THE ADVISORY COMMISSION TO THE COUNCIL OF NATIONAL DEFENSE

FEDERAL RESERVE BUILDING

WASHINGTON, D. C.

OFFICE OF THE DEFENSE HOUSING COORDINATOR
677 Federal Loan Agency Building
811 Vermont Avenue, N. W.
August 16, 1940

Dear Mr. Eccles:

On the hope we may cross niblicks tomorrow afternoon according to a telephone conversation with Chester Davis, I enclose letter of August 14th from Matt Daiger which is self-explanatory, on the chance you may have an opportunity to review it before we see each other.

Cordially yours,

Chuck

C. F. Palmer
Coordinator

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

Personal and confidential August 14, 1940

Dear Chuck:

You asked me on Monday, following the meeting in your office with Commander Bragg and others to discuss the housing situation at Newport News, if I had any suggestions for legislation that would stimulate private construction and financing in defense areas without the necessity of amending the FHA legislation and the State legislation directly related to it.

The kind of legislation that would do this most effectively, as I see it, would be designed primarily to protect the owners of residential property built in defense areas during a housing emergency brought about by the defense program. Such legislation would frankly recognize and underwrite the extraordinary risks that the owner of a new house or rental property takes in a defense-industry area.

On the other hand, if prompt action is to be obtained in providing a substantial volume of housing construction by private means, the legislation ought to be designed purposely to avoid any change in the methods of financing that are now familiar to the building industry, the financial community, and the general public.

You might consider, therefore, the advisability of recommending legislation to create a Federal instrumentality to be known as the Defense Housing Insurance Corporation for the particular purpose of bringing about a rapid development of private housing facilities in localities designated as being within defense areas. The powers given to the proposed corporation might include the following:

1. To insure owners of houses or rental properties, built with the approval of the Corporation to meet a housing emergency in a defense area, against a severe decline in property values resulting from a sudden decline in local industrial employment.

2. To insure or reinsure loans made or insured by other governmental corporations or agencies on houses or rental properties in defense areas.

3. To insure and regulate limited-dividend housing companies formed by defense industries, civic groups, cooperative societies, or other local interests to provide housing facilities in defense areas.

4. To participate as coinsurer in the insurance of loans or advances by private lending institutions to finance the repair, remodeling, or construction of houses in defense areas under Title I of the National Housing Act.

The first of these items is the most important. It would offer a positive inducement to builders to build, and to buyers to buy, notwithstanding the known hazards of the undertaking. The method of insurance proposed is as follows:

a. Authorize the Corporation to determine, on the basis of employment data supplied by the Bureau of Labor Statistics or the Social Security Board, the level at which a rise in employment in a defense area has created or will create a housing emergency in that area.

b. Authorize the Corporation to insure the owners of houses or rental properties on which construction is begun subsequent to the date of such a determination as that provided above, and prior to the date on which the Corporation shall determine that a housing emergency in that area no longer exists, against a decline in local employment below the level used as the basis of insurance.

c. Authorize the Corporation, in the event of a decline in employment continuing below the basis of insurance for a period of six months, to give to the owners of new houses or rental properties undertaken during the housing emergency the option (1) of receiving a predetermined cash indemnity or (2) of selling the house or rental property to the Corporation at a predetermined price.

The insurance would of course be limited to houses of relatively low price and to rental properties of relatively low rentals. The insurable risk would be related to the original purchase price or estimated current replacement value, whichever was lower, as determined by the Corporation or by some other Federal agency, such as the FHA or the HOLC, acting for the Corporation. An insurance premium might be charged in order to make the operation partly self-sustaining, though it is to be assumed that any ultimate insurance losses would be properly chargeable as part of the total cost of the defense program.

An essential condition of the cash indemnity proposed would be that the property owner apply it to the reduction or extinction of the first mortgage on the property, if such a mortgage existed; and in that case the indemnity would be payable to the mortgagee for the benefit of the property owner. The scale of cash indemnities suggested is as follows:

To the end of the second year......................	50 per cent
To the end of the fourth year......................	40 per cent
To the end of the sixth year.......................	30 per cent
To the end of the eighth year......................	20 per cent
To the end of the tenth year.......................	10 per cent

The suggested scale of prices to be paid by the Corporation for properties acquired from the owners under the second proposed option is in inverse ratio to the scale of cash indemnities suggested:

To the end of the second year......................	90 per cent
To the end of the fourth year......................	80 per cent
To the end of the sixth year.......................	70 per cent
To the end of the eighth year......................	60 per cent
To the end of the tenth year.......................	50 per cent

The second item of suggested legislation--namely, the insurance or reinsurance of loans made or insured by other governmental corporations or agencies--would have the important effect, notably in the case of the FHA, FHLBB, and RFC, of making the established administrative facilities, standards of construction, and methods of financing more widely available in defense areas than would be possible within the framework of existing legislation. The existing legislation, it is to be noted, was never intended to cover financial risks of the kind now contemplated.

The third item of suggested legislation relates to limited-dividend operations that would not be eligible for mortgage insurance under the National Housing Act. It would provide a means of building and financing industrial housing for sale or rental purposes under conditions that would remove the objections ordinarily raised both against company housing and against institutional lending in one-industry towns. In other words, the authorized methods of operation by the proposed housing companies would be widely known and the properties built by these companies would have the protection of the insurance provided in the first item of suggested legislation.

The fourth item of suggested legislation would (a) stimulate to a much greater extent than is now possible the repair and remodeling of existing properties in defense areas, in order to increase the supply of accommodations for defense workers, and (b) make private funds more widely available than is now possible for the construction of small houses in defense areas under the Title I program of the FHA. The proposed Corporation would be authorized to pay to insured institutions, against claims for losses on loans or advances made in defense areas during the housing emergency, an amount equal to the Title I claims paid to them by the FHA on any such loans.

You will of course understand that these suggestions are informal, tentative, and incomplete. They are the result of the exchange of views that you asked me to have by long-distance telephone yesterday and today with Mr. Riefler, Mr. Colean, and Dr. Fisher, but I have not had the opportunity to compare notes with them since I have made this composite of views that I am passing on to you. I should want to get their comments on it and then go over the matter carefully with Mr. Ferguson (he and I have worked very closely on FHA legislation) before you discuss the suggestions with any of the agency heads concerned.

Yours sincerely,

(Signed) Matt

JMD/js