

REASONS WHY PRESENT OPERATION OF TITLE III IS IMPRACTICABLE

1. Operation of national mortgage associations presupposes the prior existence of many thousands of insured home mortgages in excess of the number that lending agencies would retain for their own portfolios. Considerable period of time -- say one year to eighteen months -- must elapse before insured mortgages would exist in sufficient numbers to provide an adequate supply for institutions as large as national mortgage associations.

2. Primary purpose of national mortgage associations is to syphon funds from areas where there is a surplus to areas where there is a deficiency. At the present time there is in nearly all areas a surplus of capital or credit awaiting investment. Once banks and other lending agencies began to take on insured mortgages, they would be more concerned, under present conditions, with adding to their own earning assets than with selling insured mortgages to national mortgage associations.

3. Chief obstacle to organizing any national mortgage association is inability of investment bankers to see any possibility of profit as Titles II and III of National Housing Act now stand with regard to mortgage associations. Reducing minimum capital requirement from \$5,000,000 to \$2,000,000, or even less, would not meet the real problem and, therefore, would not lead to the forming of any mortgage associations. On the contrary, reduction of the minimum

capital requirement would increase the difficulty that a mortgage association would have in operating at a profit. Primary reason for original provision for \$5,000,000 minimum capital and 15 to 1 ratio of debentures to capital was that only very large company could operate profitably on the small spread available even under favorable conditions.

4. Most serious flaw in Title III from standpoint of investment bankers who might consider organizing national mortgage associations is limitation of governmental guaranty to FHA debentures issued prior to July 1, 1937. Nobody wants to organize \$5,000,000 distributing organizations that will begin to lose their source of supply in two years. Similar flaw is limitation of insured mortgages to total of \$2,000,000,000 when existing volume of urban home mortgages totals \$21,000,000,000.

5. Federal Housing Administration and Reconstruction Finance Corporation are in competition, if not in actual conflict, with regard to setting up national mortgage associations and mortgage-trust companies. Investment bankers simply refuse to raise capital for both. They don't see why Government does not make up its mind which of the two it wants instead of pressing for both. As matter of practical policy, Title III of National Housing Act should be amended so that mortgage associations could also perform functions of mortgage-trust companies as contemplated in RFC Circular No. 18.