

Initiative

November 21, 1937

A MESSAGE ON HOUSING

In my message to the Congress on November 15 I indicated that I would address you shortly in regard to proposals to stimulate housing construction. I do so now.

From the point of view of economic recovery, housing offers the most hopeful field of enterprise. From 1930 to 1937, inclusive, our total stock of houses suffered a serious deterioration, while at the same time population increased. The average annual addition of 180,000 new housing units in this period has been far from sufficient to offset demolition and deterioration of existing homes. In terms of adequate housing accommodation per family unit we are much worse off than in 1930.

The greatest single contribution to the progress of economic recovery and at the same time to the increased comfort of the people can be made in the field of housing.

Building statisticians inform me that in the next five years some 4 million housing units, or an average of 800,000 a year, should be built to make up for the accumulated shortage, to offset demolition, and to meet the normal growth in families. In other words, we could build during the next five years 4 million units, which at an average cost of \$4,500 per unit would amount to an aggregate of \$18,000,000,000, without creating a surplus of housing accommodation, and consequently without impairing the value of existing properties.

A volume of construction sufficient to meet current as well as accumulated needs would give continuous employment to all the workers at present in the building field and to many additional and would employ to capacity the materials and equipment producers. It would result in a resumption of the recovery movement and would contribute to prosperity for a long time. It would also be reflected in a decided advance in the standard of comfort of the American people.

In order to revive building activity two simple conditions must be met. The cost of acquiring a new home must be reduced and building of rentable housing must be made more profitable. Building costs and carrying costs must be lowered so that it will become profitable to build. The provision of adequate housing accommodation within the limited means of the bulk of the people has been achieved in other countries. It must be achieved here.

From the beginning of this Administration we have realized the importance of building for economic recovery and much has been done to encourage construction activity. So far, however, the results have been disappointing. The sudden downturn in housing construction in April of this year, when a steady rise through the summer had been widely anticipated, was one of the major factors precipitating the current business recession. The fact is that houses will not be built if costs are too high relatively to rents, and will be built if the relationship of costs to rents is favorable.

Major responsibility for housing must rest on private capital and private enterprise. Governmental assistance to municipal housing made available at the last session of the Congress will provide for only a small part of the total housing need of those in the lowest income brackets. The legislative proposals I am suggesting at this time are for the purpose of encouraging building activity undertaken independently by hundreds of thousands of private individuals. These proposals can become effective only if they enlist the cooperation of all the elements in the building industry -- workers, operators, and contractors, producers and sellers of material and equipment, and finally lenders.

If the building industry is to play the vital role that it must play in our economic system, it must do it in the characteristically American way, by making possible profitable operations through large volume at low unit costs. The difficulties of the building industry up to now have centered around high unit costs, small volume and low annual returns over a period of years. It must adopt the industrial formula of large volume at low-unit costs which in other industries has been the key to industrial prosperity and a high standard of living.

In order to encourage a building revival of large dimensions in the coming building season I urge that the Congress adopt at this time measures to facilitate the financing of every type of new dwell-

ing, whether built for ownership or for rent, and ranging from the very smallest of individual properties to the very largest of multiple housing developments. In addition to measures to stimulate the building of new houses, provision should be made for an extensive program of repairs and modernization of existing homes.

The program I suggest, after consultation with men both within and outside the Government, provides mechanisms that will make it practicable for private enterprise to provide housing on a large scale at prices and rents within the reach of the mass of the people.

The National Housing Act, which was enacted by the Congress in 1934, provided a financial mechanism applicable to all types of lending institutions that make loans for housing purposes. Pursuant to this new method of financing, enabling legislation was subsequently enacted by all the States. It is the most far-reaching means we have yet devised to simplify the operations of private enterprise and private capital in the housing field.

Under this act, the Congress established the Federal Housing Administration, which insures mortgages on certain types of housing, but which itself makes no loans. The agency is designed to become ultimately self-sustaining through the operation of a mortgage insurance fund, into which premiums are paid by borrowers who obtain loans under the provisions of the act from private lending institutions. An ultimate guaranty of loans that may default is given by the Federal Government, but this guaranty becomes operative only in the event that recoveries from the sale of defaulted properties, to-

gether with all the monies in the insurance fund, should be insufficient to pay the insured claims. Hence, even if any cost should result to the Federal Government, it would be negligible when measured by the volume of construction and employment induced by the fact that the guaranty is there should it ever have to be availed of.

What is now proposed is an improvement and enlargement of the framework of this existing legislation in the light of practical experience. The changes suggested are of a threefold character: first, to effect further reductions in financing costs; second, to extend the insurance of mortgages to types of housing operations not now adequately provided for in the act; third, to make the funds of institutional and individual investors more easily available for the financing of large-scale operations.

Because it takes the ordinary buyer of a house or investor in housing a long time to pay for the property, the cost of financing is in the long run one of the largest items in housing costs. In the case of rental housing it is a determining factor, first in whether construction shall be undertaken at all, and second in arriving at the scale of rentals to be charged. Likewise, to the family building or buying a house for its own occupancy, a saving of 1 per cent or even $1/2$ of 1 percent a year in financing costs amounts, over a period of years, to a considerable sum.

At the present time, institutions making loans under the general provisions of Title II of the National Housing Act are permitted by regulation to make an interest charge up to 5 per cent and a service charge of $1/2$ of 1 per cent, or a total of $5 \frac{1}{2}$ per cent. It is proposed to reduce this to 5 per cent net by amending the administrative regulations.

As a means of further reducing the cost to the borrower, I would ask the Congress to authorize the Federal Housing Administrator to fix the mortgage insurance premium as low as $1/2$ of 1 per cent on the diminishing balance of an insured mortgage instead of on the original face amount as now required by the act. Further, as a means of giving special encouragement to the construction of houses for sale or rent to families of moderate income, I would ask the Congress to authorize the Federal Housing Administrator to fix the mortgage insurance premium as low as $1/4$ of 1 per cent on the diminishing balance of an insured mortgage in cases where the estimated value of the property to be built does not exceed \$6,000 and where the mortgage is insured prior to July 1, 1939.

This latter provision would be applicable only for a limited period and to a class of risks in which the average mortgage, I am informed, would probably be less than \$4,000 over the country as a whole. Building costs vary considerably in different localities, but the type of houses to which this lowest rate of mortgage insurance would apply manifestly represents the widest sale and rental market for new housing, so that in any event the insurance risk would not be great.

Another change that I would ask the Congress to make in the existing legislation is to raise the insurable limit from 80 per cent of the appraised value of the property to 90 per cent in cases where the estimated value of the property to be built does not exceed \$6,000. I regard this change as of the utmost importance in stimulating the construction of houses within reach of the mass of wage and salaried workers.

The purpose of this proposed change is recognition of the fact that most persons who desire to own homes of their own cannot make a first payment as large as 20 per cent of the purchase price. This is particularly true after the severe depression of recent years, in which the savings of millions of prudent and thrifty families were depleted. The number of families that can and would pay from \$250 to \$500 to get into a new home is of course enormously greater than the number that can pay from \$500 to \$1,000 or more. (Moreover, the lowering of the initial investment required would stimulate the building of moderately-priced houses for rent.)

The fact is not generally recognized, I believe, that the majority of our urban families are not home-owners. In the larger cities, the proportion of rented dwellings runs from 60 to nearly 80 percent of the total. The encouragement of private enterprise to build houses and apartments for rent is therefore an essential part of any comprehensive program to stimulate housing construction.

With this in view, some of the measures suggested for your consideration are designed especially to facilitate the construction and financing, under the economies of a blanket mortgage rather than piecemeal operations, of fairly large groups of houses for rent, or for rent with an option to purchase. Such operations would afford economies in construction as well as in financing, and would therefore, I believe, lead to the formation of substantial companies to avail themselves of the opportunities in this particular field. Similarly, these measures are designed to encourage the construction of apartment buildings of moderate size, such as are particularly adapted to the requirements of our smaller cities.

In the construction of large-scale rental properties, a small but creditable beginning has already been made under the existing provisions of the National Housing Act applicable to limited-dividend companies. These provisions are in need of some clarification, however, in order to encourage a more extensive development of large rental projects in the communities where they are needed.

Among the most important of the measures to which I would invite your consideration are those designed to facilitate the financing of these large projects. Here there is a great gap in our financial mechanisms. The large projects thus far constructed under the provisions of the National Housing Act have been closely regulated as to rents, charges, capital structure, rate of return, etc., and the excesses and abuses which widely characterized the financing of apartment properties in the 1920's have thereby been avoided. The very

size of the loans in the case of these large projects, however, makes it difficult to finance them by means of a single mortgage.

I would therefore urge the Congress to liberalize the provisions of the act under which the chartering of national mortgage associations is authorized, and, among other things, to give these associations explicit authority to make loans on mortgages insured under the provisions of Section 207 of the act. This is the section dealing with large-scale properties that are subject to special regulation by the Federal Housing Administrator.

The effect of the change here proposed would be to enable these properties to be financed by national mortgage associations through the sale of housing bonds or debentures amply secured by the insured mortgages on the properties. In order that one or more such associations may be promptly organized, I shall ask The Reconstruction Finance Corporation to make available, out of the funds already allocated to The RFC Mortgage Company, \$25,000,000 for capital purposes. Under the amendments proposed, this would provide the basis for \$500,000,000 of private funds obtainable through the sale of national mortgage association debentures.

As a means of obtaining these private funds on the most favorable terms, I would ask the Congress to give to the debentures of these associations tax exemption comparable to that afforded the obligations of the Federal Home Loan Banks, the Federal Land Banks, and the United States Housing Authority.

Another of the suggested amendments that I regard as of special importance would make the limitation of \$2,000,000,000 on the amount of mortgages insurable under the National Housing Act apply to the amount of insurance to be outstanding at any time and would remove the limitation of July 1, 1939 now applicable to the ultimate guaranty of the Federal Government. These changes would measurably encourage private financing under the act without increasing the amount of the contingent guaranty provided in the existing legislation.

Finally, I urge that a financial mechanism be provided for a large-scale repair and modernization program. Expenditures for repairs and permanent fixtures are estimated to equal over half the amount expended on new houses in 1937.

As I have indicated, some of the measures which I have in view can be accomplished by administrative action. Most of them, however, would require legislative amendments. Considered in relation to existing provisions of the National Housing Act, the Federal Reserve Act, the Federal Home Loan Bank Act, and extensive enabling legislation that has been enacted by the several States, the adoption of these measures would for the first time provide all the financial mechanisms essential to a vigorous and widespread revival of housing construction.

The terms of financing, moreover, would be the most favorable ever made generally available in this country for housing purposes. On 20-year amortized mortgages for 90 per cent of the value of houses

up to \$6,000, the maximum rate would be 5 1/4 per cent, including the cost of insurance. On 20-year amortized mortgages for 80 per cent of the value of houses up to \$20,000, and multi-family properties up to \$200,000, the maximum rate would be 5 1/2 per cent, including the cost of insurance. On larger projects, experience thus far has indicated that the rate will not exceed 5 per cent, including the cost of insurance. These costs are half, or less than half, the costs of loans of comparable proportions under the system of first, second, and third mortgage financing that was widely prevalent in the 1920's.

The program as a whole is calculated, therefore, to rouse the interest of private enterprise and private capital in what is virtually an unlimited market for labor, materials, equipment, transportation, and all the other elements that an active construction industry draws upon. Under the measures proposed, large and continuous activity and employment in housing construction, which is not feasible under our present limited methods of financing, would be put decisively on a practicable basis.

The success of such a program, however, cannot be assured by Governmental action alone. It will depend in very large measure on the willingness of industry and labor to cooperate in producing housing at costs that are within the consumer's means. The goal at which both industry and labor will have to aim is sustained large-scale production that will, as the direct result of lowering costs

to the consumer, give a greater income to labor because of longer employment and a greater income to industry because of larger output.

Because this was not the goal of industry and labor during the past construction year, the result soon proved injurious to both and to business and employment generally. The sharp rise that occurred in construction costs between September of last year and March of this year, apparently in anticipation of something like a building boom, lowered by 100,000 to 150,000 the number of new dwelling units that competent authorities had estimated were in prospect for 1937.

It is now clear that we cannot have a strong revival of housing construction on the terms that were exacted by industry and labor last spring. The rise in wage rates and material prices was too rapid and too great for the consumer to bear. A rapid rise in costs checked production and buying in other industries as well.

It is not a question of who is to blame; in fact, it is not a question of blame at all. I am merely pointing out what did occur and what were the consequences. Now that we know the consequences we must avoid actions that have brought them about.

Our national income has increased substantially since 1933. Nevertheless in the budget of the great mass of our families the point is quickly reached where increased costs mean reduced consumption and reduced consumption means a decline in someone's business and someone's employment. The problem of the construction industry and its workers, then, is to find a reasonable way, through continuity of production and

employment, to adjust the costs of housing to the consumer's means.

Toward this end, it is my intention shortly to initiate a series of conferences with representatives of industry, labor, and finance, with a view to giving housing construction a fresh start in the coming building year and averting a recurrence of the conditions that brought about the reverses of the present year. If these groups will cooperate in this effort, as I believe they will, the result cannot but work to the advantage of our whole national economy.