

FEDERAL HOUSING ADMINISTRATION
MEMORANDUM

DATE 3-14-36

TO: Honorable Marriner S. Eccles
Federal Reserve Board
Washington, D. C.

ccp 16-3401

Dear Mr. Eccles:

I hope you will have time to read
this before the meeting Sunday.

Stewart McDonald

March 14, 1936

Honorable John H. Fahey, Chairman
Federal Home Loan Bank Board
Washington, D. C.

Dear Mr. Fahey:

I have seen a copy of the memorandum which you gave to Mr. Bell, Director of the Budget, with respect to the amendments which we have proposed to the National Housing Act.

As I have already indicated to you, it is a source of some regret on my part that you did not submit the material in this memorandum to me before it went to the Director of the Budget. This would have given me an opportunity to discuss it with you, and, particularly, point out some statements in the memorandum which appear to be in error.

Reference is made in the memorandum, for example, to our having insured mortgages in the amount of \$100,000,000 during the year ending December 31, 1935. On page 18 of our second Annual Report the figures given for mortgages accepted for insurance indicate that at the end of the year we have accepted for insurance mortgages in the total amount of \$170,594,364. (Now \$217,656,000). The figure you have used must be some interpolation built up to estimate the amount of mortgages actually insured. Since we can only insure a mortgage which covers a completed structure and since even refinancing mortgages are submitted to us for commitment prior to the final close of the transaction, it is obvious that the volume of business which we are actually engaged in doing is not reflected in the amount of premium paying mortgages actually on our books.

In using mortgages accepted for insurance as an indication of the volume of business we are doing, we are pursuing precisely the same method as is used by building and loan associations. As a general thing, when they close a transaction, whether a property is complete and the total amount lent is actually disbursed, they set it up on their books as new loans in the amount agreed to be advanced on the mortgage.

Another statement in the memorandum indicates that the Federal Housing Administration may have "influenced the investment of a substantial amount of mortgage money. It may possibly represent 10% of the home mortgage lending."

Although our operations may have covered only 10% of all home mortgage lending in 1935, in the field of new construction we believe that our program has been much more widely effective. According to a release dated March 8, 1936 from your Board, the estimate is made that in 1935 private institutions made mortgage loans for new small home construction amounting to \$220,000,000. The Federal Housing Administration, during 1935, accepted for insurance mortgages for new home construction amounting to \$60,000,000, or 27% of this total estimate. Of course, these are your own figures, and for their accuracy we cannot assume any responsibility. Furthermore, such data as are available indicate that 67% of the total residential construction in 1935 occurred in the last seven months of the year. Considering financing operations on new construction over the year on this basis, the mortgage loans on new construction for the last seven months would amount to \$147,400,000. During the seven months from June to December 1935, the Federal Housing Administration accepted for insurance mortgages covering new construction amounting to \$49,000,000, or 33.4% of the estimated amount lent.

As a matter of fact, as I indicated to you yesterday at the White House, our mortgage insurance operations during the year have exceeded those of Federal Savings and Loan Associations, both new and converted, over two-fold. I am enclosing a table compiled partly from your press releases and partly from our own records of mortgages accepted for insurance. These figures indicate that for the year 1935 Federal Savings and Loan Associations made loans on new construction in a total amount of \$24,342,845. We accepted mortgages for insurance on new construction in the amount of \$60,248,256. On refinancing and purchasing of existing homes the Federal Savings and Loan Associations did a volume of business amounting to \$62,806,255, while we accepted mortgages for insurance in an amount of \$110,346,608.

With respect to the operating expenses of the Administration and the statements in your memorandum with respect to the impossibility of ever covering operating expenses and building of adequate reserves, as I have already told you, we have made careful calculations. I shall be glad to have these made available for examination at any time that is convenient for you.

Of course, you are perfectly aware that our expenditures for the first year have covered activities under Title I as well as those under the mutual mortgage insurance plan. This Title of the Act, as you know, was to have expired April 1, 1936, and if any results were to be obtained from the operation of the Title a great deal of effort had to be put immediately into its promotion. During this time, voluntarily, Better Housing Committees were established in some 8,000 communities and public enthusiasm for rehabilitation and repair of home properties was aroused. Obviously, the expenditures had to be great for this purpose. This effort has been of inestimable value, as you will recall Mr. Eccles remarked yesterday. We make no claim on the actual amount of uninsured modernization business generated, though uninsured, through these campaigns, but all agree it has been enormous. \$306,461,005 were insured.

Likewise, operations did not begin under Title II of the Act until well in the year 1935. This was because we had to wait until state legislation could be amended so as to enable the plan to operate. Expenditures for the year 1935, therefore, under Title II, are much more modest than would be assumed from an examination of the financial statement issued in our second Annual Report. But even if expenditures for mortgage insurance activities could have been entirely segregated from those for activities under Title I during this year, such expenditures could not be assumed to be typical for this type of operation. No such program could be expected to pay its costs of operation in the first year or anything approaching its cost of operation. It will, doubtless, suffice here for me to say that we are by no means so pessimistic with respect to this question as your memorandum appears to be.

As I see it, there is nothing mutually incompatible in the continued prosperity of the Federal Home Loan Bank Board and the institutions that are connected with it and a similar prosperity on the part of the Federal Housing Administration and the institutions connected with its program. I can see no reason, therefore, why we should not mutually exchange confidences and support on a frank and open basis of discussion, and, therefore, to eliminate the feeling in the field that seems to exist between the two organizations, at least in some places.

Sincerely yours,

SMcD:ew

Stewart McDonald
Administrator

COMPARISON OF MORTGAGE LOANS OF FEDERAL SAVINGS & LOAN
ASSOCIATIONS OF THE HOME LOAN BANK BOARD AND FEDERAL
HOUSING ADMINISTRATION MORTGAGES ACCEPTED FOR INSURANCE
UNDER TITLE II

Year - 1935

A. New Construction

<u>Federal Savings & Loan Assn.</u> (New & Converted)			<u>Federal Housing Administration</u> (Mortgages Accepted)	
<u>Month</u>	<u>No. of Assn.</u>	<u>Amount</u>	<u>Amount</u>	
Jan	688	\$ 549,844		\$ 4,500
Feb	727	641,387		955,590
Mar	752	833,776		1,902,559
Apr	778	1,133,219		3,521,749
May	808	1,519,345		4,880,888
Jun	851	1,772,775		4,923,682
Jul	894	2,131,670		7,021,719
Aug	922	* 2,774,199		7,513,701
Sep	949	* 2,832,036		7,370,524
Oct	979	* 3,419,151		8,334,515
Nov	1,002	* 3,337,066		7,372,723
Dec	1,023	* 3,398,377		6,696,106
Total - Year 1935		<u>\$ 24,342,845</u>	<u>\$ 60,248,256</u>	

B. Refinancing & Purchase of Homes (Fed. Sav. & Loan Assn.)
Refinancing - (Existing Construction Fed. Housing Adm.)

<u>Month</u>	<u>No. of Assn.</u>	<u>Amount</u>	<u>Amount</u>
Jan	688	\$ 2,665,710	509,760
Feb	727	3,070,910	1,170,890
Mar	752	4,115,375	3,199,037
Apr	778	4,722,024	4,604,605
May	808	5,429,813	6,288,795
Jun	851	5,457,284	7,340,319
Jul	894	5,830,349	9,850,762
Aug	922	5,968,345	13,158,197
Sep	949	5,716,467	13,914,874
Oct	979	7,719,710	17,829,386
Nov	1,002	6,682,251	17,142,422
Dec	1,023	5,407,617	15,337,541
TOTAL - Year 1935		<u>\$ 62,806,255</u>	<u>\$ 110,346,608</u>

As reported in Releases of Fed. Home Loan Bank Board

May vary slightly from corrected figure as issued in Bulletin.
The above figures do not include F.H.A. Large Scale Housing
Mortgages Accepted.

CONFIDENTIAL

March 15, 1936

TO Mr. Delano SUBJECT: 1936 Housing legislation
Mr. Eccles
Mr. Fahey
Mr. Gaston
Mr. Grimm
Mr. Jones
Mr. McDonald

FROM J. M. Daiger

It is the evident desire of the President, as indicated to us on Friday, that such housing legislation as he may recommend to Congress at the present session shall represent an integrated program to be incorporated in a single bill and to have three principal objectives. These objectives may be summarized as follows:

1. To further stimulate private construction of dwellings for families in the middle-income groups.

2. To encourage the economies that would result from larger home-building operations than operative builders are at present equipped to undertake.

3. To encourage and assist the movement for slum-clearance and for the rehousing of families in the lower-income groups.

I would point out that these have also been the precise objectives of the various proposals considered over the past three months at numerous meetings similar to the one this afternoon, and they have also been the objectives explicitly set forth in various memoranda

that have been prepared in connection with these meetings, beginning with the long memorandum of December 30, 1935, out of which most of the subsequent discussions have developed. Hence it would seem that the purposes of this afternoon's meeting would be served by a statement of the principal items of the proposed program on which there is general agreement among the conferees and the principal items on which there is a divergence of views.

Since the matters relating to slum-clearance and the rehousing of families in the lower-income groups are not to be taken up at the meeting scheduled by the President for tomorrow afternoon, reference is made here mainly to the proposals having to do with stimulating private construction of moderate-priced dwellings and encouraging larger and more economical operations in this field. On these points the matters on which there seems to be general agreement may be summarized as follows:

1. That, except as to the modified extension of Title I of the Housing Act, all housing amendments affecting FHA, HOLC, PWA, and member agencies of the Federal Reserve System and the Federal Home Loan Bank System be included in a single bill to be sponsored by Senator Wagner.
2. That FHA be authorized to insure up to 90 per cent on mortgages not in excess of \$4,500, with the builder guaranteeing payment of the mortgage down to 75 per cent; and that supplementary

amendments be made with respect to national banks, Federal savings and loan associations, and national mortgage associations. This authorization would be restricted to new construction and would expire July 1, 1937.

3. That the FHA be authorized to insure land-acquisition and construction mortgages up to \$4,500 per single-family dwelling, charging for such insurance a flat 1/2 of 1 per cent.

4. That the FHA be authorized to insure loans up to \$100,000 on apartment properties where the cost per room does not exceed \$1,400. This authorization would be restricted to new construction and would expire July 1, 1937.

5. That Section 207 of the Housing Act be amended to cover "large-scale housing insurance" instead of "low-cost housing insurance" as at present, and that the insurance on such projects be limited to \$1,400 per room.

6. That the insurance provided under Section 207 be made applicable to large-scale operations in houses for sale as well as to large-scale projects for rent, with a limitation of \$4,500 on any insured mortgage as houses are sold.

A matter which has had some consideration, but on which there seems not yet to have been a general expression of views is the proposal to create a Federal Housing Coordination Board, consisting of the Secretary of the Treasury, the Secretary of the Interior, the Chairman

of the Federal Home Loan Bank Board, the Chairman of the Reconstruction Finance Corporation, and the Federal Housing Administrator, to coordinate policies and programs with respect to all housing matters involving loans, advances, or grants of Government funds.

The matters on which there seems still to be a divergence of views are as follows:

1. That the limitation of the ultimate governmental guaranty to mortgages insured prior to July 1, 1937, be removed.
2. That national mortgage associations be authorized to make direct loans to State and local housing agencies and to private borrowers on insured mortgages of not less than \$100,000.
3. That national mortgage associations be authorized to issue debentures up to 20 times their capital and surplus, and that all mortgage investments made by national mortgage associations be restricted to insured mortgages.
4. That national banks be authorized to invest up to 6 per cent of their capital and surplus in the capital stock of national mortgage associations.
5. That the HOLC be authorized to make loans to individuals to buy, build, or improve homes not exceeding \$5,000 where such homes are to be occupied by the purchasers, the HOLC loan not to exceed 20 per cent of the appraised value of the property

and to be made as part of or subject to loans by other lenders.

6. That the HOLC be authorized to sell bonds up to \$200,000,000 to provide funds for the purposes in the preceding paragraph.

7. That the HOLC be authorized to use \$3,000,000 of its funds to promote cooperative thrift and home building, to assist in the rehabilitation of mortgage-lending institutions, and generally to aid in the development of a home-building industry and a home-ownership program.

8. That a National Housing Commission be created, and \$100,000 appropriated for its expenses, to investigate the work now being done by governmental agencies in all fields of home-building and home-financing, and to make a report to Congress in January, 1937, with recommendations for legislation to co-ordinate all governmental activities in these fields.

The specific proposals in the preceding paragraphs 5, 6, 7, and 8 are among a number of amendments incorporated in a bill which was submitted to the Director of the Budget last week.