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November 13, 1934

Mr. Marriner S. Eccles, Governor  
Federal Reserve Board  
Washington, D. C.

My dear Mr. Eccles:

May I take this opportunity to congratulate you on your new post and to wish you the best of luck.

I have been making efforts to bring about some kind of co-operation among the government bond houses in connection with a secondary market in Home Owners' Loan Corp. bonds, in accordance with our conversation in Washington. I hope within the next few days to be in a position to let you know whether or not it looks as though I am making any progress.

I am enclosing a copy of a letter I wrote on October 17th to Miles Colean of the Federal Housing Administration. I have since discussed this matter at considerable length with him. I did not mention this to you when I was in Washington because I knew your time was limited, but I think perhaps matters are coming to a head and for that reason am now forwarding this letter. Knowing your interest in the Federal Housing Administration, I thought you might wish to consider the thoughts contained in this letter, and if you agreed with their tenor, you might wish to discuss the matter with Mr. J. Howard Ardrey at the Housing Administration. I think someone in the Treasury might also be interested in following this matter along, since here will be another example of a "near" government bond and, in my opinion, the Treasury unquestionably should pass upon a setup of this type of security.

Thanking you for your many courtesies, I am,

Very truly yours,

*Theo. R. Goldsmith*

TRG:KK  
Enclosure

October 17, 1934

Mr. Wiles Colean, Chief Technical Adviser  
Federal Housing Administration  
Washington, D. C.

My dear Mr. Colean:

Following our telephone conversation the other day, it occurred to me that it might be advisable to re-state our interest in limited dividend projects which may be insured under the National Housing Act. I am most anxious to have the opportunity for a thorough discussion with the Federal Housing Administration, regarding the methods under which such projects might be financed, before hearings on any individual projects commence. This request is made in the belief that the "Administration" would not wish to establish its policies in connection with such projects until methods for their financing have been thoroughly considered. In order to make mortgage issues against such limited dividend projects readily salable at the most favorable rates, it will be necessary for the "Administration" to establish certain policies and regulations with this end in view. If the "Administration" should enter into any agreements with the holders of any insured mortgages without giving consideration to the requirements and customs of the bond market, real obstacles might be placed in the way of obtaining funds for such projects through the sale of security issues at the best rates.

As you know, we have advised the Thompson-Starrett Company, Inc. and Mr. H. Craig Severance that we felt that a readily salable mortgage bond issue could be set up against the Dyckman Gardens Apartments project; application for insurance of this project was filed with the Federal Housing Administration on July 26, 1934. We propose to set up a mortgage bond issue which will be a direct obligation of the limited dividend corporation and will be secured by a mortgage to be insured by the "Administration." This method of financing would make it unnecessary to create a national mortgage association to finance these projects and would make it possible to obtain funds for such projects at lower rates, since the charges a national mortgage association would have to make on such business would be eliminated. A national mortgage association would probably wish to charge about 1% more to a limited dividend corporation than the cost of the money to it via the sale of its debentures. Selling direct obligations of low cost housing corporations, secured by government-insured mortgages, should, therefore, result in a considerable lowering of the effective interest costs of such projects. It is likely that any of the larger insurance companies would be willing to purchase an insured mortgage of \$5,000,000 or \$6,000,000 for their own account, but it is my opinion, based upon conversations with a number of insurance people,

that they would be willing to purchase a mortgage at a much lower interest rate providing it had been set up as a bond issue and could, therefore be marketed some time in the future.

In order to make such an issue salable at the best terms, it would be necessary for the Federal Housing Administration to make certain agreements with the bondholders. It would be advisable to agree that in case of default and foreclosure the trustee would be given government-guaranteed three-year notes within a specified period after title to the property had been transferred to the "Administration." I am wondering what form this agreement will take. Can there be a Treasury endorsement on the mortgage, or can the Treasury countersign an agreement to this effect with the bondholders. It is perfectly apparent that issues of this character at the present time would only be salable because of the government insurance of the guaranty, and the exact wording of this feature in an offering circular will influence the salability of these issues considerably.

I understand such issues are not exempt from the provisions of the Securities Act. I have already discussed this matter briefly with Mr. George Matthews, of the Securities Exchange Commission, and with one of the members of the staff. The wording of the circular and the indenture would have to be cleared through them. No doubt the Treasury Department would also wish to pass upon the wording of the circular, since the sale of "near" government securities might affect the government bond market. Due to the fact that the law leaves so much discretion to the "Administration," several legal opinions by the Attorney General may also be advisable. I understand that insured mortgages are legal investments for savings banks and trust funds in New York State, but that a bond issue secured by an insured mortgage would not be legal for such funds. I would suggest that someone be delegated to see that legislation in various States is passed which would take care of this matter. A Mr. Daniel McNamara, Assemblyman in the New York State Legislature, and for some time counsel for the Home Owners' Loan Corporation, went around to various State legislatures to get legislation passed to make Home Owners' Loan bonds legal investments. He might be utilized, if available, to do the missionary work in this matter.

On my last visit to Washington, Mr. Klaber asked me what the trustee's charges would amount to under a set-up such as the one discussed above. The big New York banks have a set of standard fees, from which they deviate, but there is more or less of a gentleman's agreement that these fees should be lived up to. I am enclosing two copies of this schedule of fees. On page 11, you will notice the certification charges on temporary certificates for an issue of \$5,800,000, which would amount to about \$1,740. On page 12, are the certification charges for permanent bonds, amounting to about \$2,900 for the above sized issue. On page 13, there is a schedule of annual fees for the services of trustee; for this issue the charge would amount to about \$400. In addition, there are fees in connection with payment of interest and the operation of the sinking fund. On a twenty-year issue the fee for sinking fund operation would be about \$362. The fee for making issues registerable as to principal

only is about \$100 a year, and the payment of coupons would amount to \$580 the first year, with a reduction as the amount of the issue was reduced. I believe that if an issue of a national mortgage association were sold, it might, nevertheless, be desirable to have a trustee. The only one of the above fees which could be eliminated if a trustee were not included in a national mortgage set-up, is the \$400 annual fee for service as trustee.

I would like to offer my services in working out a suitable set-up which could then be used not only by ourselves, but also by others interested in this type of financing. I don't believe it would take more than a few days to work out a tentative set-up which would serve the purpose of bringing to light any complications which may exist and which should be considered by the "Administration" in the development of general policies. I wish to stress the point that unless the financial bond market problems have received consideration currently with the development of other policies, the marketability of these issues may be impaired.

I am enclosing an extra copy of this letter for Mr. Klaber, and will appreciate it if you will advise me as to your reactions to these suggestions. If you feel this matter is worth while, I will be glad to come to Washington at any time, and to bring with me an attorney with a view to being of help in working out this situation. I want to take this opportunity to thank you for your many courtesies, and hope you will understand that my only purpose in writing this letter and in taking such a positive viewpoint in the matter is a desire on my part to be helpful.

Very truly yours,

TRG:KK  
Enclosures (3)