if the city of Seattle is to have an adequate transportation system, that it be able to refinance the property. Its carrying charges on its present financing are so great that the necessary repairs and the substitution of buses for street cars cannot very well be accomplished.

Senator FLETCHER. What did the power and light bonds sell at?

Mr. OGBURN. This issue was offered on a basis, depending upon the maturity date, of bringing in an income and interest anywhere from 2 percent a year up to 3.7 percent. In other words, they are offered at a very low interest charge, but they are not guaranteed by the city.

Senator FLETCHER. Are they sold at par or above par?

Mr. OGBURN. I cannot answer that question. This issue was just offered this week.

Senator BARKLEY. Have any been taken?

Senator SCHWELLENBACH. The underwriters have taken them all.

Senator BARKLEY. I thought you said the indebtedness was $85,000,000. Does that represent investment in the power and light and transit company?

Mr. OGBURN. I think all of it does except $14,000,000. This circular shows the amount of the lighting department indebtedness and the street railway indebtedness runs around $9,000,000.

If the public understood the fact that street railway and bus obligations are really more sound than has been represented, the city of Seattle could go to private bankers and obtain this financing just as it did for its lighting property; but private bankers have in the last several years, for obvious reasons, changed their transit financing and given a preferred position to power and light financing. The transit industry, which means street railways and busses, however, is improving.

Senator BARKLEY. Especially the bus end of it?

Mr. OGBURN. Especially the bus end of it; yes, sir. I have here a publication by the American transit industry which shows that the

number of passengers on street railways and busses for February 1936, as against February 1935, increased over 10 percent. So there is an increase in revenues and in passengers in the transit industry.

The impossibility of the city of Seattle making this as a general application is a legal impossibility, as I understand it. It would interfere with the debt limit which the city must keep open for its general purposes; and because of the fact that private bankers do not look particularly with favor, partly by reason of prejudice, on transit obligations the city of Seattle has turned to the Reconstruction Finance Corporation which is in a sense a Government banking institution, the largest banking institution in the world. The Reconstruction Finance Corporation has made railroad loans, although all of the stockholders of the railroads have not guaranteed those loans. The purpose of the railroad loans has been the same as the purpose of this loan would be, which is essentially the protection of the transportation system.

In addition to representing the city of Seattle in this matter I am counsel for the American Federation of Labor. Labor is very much interested in the maintenance of urban transportation systems, because street cars and busses are the limousines of labor people; and if this system is not going to be adequately financed, not only will the workers who maintain and operate this system suffer, but all of the workers of the city of Seattle will suffer. There are only two other cities which could avail themselves of this act. One is the city of Detroit, which does not need to avail itself of it, I understand, and the other is one line in the city of San Francisco.

Senator BARKLEY. What is the debt limit of Seattle?

Mr. OGBURN. I think it is $24,000,000.

Senator BARKLEY. In addition to the $85 000,000?

Mr. OGBURN. No; it is part of that $85,000,000; $65,000,000 is outside of the debt limit.

Senator SCHWELLENBACH. The obligation of the city light department. We have a statute of the State which covers it.

Senator BARKLEY. You do not regard that as a city debt?

Senator SCHWELLENBACH. No; it is purely on the basis of the properties owned and operated by the city light department.

Senator RADCLIFFE. Did you not refer to $85,000,000 as being the debt limit?

Senator SCHWELLENBACH. $24,000,000 is the debt limit.

Senator RADCLIFFE. What was the reference to $85,000,000?

Senator SCHWELLENBACH. That is the total debt, counting the debt of the city light department.

Senator RADCLIFFE. When that was referred to, it seemed to me that some reference was made at the same time to the debt limit, which I associated with $85,000,000. But that is not the case at all?

Senator SCHWELLENBACH. The $65,000,000 owed by the city light department does not in any way involve the question of the debt limit.

Senator BARKLEY. Has the city reached this $24,000,000 debt limit?

Senator SCHWELLENBACH. No. It is about $20,000,000.

Senator BARKLEY. You still have $4,000,000 to go?

Senator SCHWELLENBACH. Yes.

Mr. OGBURN. If I may make one more point, with your approval, I will be through. I would like, if I may, to refer the members of

the committee to a 100-page report which has been made for the city of Seattle and its street-railway system by the Beeler organization of engineers of New York. This shows a saving to the city of Seattle if this financing is accomplished. The current earnings are about $4,000,000 a year for the street-railway system. The operating expense is about $3,381,000, a balance after operating expenses of $571,000. If this financing is accomplished, Mr. Beeler shows that the balance, after operating expenses and interest for the year 1934, which was $37,000, would become $977,000. In other words, the reduction of the present obligation which is due to the purchase price and is in excess of $8,000,000, would be cut down, because it is believed that the present obligation can be liquidated at perhaps 50 cents on the dollar, and the new money would be expended for improvements, so that there would be more revenue and less operating expenses, and a net earning of only $37,000, after interest, for 1934 would be changed, if this financing is accomplished, according to Mr. Beeler, to a net balance of $977,000.

Senator COUZENS. What is the fare that is now maintained?

Mr. OGBURN. Ten cents; three tickets for a quarter. I think Mr. Beeler shows that there is an average fare of about 8¼ cents. That is somewhat complicated by a very low fare to school children. The school children are carried practically at a loss.

As I see it, there is no other way by which the city of Seattle can refinance its transportation system. No financing to speak of has been done since its purchase in 1919. It is in bad shape; it badly needs expansion. It needs substitution of busses for the old out-of-date cable cars. I think the Senate can very well trust the Reconstruction Finance Corporation to look with great care before any such loan is made. You have the assurance of Senator Schwellenbach that he will not permit any such loan to be made unless it is on a sound basis.

There is also a matter which I cannot speak of with definiteness, but I am told that there will be offered to the Reconstruction Finance Corporation, if this loan is put through, some additional security so that there will not be any question about the proportionate value of the collateral and of the income from the system as security for the loan.

Senator BARKLEY. Do you interpret the language of this bill to mean that unless there is a scaling down of the debt, the loan cannot be made?

Mr. OGBURN. Yes. I do not believe the Reconstruction Finance Corporation could make the loan unless the debt were at a discount.

Senator COUZENS. But you cannot guarantee, nor can any other local government guarantee, the maintenance of fares. In other words, the succeeding administration could cut the fares. Some man can run for mayor on the pledge of cutting the fares to 5 cents, and be elected and cut the fares, and the Government is left high and dry with nothing but income bonds.

Mr. OGBURN. But, Senator Couzens, may I call your attention to the statement in the prospectus offering the municipal light and power revenue bonds of the city of Seattle——

Senator COUZENS. That is the whole test, because all of the controversies that have existed in municipalities with respect to the public ownership of facilities apply to transportation. Take the city of

New York, for instance. Nearly every mayor has been elected in the city of New York on the promise to maintain a 5-cent subway fare; and yet everybody knows that that has never returned the cost of operation plus any return on the investment. Every municipality at election time has the transportation problem as an issue. There is nothing to prevent the people from electing a mayor and council which would cut the fares in half, and thereby leave the Reconstruction Finance Corporation or any other creditor high and dry with respect to their ability to collect returns. You cannot bind them to maintain fares.

Senator SCHWELLENBACH. I disagree with that, Senator. I have put through bond issues for other forms of local governments where a binding obligation was made——

Senator COUZENS. To maintain fares?

Senator SCHWELLENBACH. For example, 2 years ago we got $800,000 from the Reconstruction Finance Corporation for a dormitory system at the university and entered into an obligation upon the part of the university. It was insisted by the attorneys for the Reconstruction Finance Corporation, after very careful research, that we maintain a certain standard of charge for dormitory rooms. If that obligation could be entered into by a State government, cannot a municipality enter into an obligation to maintain a standard of fares?

Senator COUZENS. Of course, that has never been tested. You might pass upon it as a legal proposition, but if you get the voters and the politicians stirred up you do not know what is going to happen.

Mr. OGBURN. That is the basis upon which they are selling these bonds.

Senator COUZENS. Yes; but lighting rates are a very small proportion of the home-owner's expense. Transportation is a very large proportion of the whole cost of living. It has happened everywhere. It always happens. It happens in New York every time a mayor comes in. He has to promise to maintain the 5-cent fare.

Mr. OGBURN. The city of Seattle has passed ordinances authorizing the bonds of the city for lighting purposes to be issued on the understanding that there will be no change in charges for electric energy which would render less than the amount of money necessary to pay principal and interest on the bonds. I do not know how Congress would construe it, but it certainly could be entered into as a matter of good faith between the city and the owners of the street-railway bonds. I think the city of New York is about the only city in the United States which still maintains a 5-cent fare. The fares were changed to meet this very question, and they have been increased up as high as 10 cents. I have myself—although I did not make the comparison which Senator Schwellenbach did with 114 systems—made quite a study of the electric railway and bus systems of the United States. Their importance is so great to the cititzens that the Federal Government at one time conducted an investigation of the electric railway and bus industry through the Federal Electric Railway Commission.

I was the executive secretary and counsel for that Commission, and I had a contract to conduct an investigation, and we had the pleasure of having the testimony of Senator Couzens, which was very interest-

ing and illuminating to the Commission. He was one of the witnesses on whose testimony the Commission made its report. That report showed at that time that the electric railway and bus industry was the fourth in importance in the United States in the amount of money invested in it. The importance of the city of Seattle of maintaining a proper transportation system for its workers is obvious. It is only the wealthier classes that can own automobiles.

Senator COUZENS. That is a demagogic statement.

Mr. OGBURN. There are many workers that cannot own automobiles, Senator.

Senator COUZENS. We know that, but that has nothing to do with the credit of the Government.

Mr. OGBURN. I certainly do not want to be making any demagogic statements to the committee, but I think it is recognized that——

Senator COUZENS. Nobody has any greater interest in the workers than I have, but I do not desire to fool them into some proposition that is unsound.

Mr. OGBURN. If we maintain the street-railway system for them, I think we are doing them a favor; and I know of no other way by which this money can be obtained.

Senator FLETCHER. The city will issue bonds, and those bonds are to be offered as security for this loan, as I understand it?

Mr. OGBURN. Yes, sir.

Senator FLETCHER. The amount of the issue and all that sort of thing will be determined by the municipality, and the question of whether they are good security or not will be submitted to the Reconstruction Finance Corporation. You do not know how much those bonds will be issued for?

Mr. OGBURN. No, sir.

Senator FLETCHER. It depends on what settlement you can make with the present holders, I suppose?

Mr. OGBURN. I think we can get a settlement with the present holders of, say, 50 cents on the dollar, although I have no definite assurance. Those bonds bear 5 percent, whereas these would presumably bear 4 percent or less.

Senator FLETCHER. Thank you very much, gentlemen.

I would like to have inserted in the record at this point a letter from Mr. Jesse H. Jones, Chairman of the Reconstruction Finance Corporation, and a letter from Mr. T. J. Coolidge, Acting Secretary of the Treasury.

(The letters referred to and submitted by Senator Fletcher are here printed in full as follows:)

RECONSTRUCTION FINANCE CORPORATION,
*Washington, March 14, 1936.*

HON. DUNCAN U. FLETCHER,
*Chairman, Senate Committee on Banking and Currency,*
*Washington, D. C.*

DEAR MR. CHAIRMAN: I wish to acknowledge receipt of Mr. Sparkman's letter of February 4, 1936, requesting the views of this Corporation with respect to S. 3909, introduced by Senator Schwellenbach and now pending before your committee.

Whether this additional legislation is advisable is a matter involving the legislative policy of the Congress, and for this reason our directors have concluded, after careful consideration, that we should express no opinion.

With best wishes,

Sincerely yours,

JESSE H. JONES, *Chairman.*

THE SECRETARY OF THE TREASURY.
*Washington, February 10, 1936.*

Hon. DUNCAN U. FLETCHER,
*Chairman, Committee on Banking and Currency,*
*United States Senate.*

DEAR MR. CHAIRMAN: Receipt is acknowledged of your acting clerk's letter of February 4, 1936, transmitting a copy of the bill, S. 3909, "Providing for loans by the Reconstruction Finance Corporation to municipalities in certain cases", and requesting a report thereon. It is noted that this bill was also referred to the Reconstruction Finance Corporation.

After a study of the provisions of the bill, it is my view that the subject matter thereof is not within the jurisdiction of the Treasury Department.

Very truly yours,

T. J. COOLIDGE.
*Acting Secretary of the Treasury.*

Senator FLETCHER. We will now consider S. 4328 and S. 4396. (S. 4328 and S. 4396 are here printed in full as follows:)

[S. 4328, 74th Cong., 2d sess.]

A BILL Relating to the authority of the Reconstruction Finance Corporation to make rehabilitation loans for the repair of damages caused by floods or other catastrophes, and for other purposes

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That the Act entitled "An Act authorizing the Reconstruction Finance Corporation to make loans to nonprofit corporations for the repair of damages caused by floods or other catastrophes, and for other purposes", approved April 13, 1934, as amended, is amended to read as follows:

"That the Reconstruction Finance Corporation is authorized and empowered, through such existing agency or agencies as it may designate, to make loans to corporations, partnerships, or individuals for the purpose of financing the repair, construction, reconstruction, or rehabilitation of structures or buildings, including such equipment, appliances, fixtures, machinery, and appurtenances as shall be deemed necessary or appropriate by the Reconstruction Finance Corporation, and for the purpose of financing the repair, construction, reconstruction, or rehabilitation of water, irrigation, gas, electric, sewer, drainage, flood-control, communication, or transportation systems damaged or destroyed by earthquake, conflagration, tornado, cyclone, hurricane, flood, or other catastrophe in the years 1933, 1934, 1935, 1936, and 1937, and for the purpose of financing the acquisition of structures, buildings, or property in replacement of structures, buildings, or property destroyed or rendered unfit for use by reason of the catastrophe, when such repair, construction, reconstruction, rehabilitation, or acquisition is deemed by the Reconstruction Finance Corporation to be economically useful or necessary, said loans to be made upon sufficient security.

"Obligations accepted hereunder shall be collateraled—

"(a) In the case of loans for the acquiistion, repair, construction, reconstruction, or rehabilitation of private property, by the obligations of the owner of such property, secured by a paramount lien except as to taxes and special assessments not delinquent on the property to be acquired, repaired, constructed, reconstructed, or rehabilitated, or on other property of the borrowers;

"(b) In the case of loans for the repair, construction, reconstruction, or rehabilitation of privately owned water, gas, electric, communication, or transportation systems, by the obligations of the owners of such water, gas, electric, communication, or transportation systems, secured by a lien thereon; and

"(c) In case of loans for the repair, construction, reconstruction, or rehabilitation of property of municipalities or political subdivisions of States or of their public agencies, including public-school boards, and public-school districts, and water, irrigation, sewer, drainage, and flood-control districts, by an obligation of such municipality, political subdivision, public agency, board, or district, payable from any source, including taxation or tax-anticipation warrants.

"The collateral obligations shall have maturities not exceeding ten years in case of loans made under paragraph (a) of this Act and not exceeding twenty years in case of loans under paragraphs (b) and (c) of this Act.

"The Corporation shall prescribe such regulations as will most effectively expedite the repair, construction, reconstruction, and rehabilitation provided

for by this Act and effectively carry out the emergency-relief purposes of this Act.

"Notwithstanding any other provision of law, disbursement may be made at any time prior to January 23, 1939, on any commitment made by the Corporation under the terms of this Act, as amended.

"The aggregate of loans made under this Act shall not exceed $25,000,000."

That the title of the said Act is amended to read as follows:

"An Act authorizing the Reconstruction Finance Corporation to make loans for the repair of damages caused by floods or other catastrophes, and for other purposes."

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[S. 4396, 74th Cong., 2d sess.]

A BILL To amend the National Housing Act for flood-relief purposes, and for other purposes

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled*, That title I of the National Housing Act, as amended, is amended by inserting the following section after section 5 of said title:

"SEC. 6. The Administrator is authorized and empowered, upon such terms and conditions as he may prescribe, to insure banks, trust companies, personal finance companies, mortgage companies, building and loan associations, installment lending companies, and other such financial institutions, which the Administrator finds to be qualified by experience or facilities as eligible for credit insurance, against losses which they may sustain as a result of loans and advances of credit, and purchases of obligations representing loans and advances of credit, made by them subsequent to the date of this Act and prior to January 1, 1937, or such earlier date as the President may fix by proclamation upon his determination that the emergency no longer exists, for the purpose of financing the restoration, rehabilitation, rebuilding and replacement of improvements on real property and equipment and machinery thereon which were damaged or destroyed by flood or resultant casualty occurring subsequent to March 1, 1936, either on the same site or on a new site in the same locality where the damaged or destroyed property was located. The Administrator is authorized to grant insurance under this section to any such financial institution up to 20 per centum of the total amount of loans, advances of credit, and purchases made by such financial institution for such purpose, and the Administrator may add any unused insurance granted to such financial institution under section 2 of this title, prior to April 1, 1936, to any insurance granted under this section.

"No insurance shall be granted under this section to any such financial institution with respect to any obligation representing any such loan, advance of credit, or purchase by it (1) unless the loan bears such interest, has such maturity, and contains such other terms, conditions, and restrictions, as the Administrator shall prescribe in order to make credit available for the purposes of this section; and (2) unless the amount of such loan, advance of credit, or purchase is not in excess of $2,000, except that in the case of any such loan, advance of credit, or purchase made for the purpose of such financing with respect to apartment or multiple family houses, hotels, office, business or other commercial buildings, hospitals, orphanages, colleges, schools, churches, or manufacturing or industrial plants, such insurance may be granted if the amount of the loan, advance of credit, or purchase is not in excess of $50,000."

SEC. 2. Section 2 of title I of the National Housing Act, as amended, is amended by inserting before the words "The total liability of the Administrator", in the third sentence of said section, the words "Except with the prior approval of the President", and by striking out the word "section", in said sentence, and inserting in lieu thereof the word "title."

## STATEMENT OF HON. DAVID I. WALSH, A UNITED STATES SENATOR FROM THE STATE OF MASSACHUSETTS

Senator WALSH. Mr. Chairman and gentlemen, there are two bills in which I am interested. One is S. 4328, and the other is S. 4396. I should first like to discuss S. 4328, which is a bill relating to the

authority of the Reconstruction Finance Corporation to make rehabilitation loans for the repairs of damages caused by floods or other catastrophes, and for other purposes.

As I understand the existing law, loans can be made by the Reconstruction Finance Corporation for damages caused by floods, based upon the ability of the applicant for the loan to furnish adequate security.

But I understand such an applicant must obtain his loan through a nonprofit corporation. Furthermore, I understand that there is a serious question if such a loan could be made for damages caused to equipment, appliances, fixtures, machinery, and appurtenances.

This bill seeks to place applicants for such loans under those provisions of law which require only sufficient security and which permit the Reconstruction Finance Corporation to take into consideration the fact that employment will be continued or employment conditions improved if such a loan is made.

Senator COUZENS. May I draw the Senator's attention to the language on page 2 of the bill which, it seems to me, leaves it wide open for the Reconstruction Finance Corporation to do anything. Perhaps that is your intention. It says—

and for the purpose of financing the repair, construction, reconstruction, or rehabilitation of water, irrigation, gas, electric, sewer, drainage, flood-control, communication, or transportation systems damaged or destroyed by earthquake, conflagration, tornado, cyclone, hurricane, flood, or other catastrophe in the years 1933, 1934, 1935, 1936, and 1937.

Senator WALSH. That is the present law, except the inclusion of the year 1937. That is the only change.

Senator COUZENS. For all those purposes?

Senator WALSH. Yes.

Senator COUZENS. I do not get the point, then.

Senator WALSH. I want, first of all, the requirement for adequate security removed, and to substitute the language "made upon sufficient security." In other words, I want these people to be given the opportunity to obtain their loan under the provision of law which permits now an industry to obtain a loan without showing adequate security, if it can be shown that there is likely to be an increase in employment or an improvement in employment conditions or that employment conditions are to be stabilized.

Senator BARKLEY. Has there been any legal interpretation as to the difference between adequate and sufficient security?

Senator WALSH. The House committee which had this bill under consideration has already reported it with two amendments. One of the amendments deals with the very subject you are referring to, and which seems to me to liberalize my language. The House provision amends line 18, page 2, by striking out the words "made upon sufficient security" and substitutes in their stead the words "so secured as to reasonably assure repayment thereof."

The Reconstruction Finance Corporation have construed "adequate security" as requiring very much stronger security, a stronger evidence of the soundness of the loan, than they have under the provision of law which permits sufficient security, which is a provision passed by Congress for the purpose of encouraging employment and for making it easier for an industry to get a loan.

Senator FLETCHER. One of the main changes in the present law is that under the existing law the Reconstruction Finance Corporation loans to nonprofit corporations.

Senator WALSH. That is true.

Senator FLETCHER. They have to organize a corporation and go through that process before application for a loan can be made to the Reconstruction Finance Corporation. This enables individuals and corporations to apply directly without the necessity of that intervening corporation?

Senator WALSH. Exactly. The second is that the loans can be made for replacement of equipment, appliances, fixtures, machinery, and appurtenances, which they cannot get under the present law; and the third is that the victims of the flood can get the benefit of the provision of the law now which industries enjoy and which does not require adequate security but requires sufficient security or, as the House bill says, "so secured as to reasonably assure repayment thereof."

Those are the three changes made in the law. The bill by request has been drafted by the Reconstruction Finance Corporation and its objective is to make it more liberal or to provide for liberal loans for the victims of the recent floods, to obtain loans upon their losses of furniture, appurtenances, machinery, and appliances.

Senator BARKLEY. Why is it necessary to put in the year 1937?

Senator COUZENS. It says that the catastrophe must occur in those years.

Senator WALSH. I might inquire why that was inserted. May I inquire from the representative of the Reconstruction Finance Corporation?

Mr. ALLEY. The power of the Reconstruction Finance Corporation runs into the year 1937, and the House wanted to include 1937, thinking that there might be some catastrophe during that time.

Senator WALSH. I personally have no desire to have the provision extended beyond taking care of the victims of the present flood.

Senator BARKLEY. The power of the Reconstruction Finance Corporation does not extend through the whole year 1937?

Mr. ALLEY. No; only to 1937.

Senator WALSH. I am asking no change whatever in the present law so far as that law concerns the making of loans that are now made by the Reconstruction Finance Corporation. We are attempting to put the flood victims under the existing law. The financial requirements are not as strict and not as binding as under the present law which requires adequate security.

Senator BARKLEY. It enables the Reconstruction Finance Corporation to cross its fingers a little bit?

Senator WALSH. I suppose that is a direct way of saying what I have been trying to say. It permits a more liberal policy.

Senator COUZENS. May I point out an inconsistency? S. 3909 permits the Reconstruction Finance Corporation to take income bonds as security, and on page 3 of S. 4328 the community has to pledge its whole credit, including taxation, for the payment of its debt; showing how inconsistent the two bills are with respect to guaranteeing the Reconstruction Finance Corporation a return of their money.

Senator WALSH. You are referring to page 3 of S. 4328?

Senator COUZENS. Yes.

Senator WALSH. I would like to have a brief word from the representative of the Reconstruction Finance Corporation.

## STATEMENT OF JAMES B. ALLEY, GENERAL COUNSEL, RECONSTRUCTION FINANCE CORPORATION, WASHINGTON, D. C.

Senator WALSH. I think the committee would like to know, Mr. Alley, just what change is made in the present law or would be made by the enactment of this bill.

Mr. ALLEY. The present law is Public, 160, of the Seventy-third Congress, which is a new act which was passed by the Seventy-third Congress which carried out the policies that had been previously established in 1933 during the California earthquake when the Reconstruction Finance Corporation was authorized to make loans to repair damages caused by the earthquake there. In California we loaned approximately eight million or nine million dollars to repair houses, schools, water and sewer systems. About half of the money was loaned to municipalities and school districts, and the other half to private home owners and owners of apartment houses and stores.

Senator FLETCHER. Have the loans been repaid?

Mr. ALLEY. No. I have not got a break-down of the loans in California, but we have authorized a total, under all the existing acts, of $12,800,000, and there has been repayment of approximately $1,000,000.

Senator COUZENS. I would like to have a break-down of those loans that you made to municipalities and those that you made to private individuals. Have you got a break-down of that?

Mr. ALLEY. I have not that with me, sir. I can furnish that information.

Senator RADCLIFFE. You have authorized $12,000,000?

Mr. ALLEY. We have authorized $12,000,000. I think the actual disbursement has been approximately $10,000,000.

Senator FLETCHER. Can you furnish the information that Senator Couzens asks for?

Mr. ALLEY. Yes, sir.

Senator FLETCHER. We will put it in the record if you will do that.

(The information referred to is reproduced as follows:)

RECONSTRUCTION FINANCE CORPORATION

*Loans for repair of property damaged by earthquake, etc., Mar. 31, 1936*

| | Amount authorized | Amount canceled | Amount disbursed | Amount repaid |
|---|---|---|---|---|
| Totals under sec. 201-A, Emergency Relief and Construction Act of 1932, as amended | $10,450,000.00 | $1,034,596.78 | $8,528,575.90 | $710,222.45 |
| Totals under Public, No. 160, approved Apr. 13, 1934, as amended | 2,350,000.00 | 400,000.00 | 1,299,790.00 | 20,354.50 |
| Grand total | 12,800,000.00 | 1,434,596.8 | 9,828,365.90 | 730,576.95 |

*Loans for repair of property damaged by earthquake, etc.*

UNDER SEC. 201–A EMERGENCY RELIEF AND CONSTRUCTION ACT OF 1932, AS AMENDED MAR. 31, 1936

| | Amount authorized | Amount canceled | Amount disbursed | Amount repaid | Remarks |
|---|---|---|---|---|---|
| Collateraled by obligations of municipalities and political subdivisions: | | | | | |
| Unified Rehabilitation Corporation, Los Angeles, Calif., application no. 6. | $5,000,000.00 | $179.00 | $4,999,821.00 | $178,528.50 | Unpaid principal evidenced by 7 notes, all of which are current as to principal. Interest on 6 notes has been paid to the last interest payable date. Interest in the amount of $11,000 on note no. 7 which was due Dec. 31, 1935, has not yet been paid. |
| Auburn Rehabilitation Corporation, Auburn, Maine, application no. 2. | 150,000.00 | 150,000.00 | ---------- | ---------- | |
| Ellsworth Rehabilitation Corporation, Ellsworth, Maine, application no. 2. | 250,000.00 | 242,950.00 | 7,050.00 | 683.50 | Not in default. |
| Total | 5,400,000.00 | 393,129.00 | 5,006,871.00 | 179,212.00 | |
| Collateraled by obligations secured by private property: | | | | | |
| Unified Rehabilitation Corporation, Los Angeles, Calif.: | | | | | |
| Application no. 1. | 500,000.00 | 5.00 | 499,995.00 | | |
| Application no. 2. | 500,000.00 | ---------- | 500,000.00 | | |
| Application no. 3. | 500,000.00 | 375.00 | 499,625.00 | 422,534.75 | Unpaid principal matured July 5, 1935. Interest paid to Dec. 25, 1935. |
| Application no. 4. | 500,000.00 | 30.00 | 499,970.00 | | |
| Application no. 5. | 500,000.00 | 50.00 | 499,950.00 | | |
| Ellsworth Rehabilitation Corporation, Ellsworth, Maine, application no. 1. | 400,000.00 | 52,515.00 | 347,185.00 | 5,874.25 | Not in default. |
| Unified Rehabilitation Corporation of Louisiana, Mindon, La. | 200,000.00 | 43,200.00 | 156,800.00 | 35,291.21 | Unpaid principal matured Jan. 31, 1935. Interest paid to Jan. 31, 1935. |
| Auburn Rehabilitation Corporation, Auburn, Maine: | | | | | |
| Application no. 1. | 600,000.00 | 295,162.04 | 304,837.96 | 58,080.24 | Unpaid principal matured Nov. 30, 1935. Interest paid to Feb. 6, 1935. |
| Application no. 2. | 250,000.00 | 250,000.00 | ---------- | ---------- | |
| Pruden Rehabilitation Corporation, Knoxville, Tenn. | 100,000.00 | 130.74 | 99,869.26 | ---------- | Not in default. |
| Liberal Tornado Relief Corporation, Liberal, Kans. | 1,000,000.00 | ---------- | 113,472.68 | 9,230.00 | Unpaid principal evidenced by 22 notes, 20 of which are in default as to principal and interest. Principal in default $101,042.68. |
| Total | 5,050,000.00 | 641,467.78 | 3,521,704.90 | 531,010.45 | |
| Grand total | 10,450,000.00 | 1,034,596.78 | 8,528,575.90 | 710,222.45 | |

*Loans for repair of property damaged by earthquake, etc.*—Continued

UNDER PUBLIC NO. 160 APPROVED APR. 13, 1934, AS AMENDED MAR. 31, 1936

| | Amount authorized | Amount canceled | Amount disbursed | Amount repaid | Remarks |
|---|---|---|---|---|---|
| Collateraled by obligations of municipalities and political subdivisions: | | | | | |
| Unified Rehabilitation Corporation, Long Beach, Calif., application no. 8. | [1] $150,000.00 | ---------- | $25,000.00 | $1,000.00 | Unpaid principal matured Jan. 15, 1936. Interest paid to Jan. 15, 1936. |
| Disaster Relief Corporation of Montrose, Montrose, Calif.: | | | | | |
| Application no. 1. | 1,000,000.00 | ---------- | 1,000,000.00 | ---------- | Principal payable on demand. Interest paid to Nov. 1, 1935. |
| Application no. 2. | 400,000.00 | ---------- | ---------- | ---------- | |
| Total | [1] 1,550,000.00 | ---------- | 1,025,000.00 | 1,000.00 | |
| Collateraled by obligations secured by private property: | | | | | |
| Unified Rehabilitation Corporation, Long Beach, Calif.: | | | | | |
| Application no. 7. | 600,000.00 | $400,000.00 | 169,740.00 | 15,320.00 | Unpaid principal matured Dec. 15, 1935. Interest paid to Jan. 15, 1936. |
| Application no. 8. | [1] 150,000.00 | ---------- | 58,090.00 | 2,870.00 | Unpaid principal matured Jan. 15, 1936. Interest paid to Jan. 15, 1936. |
| Capital City Rehabilitation Corporation, Helena, Mont. | 150,000.00 | ---------- | 45,935.00 | 1,164.50 | Not in default. |
| East Coast Rehabilitation Corporation, Miami, Fla. | 50,000.00 | ---------- | 1,025.00 | ---------- | Do. |
| Total | [1] 950,000.00 | 400,000.00 | 274,790.00 | 19,354.50 | |
| Grand total | 2,350,000.00 | 400,000.00 | 1,299,790.00 | 20,354.50 | |

[1] Application no. 8 of Unified Rehabilitation Corporation, Long Beach, Calif., was approved for $150,000 without provision as to type of collateral. This amount is included in "Amount authorized" above under both classifications, but only once in the "Grand total."

NOTE.—Obligations shown as past due are those of the nonprofit corporations and do not reflect the condition of the collateral security. The primary obligations of the nonprofit corporations purposely have short maturities and some are carried as past due, whereas the collateral has maturities of from approximately 3 to 20 years.

Senator BARKLEY. This bill broadens the language somewhat under which you made these loans, as I understand it?

Mr. ALLEY. Yes. All of the acts heretofore passed authorized us to make those loans only through nonprofit corporations.

Senator COUZENS. Was not that changed when it came to loaning to industries? I thought when we authorized the Federal Reserve banks to make industrial loans direct, if they could not be obtained direct from other sources, we also liberalized the Reconstruction Finance Corporation Act so that they could loan direct to industries.

Mr. ALLEY. That is right. We can loan to an industry if the purpose is to increase or maintain the employment of labor, but we

cannot loan to an individual to repair his home.' This act will enable the Corporation to deal directly with the individual.

Senator BARKLEY. Of course, the theory of these industrial loans that were provided for to be made by the Federal Reserve banks and by the Reconstruction Finance Corporation was that such loans were not to be made to nonprofit organizations but to corporations organized for profit. They are a different type from those loans that are provided for to nonprofit organizations, like municipalities, school districts, and so forth.

Senator COUZENS. But prior to that, Senator, we had a provision in the act whereby communities had to form organizations before they could get these industrial loans.

Mr. ALLEY. That was not in the act; that was a regulation of the Reconstruction Finance Corporation.

Senator COUZENS. I do not know whether it was specifically stated in the act, but the scheme fell down.

Mr. ALLEY. Yes. It was not very workable and it was changed after the enactment of section 5 (d) of the R. F. C. Act. The laws of various States differ as to what is a nonprofit organization. In many States it takes a thousand dollars to set up one. If one were set up in Johnstown, Pa., the Corporation could only make its loans in Johnstown, and then if you went up the river to make a second loan, you would have to form a second nonprofit corporation and you would have to find people who would put up a thousand dollars. We have had considerable delay in making these loans.

Senator COUZENS. I do not think it is a practicable scheme anyway. But I would like to have the experience that the Reconstruction Finance Corporation had in making these distress loans to individuals. You apparently have no information with respect to the individuals to whom you made distress loans?—as to the amount and the repayment, or whether they are in default, both as to interest and principal. All that information I think we ought to have if we are going to extend the authority of the Reconstruction Finance Corporation to loan to individuals.

Mr. ALLEY. I can get that for you, but I have not got it with me this morning.

Senator FLETCHER. Can you furnish that for the record?

Mr. ALLEY. Yes, sir.

Senator BARKLEY. You are not asking any additional funds?

Mr. ALLEY. No, sir; just authorizing us to use as much as $25,000,000 of the funds we now have. The present act limits the amount to $5,000,000, of which we have already used $1,950,000. So it leaves only $3,050,000. The effect would be to increase by $20,000,000 the amount of funds we now have available.

Senator FLETCHER. This bill provides for broadening the purposes of these loans also?

Mr. ALLEY. Yes, sir. The present act limits us to the repair, replacement, and rehabilitation of real property. This bill would include personal property and equipment as well as real property.

Senator COUZENS. Is there any reason why there should not be a requirement that the applicant should have exhausted his efforts to obtain money from private sources? Mr. Jones and others have testified before this committee from time to time that the cry was to quit this Government loaning, and with respect to some of the laws we

passed I know that there was a requirement that the applicant should make adequate effort to secure the money from private sources before coming to the Government.

Senator RADCLIFFE. Is not that the practice of the Reconstruction Finance Corporation? I have talked with them about a good many matters in the last 2 years. Do they not usually go into that very carefully?

Senator COUZENS. They have got some loans down there, and they are still putting money into rat holes to try to save what they have already got in it, which is not sound banking from a private banker's point of view.

Senator RADCLIFFE. I understood it was their policy to see whether all efforts to secure private loans had been exhausted first.

Senator COUZENS. That may be so, but there is no objection to putting it into the law.

Mr. ALLEY. That is a requirement of law in connection with industrial loans and in railroad loans, but it is not required in these flood-relief loans, or which are largely relief loans. They have all been made heretofore on adequate security with a paramount lien on the property.

Senator COUZENS. I would rather go ahead on the basis of the Federal Housing Administration and insure these loans in a way rather than to have the loans made direct by the Reconstruction Finance Corporation. There is always an inclination everywhere to shy away from responsibilities to the Government in the way of taxes, debts, or anything else. One of the great accomplishments, I think, of the Federal Housing Administration is that the loans have been made by private interests. Private interests have been interested in making collections, and the Government, through its agencies, has insured the loans to a certain extent. I think that is a sound approach to this whole problem—the Housing Administration—so far as private loans are concerned, guaranteeing them.

Senator WALSH. The next bill, S. 4396, deals with that very aspect. Do you not think that the victims of this flood, such as storekeepers and home owners, are entitled to as liberal opportunities to obtain a loan as industry?

Senator COUZENS. Oh, yes.

Senator WALSH. That is all this law does.

Senator COUZENS. We are always extending it to include others that were not at first contemplated.

Senator WALSH. Yes.

Senator COUZENS. And if we are trying to shy away from it in the case of the individual home owners through the activities of the Federal Housing Administration, why not extend the same authority to them to do this?

Senator WALSH. I agree with the Senator. I think all efforts to obtain private loans should be exhausted whenever possible rather than to come to the Government for loans. But evidently these people cannot get them.

Senator FLETCHER. Is there any other feature that you would like to discuss?

Mr. ALLEY. No. I will say to the committee frankly that the amount of relief which the Reconstruction Finance Corporation will be able to lend in these flood areas under this bill will not be tre-

mendous, because of the security requirements in the act. There are going to be comparatively few flood sufferers who are able to supply any security. The damages will run up into hundreds of millions, but judging from our past experience we will not make more than ten or fifteen million dollars of these loans. On the other hand, I would not recommend lightening the security requirements if these loans are to be made by the R. F. C. for Congress has heretofore required security on all loans made by the R. F. C.

### Testimony on Senate Bill 4396

Senator Walsh. The other bill is a bill introduced by Senator Bulkley and myself, and I will ask Mr. Walsh of the Federal Housing Administration to say a word. Mr. McDonald of the Federal Housing Administration, is also present.

### STATEMENT OF STEWART McDONALD, ADMINISTRATOR, FEDERAL HOUSING ADMINISTRATION, WASHINGTON, D. C.

Mr. McDonald. Mr. Jesse Jones called me on the telephone from Houston, Tex., early the other morning at my house and wanted to know what it would be possible to do to get the Federal Housing Administration to offer such flood relief as was possible. I explained to him that title II of the act was not a relief measure in any form, or a distress act, but by cooperation with the Federal Housing Administration, through a discounting of mortgages by the Reconstruction Finance Corporation, we might possibly offer some relief which would require no legislation whatever; and he therefore has extended his discount privileges without any charge on mortgages in the flood, and where private lending agencies are willing to lend in flood districts he will discount mortgages for the Federal Housing Administration without charge. So he has liberalized the discount privileges for the flooded areas.

I then asked Mr. Walsh, the Assistant Administrator and our attorney, to confer with the counsel of the Reconstruction Finance Corporation and other agencies, to see what they could do about liberalizing title I of the Housing Act, to provide such relief as is possible. They have drawn up some recommendations and embodied them into a bill. I will ask Mr. Walsh to explain just what they have arrived at.

### STATEMENT OF ARTHUR WALSH, ASSISTANT FEDERAL HOUSING ADMINISTRATOR, FEDERAL HOUSING ADMINISTRATION, WASHINGTON, D. C.

Mr. Walsh. Mr. Chairman, and gentlemen of the committee, I have a memorandum here which describes the bill concisely, and I shall be glad to elucidate at any point where you would like to have more information.

The purpose of this bill is to stimulate lending institutions to make the loans necessary to repair the damage which has been caused by the recent floods by providing insurance through the Federal Housing Administration of loans so made, if, in the wisdom of you gentlemen, it seems advisable to liberalize our existing act in

order to take care of this catastrophe. The provisions of this bill are as follows:

1. The general procedure under title I of the National Housing Act, as now set up by the Federal Housing Administration, is to be used to insure loans for these purposes. No new organization is to be created.

2. The insurance to be granted is 20 percent of the total aggregate amount of loans made by an insured institution for this purpose. This insurance is the same in amount as that in effect under title I of the National Housing Act up to April 1, 1936. It increases for this purpose the insurance granted under title I of the National Housing Act, as amended effective April 1, 1936, from 10 to 20 percent which is the amount of insurance under the original act.

Are there any questions, Mr. Chairman?

Senator FLETCHER. I think we understand it.

Mr. WALSH. Three. A provision is included in the bill permitting a lending institution to apply any unused insurance reserve obtained by it under its contract of insurance in effect up to April 1, 1936, to any losses which may be sustained as a result of loans made for the purposes of this bill. In other words, although any unused insurance reserve created prior to April 1, 1936, may not be used to pay losses sustained under the general provisions of title I, as amended, effective April 1, 1936, it may be used to pay losses sustained as a result of loans made under the specific provisions of this bill.

Senator FLETCHER. Has not the date of April 1, 1936, been extended now by legislation?

Mr. WALSH. Yes, Mr. Chairman; but the insurance reserve that was built up by lending institutions since the advent of the Federal Housing Administration, until last night, is canceled, and a brand-new reserve is starting today. Let us say that a lending institution has made a million dollars in loans since we began our activities and has had no losses. That lending institution would have an insurance reserve of $200,000, which is limited to loans made prior to April 1, 1936. This flood bill proposes that for loans made to flood victims the lending institution may tap that old reserve and thus have every incentive to be liberal in granting these loans to flood victims.

4. This bill provides for new construction, replacement, or repair of property destroyed or damaged by floods occurring subsequent to March 1, 1936. Replacement by new construction of industrial or institutional property may also be done with the proceeds of loans not in excess of $50,000. Under title I of the National Housing Act, as amended, effective April 1, 1936, insured loans for new construction are not eligible, but under this flood bill they are again made eligible.

Senator BARKLEY. We made it possible for transfers to occur from one lending agency to another. Would that be affected in any way? Would it make it possible for outside concerns to make transfers and thereby increase the liability of the Government?

Mr. WALSH. Oh, no. The liability of the Government is not increased. We cancel the reserve of the selling institution and transfer it to the buying institution. The transfer of insurance reserves can only be effective in connection with the sale of notes.

Senator BARKLEY. There would be no danger there, then?

Mr. WALSH. No, sir.

Senator WALSH. Commencing today under title I there are additional limitations and restrictions placed upon loans?

Mr. WALSH. Yes, sir.

Senator WALSH. This bill lifts those restrictions that become operative today, insofar as flood victims are concerned and allows the liberality prior to that time to continue?

Mr. WALSH. Yes, sir.

Senator WALSH. Only for flood victims?

Mr. WALSH. Yes, sir; specifically.

Senator WALSH. And one of the best features of it is that the insurance is 20 percent instead of 10?

Mr. WALSH. Yes.

Senator WALSH. There is therefore more of an inducement for private interests to make loans?

Mr. WALSH. Yes; they do not have to sharpen their pencils so much in considering a borderline credit risk.

This bill is also designed to permit new construction of property destroyed or damaged by flood, whether or not the new construction is to take place upon the property upon which the original structures stood. In other words, it is desired to permit a property owner whose structure has been destroyed by flood to rebuild on new property where the danger of damage from flood is not so imminent.

Senator BARKLEY. On property acquired by him subsequent to the flood?

Mr. WALSH. Or if he happened to own it before.

Senator BARKLEY. It may be that the sites of many of these houses may have been washed away by the flood.

Mr. WALSH. A laundry, for instance, might be located on a river bank.

Senator BARKLEY. He can buy new property and relocate his place?

Mr. WALSH. Yes; up on a plateau where he is safe. We are not going to permit anybody to move from Massachusetts to Alabama, or anything like that, you understand.

5. The replacement or repair of equipment and machinery which had been installed in property destroyed or damaged by the floods is also permissible.

6. Operations under this bill may continue until January 1, 1937, but may be terminated by the President at any time upon his determination that the emergency situation no longer exists.

7. The amendment to title I of the National Housing Act, effective April 1, 1936, reduces the maximum liability which the Administrator may assume from $200,000,000 to $100,000,000. The possible additional liability necessary to provide the insurance contemplated under this bill was not considered at the time the reduction was made in the amendment to title I of the National Housing Act.

Senator WALSH. In other words, this flood has brought a new crop of loans that you must deal with?

Mr. WALSH. Yes. We felt that the $40,000,000 of the original $100,000,000 that remained on a 10 percent insurance basis was more than adequate to cover operations up until April 1 of next year, let us say, but we did not take into account the flood, which gives a new picture, probably.

For this reason a provision is included in this bill authorizing the President to increase the amount of liability which the Administrator is permitted to incur if it should develop that the $100,000,000 is insufficient.

That is all that I have to present, gentlemen of the committee; but Mr. Ferguson, our general counsel, has just drawn another amendment this morning, which becomes necessary, we think, in the operation of title I in all areas; and with your permission I should like to have him present it to you.

## STATEMENT OF ABNER H. FERGUSON, GENERAL COUNSEL, FEDERAL HOUSING ADMINISTRATION, WASHINGTON, D. C.

Mr. FERGUSON. Mr. Chairman and gentlemen of the committee, we have faced a situation that has come to a climax with the Comptroller General within the last few days, which arises out of the fact that the Comptroller General has held that we cannot pay a loss on a claim on an insured loan under title I if it appears that that loan in any respect whatsoever does not strictly comply with the regulations that we have adopted pursuant to the provisions of the act.

As an example, one of our regulations provides that under one of these notes the first payment must be made not more than 60 days after the date of the note. In one instance the institution, instead of making the first payment 60 days after the date of the note, made payment 2 months after the date of the note, which made the first payment 61 days after the date of the note. A note of that sort may go into default. The bank has advanced the money in perfect good faith and presents a claim against us, and the Comptroller General has just ruled, in a letter dated March 28, that in cases of that sort we are not permitted to pay the claim because the note did not strictly comply with the regulations in that the first payment was due 61 days after the date of the note instead of 60 days after date.

That is one case as an illustration. In addition to that we have one case where a claim was made for $89.37 by a bank and it appeared that the note was to run for 12 months, and the note was so written that it actually matured at the end of 11 months, which made the bank's charge of 5-percent discount on the note 50 cents more than it would have been if the note had run for a year. The bank has refunded it and credited the 50 cents overcharge on the note.

Notwithstanding that fact, the Comptroller General has turned that claim down. He says we cannot pay the bank that claim because it will amount to 50 cents more than the maximum rate charged.

There are a number of those cases that amount to nothing. There are some 20 cases involved in his letter, and they involve only a difference of 11 cents, 12 cents, 31 cents, and on up to $4 and some cents. Several of them are cases in which payments are not made within the time, by a few days, of what our regulations provide. In one case there was a claim presented on a loan which was made to a farmer. Under our regulations farmers may make their payments in accordance with the seasons of the year at which they receive their income, and we provide that the first payment shall be made not less than 1 year from the date of the note.

Under this note, by reason of some error in the wording of it, the first payment exceeded 1 year by 1 day. This is an actual case.

The Comptroller General has turned it down, and he says we cannot pay that loss of $104.06 which the bank has sustained because the note is not in strict accordance with our regulations, because the first payment was due 1 year and 1 day after date instead of 1 year.

We feel that if this act is to be administered on any such hair-splitting technical basis as that we are not going to have any success with its administration at all. We do not feel that the banks are going to go along if they make those loans in good faith and by some purely minor inadvertence it does not have every "i" dotted and every "t" crossed, and therefore they are not going to get their money. We are asking that there be included in this bill an amendment to section 2 of our act to the following effect:

The Administrator is authorized to waive a strict compliance with regulations heretofore or hereafter prescribed by him with respect to the interest and maturity of and the terms, conditions, and restrictions under which loans, advances of credit, and purchases may be insured under this section and section 6, if, in his judgment, the strict enforcement of such regulation would impose an injustice upon an insured institution which has substantially complied with such regulations in good faith and refunded or credited any excess charge made and where such waiver does not involve an increase in the obligation of the administrator beyond the obligation which would have been involved if the regulation had been fully complied with.

It simply gives the Administrator the right to waive purely technical, unimportant, and immaterial infractions of the regulations, which we think is the only fair thing to do.

We cannot pass upon the eligibility of these loans at the time they are made. The banks make them, and if they go into the transaction in good faith and make the loan in good faith, we feel that we should follow the well-known rule which governs all insurance policies, the law being well settled that an insurance company cannot deny payment of an insurance claim on the ground that the provisions of the policy have not been strictly complied with, if the failure to comply is immaterial and has no effect upon the risk.

That is a well-recognized rule, and we feel that some such rule as that should be followed by the Administrator in the administration of this act.

I very strongly urge that the committee insert this amendment in the bill in order that we might be able to administer the act in what is a businesslike way with no possibility of the Government's having to pay out any money which it should not pay out.

Senator RADCLIFFE. Have you discussed with Mr. McCarl the phraseology of that amendment, the word "strict", for instance? Do you know what interpretation he will put upon that?

Mr. FERGUSON. No. We have not discussed this with him at all. We have not had time to do so. I think the last part of it meets the situation. It says "if the institution has substantially complied with such regulations in good faith and has refunded or credited any excess charge made." I think that is sufficient to cover it.

Senator RADCLIFFE. I do not know just how that word "strict" would be interpreted.

Senator BARKLEY. You do not want them to throw it out on another 50-cent piece?

Mr. FERGUSON. No, sir. Strict enforcement——

Senator RADCLIFFE. What is strict enforcement?

Senator BARKLEY. Read the language of that amendment again, please.

Mr. FERGUSON (reading):

The Administrator is authorized to waive a strict compliance with regulations heretofore or hereafter prescribed by him with respect to the interest and maturity of and the terms, conditions, and restrictions under which loans, advances of credit and purchases may be insured under this section and section 6, if, in his judgment, the strict enforcement of such regulation would impose an injustice upon an insured institution which has substantially complied with such regulations in good faith and refunded or credited any excess charge made and where such waiver does not involve an increase in the obligation of the administrator beyond the obligation which would have been involved if the regulation had been fully complied with.

Senator BARKLEY. In view of that latter language, is it really necessary to have the word "strict" in it?

Senator FLETCHER. It seems to me that is perfectly safe.

Mr. FERGUSON. I should like, myself, to have it out, but I did not want to have anybody say that the Administrator was coming in here and trying to get authority to throw the doors open and say, "Well, I have made regulations, but they do not mean anything. You come in and you can get it."

Senator RADCLIFFE. I think it would be very interesting to know what Mr. McCarl would think of that.

Mr. FERGUSON. I do not really think the word "strict" there does restrict it any more than the subsequent language, which says "if it appears that the bank has substantially complied with the regulations in good faith."

Senator RADCLIFFE. Of course, the first part may be a limitation on the second part, but it just occurred to me that we might find some other phrase.

Senator BARKLEY. I believe the subsequent language takes care of it, and it might save another half dollar.

I move to amend the bill as suggested.

(The motion was duly seconded and agreed to.)

Senator FLETCHER. We have another bill, S. 4357, introduced by Senator Davis, which provides that existing Federal agencies, including the Federal land banks, the Home Owners Loan Corporation, the Resettlement Administration, and the Federal Emergency Relief Administration, be authorized and empowered to establish a Flood Rehabilitation Administration.

Have you anything to say about that, Mr. McDonald?

Mr. MCDONALD. I have no views on that at all, Mr. Chairman; I have not studied it.

Senator FLETCHER. All right. We will take that up later. We have no reports on that bill.

We will adjourn subject to the call of the chairman.

(Whereupon, at 12:20 p. m., an adjournment was taken subject to call of the chairman.)

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