

*Confidential memorandum*  
*January 21, 1936*

ANALYSIS OF PROPOSED HOUSING ACT OF 1936

Title I - Federal Housing Coordination Board.

Title I creates a Federal Housing Coordination Board composed of the heads of the urban-housing agencies of the Federal Government the Secretary of the Treasury, and the Chairman of the Reconstruction Finance Corporation. The function of the Board is to coordinate the various housing activities of the Federal Government with the view of preventing clashes of opinion with respect to housing policies which have occurred in the past, and to offer a common meeting ground for the expression and conciliation of ideas. The Board is empowered to make advisory recommendations, and it is felt that these recommendations although not mandatory will have considerable persuasive effect. The fact that the Board is created by the Congress, is required to report annually on the nature and result of its coordinating activities and is composed of high ranking members, indicates that it will be able to maintain harmony and bring about coordination and cooperation through the issuance of advisory recommendations; that it is not necessary that it have any mandatory power.

In addition, the presence of the Secretary of the Treasury on the Board should have the effect of maintaining sound and uniform fiscal policies in housing matters.

In short, the Board would perform the needed function of coordinating the several housing agencies of the Federal Government and would be a continuing body charged with the responsibility of recommending legislation to Congress necessary or advisable for further coordination, economy and effectiveness in housing matters.

Title II - Public Housing for Families of Low Income

This title creates an administrative agency, the United States Public Housing Authority, which is made a permanent branch of the Government and vested with appropriate powers.

The function of the Housing Authority is to furnish technical and financial assistance to local public housing agencies for the purpose of providing housing for families of low income.

This title of the bill proceeds upon the assumption that the operation and ownership of subsidized housing should lie with local public authorities; that the proper function of the Federal Government is to render financial and technical assistance to local authorities upon conditions calculated to assure that the financial assistance thus granted will be available only to families in actual need, and that in providing the necessary housing, existing and rehabilitated properties will be used wherever feasible for obvious social and economical reasons.

In attaining these objectives the bill attempts to create a definite and concrete basis for the determination of what constitutes housing eligible for a subsidy and also of what constitutes a family of low income.

Housing in its physical aspects is divided into two categories. Standard housing, or housing eligible for a subsidy of one kind or another, is defined as housing which in the opinion of the Authority conforms to local law with respect to light, air, sanitary facilities and safety, or housing the construction of which in the opinion of the Authority would be permitted under such law. Housing which fails to conform to such law or the construction of which would not be permitted is considered sub-standard housing or housing which is ineligible for a subsidy.

It is believed that by basing this determination upon local law a standard more definite and practical than any standard thus far

attempted is established. Provision is further made to prevent the overcrowding of standard housing.

The Act further provides that in making loans and grants the Authority is to give preference to communities which pursue a policy of strict enforcement of local law with respect to light, air, sanitary facilities and safety in housing, and in which modern legislation on this subject exists.

It has been well said that much could be accomplished if local communities would enact and enforce proper housing laws. The conditions under which loans and grants are made available to communities under this bill create a most persuasive argument for the enactment and enforcement of up-to-date housing legislation. In addition, the loans and grants will have the effect of taking away from the owners of sub-standard housing a large part of their incentive to maintain it in its existing condition of economic starvation where law enforcement has failed.

A subsidy which is not necessary creates a bounty irrespective of whether it is in the form of cash or in the form of housing accommodations. The bill requires that no housing provided through the loans and grants authorized shall be available to a family unless the family is certified to be a family of low income by the local relief agency found by the Federal Authority to be best qualified to act. A family of low income is defined to be a family the income of which is insufficient without the benefit of financial assistance to enable it to live in standard housing or under other than overcrowded housing conditions. It is provided that no family may be certified to be a family of low income if the rental it is paying or would pay for standard housing is less than 25% of the total income of such family.

In this way the greatest possible use is made of the specific information on file with relief agencies, and it would appear that on

this basis the housing provided would be available only to those families actually in need.

Thus a concrete and definite standard is fixed for the selection of housing eligible for financial assistance from the Federal Government and a definite standard is established for selecting tenants for such housing.

The bill further requires that before rendering financial assistance to any housing project a survey of the community must be made and a plan based on such a survey evolved. This is on the theory that no intelligent program can be worked out for any community unless and until the detailed housing facts with respect to the community are known. Accordingly the Authority is authorized to make housing surveys of particular communities and to place at the disposal of local housing agencies its architects, engineers, city planners, and other trained employees. The survey will indicate the number and location of substandard and standard housing units available and their rental averages.

Upon the basis of this survey projects are authorized.

It is provided that grants in the form of rental subsidies may be made by the Federal Authority to the local housing agency. These grants may be used by the local housing agency to provide housing in existing and rehabilitated properties as well as new properties. This is upon the theory that many more families can be provided with standard housing per dollar expended if full use is made of existing and rehabilitated properties, but it is recognized that in some cases new properties are necessary and ample provision is made for them. Under this system the Federal Authority would make a contract with the local housing agency calling for annual payments with respect to definite housing properties. Such housing might be existing or rehabilitated properties owned by the local housing agency or might be under private ownership. The local

authority in the case of private owners would agree upon a rental for the properties involved. Accommodations would then be made available to certified families of low income, which certificate would show the amount which the family was able to pay. The family would then pay to the landlord the stipulated amount, and the difference between the amount which the family was able to pay and the rental agreed upon would be supplied by funds from the Federal grant and after June 30, 1938, by a combination of non-Federal and Federal funds.

Private owners of existing substandard properties in this way might be induced to rehabilitate the properties and make them available at a reasonable rental supplied jointly by the tenant and the rental subsidy. This system has been in successful operation in England for a number of years.

Rental subsidies administered through local housing agencies to private owners are limited to existing and rehabilitated properties. A rental subsidy in new property is only available when the property is owned by the local housing agency.

The provisions with respect to rentals are important. It is required that any housing provided through authorized loans and grants be within a stated percentage of a basic rental. This rental is called the lowest prevailing rental level, and is defined as the average rental at which the lowest renting 25% of standard housing, so located as to be reasonably available for the housing for families of low income dwelling in substandard housing or under overcrowded housing conditions, is being rented. The lowest prevailing rental level for any given community will be established by the survey in advance of the project. Grants may be made to the local housing agency in the event that the housing is owned by the agency, or made through such agency to private owners to provide

housing in existing properties at the lowest prevailing rental level; in rehabilitated properties at an average rental not in excess of 33 1/3% above the lowest prevailing rental level; and in new properties at an average rental not in excess of 66 2/3% in excess of the lowest prevailing rental level. Thus it is impossible for landlords to raise rents and obtain the benefit of a rental subsidy, for as soon as a substantial rise in rentals occurs, so that it is no longer economical to provide housing in existing or rehabilitated properties, or in the event that a shortage of such housing exists for other reasons, the Authority is authorized to make loans for the construction of new housing; but loans may not be made for the construction of new housing so long as ample housing is available at low rents in existing and rehabilitated properties. This is upon the theory that if ample standard housing is available in existing and rehabilitated properties at low rents there is no reason to place a heavy drain on limited funds by attempting to build new housing which of course always involves a heavy capital outlay.

#### Financial Provisions

The assets of the Housing Division of the PWA are in effect pledged to the Reconstruction Finance Corporation for a loan of \$100,-000,000. This money is available for loans, which of course can be supported and made sound by grants of rental subsidies. The rest of the funds are provided through direct Treasury operations upon the theory that the money which essentially represents a subsidy should be acquired at the lowest possible cost. The necessary funds could, however, be obtained by the issuance of bonds of the Authority, tax exempt and guaranteed by the Federal Government.

#### Title III - Private Operations for the Construction of Small Homes and the Reconstruction of Blighted Areas.

The purpose of this title is to stimulate the activity of private capital in the production on a large scale of small homes. This

objective is based upon the assumption that private enterprise has never fully appreciated the market possibilities in building and selling low-priced homes; that private enterprise is able to go much farther in providing homes for the population at low prices, provided it can be given reasonable protection in undertaking this comparatively new development; that by affording reasonable protection private enterprise can and will undertake the production of low-priced homes on a large scale, and that large-scale operations in turn will lower costs and result in a saving to the home buyer and a reasonable profit to the developer.

The title itself provides for the amendment of Section 207 of the National Housing Act. Section 207 (low-cost housing insurance) is repealed and re-enacted in substance in the form of a new title to the National Housing Act, Title II-A "MORTGAGE INSURANCE FOR THE LARGE-SCALE PRODUCTION OF SMALL HOMES AND THE RECONSTRUCTION OF BLIGHTED AREAS".

The mortgage insurance principle contained in Section 207 is used in the new title. The Administrator is authorized to insure mortgages of private corporations formed for the purpose of developing housing for rent or sale and also to insure mortgages of private corporations formed for the purpose of reconstructing blighted areas. In other words, mortgage insurance is made available to companies of size and standing for the development of housing on a mass-production scale.

Mortgage insurance is also made available to private corporations which desire to reconstruct blighted areas. It is to be anticipated that financial institutions and other holders of large blocks of real property in metropolitan blighted areas will undertake under this plan the reconstruction of such areas through a system of pooling the properties in the corporation, obtaining a construction loan, and building improvements on the property which are best suited to the land and its present surroundings. Under this plan it

would not be necessary that housing be constructed on the land, but would permit the development of any sound self-liquidating project and a land use most profitable and economical under the circumstances.

It may also be anticipated that under the general plan of this title substantial capital will be attracted to large home-building corporations and that to a limited extent at least the successful mass-production operations of the automobile industry will be applied to the production of small homes in single-family detached dwellings or in multiple-family buildings.

As part of the transaction in which the mortgage of a corporation is insured, the Administrator is required also, and is vested with ample authority, to regulate and restrict the corporation in such manner as to protect the tenants and buyers of the property and also to protect the insurance risk.

Mortgages eligible for insurance are required to encumber real property, provide for complete amortization within a period not in excess of 30 years, involve a principal obligation not to exceed \$10,000,000, and not to exceed an average of \$1,250 per room on properties restricted to dwelling accommodations.

As in the old Section 207, a premium charge is made for the insurance of a mortgage.

All projects are required to be self-liquidating and the Administrator is required to find that each project with respect to which a mortgage is insured is economically sound.

The most substantial change made in the insurance device is the fact that the insurance is payable in the form of 3% government-guaranteed non-tax-exempt debentures in an amount equal to the unpaid principal of the mortgage upon assignment of the mortgage after a 90-day default. Mortgage insurance under the old Section 207 was payable only after the mort-

gagee had foreclosed, obtained possession of and title to the property, and conveyed same to the Administrator. This requirement rendered the insurance uncertain as to amount, owing to the fact that no mortgagee could ever anticipate the amount of foreclosure costs which were not covered in the debentures. This requirement also rendered the insurance uncertain as to time of payment, for by the same token no mortgagee could ever anticipate the length of time required to complete a foreclosure. The result of this was that investors were not willing to lend large sums upon the faith of insurance so uncertain as to time of payment and amount of payment, and those that were willing to lend naturally required higher interest rates. Low interest rates are vital to the production of low-priced homes on a large scale. The new title, therefore, provides for the payment of the insurance upon the assignment of the mortgage and thereby renders the insurance certain as to time of payment and amount of payment. This plan also places the Administrator in a position to conserve the property and act for the best interest of the insurance fund.

The Administrator upon payment of the insurance and assignment of a mortgage to him is authorized to foreclose at any time and must foreclose in event the mortgage stays in default for a period of one year. The debentures are not payable until three years after the maturity date of the original mortgage, thus giving the Administrator ample time to liquidate his investment in the property.

Mortgage Insurance for the Construction of Small Homes.

By an amendment to Section 203 (b) of title II of the National Housing Act, the Administrator is authorized to insure mortgages up to 90% of the value of properties not exceeding \$4,500 in value. This authority is limited to insurance granted prior to July 1, 1937. This will make it possible for the small-home builder to start construction upon the payment of a small amount down, not in excess of \$500. It

should appreciably stimulate the construction of small homes.

Further amendment is made authorizing the Administrator to insure construction loans on small homes. This should have the effect of making construction money cheap and thus bring about further economies in the construction of small homes.

#### Marketability of Insured Mortgages.

Certain amendments are made to the National Housing Act to attract private capital to the organization of national mortgage associations. Chief among the amendments is an authorization to the associations to make insured-mortgage loans on the large-scale operations in small houses and multiple-family dwellings discussed above. In this manner the associations would on the one hand provide a much-needed kind of construction financing - namely, loans that are considerably larger than the ordinary institution is able to handle - and on the other would furnish a national market for insured mortgages. The associations would also provide a means whereby the small savings of the population may be used in a safe manner to provide mortgage money for the production of small homes on a sound basis under the general supervision of the Federal Housing Administration.

The Act, therefore, may be said to deal with the complete urban-housing picture. In title I, a definite means is provided for coordinating the Government's various urban-housing activities. In title II, grants and loans are made available for the housing of families unable to pay an economic rent. In title III, a plan is provided whereunder private capital will be attracted to the large-scale production of low-priced homes for families able to pay sufficient rent to give private capital a fair return on its investment.

The entire Act is persuasive in its method rather than mandatory.