

Form F. R. 511

TO

Mr. Wood

FROM

REMARKS:

*Do you know
Conklin? I suppose
this should be acknowledged
but I'd like to get any
advice you can give
me on it - first.*



CHAIRMAN'S OFFICE



FIVE FOURTEEN SECOND STREET NORTHWEST
WASHINGTON ONE * D.C. * May 10th 1945

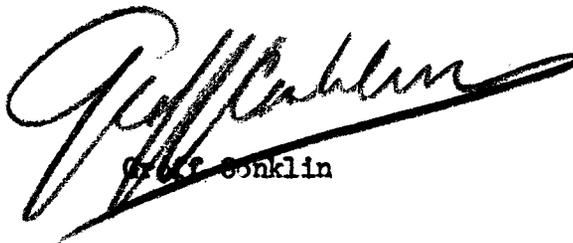
Mr. Marriner S. Eccles
Federal Reserve System
20th and Constitution Aves., N.W.
Washington 25, D.C.

Dear Mr. Eccles:

I am enclosing a proposal for an amended Title VI
of the National Housing Act to provide for lower
interest rates and for maintenance funds in postwar
mortgages.

Your comments and criticisms are requested.

Very sincerely yours,



G. C. Franklin

GC/r

Enclosure

I am also sending under separate cover a reprint from
the Journal of Legal and Political Sociology dealing
with housing legislation. I hope it will interest you.



PROPOSAL FOR AN AMENDED TITLE VIOF THE NATIONAL HOUSING ACTIntroduction

If enough homes are to be built after the war to supply good shelter to people of low incomes, the costs of home ownership are going to have to be drastically reduced.

This can be done in two major ways. First, the costs of the structure can be lowered, as can the costs of the land it occupies and of the public utilities it requires. Second, the costs of the money with which it is purchased can be reduced, and the costs of maintaining the property can be foreseen by a method of prepayment. The prepayment of maintenance costs on a fixed per-month basis will enable the home owner to plan his maintenance and repairs, and free him of the periodically heavy charges for redecorating and replacement.

A third factor is important in the long-range view of costs, and that is the problem of neighborhood decay. A deteriorated neighborhood is not only a cost on the community in terms of lower tax returns, poorer health conditions, greater fire hazards, increased crime, and wasted public utility installations, but also a cost on the home owner himself, whose equity in his property vanishes with the deterioration of neighborhood standards.

Reduction of the cost of the dwelling unit can be achieved through the wide use of prefabrication techniques and the improvement of methods of distribution. Land costs can be cut by the techniques of urban redevelopment. The costs of money, the costs of maintenance, and the costs of neighborhood deterioration, are the ~~following~~ subject of the following—

PROPOSAL

1. There shall be created a new class of mortgage bearing interest at the rate of 3% per annum and running for a period of no more than 25 years, on the level reduction principle. Each mortgage shall be insured by the Federal Housing Administration, and the charge for insurance shall not exceed $\frac{1}{4}$ % of the face value of the mortgage.
2. Mortgages in this class shall be purchaseable by any approved financial institution; or, in the absence of a private buyer, the RFC Mortgage Corporation shall be authorized to purchase such mortgages. An authorization for the issuance of bonds of the United States Government to provide funds for the purchase of these mortgages by the RFC Mortgage Corporation shall be provided in this Title, and these bonds shall bear interest at the current government rate.
3. Mortgages purchased under this Title by private financial institutions or by the RFC Mortgage Corporation shall be bought in groups, each group to cover fifty or more dwellings which shall be built and sold in single communities planned in accordance with provisions established by the Federal Housing Administration.

4. The individual mortgagor buying a dwelling under the terms of this Title shall pay 5% of the total value of the property as a downpayment, and the mortgage shall cover 95% of the value. The Federal Housing Administration shall prepare schedules for the paying of this downpayment on a monthly basis over periods not to exceed six years, each payment per month to be equal to each other. Title to the property shall not be given the purchaser until payment of the downpayment shall have been completed.

5. The individual mortgagor shall pay, in addition to his payments to principal, interest, and downpayment, a monthly sum for the duration of the mortgage which will equal annually 2% of the original value of his mortgage, on a non-reducing basis. This sum shall be paid into a fund which shall be known as "The Maintenance Fund," which shall be located in any financial institution convenient to the mortgagor and acceptable to the Federal Housing Administration. It shall be non-interest bearing, and no charges shall accrue against the sums so deposited except in the event of default or of borrowing as hereinafter provided.

Payments shall be made to the depositor only for the purpose of reimbursing him for bonafide expenses incident to the maintenance of his dwelling, as evidenced by receipts for labor and materials expended in such maintenance; except that the depositor may borrow from the Fund any sums in it in excess of \$100; but such loans shall remain as charges against the mortgage of his house. A charge of 2% shall be collected by the institution for each loan made, at the time it is made.

6. No mortgages shall be sold under this Title on individual dwelling units priced in excess of \$6,000.

7. Mortgages insured under this Title may cover one or more of the dwelling units in each community of fifty units or more. The properties so included in a mortgage of one or more units may be rented by the mortgagor in accordance with regulations established by the Federal Housing Administration.

8. The Federal Housing Administration shall establish standards for the construction and design of the dwellings and for site and subdivision planning which shall assure the economical maintenance of the dwellings and of the community. It shall further approve only such subdivision plans and house plans as are designed to perpetuate the high standards originally established in the community.

To this end the Federal Housing Administration shall prescribe such restrictive covenants in the deeds as will result in the maintenance of the physical qualities of the buildings and the subdivisions, by barring them from stated uses. It may further require such zoning standards as will best serve to perpetuate the high character of the community.

9. Contracts for the insurance of mortgage loans for the construction and sale of subdivisions of 50 or more units under the terms of this Title may be entered into by the Federal Housing Administration with approved and responsible builders or developers, or with responsible, approved lending institutions, or with responsible groups of citizens who may wish to build their own homes in their own subdivision cooperatively.

10. Owners of homes in Title VI subdivisions shall be held legally liable for the maintenance of their own homes. Annual inspections shall be made by agents of the Federal Housing Administration to insure permanent adequate maintenance of the properties. The sum of \$2.00 shall be deducted annually from the Maintenance Fund of each home owner in a subdivision to defray the costs of these inspections. If a re-inspection is needed, an additional charge of \$2.00 shall be made. Inspections shall also be required at the time of the resale of any dwelling.

11. In the event of resale of an individual home, all monies remaining in the Maintenance Fund of the original owner shall be returned to him, but only after the receipt of a certificate from the Federal Housing Administration Inspector to the effect that the property when sold was in good condition. If the home is unapproved, expenditures from the Maintenance Fund will be required in an amount sufficient to bring the property up to standards approved by the inspector.

12. Communities developed under the terms of this title shall be held legally responsible for the maintenance of the physical standards of the subdivisions. To this end the Federal Housing Administration shall establish rules and regulations requiring and setting up neighborhood or home-owners' associations, which shall be responsible for negotiations with the municipality and with the Federal Housing Administration on community affairs; for provision of such local utilities as are not provided by the municipality; for the maintenance of public areas within the community; and for such other duties as are prescribed by the Federal Housing Administration.

Groff Conklin
514 Second Street, N. W.
Washington 1, D. C.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

file
Office Correspondence

Date June 27, 1945

To Mr. Thurston
From Ramsay Wood

Subject: Additional title to the
National Housing Act proposed by
Mr. Groff Conklin.

Summary and conclusions

Mr. Conklin proposes that a new title be added to the National Housing Act under which home mortgages would be insured under a somewhat different arrangement from that now in use. Briefly, mortgages carrying 3 per cent interest would be insured by the Federal Housing Administration on houses built in developments approved by FHA provided the mortgagors put aside a specific sum each month to cover the expenses of repairs and maintenance, and provided community associations take responsibility for maintaining community services and facilities.

The plan is loosely drawn in some important respects. A few examples: So long as the mortgagor keeps \$100 in his Maintenance Fund, he can withdraw 98 cents of every additional dollar which he is required to add to the Fund and there is no incentive for him to pay it back. There is no indication of how the community associations, which are charged with certain vague functions, are to be financed; they would presumably make levies of some sort on the mortgagors. Complete discretion seems to be given to FHA inspectors to order repair and maintenance work done, but the mortgagor also seems to have the right to have work done and bill his Maintenance Fund; it is not clear what is to happen if the Maintenance Fund is not adequate to cover all of the work which the mortgagor and the inspector order, or if the inspector disagrees about the desirability of the work done by the mortgagor. Unless such weaknesses are eliminated, it is difficult to see why lenders should be willing to accept only 3 per cent on the grounds that the plan reduces the risk of property and neighborhood depreciation.

It is also not clear why mortgages must be sold in groups covering at least 50 dwelling units. If the reason is that costs of administration will be lower, this is not established, because the lender will still have to collect from, and make an accounting to, each mortgagor. The community associations might, of course, be required to perform all of the servicing functions, which would free the mortgage of servicing expenses, but might not reduce these expenses.

Mr. Conklin's proposal is aimed at solving the problem of preventing houses and neighborhoods from becoming run-down and thus losing their value, but it does not seem to me to set up a very workable

system. From the mortgagee's point of view it probably does not go far enough in requiring mortgagors to keep their properties in repair, and from the mortgagor's point of view it probably takes away too much of his freedom of decision without showing him obvious advantages.

Detailed comments

Below, I have summarized and commented on what seem to be the principal points in Mr. Conklin's proposal.

1. The home-owner (or landlord) whose mortgage would be insured would be required to pay into a "Maintenance Fund" 2 per cent per year of the original amount of his mortgage. The money in the Maintenance Fund would bear no interest and would be disbursed only for the payment of repair and maintenance bills, evidenced by receipts. The mortgagor would be permitted to borrow from the Fund any sums in excess of \$100 which are to his credit in the Fund. "A charge of 2% shall be collected by the institution for each loan made, at the time it is made."

2. The Federal Housing Administration would make annual inspections of each property "to insure permanent adequate maintenance of the properties," and would presumably have the power to order needed repairs made.

3. When a house is sold, the Maintenance Fund would be used to "bring the property up to standards approved by the inspector" and any balance would be returned to the seller. The new owner would presumably be required to make the annual payments to the Maintenance Fund, but it is not clear whether his payments would be 2 per cent of the old mortgage or 2 per cent of the new mortgage. It should be noted, too, that the larger the down-payment a buyer made, the smaller would be his payments into the Maintenance Fund.

4. The properties securing the mortgages insured under this new title would be built in subdivisions of not less than 50 dwelling units, and the mortgages would remain in these groups; that is, the mortgage on an individual house could not be sold apart from the mortgages on the other houses in the subdivision.

5. Neighborhood associations would have to be formed and assume responsibility "for the maintenance of the physical standards of the subdivisions," although how these associations would defray expenses is not stated.

To: Mr. Thurston

- 3 -

6. Mortgages insured under this new title would bear interest at not more than 3 per cent, have maturities of not more than 25 years, be amortized by constant monthly payments to principal and interest, and be secured by properties priced at not more than \$6000. Whether this last condition limits only the first price or is a limitation on all subsequent sales prices is not clear. The mortgage is to be for 95 per cent of the value of the property, but the buyer is to be given six years in which to pay the 5 per cent down-payment. It is not clear whether, in fact, the mortgage would be for 100 per cent of value, with larger monthly payment for the first six years, or whether the mortgage would be for 95 per cent with a side contract requiring that the 5 per cent be paid in six years.

7. The annual mortgage insurance premium shall be not more than $\frac{1}{4}$ of 1 per cent of the face value of the mortgage. It should be noted that, to the mortgagor, an annual insurance premium of $\frac{1}{4}$ to 1 per cent of the face value of the mortgage is almost as expensive as the present FHA premium of $\frac{1}{2}$ of 1 per cent of the unpaid balance. On a \$5,700 mortgage for 25 years at $4\frac{1}{2}$ per cent interest, for example, the present FHA premiums over the life of the mortgage would amount to about \$394, while on the same mortgage, premiums at $\frac{1}{4}$ of 1 per cent of the face amount would come to slightly more than \$356. If the inspection fees of \$2 per year are added, the cost to the mortgagor of protecting the mortgagee is slightly greater under Mr. Conklin's plan than under the present FHA insured mortgage. On the other hand, 3 per cent interest would represent a considerable saving to the borrower, but a 3 per cent mortgage would also involve considerably smaller insurance premiums calculated as $\frac{1}{2}$ of 1 per cent on the outstanding balance.

8. The mortgages, in groups covering not fewer than 50 dwelling units, would be purchaseable by approved lending institutions and by the RFC Mortgage Company. The RFC Mortgage Company would issue bonds bearing interest at the "current government rate." Whether this threat of direct Government competition would force lenders to lend at 3 per cent or merely arouse strong political opposition is a question.

rw

Reprinted from the
JOURNAL OF LEGAL AND POLITICAL SOCIOLOGY



Published by
THE PHILOSOPHICAL LIBRARY
15 East 40th St. New York

Marriner Eccles
sincerely,
J. Phillips
81

LEGISLATIVE PROGRAM FOR POSTWAR HOUSING EXPANSION

by GROFF CONKLIN

The widespread assumption that postwar prosperity is to be supported by an enormous, semi-permanent expansion in housebuilding is not sustained by an examination of the present legislative complex in the construction, real estate and mortgage fields. In thinking about housing there is need for a little less of what Gunnar Myrdal calls "the usual tendency of the Americans to exaggerate optimistic expectations as long as things are going well,"¹ and a little more attention to the unpleasant realities of the housing picture.

Those who predicate an enormous construction expansion only upon the foreseeable social demand for homes should begin to realize the need for a legislative program which would make the achievement of such expansion possible. It is to present the outlines of such a program that this study has been prepared.

Most estimates for postwar residential construction are set at an extremely high level. The National Association of Housing Officials has stated its production expectations at "from one to one and a half million dwelling units a year" for a period of from ten to fifteen years.² The Housing Committee of the Twentieth Century Fund remarks: "No strain is required to build up an estimate of potential new housing demand amounting to 1,300,000, or even more, nonfarm units a year during the first decade after the war."³ Likewise the Congress of Industrial Organizations says: "Our CIO post-war housing program recommends that plans be based on an estimated need for 1,500,000 new homes every year for a period of ten to twenty years," including "500,000 units of so-called public housing a year."⁴

There is absolutely no question but that the demand for at least this much housing will exist. If naked demand were to be the basis

¹ Quoted in PM, July 24, 1944.

² Housing for the United States After the War—NAHO, 1944—p. ix.

³ American Housing: Problems and Prospects—The Fund, 1944—p. 7.

⁴ Good Shelter for Everyone—The CIO, 1944—pp. 1-2.

Legislative Program for Postwar Housing Expansion

for planning, indeed, the United States could absorb over 12,000,000 homes the first year or so following the war, that being the estimated number of homes in substandard condition as shown by the Housing Census.⁵ But *effective* demand is economic demand. It means purchasing power. It is hardly less realistic to expect 6,000,000 houses a year than it is to expect a million and a half during the postwar period, as long as those expectations are examined in the vacuum of demand concepts alone. In order to make them possible, something must be done to eliminate the powerfully retarding factors of legislation and regulation which heretofore have hindered the expansion of the housebuilding industry.

But before examining the proposed program of legislative change, it will prove profitable to look for a moment at the housing situation as it has developed since the last war.

In the 24 years from 1920 through 1943, this nation produced a total of 11,924,000 nonfarm dwelling units of all types and prices: an average of less than 497,000 units per year. These figures include all public housing and all war housing,⁶ but exclude rural farm construction. Inasmuch as the 1940 Housing Census indicated an average of less than 144,000 new rural dwellings built each year from 1935 to 1940,⁷ it comes out that a total average for national housebuilding was less than 650,000 units annually—under one-half the average estimated postwar housing demand.

Moreover, the decade 1920-1930 was far ahead of the following one in volume of residential construction. The efforts of the Federal Government to inject a few hormones into the homebuilding bloodstream during the thirties did not even have the effect of bringing the highest year during the decade—1939, with 515,000 units—up to the *average* of the period 1920-1929, which was over 703,000 units a year.⁸

The obvious conclusion is either that the problem is not susceptible of legislative solution, or that the wrong legislative solution has been tried, or that insufficiently comprehensive, insufficiently

⁵ Housing, First Series: United States Summary—Bureau of the Census, 1942, p. 11.

⁶ New Dwelling Units in Nonfarm Areas, 1942-1943—Bureau of Labor Statistics, U.S. Department of Labor, 1944—p. 3.

⁷ Housing, Volume II, General Characteristics—Bureau of the Census, 1943—p. 12.

⁸ Bureau of Labor Statistics, *op. cit.*

drastic legislation has been put into effect. It is upon the latter assumption that this study is based.

We need a stronger public orientation toward the whole housing problem. This orientation falls into four great imperatives:

1. Public assistance in the development of lower construction costs is needed.
2. Legislation to achieve lower land costs is essential.
3. A greater sense of public responsibility for substandard housing is called for.
4. Public aid in reducing the costs of money, the *continuing* costs of home ownership or rental, is required.

Unless these aims are achieved at least in part, the dream of a million and a half new dwellings a year will never be anything more than a dream. Legislation now in the books does not do the job.

Existing Legislation.—It is well to remember that the existing laws would, twenty years ago, have been said to smack of outright socialism. There is the law which established the United States Housing Authority (now the Federal Public Housing Authority) to build minimum homes for slum dwellers with public funds. There is the law which set up the Federal Housing Administration to decrease, by fiat, the interest rates on mortgages for small homes from a standard 7% to an average FHA-insured rate of 4½%. Or the one which bailed out hundreds of thousands of the over-mortgaged through the instrumentality of the Home Owners Loan Corporation. And the law which authorized the Farm Security Administration and other farm agencies to resettle American farmers and build new homes for them at the lowest rural interest rates in history.

These laws in themselves are far from perfect; but it is not the province of this analysis to study their defects. The reader is referred to the Twentieth Century Fund's study previously referred to for an exhaustive analysis of these weaknesses.⁹ Nevertheless, the laws were steps in the right direction. They were tremendous advances over past practices.

Today, some useful proposals dealing with the elimination of substandard housing, and the lowering of the costs of land and of new construction, are before Congress. A proposal for lowering the costs of money is outlined in the latter part of this study.

⁹ Op. cit., pp. 257-289, 304-307.

Legislative Program for Postwar Housing Expansion

Together with bills now in the legislative mill, it may be said to complete a far-reaching and solidly constructed housing legislative program.

The Housing Research Bill.—This is the most recent piece of housing legislation offered in the national Congress. It proposes to establish an "Office of Housing Research" within the National Housing Agency, the omnibus unit set up by the President during the war to cover in every aspect of housing dealt with by the federal government. The purpose of this Office would be to investigate "problems involved in the design, fabrication, construction, distribution and use of various types of housing, and the production of materials and component parts including the maintenance and eventual elimination or replacement of dwelling units and parts when they become outworn or obsolete."¹⁰

The original draft of the bill proposed an appropriation of \$25,000,000 annually; but the present draft puts the Office of Housing Research on an annual-appropriation basis, thus drastically weakening its potential usefulness. Nevertheless the bill, even as it stands, provides the first coordinated attempt on the part of government to expedite research into the engineered house: that dream of newspaper science columns, the house-produced-and-sold-like-a-flivver.

Economists in the housing field know that acceptable dwelling units can be turned out at \$2,000 and under, complete with every necessary piece of mechanical equipment, and with its own improved land. But the monopolistic traditionalisms, guild-like in their narrowness, which encompass our whole construction industry, have kept the average cost of today's tailor-made house far above such a figure. The cost of the average dwelling unit erected with FHA insurance from 1937 through 1943 was well over \$5,000,¹¹ which makes the need for some sort of large-scale investigation of methods of rationalizing the housebuilding industry seem very obvious.

It is hard to say whether the Housing Research Bill is the best answer to the problem of lowering construction costs or not. It attacks the issue largely on a technical, rather than a sociological level, and for that reason it may not get to the root of the evil. Technical interest in streamlining the housebuilding industry tends

¹⁰ S. 2046, 78th Congress, 2nd Session, June 23, 1944.

¹¹ Tenth Annual Report—Federal Housing Administration, 1944—Table 12.

to veer more toward such unpublicized occurrences as the recent purchase of one of the oldest prefabricators, Gunnison Houses, Inc., by United States Steel Company. Professional builders, with their inevitable bias against government, expect more of such mergers than they do of the direct Federal aid envisaged in the Housing Research Bill. However, both public and private experimentation probably is needed. From the legislative point of view, the Bill is a practicable, progressive, and in the long run inexpensive method of encouraging efficient ideas in construction.

The bill also provides for studies in the fields of zoning, land costs, building codes, taxation, and various other factors of local regulation which tend to retard free development of a flexible land and building policy for urban-rural communities. These studies are essential, of course, and their inclusion in a *federal* bill indicates a belated recognition of the definite national interest in what heretofore have been considered purely local problems. But the bill in its present form does not sufficiently recognize this interest, since it contains no reference to the desirability of establishing national patterns of urban land use or national standards for building codes. The proposed District of Columbia Housing Code,¹² which sets up quality standards for public housing, is worthy of study as a national prototype.

Urban Redevelopment Legislation.—However, the development of dwelling units comparable in price, standardization and quality to the automobile, the perfecting of national patterns for urban land use, and the passage of a national housing code to standardize construction methods in terms of modern technology, are unfortunately far distant. More immediately valuable is the urban redevelopment idea. This scheme for city reconstruction would replan the decayed inner areas of the average American city, eliminating substandard dwellings and replacing them with new and better units or uses. Urban redevelopment legislation is by far the most lively and the most controversial new element in the housing legislation picture today. It is also by far the most complex.

The ideas behind the legislation are extremely sound. It has long been obvious that the trend toward decentralization within metropolitan areas in the United States is one which is likely to

¹² Draft of a Housing Code for the District of Columbia—Washington Housing Association, 1940.

Legislative Program for Postwar Housing Expansion

bankrupt the average municipality in short order if several drastic steps are not taken. The explosive outward expansion of the suburb, resulting from prohibitive urban costs, must be halted. The exorbitant waste of tax money on half or quarter utilized public facilities in optimistic subdivisions will have to cease. And the expensive slums and blighted areas which lie at the heart of every major city must be rehabilitated and put on a sound financial basis.

As Mumford puts it, "The metropolis is economically weakened by the fact of growth; and there comes at long last a time when it cannot evade or pass on elsewhere the burden of its own magnified expense."¹³ Only too many cities in America are verging on that state today, as any student of municipal affairs will tell you.

The bankruptcy of the city comes much more, of course, from the poverty of most of its inhabitants than it does from the bankruptcy of its housing. Nevertheless, the latter is a measurably large factor. Nathan Straus quotes a well-known figure on costs for slum fire protection in one of the largest cities in the country: \$18.27 per capita per year in the slum as against \$3.12 for the rest of the city.¹⁴ Eliminate slums and blighted areas and replace them with housing improvements or public improvements or commercial or industrial improvements, and one of the major causes of urban impoverishment will have been eliminated. Control and regulate the spawning of subdivisions and the city will be able to balance scientifically its expenditures on streets and utilities with normal population growth.

The purpose of the two Urban Redevelopment Bills now before Congress, both that offered by Senator Wagner¹⁵ and that by Senator Thomas,¹⁶ is to assist American municipalities in fostering changes in and rationalization of land use, and to help them financially and otherwise in assembling expensive inlying land for planned redevelopment in accord with logical city planning. The emphasis in both of them is on private redevelopment, in Wagner's bill to the exclusion, at least by inference, of all public housing. And both bills assume the condemnation of high-cost inlying land at market values by the municipality, reappraisal of such land on the basis of the proposed

¹³ *The Culture of Cities*—Lewis Mumford, 1938—p. 279.

¹⁴ Nathan Straus, *op. cit.*, p. 34.

¹⁵ S. 1163, 78th Congress, 1st Session, June 4, 1943

¹⁶ S. 953, 78th Congress, 1st Session, April 2, 1943.

uses, and lease or sale to private corporations of the property at a price comparable, if not equal to the proposed use value. Government would assume all of the losses in this transaction; the Wagner bill as a matter of fact proposes the appropriation of one billion dollars for the first year of operation of the law to absorb these great differences between cost and price. This use of the power of eminent domain (through the good offices of the municipality) by private corporations is a fatal defect, clearly unconstitutional and equally clearly dangerous.¹⁷ The bills should be modified to restrict the powers of eminent domain to the city itself, or to the truly public neighborhood redevelopment corporation which would partake of the nature of an incorporated village within the city.

An amusing debate on this question appears in the Twentieth Century Fund's housing study.¹⁸ One member of the Fund's Housing Committee points out the obviously unconstitutional nature and the equally obvious social dangers inherent in giving private initiative the right of eminent domain. A second member suggests that neighborhood redevelopment corporations *limiting voting power to property owners only* are public within the meaning of the law and that therefore they are constitutional and can be given the power of condemnation. Under this system a purely private corporation could quietly purchase or option 51% of the land in a given area; set up a redevelopment corporation on the basis of a vote for each property owner; de-house not only all the renters in the area, but the 49% remaining property owners, many of whom unquestionably would be opposed to the type of redevelopment the absentee corporation proposes; and build its own idea of a redeveloped neighborhood: i.e., the most profitable possible.¹⁹

¹⁷ There could be no objection to the appropriation in the Wagner bill, were such an expenditure to pay for something which remained public. The high costs of land must be reduced. But it is highly improper that private corporations should be subsidized by any such method.

¹⁸ *Op. cit.*, pp. 327-329.

¹⁹ The second member referred at length to the 1941 Urban Redevelopment Corporations Act of New York State in describing the neighborhood corporation. What has become of that act is not known. It is known that the active redevelopment legislation in New York is Chapter 234 of the state laws of 1943, entitled "An act providing for and relating to redevelopment companies and investments therein by insurance companies." This law not only contains not a single mention of the neighborhood aspect, but actually permits redevelopment companies to be set up by three or more persons who,

Legislative Program for Postwar Housing Expansion

Indeed, the Metropolitan Life Insurance Company has been able, under New York State's Redevelopment Companies Act of 1942 as amended, to arrange to move into a 72-acre tract in the lower east side of Manhattan and, with the aid of the State's power of eminent domain, take over the whole property without (as far as evidence shows²⁰) the slightest attempt being made to obtain agreement from even the property owners.

The purpose of any urban redevelopment legislation is to give power to municipal, state or Federal governments to pre-empt land at a fair value for purposes not heretofore considered generally public, and the present uses of which are contributing to the decay of the city, both financially and socially. But it is obvious that neither of the bills being discussed, at least as at present phrased, offer any really adequate solution.

Great Britain's widely discussed Uthwatt Report contains the following very sound recommendation:

" . . . Once any interest in land has passed into public ownership it should be disposed of by way of lease only, and not by way of sale, and the authority should have the power to impose such covenants in the lease as planning requirements make desirable, breach of such movements to be enforceable by re-entry."²¹

Another proposal in the Uthwatt Report which might well be embodied in the present Urban Redevelopment bills states: "Where the value of land is increased by reason of the use thereof or of any premises thereon in a manner which could be restrained by any court, or is contrary to law, or is detrimental to the health of the inmates of the premises, or to the public, the amount of that increase shall not be taken into account."²²

if financed by an insurance company, may escape practically all public regulation whatsoever by a clause which states: ". . . The certificate of the supervising agency . . . shall terminate" for such a corporation "the functions of the supervising agency, . . . and after the execution of such a contract all references . . . to the approval or other action by the supervising agency shall be inapplicable to the project provided for in such contract and to such development company." (Page 20.)

²⁰ Stuyvesant Town, by Simon Breines—Task Magazine, No. 4. An examination of this article will give the reader an adequate analysis of the workings of an Urban Redevelopment Law in which the power of eminent domain is not rigidly reserved to the public authority for public use.

²¹ Quoted from Straus, *op. cit.*, p. 292.

²² *Op. cit.*, p. 295.

With sufficient safeguards like these to protect the public interest and the public pocketbook, the Thomas Bill, at least, may serve a very useful public purpose, though not being in any way a cureall for problems which are essentially problems of income rather than real estate.

Public Housing.—It was noted before that the Wagner Urban Redevelopment Bill contains no proviso for the use of lands acquired under its powers for public housing. The Thomas Bill does. Here is one of the storm centers of postwar housing. Critics of public housing claim that it is prohibitively expensive in hidden subsidies and in original costs of construction, and that private initiative could do the same job much more cheaply. That private initiative always does the *construction* job as it is, on a competitive low-bid basis, is often forgotten. The facts are that public housing's construction cost figures compare very favorably, when equal buildings are studied, with those of the private builder.²³

Private builders hold that they should be allowed to buy land from the municipality at approximate use value, and to build thereon in their usual fashion. The "hidden" operating subsidy required to bring rents down to the slum-dweller's level they would provide by having public welfare give the slum families rent certificates to make up the difference between what they can afford to pay for shelter and what private operators will charge them for it. In addition to forcing every family inhabiting slum housing to be eliminated on what amounts to the public relief rolls, thereby in effect pauperizing them, this proposal seems to be one way to assure the perpetuation of slums, by making them more profitable. For without extraordinary care, rents in substandard areas as yet un-redeveloped might be jacked up to a point where the present inhabitants would be paying what they are now paying, *plus* the amount of the rent certificate they would have to receive. In addition, an increase in overcrowding would ensue. It can be assumed that many private developers would flatly refuse to admit certificate holders—the de-housed—because of their imagined effect on the "tone" of the development; and as a result, these de-housed would have to double or "triple" up with the other occupants of slums as yet uncleared.

²³ See, for instance, the testimony appearing in Part 4 of the Hearings Before Subcommittee of the District of Columbia to Investigate the Program of the National Capital Housing Authority, pp. 937-1002.

Legislative Program for Postwar Housing Expansion

Enlightened public opinion still holds that public housing is a necessity, and will be until American ingenuity has produced a truly low-cost dwelling and until the lowest income levels have been raised to a point where everyone can purchase or rent such a dwelling. The *Washington Post*, in a recent editorial, stated the case very fairly:

"If slum dwellings are to be destroyed, . . . other accommodations within the means of slum dwellers must be provided. For the most part this task will fall upon public housing, because no other satisfactory means of meeting the problem has been devised. . . Most sponsors of the public housing movement are quite willing to have private enterprise take over the job of housing the slum dwellers wherever it can do so at rents they can afford to pay."²⁴

Public housers throughout the country have been watching the "guinea pig" battle between private builders and the National Capital Housing Authority in Washington, D. C., with great interest and considerable trepidation, during the past year. It seems likely that it is in the District of Columbia that the issue between public housing and private slum clearance without regard to the needs of the slum dwellers will be settled. Legislatively, the battle will be decided when Congress chooses between the private interests' bill, proposed by Senator Tydings,²⁵ the public urban redevelopment bill offered by Senator Capper,²⁶ the public housing bill of Senator McCarran,²⁷ or some compromise between the three.

The Tydings bill bans public housing from the urban redevelopment picture in the District of Columbia. Senator Capper's proposal provides that if "the planned uses (of the land) be predominantly low-rental housing" it may be leased or sold "to a public housing authority or agency."²⁸ Both bills provide for the outright sale of land condemned by the public Land Agency they establish to private interests, and in this are quite unconstitutional. Except for that, however, the Capper bill is an acceptable piece of legislation.

The McCarran bill deals solely with public slum clearance and housing and contains little reference to replanning or redevelopment. In this it attacks only half the problem. As far as it goes, however,

²⁴ *Washington Post*, June 12, 1944.

²⁵ S. 1923, 78th Congress, 2nd Session.

²⁶ S. 1930, 78th Congress, 2nd Session.

²⁷ S. 1669, 78th Congress, 2nd Session.

²⁸ *Op. cit.*—p.12.

Groff Conklin

it is essential legislation, but it should be accompanied by some version of an improved urban redevelopment law. If such a program becomes law in the District of Columbia, it may well set a national pattern for rebuilding our cities and rehousing our slum dwellers.

* * *

The greatest remaining problem in the housing field is lowering the cost of home ownership or rental to the many millions of families who are ineligible for public housing but who cannot afford the prices charged by private builders and operators for new dwelling units. As far as is known, no proposals have been put into Congress as yet to help accomplish this end.

What are the major factors of cost which, in addition to the costs of construction previously discussed, keep the monthly price of good shelter far above the means of the average individual?

The first element is land. Land costs are sometimes over 20% of the price of a rental or sale dwelling. If any method, short of outright appropriation, can lower the costs of land both in inlying and outlying areas of our cities and towns, it is the urban redevelopment plan. Municipal subdivision control; public assumption of the costs of deflating land prices in slums and blighted areas: these techniques are essential and should result in providing ample low priced, well planned areas for economic housing.

The second element is land improvement, such as sewers, water, gas, electricity, streets and sidewalks. Many of these costs, being already controlled for the most part by the municipality itself, are not susceptible of any great diminution, unless it be through technological advances in their design and increasing efficiency in their layout and installation. Privately owned utilities must be drastically policed if their charges are to be reduced.

The third is taxes. The problem of real estate taxation is largely beyond the scope of this analysis. General revision of the municipal tax structure to take part of the tax load off of homes and apartments is something which is occupying the minds of hundreds of tax experts. Diversion of gasoline taxes, increases in the proportion of state and federal taxes going to the municipality, formulation of an occupancy tax system, even federalization of the nation's whole tax structure, are all under scrutiny throughout the nation.²⁹ However,

²⁹ Catherine Bauer, in the May 1944 issue of *Tomorrow's Town*, proposes the assessment of taxes on a rental-value basis rather than on an ad

Legislative Program for Postwar Housing Expansion

the situation is not one which promises much improvement in the near future. As long as urban operating expenses remain as high as they are, so long are taxes on homes and apartments likely to be dominant items in the costs of shelter.

The fourth major factor in this cost picture is the price of money. It is here that it is hoped to make some original suggestions which may help to reduce housing costs to the consumer. We are not concerned at this point with financing the luxury dwelling—what the Housing Committee of the Twentieth Century Fund calls “the highly individualized, custom-tailored article called for by a well-to-do demand.”³⁰ We are rather interested in reducing financing costs on houses for families whose income is too high to admit them to public housing (over \$1200 a year) and too low to enable them to purchase or rent the average dwelling built by private enterprise (under \$2000 a year).³¹ These costs can be markedly reduced, with complete safety to the investor in mortgages and to the Federal Government, which would guarantee such mortgages, provided certain

valorem basis. While this would simplify tax assessment, and put the charges against low-yield properties on a more realistic footing, it is difficult to see how such a method would serve to bring the city's income up to a point where it could be considered a going concern—unless the rates are set so high as to nullify the effect of the proposal.

³⁰ American Housing, op. cit.—p. 311.

³¹ The Federal Housing Administration has offered certain data on the average costs of privately-built homes insured by that agency which, although not complete nor by any means conclusive, are pertinent to this discussion. Its Tenth Annual Report shows, in Table 12, that the average cost of homes insured during the period 1937-1943 was well over \$5,000; and the gross monthly payments (excluding costs of utilities, maintenance, depreciation, etc.) were over \$36 per month. It also shows, in Table 13, that persons with income of up to \$2,000 a year bought just over 8% of the total number of houses insured by the agency; while in 1942 (Table 16 of the Ninth Annual Report, FHA) about 19% in that income group purchased FHA-insured homes: an average of about 14%. Inasmuch as the purpose of FHA was to decrease the costs of home mortgages for the lower income groups, it is patent that it has not been able to do a complete job. Approximately 82% of the people in 1936 had incomes of under \$2,000 a year, according to the *Statistical Abstract* for 1941, page 348. Though incomes have risen generally since that year, it cannot be doubted but that the proportion is a relatively stable one. Less than one fifth of the new housing privately built in the United States is distributed among four-fifths of the population which earns under \$2000 a year.

changes in and additions to the present housing finance legislation are made.

Home Financing.—Within the mortgage operation itself (excluding taxes, insurance and the like) there are four major factors of monthly cost. First of course is the price of the property itself. This in low-cost housing is an element whose reduction will have to wait on improved building techniques.

Second is the length of life of the mortgage. One of the chief economics achieved by public housing is that it builds for long life and sets up depreciation and maintenance schedules for that life. It can thereby afford to amortize its properties on as high as a 60-year basis. In the private home mortgage business however, under the National Housing Act as it stands, the longest period of insured loan amortization is 25 years. This is in itself a period from five to fifteen years longer than private capital heretofore has been accustomed to lend its money. But it is still too short a time.

The third factor of monthly cost is the rate of interest. Here again a lesson can be learned from public housing. Funds borrowed to finance the construction of public housing have been obtained from the Federal Government at the going rate of from 2% to 3%. Recently however some municipal housing authorities have been able to refund their mortgage bond issues at as low as 1.7%³², going into the private investment market for money. It is interesting to note that these bonds are municipal, not Federal, obligations.

Interest rates for mortgages on private dwellings on the other hand rarely fall below 5½%, the standard maximum rate permitted by F.H.A (including its charge of ½% for mortgage insurance)³³ Uninsured mortgages are still being negotiated at rates as high as 7% and even 8% in some areas of the country.

A fourth factor in monthly cost is the ratio of loan to property value. Under the operations of FHA, loans of up to 90% of the value of a dwelling may be obtained. While this obviously involves larger payments toward principal and interest, since the loan is larger, it does make possible the purchase of small homes with only a nominal equity. One cannot look to increasing equity as a means

³² NAHO News, June 19, 1944.

³³ In some areas, as in Washington, D. C., before the war, insured mortgages could be obtained for 5% and in rare instances for 4½%.

Legislative Program for Postwar Housing Expansion

of reducing the monthly costs of home ownership in the lower brackets.

Under present conditions, these factors operate to make a \$4,000 house purchased with a 90% loan of \$3,600 at 4½% interest plus ½% mortgage insurance premium, amortized over a period of twenty-five years, cost \$21.47 a month—without taxes, fire insurance, or provision for maintenance, cost of utilities or assessments. The lowness of the quoted figure has persuaded many families into purchasing homes they could ill afford; for, when the other items of cost are added in, the monthly amount begins to look more like \$40 or \$50 rather than \$21.

There is another factor which limits effective demand for homes, in the very high costs of purchasing real property legally. Settlement fees or charges often amount to over 3% of the total value of the property, and must be paid in a lump sum before occupancy may be obtained. The required downpayment, plus these settlement charges, may run as high as \$600 for the purchase of a \$4,000 home.

Figures for rents in new apartment developments are exceedingly difficult to obtain. The only criterion for estimating rents under the FHA rental housing program is the ceiling of \$50 per month which was set for war-constructed apartments insured by that agency.³⁴ The evidence of one's own apartment shopping experience is an extremely subjective guide, of course, but on that basis it can be estimated that new privately built two-bedroom apartments rarely if ever rent under \$50 a month in urban areas of the country. It is true therefore that new dwelling rentals are equally above the means of 80% of the people.

In order to make it possible for these American families to purchase their own homes or to rent modern, sanitary apartments, it is necessary drastically to reduce the rate of mortgage interest and to increase the length of life of the mortgage for low cost dwellings. Private owners of money have thus far been entirely unwilling to accept small mortgages, with the relatively large risks involved, at any lower rate of interest or for any longer period of time than those above stated. In order to make such loans feasible, the risks must be reduced.

The two most important factors of risk in the average small home mortgage are property depreciation or deterioration, and the

³⁴ In Washington at least this ceiling has resulted in a plethora of one-room flats, utterly inadequate for the average American family.

high incidence of foreclosures, with the attendant inordinately high costs to the mortgagee. An additional minor risk involved results largely from the unplanned and chaotically scattered nature of the average mortgage portfolio.

The importance of maintenance is rarely emphasized, at least in general studies on private home ownership. The extent to which neighborhoods decline as the homes within them are permitted to decline should be the subject of extended research. The results would be most significant. The National Association of Housing Officials has stated very clearly the need for establishing some sort of maintenance provision for small homes:

"The encouragement, or requirement, of the establishment of reserves for painting, replacement of equipment, and other items of main future expense, would not only serve as a means of assuring that such costs can be met, but would instill in the home owner the idea that the house is a depreciating asset, the value and utility of which both depend on the care that is given it."³⁵

The establishment of such maintenance reserves is one of the major elements in the proposed Maintenance Fund Title, suggested as Title VII of the National Housing Act and analyzed hereinafter. This proposal establishes a new category of small home and low-cost, cooperative rental development mortgages. Under it, every mortgage contract shall contain a clause requiring the mortgagor to set aside every month for the life of the mortgage a sum of money for property maintenance.

Another feature of the proposal is that new dwellings built in accordance with its provisions shall be constructed in planned subdivisions of not less than fifty units each; and a minimum number of subdivisions in a given city shall be planned for and pledged before the benefits of the Title shall be extended to that city. At least 1,000 dwelling units must be so pledged.

The results of this legislation will be to reduce all the major factors of risk by assuring adequate maintenance of the properties; by grouping mortgages for low cost of servicing and selling; and by giving large institutional investors a better actuarial basis on which to figure the risks of foreclosure, as well as reducing those costs greatly.

It is also proposed that the mortgages be insured under standard

³⁵ Housing for the United States After the War—NAHO, 1944—p. 22.

Legislative Program for Postwar Housing Expansion

FHA procedures; that yield be insured by a new federal office in the National Housing Agency; that settlement fees be federalized, standardized and handled on a subdivision, not a unit, basis; that foreclosure proceedings also be federalized for these subdivisions; that Torrens title registration³⁶ shall be obligatory; that taxes will be based on estimated rental value rather than on ad valorem; and that the whole operation of the Title shall be intimately tied in with any Urban Redevelopment legislation which becomes law, so that the subdivisions may benefit from the lower land costs and other savings to be effectuated by such legislation.³⁷

The results of this Title in operation will be to make possible the sale of \$4,000 homes at an estimated monthly cost for principal and interest of \$15.10 a month, or \$3,000 homes at \$9.85. Including taxes, mortgage insurance and fire insurance, the costs will be approximately \$17.75 per month for the \$4,000 home or \$13.05 for the \$3,000 home. Rents in apartment developments built in accordance with its provision will likewise be drastically lowered.

*The Maintenance Fund Proposal*³⁸.—Under this proposal, loans of 95% on new properties up to \$6,000 in total value will be provided at an insured-yield interest rate of 2½%, plus ¼% or ½% for mortgage insurance. The period of the mortgage will run for 40 years,³⁹ at the end of which time the structure will have been depreciated to zero so that its removal can be required if its condition is substandard in terms of the unit itself or of its neighborhood.

Downpayments will be payable over a period of up to six years; a fixed service charge (not a rate of interest) will cover the costs of collection and no more. Title to the property will be retained

³⁶ American Housing, op. cit.—pp. 213-214.

³⁷ The provisions of this Title can hardly, under present conditions, be extended to farm mortgages. Lowering the costs of farm homes, the lost sheep of the housing world, calls for an entirely different approach, which is outside the scope of this study.

³⁸ The following outline is abstracted from a fuller study prepared by the author, copies of which may, in limited numbers, be obtained by writing him, c/o this Journal.

³⁹ This period, the longest ever proposed for homes, is predicated upon adequate maintenance of the property, adequate maintenance of the neighborhood through the operations of Urban Redevelopment legislation with which this title is intimately associated, and a minimum amount of either federal, municipal, or community policing, the latter through the instrumentality of covenants in the deeds.

by the mortgage for three years or until the downpayment is completely paid, whichever is longer. The reason for this is that title should be withheld from the mortgagor until his downpayment plus his monthly payments to principal equal at least 10% of the cost of the property.

Monthly payments into each individual's maintenance fund will be \$5, or \$60 a year. This is admittedly low. But inasmuch as benefits to builders are provided elsewhere in the plan for putting up exteriors which will not need repainting, it is believed that the sum will with care maintain the property for the life of the mortgage. The money will be deposited to the mortgagor's account and draw interest at $1\frac{1}{2}\%$ - 2% as long as, and only when, the balance in the account is over \$100. As noted later, a \$100 payment into the fund is required as part of the downpayment, so that interest will begin with the purchase of the house.

The money in the maintenance fund will be expendable only under reasonably strict control by the governmental agency having authority or, eventually, a committee of the community association itself. No expenditures from the fund will be permitted for any improvements unless they actually preserve and maintain the house. Capital additions will in most cases have to come from other funds. Moreover, in order to make the operation of the fund not too unwieldy, no withdrawals for minor repairs costing less than \$5 will be permitted, though such repairs can be cumulated; nor will it be permitted to spend the funds to repair wilful damage.

Planning for low cost homes on these terms will go only so far and no farther as long as the initial costs—downpayment and settlement fees—are beyond the means of most people. It must be recalled that an individual may not legally borrow money to make his downpayment under present Federal Housing Administration procedure. He must show assets sufficient to cover all such costs. It is proposed to do away with part of this requirement by making most of the downpayment a charge against monthly income rather than against savings.

In addition, moreover, the size of the settlement charges alone often makes the purchase of small homes difficult if not impossible. It is therefore recommended that federal regulations be set up controlling settlement fees on properties built under this title. This is a drastic change in customary practice. However, if hedged sufficiently about with safeguards limiting the use of the technique entirely to

Legislative Program for Postwar Housing Expansion

Title VII homes, a start may be made (without running into any constitutional issue) toward mass-producing title search, title guarantee, and so on. The present proposal contemplates contracting out the whole title work for a given subdivision of a minimum of 50 houses at a fee not to exceed \$25 for a house valued at \$3,000-\$4,000. By using an attachment procedure whereby individual titles may legally be abstracted from that of the whole subdivision, the costs can easily be reduced to this point if mass production is used.

The complete downpayment picture on a \$4,000 home sold under this title is as follows: Settlement fees, \$25, first monthly payment (including taxes, insurance etc.), \$17.75; first monthly payment into the maintenance fund, \$5; first installment on the downpayment (on the six-year basis), \$3.25; and the maintenance fund nucleus, which is actually the owner's own money and which if necessary he could borrow, \$100. The total is \$151.

The proposal contains a number of additional suggestions covering simplification of resale procedures; federalization of foreclosures for Title VII properties; and others which all require as advanced an approach to the problem as does the content of the original sale contract outlined above. For instance, it is provided that the Title shall establish a fund for the public purchase of foreclosed properties, the original owner to be repaid from the proceeds of sale whatever his just equity in the dwelling is. It is also provided that the mortgage may be accelerated or entirely paid off at any time without penalty—a proposal, interestingly enough, also to be found in the new "U.S. Loan Plan" of the United States Savings and Loan League.⁴⁰

The question of financing dwellings for rent under this proposal is complicated by the fact that the type of restrictions necessary will be generally undesirable to private investors. It is to be doubted if they would make much use of its provisions. However, cooperative organizations, existing or formed for the purpose by like-minded home-seekers, might well set up housing corporations to develop Title VII rental communities. Apartment rentals as low as \$20 a month for a two-bedroom unit are possible under the terms of the proposal.

⁴⁰ Prefabricated Homes, June 1944—p. 15.

One of the knottiest problems connected with any legislation of this type is administration. The problem has been simplified, theoretically, at least, by the establishment of the National Housing Agency as the blanket holding company for all government housing activities. Actually, the proposal as at present outlined calls for the financial services of the Federal Housing Administration, the management services of the Federal Public Housing Authority or of its affiliates, the local municipal housing authorities, and the planning and land purchase facilities of any redevelopment administration which may be set up within or without NHA. Such a division of function calls for an increase in the power and functions of NHA by Congress at the earliest possible moment. As it is now, the agency is little but a vague over-all policy group which actually cannot control or direct the actions of its component parts, at least not as effectively as it should.

Granted a strong NHA, the administration of the title nationally will not present a problem. On the municipal level, however, many difficulties will arise which will not be susceptible of solution unless some of the more drastic attacks on vested interests in land and in building envisaged in the Thomas Urban Redevelopment Bill are carried through. It is absolutely essential that either a national building code be set up, or that variations from local codes be permitted for Title VII housing.

On the planning level, municipally, the proposal contains rigid requirements as to size of subdivision, subdivision plotting and site planning, lot size, population densities, and a number of other important factors which will make easy the preservation of neighborhood standards.

If this proposal is made into law, and if it is implemented all along the line as suggested elsewhere in this study, the building of a million and a half new dwellings a year should not be at all a visionary hope. But without the program here set out, there can be little doubt but that the construction estimate of the National Association of Real Estate Boards is more likely to be a realistic one. NAEB has prophesied that the average annual residential construction during the next ten years will be 300,000 units.⁴¹ It is a

⁴¹ NAHO News, op. cit.—p.50.

Legislative Program for Postwar Housing Expansion

prophesy of permanent depression. For it is less than the annual average of urban and rural non-farm construction (not including farm houses) during the decade of the '30s by over 100,000 units a year.⁴² And that was the worst decade for housebuilding in our country's history.

Washington, D. C.

⁴² Census of Housing, Volume II, 1940, op. cit.—p. 12.