

TO AMEND THE NATIONAL HOUSING ACT

WEDNESDAY, DECEMBER 8, 1937

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to adjournment, at 10:30 a. m., in the hearing room of the committee, Senate Office Building, Senator Robert F. Wagner (chairman) presiding.

Present: Senators Wagner (chairman), Barkley, Bulkley, Byrnes, McAdoo, Adams, Radcliffe, Brown of Michigan, Hitchcock, Herring, Townsend, Frazier, and Lodge.

The CHAIRMAN. The committee will come to order. Yesterday the committee was discussing generally a letter written by a firm in New York, called J. Halperin & Co., and there were several members of the committee who suggested that the communication be put into the record. So, at this time, if there is no objection, I will put it into the record.

(The letter referred to and submitted by the chairman is as follows:)

J. HALPERIN & CO., INC.,
Jamaica, L. I., December 4, 1937.

HON. ROBERT F. WAGNER,
United States Senate, Washington, D. C.

DEAR SENATOR WAGNER: This firm is mortgage-loan representative for the Washington Irving Trust Co., the Investors Syndicate, and the Woodside National Bank. We also act as brokers in arranging loans for other institutions and a résumé of business done by this office during the first 8 months of 1937 is attached to this letter, together with a partial list of clients for whom we are arranging mortgage loans. The Washington Irving Trust Co., incidentally, has made more Federal Housing Administration mortgage loans during the year 1937 than any other institution originating mortgages in the metropolitan area. The Washington Irving Trust Co. has made a certain number of mortgages for its own portfolio, but has sold a great majority of its mortgage loans to out-of-town investing banks and insurance companies.

The experience of this firm, as a broker and as an originating mortgage company representative, together with the experience of the bank in selling its mortgages, should prove valuable to you and to other men actively considering the change in Federal Housing Administration regulations.

The Washington Irving Trust Co. has had a great deal of difficulty selling 80-percent loans at 5-percent interest. There are only comparatively few institutions making and buying Federal Housing Administration insured mortgage loans on their present basis. Practically every large insurance company and bank is an approved mortgagee, but they are not actively engaged in the making or in the purchasing of Federal Housing Administration insured mortgage loans. A few of the larger institutions such as the Prudential Insurance Co., New York Life Insurance Co., Guardian Life Insurance Co., and the Bowery Savings Bank are purchasing Federal Housing Administration loans, but only based on their own appraisal and only on selected properties and

selected locations and they generally prefer loans on houses selling for \$10,000 or more.

Large companies, such as the Metropolitan Life Insurance Co., the Phoenix Mutual Life Insurance Co., the Travelers Insurance Co., the Mutual Benefit Life Insurance Co., the Emigrant Industrial Savings Bank, and other tremendously large savings banks operating in the city of New York believe that 80-percent loans are unsound especially in view of the fact that foreclosure costs in the State of New York are about \$500. The Federal Housing Administration provides, as you know, that foreclosed properties may be exchanged for debenture bonds only if the property is turned over to the Administrator in "good shape." There is a question as to just what "good shape" means and there is also a question as to the cost of putting a property in "good shape." It is reasonable to assume that a property will not be foreclosed unless the owner-occupant has been in financial difficulties and having been in financial difficulties, it is reasonable to assume that his property has been neglected and very often it is possible, too, that he will maliciously damage the property.

Let us assume that it would cost \$300 to put the property in "good shape." This \$300 added to the \$500 cost of foreclosure, is a total of \$800. A 90-percent loan on a property costing \$8,000 would leave a margin of only \$600 and yet it would cost the mortgagee \$800 to turn this property over to the Administrator. The total cost of the property would exceed the cost of a similar new house. Because of these facts, practically all lending institutions refused to be interested in an 80-percent Federal Housing Administration insured mortgage loan. Most certainly they will not be interested in a 90-percent loan!

Then there is the question of "yield." Long-term Government bonds can be bought which yield 2½ percent and sometimes they can be bought below par. These bonds are tax free. The 3-percent debentures issued in exchange for real estate acquired through foreclosure under the National Housing Act are taxable and then again let us stress the fact that the debentures represent only the principal and the interest and a certificate of claim is given for actual out of pocket expenses accepted for foreclosure costs and redecorating expense.

There is talk of reducing the interest rate on Federal Housing Administration mortgages to 4½ percent. Let us analyze this 4½-percent rate and the ultimate yield to the investors. In the first place, the income is taxable and this tax amounts approximately to three-fourths percent, leaving a yield of 3¾ percent. In the second place, the mortgagee originating these mortgages sells them at a premium because of the work involved and because there is no profit in servicing the mortgages. This premium, computed for a 20-year mortgage, amounts to one-half percent annually and leaves a net return of 3¼ percent. This is only one-half percent more than the yield on long-term bonds. Bonds may possibly be bought below par and mortgages can yield no possible profit in this way, because they cannot be bought below par and the only thing they possibly can yield is a loss on the certificate of claim which is given for the cost of foreclosure and redecorating.

Perhaps you are wondering why investing institutions must pay a premium for their mortgages. Simply because most of the larger institutions are not making these mortgage loans directly and they are being made only by smaller institutions in this area such as the Washington Irving Trust Co., Baldwin National Bank, and others. They have been selling their mortgages to out-of-town institutions located in communities where there is practically no building and who must necessarily invest their funds elsewhere. The servicing fee of one-half percent is paid to the originating institutions, but this is on the depreciating balance and makes an average servicing fee of about one-fourth of 1 percent. The average Federal Housing Administration mortgage is about \$4,000, and this means an average servicing fee of \$10.

The cost of servicing a mortgage is great. There is an actual out-of-pocket outlay for tax searches and there is the cost for stationery, postage, bookkeeping, and the cost of men to run the servicing department and follow-up collections systematically. In other words, there is practically no profit in servicing Federal Housing Administration mortgages at a premium. The institutions purchasing these mortgages do not object to paying a premium because it gives them an opportunity to invest their surplus funds and because it saves them

the expense involved in originating mortgages if they run their own mortgage department. Obviously, the yield to the investor must be interesting or he will not purchase Federal Housing Administration insured mortgage loans.

It is our conclusion, based on experience, that 4½ percent Federal Housing Administration mortgages will not yield anything to interest the investors, and it is our conclusion also that the investor, under no conditions, will be interested in a 90 percent mortgage regardless of the interest rate because of the disadvantages and risks which would be attached to a mortgage of this kind.

The Jamaica office of the Federal Housing Administration is ably managed by the district director, Stanley R. White, and is the "number one" office of the United States. It is our opinion that any change in legislation, as contemplated, would practically paralyze the operation of the Jamaica office and of all other insuring offices. Regardless of the possibility of an increase in sales, may we ask what earthly good such an increase would be if there was no mortgage money for the builders and purchasers? You may suggest that the Reconstruction Finance Corporation will agree to buy these mortgages, but you are aware of the fact that they buy them at one-half percent discount and they retain the right to cancel the servicing arrangement on 30 days' notice. Why, then, should the Washington Irving Trust Co. or any other approved mortgagee create mortgages in order to sell them at a loss?

You may be interested in knowing that a newspaper in Tarrytown, N. Y., conducted a poll of workers employed by the Chevrolet plant in that small town, and that 75 percent of these working men expressed the opinion that a 90-percent mortgage was unsound and that they believed the Congress of the United States should not sanction a law permitting mortgages of this type?

Nevertheless, there is no doubt that a scheme whereby houses can be purchased with 10 percent cash would increase the number of houses built and sold—providing such a plan didn't "dry up" the mortgage market because of lack of interest by mortgage investors. The writer takes the liberty of suggesting a plan which he believes to be feasible and practical. We suggest a plan whereby a 90-percent mortgage would be made by an approved mortgagee such as the Washington Irving Trust Co. The Washington Irving Trust Co. would then sell a senior interest, based on 80 percent of the present valuation, to its investors, and the Reconstruction Finance Corporation would agree to purchase the junior participation not to exceed 10 percent of the present value. The Washington Irving Trust Co., after having received the monthly payments for interest, amortization, taxes, fire insurance, and water would pay the investors and the Reconstruction Finance Corporation on a pro rata basis. In case of foreclosure, the Reconstruction Finance Corporation is to accept the certificate of claim issued by the Federal Housing Administration.

May we digress for a moment to state that at the present time, the Reconstruction Finance Corporation is willing to purchase 80 percent Federal Housing Administration loans and we presume that they will be ready to purchase 90-percent Federal Housing Administration loans. Why, then, if they are willing to purchase a full 90 percent loan, would they not be willing to purchase part of that 90 percent loan? It would mean that the originating mortgagee would still have an 80 percent loan to sell to its investors and it would mean that the buyer could accomplish the purchase of a house with a 10 percent cash payment. Furthermore, if the Reconstruction Finance Corporation agreed to accept the certificate of claim in the event of foreclosure, it would mean that the 80 percent interest purchased by the investing institution would be fully guaranteed and then the great objection to the investing of funds in Federal Housing Administration insured mortgage loans would be removed.

In the writer's opinion, this is the only possible plan which will work to the advantage of the originating lender, the ultimate investor, and the home purchaser. And necessarily, it will be the only plan which will work to the advantage of the builder because the present proposed plan will eventually prove disadvantageous to him because there will be an actual lack of mortgage money even though there may be stimulated buying activity.

If you are interested, the writer will be glad to come down to Washington to explain his views more fully.

Yours very truly,

JOHN HALPERIN, *President.*

PARTIAL LIST OF CLIENTS FOR WHOM WE ARE ARRANGING FIRST-MORTGAGE LOANS

Levitt & Sons, Manhasset, Westchester, and Great Neck.
 Briarwood Estates (Wolosoff Bros.), Jamaica.
 Horace Harding Homes (Wolosoff & Swickle), Jamaica.
 Trump Homes, Brooklyn.
 Green Acres (Chanin Bros.), Valley Stream.
 Sterlingshire (Nadelman, Krull & Gogel), Jamaica.
 United Associates (Nadelman, Krull & Gogel), Jamaica.
 Harmon National Real Estate, Greenburgh, N. Y.
 Tru Homes, Inc. (Rosenberg & Heumann), Elmhurst.
 Saddle Rock Estates, Inc. (Robert Rose), Great Neck.
 Parkway Communities, Inc. (Bertram Bonner), Jamaica.
 Midtown Homes, Inc. (Louis Bright), Jackson Heights.
 Gilroy Building Corporation (Harry Kasper), Hollis.
 Garden City Terrace Homes (Miller & Knickman), Franklin Square.
 Aristocratic Homes (Eugene Martin), St. Albans.
 Fair Estates, Inc. (Jullus Land & David Meltzer), Elmhurst.
 Utopia Homes (Adelman & Rudman), Flushing.
 Frafell Building Corporation (Frank Fellows), East Hempstead.
 Shorehaven (Loshen Bros.), Manhasset.
 Mack Kanner & Sons, Freeport.
 ForWin Realty Co., Inc. (Jacobowitz & Krauss), Forest Hills.
 Winhill Homes (Mitchell Ittelson), Elmhurst.
 Jess Homes Builders, Inc. (Jesse Seligman), Long Island City.
 Alden-Hillside Corporation (Samuel Reizen), Hollis.
 Kent Homes (Arthur Goodfriend), Forest Hills.
 Mathews Contracting Co., Elmhurst.
 Letab Manor Building Corporation (Arthur Abrams), Flushing.
 Elmhurst Homes, Inc. (Tilles & Rosen), Elmhurst.
 Oakland Building Corporation (M. J. Roth), Flushing.
 Linden Park Homes, Inc. (Berman & Reines), Flushing.
 Hegeman & Muth, Rockville Centre.
 Charles Rorech, Great Neck and Hempstead.
 Newell & Daniel, Flower Hill.
 Caldwell Homes, Inc. (Joseph Bartum), Elmhurst.
 Flushing Cottage Homes (Joseph Pless), Flushing.
 Integrity Homes, Inc. (Fleischer & Ledvitz), Rego Park.
 Max Kalt, Forest Hills.
 Sol Atlas, Bayside.
 Harell Construction Corporation (Fellows & Friese), St. Albans.
 Henry Greenberg, Lawrence.
 Daniels Homes, Inc. (Muss & Daniels), Elmhurst.
 Beechurst Homes (Frohwitter & Reimer), Flushing.
 Alroy Housing Corporation (A. J. Cobb), St. Albans.
 Penelope Homes, Inc. (Itzler & Yedvarb), Rego Park.
 Merokee Homes (Coleman Stromwasser), Merrick.
 Benreiz Investing Corporation (George Rosen), Bellerose.
 Boulevard Homes (Garfinkel & Olivieri), Rego Park.
 Exceelo Homes (Gladstone & Etkin), Astoria.
 Shackne Realty Corporation (Shackne & Evans), Middle Village.
 Hadley Homes (Benjamin Wesley), Woodhaven.
 Hollywood Homes, Inc. (Oslas & Minken), Brooklyn.
 University Gardens Corporation (H. Rosenthal), Great Neck.
 Merrick Homes, Inc. (Harry Frankel), Oceanside.
 Gold Mack Building Corporation (David Forman), Valley Stream.
 Monaco Development Corporation (James Monaco), Bayside.
 Danby Homes, Inc. (Daniel Salmow), Jackson Heights.
 Delwood Homes, Inc. (J. L. Gilvard), Ozone Park.
 William & George Dickel, Queens Village.
 Dominion Homes, Inc. (Wilbur Phillips), Bellerose.
 Vicrose Realty, Inc. (M. L. Levine), Brooklyn.
 Bay Ridge Builders, Inc. (Selig Berman), Brooklyn.
 Trubril Realty Corporation (Arthur Brill), Baldwin.
 Titus Homes (Richard P. Weber), Malba.
 Topel Brothers, Richmond Hill.

Agate Homes, Inc. (Sacks & Shube), Whitestone.
 Ditmars Homes, Inc. (David Wolfensen), Astoria.
 Schlossman Bros., Valley Stream.
 Fashionable Homes, Inc. (Samuel Altschuler), Rego Park.
 Inter-County Home Builders, Inc. (A. Heller), Massapequa.
 Lee Homes, Inc., East Rockaway.
 North Park Realty Corporation (Edmund Kline), Roslyn.
 Rocklyn Development Corporation (Blum & Weniger), Rockville Centre.
 Wedaw Construction Corporation (Frank Wade), Garden City.
 Walter Uhl, Port Washington and Manhasset.
 Edward Sweeney, Forest Hills.
 William F. Rea, Garden City.
 William Chironna, Plandome.
 Gustave Svenson, Rockville Centre.
 William H. Meyer, Munsey Park.
 Albert Nelson, Munsey Park.
 John Jager, Munsey Park.
 H. Lindberg, Munsey Park.
 Edward Margolin, Great Neck.
 Midisland Building Co., Inc., Bethpage.
 O. Olsen, Munsey Park.
 Olsen & Johnson, Flower Hill.
 Scarlata Building Corporation (Conrad Scarlata), Hempstead.
 Fasolino Bros., Rockville Centre.
 N. Boyce Jenkins, Sands Point and Hempstead.
 North Hempstead Homes, Inc. (Walter Uhl), Port Washington.
 M. M. Porter, Inc., Port Washington.
 John M. Pollock, Port Washington.
 David Longenecker, Rockville Centre.
 Stewart Hawthorne, Rockville Centre.
 Frank Hubbard, Garden City.
 Bothwell Realty Co., Inc. (Kermit Goell), Jamaica.
 Hamilton Communities, Inc. (William Marberg), Addisleigh Park.
 Kickok-Vecchione, Inc., Douglaston.
 Gus. Shebar, Freeport.
 S. O. Sorensen, Munsey Park and Hempstead.
 Trubitt Construction Corporation (Samuel Lebow), Baldwin.
 Preferred Homes, Inc. (Joseph Kurlander), St. Albans.
 Baltom Construction Corporation, Flushing.
 McMurray Homes, Inc., Whitestone.
 George F. Scudder, Flower Hill.
 H. J. Reed Barrett, East Williston.
 Charles Christian, Baldwin.
 Estate of Sands Point, Inc. (C. Carlson & J. Lawson), Port Washington.
 Four Star Homes, Inc. (Zaret Bros.), Baldwin.
 Jepson & Rinehart, Inc., Hempstead.
 Lawrence Loeffler, Garden City.
 Christ Nansen, Stewart Manor.
 V & T Homes, Inc. (Michael Valvano), Flushing.
 Shady Terrace Homes, Inc. (Isaac Bloom), Rego Park.
 Harmony Homes (Robert Behrman), Elmhurst.

PARTIAL LIST OF CLIENTS FOR WHOM WE HAVE ARRANGED APARTMENT-HOUSE LOANS

Rosenbloom & Eisenberg, Forest Hills.
 Jacob Berg, Jackson Heights.
 Simon Lipoff & Harry Rudolph, L. I. C.
 Morris Bienenstock, Rego Park.
 Barnet Shefkowitz, Elmhurst.
 Harry Bieserman, Jackson Heights.
 Abraham Fishkind, Brooklyn.
 Isidore Funt, Brooklyn.
 Emanuel Scarpinato, Jackson Heights.
 Jacob Tropp, Brooklyn.
 Fox & Levick, Forest Hills.
 George J. Lippman, Elmhurst.

Loans closed Aug. 31, 1937

Name	Num-ber	Amount
Washington Irving Trust Co.	512	\$2, 174, 475
Investors Syndicate	229	1, 813, 345
Prudential Insurance Co.	191	1, 476, 100
John Hancock Mutual Insurance Co.	3	440, 000
Dime Savings Bank of Brooklyn	50	330, 700
Greenpoint Savings Bank	2	315, 000
Home Federal Savings & Loan Association	58	224, /50
New York Life Insurance Co.	1	170, 000
Fourth Federal Savings & Loan Association	36	168, 5/5
The Woodside National Bank of New York	7	137, 500
Flushing Federal Savings & Loan Association	15	59, 750
Metropolitan Title Guaranty Co.	12	59, 000
Hamburg Savings Bank	1	43, 000
Institutional Securities	4	42, 000
Astoria Savings & Loan Association	8	36, 300
Sun Life Insurance Co.	3	25, 000
Bankers Federal Savings & Loan Association	2	20, 500
Private party	1	20, 000
Ninth Federal Savings & Loan Association	3	16, 600
Bedford Cooperative Building & Loan Association	4	13, 345
L. I. Bond & Mortgage Co.	2	8, 000
Kings County Trust Co.	1	6, 400
First Federal of New York	2	5, 500
County Federal & Loan Association	1	5, 200
	1, 148	7, 612, 240

The CHAIRMAN. The committee will hear Mr. Marriner S. Eccles, chairman of the Federal Reserve Board.

STATEMENT OF MARRINER S. ECCLES, CHAIRMAN, FEDERAL RESERVE BOARD, WASHINGTON, D. C.

The CHAIRMAN. Mr. Eccles, the committee knows that you had a great deal to do with the formation of the policy and, I think, the drafting of the legislation, with reference to housing, so we are anxious to have the benefit of your views as to the bill itself and what expectations you have as to its contribution to better days.

Mr. ECCLES. I would like to say a few words with reference to the philosophy of the Federal Housing Administration.

Up until the passage of this legislation the only type of financing available to home construction was the 50 to 60 percent loan provided by the savings banks, insurance companies, and out of savings funds in the commercial banks, with the exception of the building and loan companies. They made 70, 75, and 80 percent loans. They, however, were very greatly limited in their resources to take care of any extensive financing program. The great bulk of the savings of the country was in the savings departments of the commercial banks, mutual savings banks, and insurance companies.

During the twenties when there was a good deal of home construction, the equity money—that is, the money above the first mortgage—was made by second- and third-mortgage financing. It was seldom that the home buyer could pay more than a small down payment, 5, 10, 15, or 20 percent. The property was bought under contract, and he assumed the mortgage obligations. That financing cost was very high, running on an average of more than 10 percent. The time of the loan averaged from 3 to 10 years, usually on the first mortgage. Banks were prohibited from loaning more than 5 years, and the insurance companies, as a policy, seldom loaned beyond 10 years.

The home buyer was usually required to meet payments beyond his ability to meet them, especially if there was any recession or change in his economic status.

The purpose of the Federal Housing Administration was to create a reform of the mortgage market or modify the financing of homes, both to own and to rent, by setting up a mechanism that provided for a monthly payment plan over a long period of years, the obligation being in the form of one instrument instead of two, three, or four.

This could be accomplished only by having the Government sit in the background, as it does under the F. H. A., the borrower paying an insurance premium for the privilege of having the F. H. A. insure the mortgage. The insurance of the mortgage made it possible to get, up to date, 80-percent loans in one mortgage at a cost of very much less—high as it has been up to date, but very much less than was ever possible before.

Enabling legislation was secured in practically every State in the Union, whereby banks and other lending institutions could make insured mortgages without regard to the percentage size of the loan; that is, without regard to the amount of the loan in relationship to the value of the property.

There were several things lacking in the legislation that it was impossible to get at the time the legislation was passed in the beginning, and since that time. Experience has also indicated the needs of certain amendments.

As you know, F. H. A. has operated under Title II for over 2 years and has made, I understand, a total of over a billion dollars of loans.

The CHAIRMAN. Insurance, you mean, to be technically correct?

Mr. ECCLES. Yes. They have insured, I should say; that is correct. They have insured over a billion dollars of loans. The cost, it is felt, has been too high. The cost, as you know, is $6\frac{1}{4}$ percent: 5 percent interest, one-half of a percent servicing and one-half of a percent insurance on the original principal amount of the mortgage, making it average three-quarters of a percent on the diminishing balance.

The CHAIRMAN. Which makes a total of how much?

Mr. ECCLES. A total of $6\frac{1}{4}$ percent, approximately. The down payment has been 20 percent. There has been no financial mechanism available to cover loans from the four-family unit up to the \$16,000 home, from there up to where the limited-dividend section would begin to operate.

As a practical matter, on loans of less than \$200,000 to \$250,000 the overhead would be too great to make it practical to use the limited dividend section of the bill in connection with the financing. There has been, therefore, a gap from \$16,000 to \$200,000 in the financing of either groups of homes or individual apartments, such as the walk-up type of apartment that is so common in the average city of 50,000 to even 150,000 population. So there is provision in this bill for the financing of homes in that class—that is, groups of homes—by a blanket mortgage providing for a release from the mortgage as the homes are sold. If the home is valued at less than \$6,000, a 90-percent loan can be gotten by the borrower. If the home is more than \$6,000 the 80 percent would still apply. That creates a better mechanism for the builder to build for later selling and also provides for the building of walk-up apartments where the cost per room does not exceed \$1,000.

I will go back to the individual home, which is an important matter, and the changes that are being proposed in connection with it. The loan is increased to 90 percent where the cost is less than \$6,000. The combined interest rate and servicing charge we drop to 5 percent, and let the insurance be made one-quarter of 1 percent on the diminishing balance, on the small homes.

Senator TOWNSEND. Then the total would be $5\frac{1}{4}$ instead of $6\frac{1}{4}$ percent? You are reducing it 1 percent?

Mr. ECCLES. That is right. Ninety percent, of course, is a very high percentage of loan, though it is found, as I stated a while ago, that people seldom pay, when they buy homes, more than a 10-percent down payment, and often not that much.

In foreign countries we find that the great bulk of building has been going on, particularly in England, on the basis of a 10-percent down payment.

In order to make it easier, so far as the financing is concerned, for the average person to get a home, it seems very necessary that this down payment be reduced from 20 percent to 10 percent.

Senator TOWNSEND. Let me ask you another question right there. You consider that sound, both for the bank and the Government, do you, Mr. Eccles?

Mr. ECCLES. I feel that from the standpoint of the Government there, of course, is always a possibility of some loss. That seems to me to be very small in proportion to the benefits that can be derived from a home-building program. So far as the individual is concerned—but you asked me about the banks?

Senator TOWNSEND. Yes.

Mr. ECCLES. I want to bring out, before I get through, this matter of the 5-percent rate that the bank or the lending institution is to get, and also the cost of absorbing foreclosure costs where the 90-percent loan is concerned; and I might do that right now in that connection.

Senator TOWNSEND. All right.

Mr. ECCLES. We hear considerable complaint about the $5\frac{1}{4}$ percent being too high; that the cost is too great. People say that a mortgage guaranteed by the Government should be not more than 3 or $3\frac{1}{2}$ percent. In the first place, the mortgage is not guaranteed by the Government. The Government does not in any way guarantee the 5 percent. What the Government does is to guarantee debentures that the Housing Administration is authorized to issue in lieu of a transfer of the foreclosed property to it. Such a debenture at the present time is not tax-free and it bears interest of 3 percent and is due 3 years after the mortgage would mature. So it seems that it is a long-term debenture.

Senator TOWNSEND. And the Government would have nothing to do with the foreclosure proceedings. The bank would proceed to foreclose and then collect on the debenture?

Mr. ECCLES. It is a question today if 5 percent is high enough to induce private capital to invest.

Senator TOWNSEND. That is also a question that I would like to have you discuss.

Mr. ECCLES. In the first place, on a 20-year loan the money is being paid out for a 20-year period of time, with all the risks of a fluctuating value of money during that time. A long-term bond always bears a

very much higher rate than a short-term bond. The cost of servicing the 20-year loan on the basis of monthly payments is at least three-quarters of 1 percent, and some claim it is as high as 1 percent. We will assume, then, that it is only three-quarters of 1 percent. I think it is nearer 1 percent on the homes valued at \$4,000 or less. I think possibly on a \$6,000 home it would be three-quarters of 1 percent. We will figure three-quarters of 1 percent. That makes a $4\frac{1}{4}$ -percent yield. A $4\frac{1}{4}$ -percent yield is taxable in the hands of the institution at a 15-percent income tax, approximately. A 15-percent income tax figures very close to three-quarters. That would leave a net of $3\frac{1}{2}$ percent.

You can buy a 20-year bond, the longest-term Government bond, that will yield very close to 3 percent. Such bonds are free from the normal tax, the 15-percent corporation tax, and that puts it in a yield class of very close to $3\frac{1}{2}$ percent.

So that you have here, if the loan does not default, a net income of about $3\frac{1}{2}$ percent. If you buy a long-term Government bond, on a comparable basis, taking into account the tax-free feature, you have about the same.

In the case of the mortgage, if it is to be foreclosed, the institution foreclosing the mortgage has to absorb the foreclosure cost. The foreclosure costs in the State of New York, the State of Illinois, and the State of New Jersey, run all the way from \$300 to \$500 on these small loans.

Senator FRAZIER. Why should they be so high?

Mr. ECCLES. I do not know why they are so high; but they are.

In the State of Massachusetts the cost, I understand, averages \$30. The property can be acquired within 2 months. In these other States it takes all the way from a year to a year and a half and, as I say, the cost is over 10 times what it is in Massachusetts. Certainly there is some enabling legislation needed in those States. In most of the States there are no such costs, but in all States the average cost would be possibly \$100 or more. That cost must be absorbed by the lending institution.

I merely bring that out as an answer to those people who claim that this rate is too high. Possibly it is, so far as the borrower is concerned. Possibly the borrower should be able to get $3\frac{1}{2}$ -percent money. But merely fixing the rate at $3\frac{1}{2}$ percent does not get private capital into the field. If you want private capital to come in, then the rate has to be fixed at a basis that will attract private capital; because, after all, this form of financing is in competition with baby bonds that yield 2.9 percent, and they are for only 10 years instead of 20 years, and they have a tax-free feature. So that it is in competition with all other types of financing.

Senator TOWNSEND. Do you think that the present rate as fixed in the bill will bring in private capital?

Mr. ECCLES. I was going to make two suggestions to show you why I think it will.

First, we have tried to get away from subsidies in connection with this, beyond the Government's guaranteeing the 3-percent debentures that the institutions would receive in case of foreclosures. To that extent the Government is in the picture, but only to that extent.

I would like to suggest that these 3-percent debentures that are issued in lieu of the mortgage in case of foreclosure be given the same

tax-free feature that other Government obligations and obligations guaranteed by the Government have. Not that I am in favor of increasing the amount of tax-free securities on the market. I would personally like to see all tax-free securities of whatever nature entirely eliminated. But that seems to be a forlorn hope, so long as we have tax-free securities that are available today for investors.

On the land-bank bonds the farmer gets the benefit of the tax-free feature. In the home-loan bank debentures they have the benefit of the tax-free feature. It seems to me that in this type of financing if there is anyone entitled to get a benefit it is the home owner at this time.

Senator BYRNES. If it is an unwise policy, how can we get rid of that unwise policy if we continue to practice it?

Mr. ECCLES. I cannot answer that. Of course, it involves the States, as you know. They issue an entirely tax-free security which is very much more objectionable, it seems to me, than the tax-free feature of the Government obligations, which are, of course, not free from surtaxes.

Senator BYRNES. What I mean is this. I have been making the same statement for years; I plead guilty to it. It is unwise; and yet at every session of Congress we add to it, and now we are told that the House Ways and Means Committee is trying to devise some way to reach it by taxation. While they are trying to tax them in some way, if we go ahead authorizing more tax-free securities, we do not get anywhere.

Mr. ECCLES. It seems to me that if we do not have that, this rate will have to be increased, because it is not today where it seems to me it would be able to compete with other forms of Government financing.

Senator BULKLEY. Do you mean to say that a 5-percent rate, inclusive of the service charge, is not high enough to attract private capital?

Mr. ECCLES. No. This 5 percent is exclusive, in this program. It is a 5-percent rate without a service charge. That is an over-all charge.

Senator BULKLEY. Do you think it is not sufficient to attract capital?

Mr. ECCLES. I do, on these smaller homes.

Senator BULKLEY. Most of our witnesses have thought that we ought to do better than that.

Mr. ECCLES. I am just giving you my view and the reasons for it.

Senator BULKLEY. Do you think we will have to pay as much as 5½ percent, including the service charge?

Mr. ECCLES. The 5½ percent would include it. I am suggesting a tax-free feature as a means of attraction.

Senator BULKLEY. And without the tax-free feature do you think we would have to go as high as 5½ percent?

Mr. ECCLES. I do, in today's market. You have got a 20-year obligation. If this were 10 years it would be very different. There is possibly a difference of one-half of 1 percent alone in the difference between the 10-year and the 20-year obligation.

The CHAIRMAN. We have had testimony before us that the English institutions loan at the rate of 4½ percent upon this very same type of homes.

Mr. ECCLES. That is right.

The CHAIRMAN. Why is it that we cannot do the same thing?

Mr. ECCLES. In the first place, there are three or four great mutual building and loan associations, or what they call building and loan societies, that cover the entire British Isles, with offices in every community. Possibly the service charges would be substantially less there than here. I am sure that would be the case. They are strictly mutual associations.

Senator FRAZIER. Do you not think it is about time that we set up some of those organizations in the United States?

Mr. ECCLES. The Government there did not set them up. They grew up.

Senator FRAZIER. It does not make any difference how they are set up; we should have them, in my opinion.

Mr. ECCLES. I think that to start today and expect to cover the country with mutual associations that would provide the means of financing for this housing bill—I question very much that we would get very much result from it, either next year or possibly for some considerable time. We are trying to deal with the situation as we find it.

The CHAIRMAN. You are a realist.

Mr. ECCLES (continuing). And not with the situation as we might like to have it.

As I stated, I do not like to recommend this tax-free feature, but it seems to me that it is possibly cheaper and better than some other form of subsidy.

Senator FRAZIER. One witness told us that in some of the foreign countries there was a provision in their housing acts that if they could not get private capital at a reasonable rate of interest, the Government would finance it. Would that be a good suggestion in this bill?

Senator ADAMS. Who was that, Senator Frazier?

Senator FRAZIER. One of the real-estate men who were here the other day.

Senator ADAMS. My recollection is that the testimony was that they were driven into it by the threat that the Government would do it; not that the Government in fact was doing it.

The CHAIRMAN. I asked the witness a question. He said there was nothing in the legislation about it, but a Government official told these institutions, according to the testimony, "Four and a half percent is ample, and if you do not feel that you can loan at that rate, the Government will." That was the testimony of the witness.

Mr. ECCLES. Of course, we have the farm situation where the Government is subsidizing at a cost of about \$40,000,000 a year at 3½ percent interest. We can give the home owners any interest rate that the Government is willing to give them, but they will certainly have to subsidize to the extent of whatever the difference between that rate may be and the rate at which private capital is willing to enter the field. The Government itself, through baby bonds, pays very close, when we figure the tax-free feature, to 3½ percent, and there is no expense or cost whatever. There is no risk of any kind. There is no onus of foreclosure.

So it is that situation itself that, after all, this type of lending may have to compete with. Triple A bonds today yield from 3½

to 4 percent. Is it reasonable to expect an institution to make a loan that runs to \$15 or \$20 or \$25 a month for collection, interest, and principal, over a period of 20 years, and incur the expense that that involves? I am sure that if you have had any bankers up here who have handled these loans, or representatives of any other lending agency, you will be conscious of the fact that there is considerable cost in connection with this type of financing.

I would like to say this, that with a 5-percent cost it is less than one-half of what the cost has been; and the terms, outside of the rate and the monthly installments, over a long period of time, of course, are also a factor that is very much more favorable both to the borrower and the lender.

Senator BULKLEY. What is the difference in service costs in England and this country?

Mr. ECCLES. I could not tell you, Senator. I would imagine that the costs would be considerably less there, because you have these associations spread entirely over the area. They have a huge volume in a small area; and that, I am sure, would make quite a difference.

The CHAIRMAN. Their amortization period runs as high as 30 years, we were informed. Is that the fact?

Mr. ECCLES. I think that is true.

Senator BULKLEY. Would their service costs be half of what they would be here, or what proportion?

Mr. ECCLES. It would be just a guess on my part. I would think the service cost would be at least one half of 1 percent.

Senator BULKLEY. In England?

Mr. ECCLES. Yes; I would think so.

Senator BULKLEY. And three-quarters here?

Mr. ECCLES. I figured three-quarters here.

There is another feature in the English situation. Their lending was done on a basis of 5½ percent 3 or 4 years ago, and it has gradually come down, due to the available supply of funds willing to go into this field in relationship to the demand, so that the rate was not just arbitrarily fixed; there was no fixation of the rate at all; the conditions themselves brought down the rate. As I understand it, at the end of a 10-year period they have an opportunity to adjust the rates. So that so far as the rate is concerned, it is a 10-year loan and not a 20-year loan. At the end of the 10-year period, if there is an inflationary situation when interest rates are substantially higher, they can adjust the rate.

Senator BULKLEY. You have touched another very interesting point, and that is this. The actual cost of servicing a \$4,000 loan in dollars would be about the same as servicing a \$6,000 loan, would it not?

Mr. ECCLES. That is right.

Senator BULKLEY. And therefore it makes the rate percent that much higher?

Mr. ECCLES. That is exactly right.

The CHAIRMAN. There was testimony that in none of the foreign countries where they have undertaken housing campaigns was the rate higher than 4½ percent. Is that in accord with your information?

Mr. ECCLES. I know something about the English plan, but just what is being done in some of the other countries I do not know.

They have various types or methods of financing, and the government in different ways takes part. I do not think there is any uniformity at all.

The CHAIRMAN. Have you heard of any of the countries that charge a rate higher than $4\frac{1}{2}$ percent, or have you looked into that?

Mr. ECCLES. I do not know what some of the other countries do. I think it would be difficult to compare the situation here with that of Germany or that of Italy or Russia, where they have entirely different forms of government. In France, of course, they are in a very depressed state of activity. There is probably very little, if any, construction going on there. England is the one place where there has been a lot of home construction, and therefore it is natural to look to the English results as being possibly more comparable than the results in any other country where differences in economic conditions and different forms of government exist.

The tax-free feature of these 3-percent debentures would, I think, help considerably, because an institution taking a loan at 5 percent would find that 5 percent was very satisfactory if it continued without difficulty; but if you get into the question of foreclosure, any lending institution always considers what the ultimate result may be, and then the fact that they get but 3 percent and their long-term obligation is not tax free, and hence would sell at possibly a discount in relation to other securities—that is, at less than par—is somewhat of a deterrent. In my opinion there will be very few of those issues in the aggregate.

As to the actual amount of foreclosures, even if it were large, it is difficult to imagine that they would exceed 10 percent. But the very fact that they can get a 3-percent tax-free debenture in case of difficulty is in itself an inducement.

Senator TOWNSEND. If we put on a big building program at a high cost and then there is a slump, it might increase beyond 10 percent?

Mr. ECCLES. Yes; that is possible. If we are going to have booms and depressions, as we seem to have had and are having, there is no saying what the results are going to be.

Senator TOWNSEND. A lot of people think that the Federal Reserve Board controls these booms and depressions.

Mr. ECCLES. I only wish it were true. I wish it were possible for the Reserve System to be able to control them.

Senator BARKLEY. There would not be many depressions if it could?

Mr. ECCLES. I wish it were that simple.

Senator TOWNSEND. I think you said that we would build about a billion dollars' worth of housing; that is, the F. H. A. had been able to guarantee about a billion dollars' worth in 2 years?

Mr. ECCLES. A good deal of that is not new construction. It has been financing the sales of existing properties. Of course, new construction comes about very often as the result of a sale of an existing piece of property. We know that it would be very difficult to sell a volume of new automobiles if it were not for the financing of used cars. And this, without question, would help the entire mortgage market.

Senator TOWNSEND. What caused the proposition to bog down? Was it the rate of interest or the amount that was loaned up to 80 percent, or was it the high cost of labor and materials?

Mr. ECCLES. It was the high cost of construction. The financing cost may have been a deterrent, but less so than possibly the down payment. The 20-percent down payment narrowed the market for potential buyers to some extent; there is no question about that.

The financial mechanism to take care of project properties to rent—in other words, large projects, projects above \$16,000—has been very, very small. Over half of our people live in places to rent. There was no financial mechanism that was readily available for financing of such projects to rent.

During the 1920's we had real estate mortgage bonds. After all, the great boom in apartment-house financing was carried on by real estate mortgage bonds which yielded 7 to 8 percent, and in many instances represented not only the actual cost of the property but a good lot of promotional costs in addition to that. Since that time, of course, with the Securities and Exchange Commission in operation, that type of financing cannot be done, and the public would not buy real-estate bonds as a result of the experience of the past; and until our proposal now there has been no adequate financial mechanism to take care of the high percentage loan making properties above \$16,000 available for rent.

That was one deterrent in getting some of the financing, but the most important deterrent was that costs went up faster than rents, and it was not profitable to build to rent. That was possibly the most important factor.

Senator TOWNSEND. That is, the most depressing effect on the plan has been the cost of labor and materials?

Mr. ECCLES. That is right.

Senator TOWNSEND. How are you going to remedy that in the new plan? That is the problem, is it not?

Mr. ECCLES. The Government can provide a mechanism that is more favorable and a mechanism that is broader in the field that it covers.

Senator TOWNSEND. As to labor and materials?

Mr. ECCLES. No; as to financing.

Senator TOWNSEND. Let us assume that that has been done; how are we going to take care of the one depressing thing that has caused the whole plan to bog down—that is, labor and materials?

Mr. ECCLES. Of course, materials in some fields are coming down. The reduction is slow in reaching the consumer from the producer of the raw product, but I know that in the case of lumber at the mill, it is averaging 25 percent less than it was 60 to 90 days ago and is selling below any possible cost of production; that is, based upon the present labor costs at the mills, and other costs. However, due to the excess of the supply in relation to the demand, it is coming down. That has not, of course, been reflected throughout the market so far as the consumer is concerned.

Senator TOWNSEND. The lumbermen cannot continue to sell below cost.

Mr. ECCLES. That is right.

Senator TOWNSEND. Then, how are we going to remedy this situation? That is the question that I am trying to get an answer to.

Mr. ECCLES. I think if he possibly got a maximum volume he could sell at considerably less. Lumber would sell at considerably less

than it was being sold for if they got a greater volume of production. But the cost of lumber is tied into the freight rates. The freight rate from the mill in Oregon to the market in the East is just about equal to the value of the lumber on board cars.

Senator FRAZIER. The railroad companies are asking for an increase in freight rates.

Mr. ECCLES. Of course that does not solve the problem.

Senator BARKLEY. What proportion of lumber used in the construction of houses in the United States comes from the Pacific coast?

Mr. ECCLES. There is a great deal of it used through New England and New York. That is the biggest market for the Pacific coast.

Senator BYRNES. The situation of the lumberman in the southeastern territory is that lumber can be shipped from Oregon through the Panama Canal and delivered to New England points more cheaply than from Georgia or South Carolina, and the lumber from South Carolina finds its market in interior points. The Negro labor in the lumber camps will receive about \$10 per week, according to the information given me about 60 days ago. They work about 10 hours a day. If we increase the wages of labor to 40 cents an hour, for 40 hours a week, and at the same time the request of the railroads for an increase in rates is granted in southern territory, how are we going to get lumber shipped from those points to compete in any way with the Pacific coast lumber which you say is now reaching the New England market? I do not see how we can look for any substantial decrease in the price of lumber under those circumstances. Do you?

Mr. ECCLES. Of course that question involves practically every economic question that the country is confronted with today. If the committee is willing, I would like to discuss the particular features of the bill, recognizing that the bill itself is no guarantee of a housing boom and is no panacea for other economic problems. It merely provides, it seems to me, a very necessary financial mechanism for the financing of all types of house construction for sale and for rent.

Senator BYRNES. My question was prompted solely by the discussion of the cost of materials. Having this bill in mind, do you see any reason at this time for believing that there will be a reduction in the cost of lumber?

Mr. ECCLES. As I say, there has already been a reduction. I would say that lumber got altogether too high last spring, due to two reasons: First, the labor situation out on the Pacific coast was possibly one of the worst we have had in the country, and it is still very bad. The fight between the C. I. O. and the A. F. of L. in the lumber industry has paralyzed a great section of it. The longshoremen's strike paralyzed the shipping. They had a very bad weather condition that shut up the logging camps, which was unusual for that period of the year.

So that there really was for several months during the winter and spring an actual shortage of lumber ready for the market, and the price of lumber went up, possibly, I think, more rapidly than it ever has. That was merely because the supply of lumber was just not there, due to those conditions. It went to a price that I am sure was unnecessarily high to maintain a reasonable profit on the operation. But I do not believe that the prices that did prevail need to be or will

be maintained. However, the question of 2 or 3 dollars a thousand less at the mill which, in itself, is a big item so far as the manufacturers are concerned, is not the greatest part of the cost. There is distribution, so far as the retailer is concerned, which is a very important part. In many places, since the time of N. R. A., there have been established in many communities local associations of material dealers that have tended to maintain price without regard to volume.

In other words, there is in the building-material business plenty of monopoly. A mistake that business makes and a mistake that labor makes is in attempting to get a profit out of a small volume; labor, because they feel that for such a large part of the time they are unemployed, they must have a very high hourly rate, gets as a result a smaller annual wage. Business gets a high unit cost and, as a result, a smaller profit.

If we could ever get the leaders in business and in the field of labor to recognize that a reduction of these costs, with the provision of a greater volume and a higher annual wage for labor is desirable, instead of merely looking at the hourly wage, then we would get a balance between our various elements in our economy, instead of high costs maintained by the organized groups, both in business and in labor, costs that have great rigidity; while, on the other hand, the great masses of our people, the unorganized labor, take what they can get. The farmer takes what the world market gives him. The result is that we get a disequilibrium, so that one group of the population is unable to exchange its goods and services with the other groups.

That is essential. That is at the bottom of our present difficulties today. We have laissez faire among the unorganized groups and agriculture, and we have a rigidity based upon restricted output and monopoly controlled wages and prices in another part of the economy.

How that question is to be solved is not a simple matter. As I said a moment ago, it goes to the heart of most of our economic troubles at the present time.

The CHAIRMAN. Do you regard \$10 a week for 10 hours' work a day to a worker in the lumber industry, to which the Senator just referred, as a high wage? That is \$10 for 60 hours' work.

Senator BYRNES. I understand they work 10 hours a day and a half day on Saturday. The statement made before the committee, I believe, was that they worked 55 hours a week.

Senator BROWN of Michigan. That includes food and lodging too?

Senator BYRNES. They furnish shacks. They have to move the camps from place to place. That is one explanation of the difference between costs on the west coast and on the east coast. On the west coast they can cut the trees without moving their machinery, but in the lumber camps in the southeastern territory they have to move sometimes quite a distance, and it is more expensive. The men work 55 hours a week and they are furnished, of course, lumber-camp shacks in which they live, and their food. It is very simple food.

The CHAIRMAN. It does not ruin them?

Senator BYRNES. It does not amount to a very luxurious menu. I am not speaking from the social standpoint, Mr. Chairman; I am just speaking about how we can hope to accomplish the reduction in the price of materials if the only prospect we have is an increase

in freight rates, and when at this time the freight rates from that territory are such that the lumber from the Pacific coast is delivered at New England points at a lower price than the lumber from the southeastern territory which finds its market in the interior. With no prospect of reduced rates or wages I do not see any hope for our reducing the price of materials.

The CHAIRMAN. Do you think that that wage of \$10 a week ought to be reduced further?

Senator BYRNES. No; I do not.

The CHAIRMAN. I did not think you did.

Senator BYRNES. I am just speaking from the standpoint of how we can hope to reduce the cost of construction. It is not reasonable to lead the people to believe there can be any reduction in the cost of material under those circumstances, if at this time our only plan is to increase freight rates and increase wages. Those two factors enter into the cost of material.

Mr. ECCLES. I would like to make this point, which has not been brought out in connection with the reduction of costs. We feel that with this type of financing mechanism large-scale production can be carried out; that with large-scale production, instead of buying materials for 1 house, or 2 houses, or 10 houses, paying the retail costs, materials can be bought on a basis of a far greater volume, which reduces very greatly the cost of handling. We know that selling lumber a few feet at a time, and selling bathtubs one at a time, and doing other things on that basis, is a costly procedure. We know that if we can introduce into this operation, through large-scale developments, mass production, that in itself can reduce the costs of material without necessarily requiring a great reduction in the prices of materials.

The CHAIRMAN. Would you favor an annual wage agreement if you could bring it about?

Mr. ECCLES. Yes. If we can get the volume there is also the hope and the possibility that labor may be willing to take a less hourly wage with the assurance of a greater annual wage. That is a matter that would have to be worked out through the various locals.

Senator TOWNSEND. How could the Government help in that situation?

Mr. ECCLES. Only by attempting to bring together the business leaders and the leaders of labor in an attempt to set up a national organization outside of the Government itself, within each of the communities, for the purpose of encouraging an expansion in the field of housing, and attempting to reduce to a minimum the conflicts between labor and capital.

Senator TOWNSEND. You mean, a bargaining committee that would bargain with labor and material men to bring the costs down? Is that your idea?

Mr. ECCLES. I think that the contractors themselves will have to do that bargaining. If a contractor is going to build a couple of hundred houses, he certainly is in a position to go out and buy materials to do it at a greatly reduced price, and his ability to handle materials at a greatly reduced cost is made possible.

So far as the labor situation is concerned, I do not know what can be worked out.

The CHAIRMAN. If I may interrupt you: Yesterday Mr. Clarence Woolley, chairman, American Radiator and Standard Sanitary Corporation, appeared here and made a statement to the committee. I do not think these obstacles are insuperable. He testified that there was an agreement made between the union workers of the plumbing union and some other union—I have forgotten which they are; probably the plumbers' helpers—by which on a certain type of housing, such as the smaller houses, they agreed with the builders or building associations in New York to take a reduced wage per hour, with some assurance of continuous employment for a period of time. Did you know about that?

Mr. ECCLES. No; I did not know of that, but I have heard of several of them that have been made.

The CHAIRMAN. Another witness testified that in Queens he was building a number of houses and made some special agreement. So that there are opportunities for such agreements. Everybody is not agreed that the labor problem is as serious as you state it is. Some of the witnesses testified differently on that.

Mr. ECCLES. I do not want to be misunderstood with reference to my attitude about labor. I am certainly not unfriendly to labor.

The CHAIRMAN. Oh, I know that. We are all looking for a solution.

Mr. ECCLES. I think that labor should get all that it is possible for industry to pay, so long as it is not necessary for industry to increase prices and pass on the increased cost to the farmer and to the rest of the population, and throw the economy out of balance. So far as it is possible to increase wages of labor out of increased production, I think that is absolutely proper and essential. At the same time there has got to be enough profit left for industry to be able to carry on and keep capital attracted. It is a matter of a fine balance as to just what can be paid.

The CHAIRMAN. Is there not another difficulty; that is, these agreements on prices of material? That seems to be a monopolistic practice that has been set up, irrespective of demand. Did you not find that a problem, also?

Mr. ECCLES. We, of course, find that prices do not come down very rapidly in certain fields of activity.

The CHAIRMAN. Has it not also happened in some industries that when there was a wage increase there would be an increase put upon the price of the commodity produced twice the size of the wage increase?

Mr. ECCLES. That certainly has been done. Where you have what we call a seller's market, where the demand is apparently greater than the immediate supply, such as we had last year because of a lot of forward buying, the prices always go up without regard to cost, or they often go up without regard to cost. Business has never been averse to taking all the profit it can get at a given time; and it is unfortunate that prices were advanced in many fields beyond the immediate requirements or needs, based upon increased costs. But that is what did happen.

The CHAIRMAN. I just do not want to lose my perspective in all this, because we still have a situation where 80 percent of our families have incomes of, I think, \$1,800 or less in this country.

Mr. ECCLES. The Brookings Institute made a report in the period of the greatest business activity that 71 percent of the families of the country had an income of less than \$2,500 a year. That was in the year 1929.

The CHAIRMAN. We heard a witness yesterday who had made a more recent study, apparently. He used the figure that I have just mentioned.

Senator BYRNES. Your position as to the building of houses for rental is that the only way that can be accomplished is by mass construction?

Mr. ECCLES. Yes. I think that that is the desirable way.

There are very few builders. There are some very large building concerns; and where the average-priced house is built—that is, a house that the average American family can afford to live in—it seems to me that that cannot be a place that is built by employing an architect to design the house and contracting for one house. That naturally would greatly increase the cost.

Senator BYRNES. If you had \$12,000 to invest, you would not consider it the best investment to secure a yield upon to build two \$6,000 homes in Salt Lake City today, would you?

Mr. ECCLES. No; I would not.

Senator LODGE. I came in late, and you may have covered this; but have you said anything about the risk which the Government runs in connection with this bill?

Mr. ECCLES. I said a little about it. The risk that the Government runs is small. In the first place, the property would be foreclosed and delivered to the Federal Housing Administration. When the property is sold the difference between the unpaid balance of the mortgage at the time of foreclosure and the price at which the property is sold would represent the loss. To the extent that the aggregate of those losses exceeds the insurance fund, then to that extent the Government would be called upon to make good its guarantee on the debentures that are issued in lieu of the properties that had been transferred to the Housing Administration.

In my opinion that risk is very small. Certainly it is very small when compared with the benefits of long-term monthly amortized financing of this sort.

The benefits to the average home owner of being able to get financing at a cost of less than one-half of what he formerly paid, and being able to get it over a long period of time on a monthly payment plan which would be approximately equivalent to rent, are far greater than any possible risk that the Government assumes in this situation. Without a mechanism of this sort we are thrown back into the real estate financing methods of the 1920's. That cost the Government possibly far more, as a result of the need of setting up the Home Owners' Loan Corporation to refinance homes because of the type of financing that was done at that time.

Senator TOWNSEND. Do you think the one-fourth of 1 percent that you are setting up will take care of the loss?

Mr. ECCLES. Whether it takes care of the loss or not, of course, will depend upon the degree of stability that we can get in the economy of the country. That, I think, would represent as much or more than the loss that the English experience would indicate. It

is true, however, that that one-fourth of 1 percent applies only up to 1939. That is, it applies only on mortgages insured up to 1939.

Senator TOWNSEND. Then what happens?

Mr. ECCLES. It goes back to one-half. There is an additional inducement in the reduction of the rate. It is small, to be sure, and to the extent that it is not enough you might call it a subsidy.

Senator TOWNSEND. As a matter of fact, Mr. Chairman, is it not true that if we build now at the high costs of labor and materials the Government takes more chance of loss than it would if we were able to build at a reduced cost of labor and materials? That is true, is it not?

Mr. ECCLES. There is no question but what the higher the cost the more likelihood of loss; the higher the cost the less likelihood of any great volume of building.

Senator TOWNSEND. Yes; that is true. You are chairman of the Federal Reserve Board which, I think, is the most influential board in the world, probably. When did this recession, or depression, that we are going through now start?

Mr. ECCLES. Senator, I would like, if you would permit me to do so, to cover one or two other points with reference to this bill.

Senator TOWNSEND. All right. I will come back to that question later, then.

The CHAIRMAN. May I ask you a question with reference to the bill? As to the low-cost houses which are constructed after the act goes into effect, does the 90-percent insurance apply?

Mr. ECCLES. It does not. You mean the 90-percent loan value?

The CHAIRMAN. Yes.

Mr. ECCLES. That applies only to new homes built after this bill goes into effect, and it applies only on properties where the appraisal is \$6,000 or less.

Senator BULKLEY. Where the mortgage does not exceed \$5,400?

Mr. ECCLES. The appraised value.

Senator BULKLEY. The appraised value might be higher. That would not preclude it, would it?

Mr. ECCLES. What I should have said is this: There is a scaling-off there which makes it 80 percent or 85 percent until it works out.

The CHAIRMAN. That is what I assumed in my question.

Mr. ECCLES. Yes.

The CHAIRMAN. We have had suggestions from builders that we include houses which are actually in course of construction now, the construction of which began before the enactment of this bill, if it is enacted into law. What do you say about the justice of that?

Mr. ECCLES. I would hesitate to make it retroactive. It seems to me that when the houses were started it was done on a program of 80-percent financing. There is no reason now to make it apply on those houses. When you make a thing retroactive there is always the question of when the construction was started, and you would complicate it and get into too many difficulties. In my judgment, it ought only to apply after the bill has been enacted. I think that is perfectly fair.

Nothing has been said about mortgage associations. I am anxious to see financial institutions—

Senator TOWNSEND. Before you get to that may I ask you one question? This may be far off. Which plan do you think would

attract the most private capital and build the most houses, the plan which we are considering here or the plan to modify the income tax on individuals who would build, say, 50 or 1,000 \$5,000 homes?

Mr. ECCLES. Well, possibly immediately the latter might get the better results. However, over a long period of time such a program as that could not continue as a practical matter.

Senator TOWNSEND. Do you think it would cost the Government more than this plan will?

Mr. ECCLES. As a temporary measure, to induce people with money to put it into places of this sort, because of the subsidy which it amounts to—I mean, where you waive a substantial proportion of the income tax, which that proposal would involve, it simply means that the Government is subsidizing home construction, but not to the home owner. The subsidy is going to the person with the income, and is not necessarily going to the home owner. I would far sooner see—

Senator TOWNSEND (interposing). Suppose you apply it to the inheritance tax?

Mr. ECCLES. I would far sooner see the Government give a direct subsidy to the home owner.

Senator BULKLEY. What would you say to a direct subsidy to encourage the building of homes?

Mr. ECCLES. Well, of course, if the recession continues, any subsidy that acts as a leverage to induce expansion of private business activity is certainly far cheaper than relief. I do not know of any place where, if a subsidy is justified, it could do more good and be more desirable than in the field of housing.

Senator BULKLEY. How much subsidy should there be to give real encouragement?

Mr. ECCLES. I am not advocating it. I do not want to be put in that position at this time. I think this bill should be considered separately from that idea. The thought here is to do as much as it is possible to do without a direct subsidy.

Senator BULKLEY. Yes; but the advantage of this bill, according to your testimony, is very speculative in its effect on labor and material costs, although it tends in the right direction. But you do not give us any encouragement that we are going to be able to materially reduce financing costs. So what is it going to do to stimulate home building?

Mr. ECCLES. If the question of a subsidy of some kind is to be considered, I think it should be considered in connection with other economic aspects of the problem.

The CHAIRMAN. We have it now in the case of slum clearance.

Senator BULKLEY. We subsidize them to rent, but we do not in the case of home owners. Obviously, it is better to own homes than to rent.

Mr. ECCLES. I advocated in 1934, at the time this matter came up, a subsidy of 20 percent as an inducement to get a large volume of home construction.

The CHAIRMAN. A subsidy to whom?

Mr. ECCLES. The people that would build homes.

Senator TOWNSEND. My reason for asking you the question was—

Mr. ECCLES (interposing). In other words, if you get \$80 of private money I think \$20 of Government money would be about the proper proportion.

Senator BULKLEY. That would be a subsidy directly to the home owner?

Mr. ECCLES. Well, if it went to the builder the home owner would get it because of competition. It would reduce the price. It would reduce the price of the home to whatever amount the subsidy was.

Senator TOWNSEND. And it would encourage mass production, which we are trying to bring about. The reason I asked the question was that I have prepared an amendment to the revenue act dealing with that question, along that line, and I wanted to get your opinion as to whether it was sound or not.

Mr. ECCLES. I would think, Senator, it would be sounder to give a direct subsidy to the home owner than it would to give the subsidy to the taxpayer to get him to build homes, because the home owner would get no benefit, so far as the reduced rent or the reduced cost of the home is concerned.

Senator TOWNSEND. Surely he would—by mass production, which you said is the only way to make this bill effective.

Mr. ECCLES. In the other way you get both; you get mass production and a subsidy to the home owner.

The CHAIRMAN. Does that mean irrespective of the income of the individual, he will get from the Government a 20-percent subsidy on the house that he builds?

Mr. ECCLES. No. I think what you would have to do would be to apply it on small homes, and you would also have to apply it on apartments where they—

Senator TOWNSEND. Where they were less than \$5,000?

Mr. ECCLES. Well, on apartments where the cost per room made them available to the lower-income groups.

The CHAIRMAN. We have the slum clearance bill, as you know.

Mr. ECCLES. That covers only a few of the large cities.

The CHAIRMAN. I understood when that was being considered that you were not in favor of a subsidy. Am I wrong about that?

Mr. ECCLES. You mean, in connection with slum clearance?

The CHAIRMAN. Yes.

Mr. ECCLES. I took this position last spring when prices were advancing very rapidly, that it was a time when any stimulation that Government activity gave only made for an increase in price or an increase in shortage; that if we were going to have the Government's action compensatory they should have slowed up their spending and their action in the fall or winter. That in itself would have tended to reduce the peaks. Then they could start up again. The difficulty is that the Government is not quite flexible enough. We are too slow stopping our spending and we may be too slow in starting it. We increase it with private spending and accentuate the upswing, and we decrease it with private spending and accentuate the downswing.

Senator BULKLEY. What would you suggest as the maximum subsidy for any one home?

Mr. ECCLES. Senator, I am not prepared to discuss that, because I have not really given any study to it at the present time. A subsidy is to be considered either in the form of a subsidy to the home renter, that is, the person who builds places to rent, or a subsidy to the home

owner, with a guarantee to labor of an annual wage. It seems to me if we want to go into the matter of the Government taking a greater part—and I am not saying we possibly should, we may have to—if we want to go into that, there are several things that we certainly could do. One would be in the case of the annual wage. The Government itself might work out a mechanism to insure an annual wage in consideration of a substantial reduction in the hourly wage. That would tend to reduce costs; and in consideration of that it might ask the large industries that are engaged in construction—and, as a matter of fact, there are only comparatively few of them; you could take 15 or 20 of your building material concerns, and you would cover the great bulk of the building material field—get them together and get them to agree on certain basic prices that they would make and would agree to maintain for an indefinite period.

Those are possibilities. That may be a better way to get at it than either the way the Senator proposes here or the suggestion that has been made that a direct subsidy be given to the home owner in order to get the costs down.

Senator BULKLEY. When you say it is better than the way the Senator proposes, you mean better than the way Senator Townsend proposes?

Mr. ECCLES. In my opinion, I think it might be a better way to meet the problem.

Senator TOWNSEND. I am only hunting for the best plan.

Mr. ECCLES. I think your plan would have some effect.

The CHAIRMAN. If we engage in this program of subsidizing home building below a certain cost per house, have you any estimate of what it would cost the Government, what appropriation the Committee on Appropriations would be called upon to make?

Mr. ECCLES. No. In working on this plan it was the desire of the President that it would be worked upon on the basis of using private capital, and in no way involve the Government beyond sitting in the background through this guaranty.

The CHAIRMAN. The suggestion was made that we might give 20 percent of the cost of the house to the individual as an inducement to build the house. If we engage in a program of that kind have you any estimate of how much that might cost, say, the first year?

Mr. ECCLES. Of course that would depend entirely upon the number of houses that are built.

The CHAIRMAN. Oh, yes; of course. I am not suggesting that, but it was suggested here.

Mr. ECCLES. That might stimulate building very greatly; and, of course, if that were done the purpose would be to get a maximum amount of construction. The difficulty would be that it might only tend to keep prices and wages up, and even to put them higher, whereas, approaching it from the other point of view, it would seem to me to tend to stabilize prices. That is why it would seem that a good deal of thought should be given to what may be the best way if the Government is going to do more than is proposed in this legislation—what would be the best way to do it in order to get the best results.

Senator TOWNSEND. If you modify the inheritance and income taxes to bring capital in, of course the Government takes no risk at all except in the matter of revenue.

Mr. ECCLES. Of course it would lose revenue. There is not any difference, it seems to me, in the fiscal effect, whether it loses revenue by making tax concessions—

Senator TOWNSEND (interposing). Or by taking a chance?

Mr. ECCLES. Or by collecting the taxes and itself making the subsidy or the concessions either to labor or to the home owner.

Senator TOWNSEND. That is exactly right.

Mr. ECCLES. From a fiscal point of view it makes no difference. It is just a question of which would give the best results.

The CHAIRMAN. This is perhaps a question which is quite general, but while I agree, as you have stated, that this is not a panacea, I think there is a feeling throughout the country of a cooperative spirit; much more than there has been in a good while, with business and labor expressing their willingness to cooperate with the Government in a campaign such as is involved in this legislation. Do you not think that a great deal can be accomplished by cooperation? I mean, to bring about some of the ends which you think ought to be brought about?

Mr. ECCLES. I think that depends upon another development. I think this, as a part of the program, is very essential. It certainly is essential to have a broad financial mechanism that makes possible the construction of homes to rent and homes to own. So that other things being favorable, this will contribute what home construction should contribute to the benefit of our entire economy.

Home construction for a great number of years has not contributed its part to the field of employment and production, and from a social point of view it even ranks along with clothing in its essential aspect.

We have no housing shortage in the sense that people have not got some place to live. As a matter of fact, we could go along for years and possibly build practically no homes, and people would still have some place to live. It is true that the places in which they live would be very undesirable, and it would be a reflection upon our system to have millions of idle people and idle facilities on the one hand and great masses of our population living under most unfavorable and most undesirable home conditions.

Senator TOWNSEND. The slum-clearance bill of Senator Wagner is taking care of that, is it not?

Mr. ECCLES. That touches the cities. A great part of this country it does not cover. It covers a small part; it covers the very low income group. But the great masses of the people are not benefited.

The CHAIRMAN. There was not enough money authorized to do a great deal. It is just a beginning, just as this is a beginning.

Senator ADAMS. Mr. Eccles, how would you apportion the various elements leading up to the desirability of the home-building program? That is, you have been discussing the desirability of better housing. That is one thing. The desirability of stimulating industry and stimulating employment is another aspect of the question. Of course they cooperate. But as I understand the purposes of this bill, its primary purpose was to stimulate employment and industry; that we had reached a point of decline and it was one of the agencies or means to stop that decline. It is a matter of indifference to us, from the standpoint of this bill, whether it is an apartment house which was built to be rented, or a home to be occupied by the owner;

or a home that is to be rented. What we had in mind was bringing in the capital to employ people both directly in the construction of the homes and in the production of materials.

Mr. ECCLES. I think that is correct, that this is approached possibly more from the economic point of view than from the social standpoint; although they are difficult to separate. I think that is true.

Senator ADAMS. Of course the reason that we are questioning you more, perhaps, than we have questioned any other witness is that we know you speak with authority on these subjects, and I think we all recognize your unusual capacity.

Mr. ECCLES. Thank you, Senator.

Senator TOWNSEND. We do not have the honor of having you present with us very often.

Mr. ECCLES. That is your own fault, Senator.

Senator TOWNSEND. I want to refer to my former question again. When, from your statistics, did the recession or slump begin?

Mr. ECCLES. The general index of production in either August or September showed that there had been up to that time no recession except the seasonal summer recession which always occurs or usually occurs in the summer.

Senator TOWNSEND. What has been the decline in commodities and security values from, say, back as far as March, according to your records?

Mr. ECCLES. What I am speaking of, of course, is the production index of the Federal Reserve Board. I think it got up to a high point, as I recall, of 121. That is based on the 1923-25 index figure of 100.

Senator TOWNSEND. Are you referring now to commodities?

Mr. ECCLES. I am referring to what is called the production index. It takes a great cross section of production, and they give weighted figures. The figure is adjusted from time to time, based on improvement in the economy; for instance, automobile production, steel production, agricultural production. Those, together with a great many other items, give us a great source of figures, and they are compiled monthly, in order to determine what the index is. One may go down and another up, and, of course, there would be no change in the total production.

Senator ADAMS. Did not the decline really begin when things began to get too high? Is not that where you have to go back to your origin, when we got things overvalued?

Mr. ECCLES. That is correct. That is what started it. In other words, the decline would have come very much sooner except that there was a huge backlog of orders. Business placed orders far in advance, not through any lack of capital. They placed orders in order to put their money into things, and there was a lot of forward buying. That is what many of the industries were operating on all during the summer period.

Senator TOWNSEND. What was the underlying cause of the decline?

Mr. ECCLES. High prices.

Senator TOWNSEND. Prices were too high?

Mr. ECCLES. It was a lack of balance. Taking unorganized labor and agriculture and people with fixed incomes, those engaged in public service throughout the country, if their incomes had gone

up in proportion to the incomes of organized groups, and in proportion to the increase in business profits, then, of course, the dollar would have merely bought less, but everybody would have had more dollars, and the increase in prices would not have been so important. It is true that railroad rates would have had to be increased in relation to the increases in price, and other fixed rates would have gone up. Interest rates would very likely have gone up, and especially on long-term investments. What happened was that the increases were not uniform; and in the important field of construction the costs went up possibly more rapidly than in almost any other field.

Senator ADAMS. Would it not follow from that explanation that this depression, or whatever you choose to call it, could be more rapidly met than one which had other fundamental causes, such as excess of individual indebtedness, which we had back in 1929? In other words, if prices are too high, and there is an accumulation of unneeded inventories, that is a thing which automatically works itself out, does it not?

Mr. ECCLES. At least the inventory does. The price adjustment may not come about. We have got more rigidity today in prices than we have ever had and to the extent that they are slower in adjustment downward while the others are slower in adjustment upward, then to that extent you will prolong the recession.

From the standpoint of the banking situation it is very different. The stock market went up without the use of credit; that is, there was some small extension of credit. The Reserve Board increased the margin requirements a year ago last April.

Senator TOWNSEND. That was one of the questions I wanted to ask you.

Mr. ECCLES. That increase tended to keep credit, I think, from going into the market. However, the market still went up, because there was a considerable amount of foreign buying for cash and a good deal of domestic buying for cash.

Senator ADAMS. Some of it was inspired by the same practices that led to the increased inventories.

The CHAIRMAN. Overoptimism?

Senator ADAMS. The purchase of things as distinguished from money.

Mr. ECCLES. In 1929 we had about 9 billions of credit, brokers' loans, whereas at the present time the brokers' loans are somewhere around three-quarters of a billion. They are less than one-tenth of what they were at that time. They had never got up to more than a billion and a quarter. I do not recall the exact figure, but I know it did not exceed that. So you do not have that forced liquidation; you do not have a lot of foreign loans throughout the country such as we had in 1929, that have to be liquidated.

Senator TOWNSEND. There are quite a few foreign loans, are there not?

Mr. ECCLES. Not new ones. We do not have any new problems. That is what I mean. We do not have 8 to 10 billions of real-estate mortgage bonds that represent 75 to 150 percent of the value of properties, bearing a very high rate of interest, to have to go through the wringer.

The CHAIRMAN. They have been liquidated, have they?

Mr. ECCLES. Yes, sir. The farm-debt problem has been reduced. Through the Home Owners' Loan Corporation there has been, as you know, a refunding of a lot of unsound home-mortgage debt. Possibly the most important feature is that the banks today, instead of being heavily in debt to the Reserve System, as they were at that time, have no indebtedness and have in the aggregate around a billion and a quarter of excess reserves.

Senator TOWNSEND. I think you are right. I think the situation is far better than it was in 1929. I am glad to get your reaction, though, with reference to the feeling that prices are too high, and that that was the reason for the recession. You know, some have been unkind enough to say, which I do not believe, that this recession started from the statement that you have referred to here, that the Federal Reserve Board made. Some have said it was on account of excess reserves.

Mr. ECCLES. Then I am glad I made the statement, because, as a matter of fact, it would have been most unfortunate to have had a cyclical inflationary development continue and have a construction program, if it could have been possible to develop it, which I do not think it was possible to do, irrespective of any statement—but to have a construction program built upon a basis of increasing inflationary costs would have been a bad situation.

The CHAIRMAN. During the period when those mortgage certificates were issued, and when everything was sky high, a lot of apartments were built and then the crash came.

Mr. ECCLES. Yes; that is right. If the stock market had continued to go on inflationary psychology, and construction was under way on a large scale, on an increasing basis of cost, it would have meant there would have to be a very large continued expansion of bank credit generally, and the most that we could have expected is that it would have merely carried on a little while longer on a basis of increasing costs.

Senator TOWNSEND. And the collapse would have been worse?

Mr. ECCLES. Yes. There would have been more credit to liquidate, and we would have had to fall from a higher point and the economy would have been more out of balance, because merely an inflationary development would not have lifted agricultural prices that were dependent on world prices. The world price makes the price of many of the agricultural products. Certain agricultural products, such as dairy products and vegetables, depend largely upon the conditions of employment; but our basic agricultural products that depend upon world prices, and our price inflations here, that are short lived, are largely a domestic development.

Senator TOWNSEND. You thought prices were too high in the spring. Do you think that now they are down to where they ought to level off, or do you think they are still too high?

Mr. ECCLES. Taking prices as a whole, I do not think they were too high in the spring. The index of prices was still considerably below the 1926 level. It was the lack of balance of prices. Steel, for instance, was 20 percent above 1929, and other prices were very much above 1929 prices. We had organized labor with an hourly wage rate that was in various fields of activity, from 20 to 25 percent to as much as 100 percent above the 1929 levels, whereas in other portions of the economy, in the field of agriculture, for instance, agricultural

prices were substantially less than in 1929; that is, many of them were; but among the great mass of unorganized workers, farm labor, domestic service, people in the public service, old people depending upon annuities, their income was substantially less. When we think of prices being too high or too low we think often of an individual price rather than the whole index and the things that make up the cost of living.

Senator TOWNSEND. The whole index has declined probably 40 percent, has it not; that is, the level of prices of both securities and commodities?

Mr. ECCLES. Oh, no. The index figure of the cost of living—

Senator TOWNSEND (interposing). No; I mean general prices of securities and commodities.

Mr. ECCLES. The figure that is the important figure is the cost of living index. What security prices may be in and of themselves is not taken into account in the cost of living.

Senator TOWNSEND. But that is a fact, is it not, that they have declined 40 percent in 6 months, on both commodities and securities?

Mr. ECCLES. If you are speaking of equity securities, stocks. High-grade bonds have gone up. Equity securities have gone down on the average from the high point last spring to fully 40 percent, if not more.

Senator TOWNSEND. Do you think that the increase in the Federal Reserve requirements to 100 percent had any effect?

Mr. ECCLES. The Federal Reserve Board increased reserve requirements in 1936, on the 15th of August, by a billion and a half dollars before there was any rise. The Treasury started to sterilize gold. It announced a sterilization in December before the really important rise.

Senator TOWNSEND. Do you think that had any effect?

Mr. ECCLES. I am merely telling you that those things were done before there was any rise at all. I should not say, before there was any rise at all, because by December there was some.

Senator TOWNSEND. There was a rise in prices all through last year, was there not?

Mr. ECCLES. From the middle of summer up to the end of fall the average price level was practically uniform. The increase of reserve requirements was announced in January by the Reserve Board, at the peak of prices. There was no recession of prices, where it was visible, until late in summer.

Senator TOWNSEND. You mean, commodity prices?

Mr. ECCLES. I am speaking of the cost of living index. In fact, the price of many things continued to go up all during the summer. The action in increasing reserves did not put on any brakes. It certainly took up some of the slack, through the very fact that it was a notice, I suppose, that the Federal Reserve Board was conscious of this price development.

Senator TOWNSEND. It kept the trend from running away?

Mr. ECCLES. It might have served notice that it might restrain further expansion. However, we were criticized very severely last spring for not putting on the brakes much earlier.

Senator TOWNSEND. By whom, principally? The banks themselves?

Mr. ECCLES. Well, the financial press was very critical. If you will recall, I gave a statement, saying it was not the monetary factors; it was the monopolistic practice of putting up prices; that I was very much opposed to using the means of tight money to deal with a problem that was not monetary.

Now, we come to a position where we are blamed by a good many people for bringing about a decline. It is perfectly evident to me, as it has always been, that it makes no difference what you do with reference to dealing with the monetary and credit picture you will always have a large body of opposition.

The CHAIRMAN. It depends on whose ox is being gored.

Mr. ECCLES. If the economy had been thrown further out of balance by continuation of high prices, and credit had been used to a greater extent in the purchase of securities and in the expansion of business generally, then certainly those charged with monetary powers would have been subjected to very great criticism for not acting sooner.

Senator TOWNSEND. Yes; that is true.

Mr. ECCLES. Of course we are only human and all we can do is to try to do what we think is in the public interest. I am not saying that it is possible to always take action at exactly the right time and always to take appropriate action.

Senator TOWNSEND. Anyhow, you do not think that that contributed to the slump?

Mr. ECCLES. I think it tended to restrain a further inflationary development.

Senator TOWNSEND. What effect will this depression have on the effort to balance the Budget?

Mr. ECCLES. It will make it extremely difficult, if not impossible, should the depression continue.

Senator TOWNSEND. I wanted to get your reaction on that.

Mr. ECCLES. There are several points that I did not get an opportunity to speak about. Maybe you do not want to hear any more about the housing bill at this time, Mr. Chairman?

The CHAIRMAN. There is one question that has interested me very much. I will ask that, and then we will continue on the housing bill. You said prices were still rigid. Is that because those who have got large inventories are trying to get the higher prices that they were compelled to pay for particular products at the time they stored up, or the monopolistic practices? Is there an explanation of it?

Mr. ECCLES. It is natural, of course, for people to resist taking losses. Competition very often forces losses. I do not think that we can say that prices are uniformly rigid.

Senator TOWNSEND. I was going to ask you if you could specify any commodity or thing on which prices were right.

Mr. ECCLES. I would say there is far more rigidity in the prices today than there has possibly been in the past. I think the N. R. A. possibly might have contributed to making possible that situation. In the field of labor, labor is much more thoroughly organized, and there are many more labor contracts than there were before. Those factors contribute, of course, to the rigidity of prices.

Senator TOWNSEND. You do not see much prospect of modifying that, do you; they are so well organized?

Mr. ECCLES. No; I see no prospect. The slowness with which either one group of prices comes up or the other group comes down will determine to some extent the length of the recession or depression.

Senator TOWNSEND. I think you are right.

Mr. ECCLES. If by some means the rigid prices and rigid wages can be adjusted quickly, every one will be better off, because there will be full employment and greater annual incomes, a greater volume of business and greater profits. But that is a difficult thing to achieve. It would tend to put one portion of our economy in a closer balance with the unorganized portion of it.

I would like to say just two or three words on this bill, Mr. Chairman, to sum up. It is very desirable, in my opinion, that this legislation be passed as soon as possible. It will at least tend to give a direction; it will be an indication to those contractors and those people who desire homes as to what can be done.

There is an uncertain picture today, of course, as to how favorable are the financing terms going to be, and as soon as it can be determined definitely, as far as this aspect of it is concerned, the sooner we can move into the broader field; the sooner it can be determined what prospect there is of construction activity.

This legislation provides a mechanism for every field of housing construction.

Senator TOWNSEND. Would you not consider this bill really most favorable to the big contractor?

Mr. ECCLES. Yes.

Senator ADAMS. You have got two problems, both of which must be met if this is to operate properly. You must stimulate the fellow who wants to build a house or a building. That is, he must feel that it is advantageous to him to put his own personal obligations or his credit obligations behind the construction. Then, on the other side, you must encourage the bank or the financial institution to believe that there is profit in taking over those obligations. If you do not have the stimulus of the fellow who wants to build, or if you do not have the other, it will not be a success. They must coexist.

Mr. ECCLES. You have got to have a willingness to borrow and a willingness to lend; that is true.

Senator ADAMS. The moment you make the mistake of going to the extent of losing either of these approaches, the bill is a failure.

Mr. ECCLES. I discussed, Senator, earlier the need of making lending a little more attractive. The most important feature has not been mentioned at all. That is the organization of mortgage associations.

The mortgage-association proposal does two things; it provides a market for insured mortgages in those areas of the country where there may not be surplus funds. Funds can be siphoned in there from sections of the country where there are surplus funds. The fact that a mortgage association stands ready to take insured mortgages, leaving the local institutions to service them, will be an inducement to the local institutions to make the loans. In many instances loans will be made without selling them at all at the time; but the fact that there is a market would induce them to make loans, whereas otherwise they would be less inclined to do so.

Senator ADAMS. Mr. Jesse Jones said he endeavored under the existing act to encourage those associations, but he was unable to persuade any responsible people to go into that.

Mr. ECCLES. That is correct.

Senator TOWNSEND. Can the Reconstruction Finance Corporation under the present law do practically the same thing that we are endeavoring to do under this bill?

Mr. ECCLES. No. The R. F. C., I assume, can organize a mortgage association, but it would take the mortgage association to do what is being proposed.

Senator TOWNSEND. They have already made a good many loans.

Mr. ECCLES. They have merely bought them outright and have laid no debentures against them. The thought is to set up a \$50,000,000 mortgage association which can sell 20 times the volume of debentures. I think those debentures should also be made tax-free.

The CHAIRMAN. Free of Federal tax?

Mr. ECCLES. Yes.

The CHAIRMAN. We provide for State and local exemption, not Federal.

Mr. ECCLES. If the R. F. C. stands ready to buy those insured mortgages, which I think they should do, at par, permitting the institution selling the mortgages three-quarters of 1 percent for servicing them, that would give them $4\frac{1}{4}$ percent. On the larger loans where the rates will likely be $4\frac{1}{2}$ percent, the servicing cost they would likely take care of themselves in many cases, and in other cases the servicing cost would be less than three-fourths of 1 percent.

Senator ADAMS. It has occurred to some of us that 20 for 1 is a little excessive.

Mr. ECCLES. I am sure that no private capital would be likely to be interested at any time unless there is that sort of a leverage. I do not think it would be profitable on a 12 to 1 basis. I think at 20 to 1 they are perfectly safe. There is a 5-percent cushion in capital, and then the fact that they can only invest in insured mortgages or Government bonds or cash would seem to me to make the debentures absolutely safe.

The CHAIRMAN. You mean that under 12 there would not be enough volume?

Mr. ECCLES. There is not enough leverage, because you have got to operate on a very thin margin. Out of the $4\frac{1}{4}$ percent, we will say, that the mortgage association would get, they would have the cost, of course, of selling and distributing their debentures to the investors, and those debentures would be in competition with other forms of securities.

The CHAIRMAN. What interest would they have to have?

Mr. ECCLES. It seems to me they should be given the same tax-free feature that the instruments used by the Farm Credit Administration have, and the instruments used by the home loan bank system have, and they should not be put at a disadvantage as compared with the other financial instruments which are in competition.

The CHAIRMAN. What interest would they bring, do you suppose, if they were not tax-free?

Mr. ECCLES. It would depend upon the maturity of the debentures. Take a 20-year maturity and a non-tax-free debenture, and it would likely sell at from $3\frac{1}{2}$ to 4 percent. So it would make it practically impossible for the mortgage association to operate without that feature, unless they allowed less than three-quarters percent for handling these small loans. If they did that the local institution in the beginning would not be willing to make the loan.

What I am trying to do is to make it possible to get these local institutions to loan at the lowest possible rate. I have tried to indicate here that I think 5 percent is proper; and that is possible only if you have the R. F. C. in the picture willing to buy the insured mortgages. They will only have to buy a very small part, but the very fact that they are willing to buy them will keep the market at $4\frac{1}{4}$. If they can issue their debentures in competition with other tax-free securities it would put them in a position to buy these insured loans on a basis that would be profitable for the financing institutions to lend money on.

Senator ADAMS. These mortgage companies will be privately owned?

Mr. ECCLES. Entirely.

Senator ADAMS. How can we justify legally saying to the State of New York, "While this is privately owned and is not an instrumentality of the government, you may not tax it"?

Mr. ECCLES. I am not talking about State taxes. What I am talking about is putting them in the same position as Government bonds.

The CHAIRMAN. I doubt very much whether we can do it. The bill provides for it.

Mr. ECCLES. What I mean is, putting them on a comparable basis to the home loan bank bonds.

Senator ADAMS. They are exempt, are they not, from State and local taxation?

Mr. ECCLES. If we like we can make these exempt.

The CHAIRMAN. Do you think there is sufficient incentive for the organization by private individuals of mortgage associations?

Mr. ECCLES. No; not now.

The CHAIRMAN. You do not think it is attractive enough?

Mr. ECCLES. It may be, in time, if there is a large volume of insured mortgages that seem to be available for the market; but nobody would organize one of these companies if there was not an opportunity to buy insured mortgages. There would have to be a very much greater volume of lending than there has been.

The CHAIRMAN. Let me ask you just one question. Suppose private individuals did take advantage of the law and organize mortgage associations, and we make the debentures or bonds tax free. We are making free of tax an issue of debentures by a private institution, then, are we not?

Mr. ECCLES. The law provides that these mortgage associations are instrumentalities of the Government, even though they are privately owned.

Senator ADAMS. Would that stand in the face of the facts?

Mr. ECCLES. I do not know. The home loan banks are all privately owned, and the Federal land banks are privately owned.

The CHAIRMAN. In part.

Mr. ECCLES. The Federal Reserve System is privately owned. You have those agencies privately owned which are instrumentalities of government.

Senator ADAMS. The Federal reserve banks are owned privately, but the instrumentalities that own them are national banks which have been recognized as instrumentalities of the Government.

Mr. ECCLES. The law provides that these mortgage associations are recognized as instrumentalities of government, as a national bank is recognized as an instrumentality of government, because they exist by a Federal charter being granted by the Federal Housing Administration. The association is subject to examination and to the rules and regulations of the Housing Administration. It is restricted in its investments to insured mortgages, cash, and Government bonds, as I understand it. Therefore the restrictions imposed by an agency of government seem to me to make it an instrumentality of government, just as is true of these other agencies referred to; and this provision that is referred to in reference to taxes is merely one that exists by legislation covering the creation of these other agencies.

The CHAIRMAN. You may be right about that. In answer to a question by Senator Townsend I do not think you meant to say what you said. The Senator said, "This bill is really a bill for large contractors, is it not?" And you said yes.

Mr. ECCLES. The bill itself, of course, permits any qualified lending institution to make insured loans. It does not discriminate. The Federal Housing Administration loans no money; it insures mortgages made by National and State banks.

The CHAIRMAN. Yes; I understand that. While it is intended to induce large-scale operation, large projects, we are attempting to benefit others than merely the contractors that build large projects.

Mr. ECCLES. This benefits primarily the home owner.

The CHAIRMAN. Of course.

Mr. ECCLES. If there is mass production, that tends to reduce the cost to the home owner. That is the thing, it seems to me, that you are primarily interested in.

The CHAIRMAN. Exactly. But the record, I think, would show that in answer to Senator Townsend you said that this was a bill for the large contractor. I do not think the Senator meant to make his question quite as comprehensive as that.

Mr. ECCLES. I am glad you raised the point, because this bill certainly is designed to help one group of people, and that is the home owner. To whatever extent it can it creates more and better housing at lower rents and cheaper costs. If it does not accomplish that as an objective, then it is not a worth while bill.

The CHAIRMAN. And that can be done best by large projects?

Mr. ECCLES. So far as the manufacturer is concerned and so far as the contractor is concerned, all that is secondary to the objective of the ultimate home-owner consumer.

The CHAIRMAN. I am glad I asked you that question.

Thank you very much, Mr. Eccles. As always, you have made a great contribution toward our understanding of the legislation.

The committee will adjourn now until tomorrow morning at 10:30 o'clock.

(Whereupon, at 1 p. m., the committee adjourned until tomorrow, Thursday, December 9, 1937, at 10.30 a. m.)

TO AMEND THE NATIONAL HOUSING ACT

THURSDAY, DECEMBER 9, 1937

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to adjournment, at 10:30 a. m. in the hearing room of the committee, Senate Office Building, Senator Robert F. Wagner (chairman) presiding.

Present: Senators Wagner (chairman), Barkley, Bulkley, Reynolds, McAdoo, Adams, Maloney, Brown of Michigan, Hitchcock, Herring, Townsend, and Frazier.

The CHAIRMAN. The committee will come to order.

Mr. Lewis was to be our first witness, but he is engaged with the anthracite operators in one of their most vital meetings, involving the welfare of the entire industry. He thought that he might possibly be here today, but they are still meeting and may continue to hold meetings throughout today and tomorrow. He is hoping for a later opportunity to appear, but if that is impossible he will file a statement that he intended to make as a witness in favor of the legislation.

The CHAIRMAN. Mr. Meyer, we shall be glad to hear from you.

STATEMENT OF CHARLES GARRISON MEYER, BAYSIDE, N. Y.

The CHAIRMAN. Mr. Meyer, will you give us your full name?

Mr. MEYER. Charles Garrison Meyer.

The CHAIRMAN. I know that you have had great experience in building and housing projects and that you have also made a deep study of the entire subject. That is the reason why I invited you to be a witness here. I wish that you would give the committee the benefit of your experience and views.

Senator FRAZIER. May we ask where the gentleman is from, Mr. Chairman? Many of us on the committee do not know everybody from New York.

Mr. MEYER. Bayside, Long Island, is my home address.

Senator TOWNSEND. Where are your building operations?

Mr. MEYER. Forest Hills and several other places in Queens County. They are almost entirely in Queens County, which is a borough of the city of New York.

The CHAIRMAN. Will you tell us something about your building operations?

Mr. MEYER. We started in Elmhurst in 1897. We started Woodside in about 1908. We started Maspeth a little later and went on to Forest Hills in 1907.

Senator TOWNSEND. Would you care to state about how many apartments you have built or what has been the size of your development?

Mr. MEYER. Elmhurst consisted of several hundred houses, mostly single-family houses. Within the last 15 years we have built there ourselves, as builders, about 15 or 18 apartment houses.

The CHAIRMAN. Housing approximately how many families?

Mr. MEYER. Oh, in Elmhurst, 2,000.

Senator TOWNSEND. About what priced apartments? What has been the cost per room?

Mr. MEYER. About \$20 to \$25. Some have been a little lower—at \$18 and \$17.

Senator TOWNSEND. The cost per room?

Mr. MEYER. No; the rental per room.

Senator TOWNSEND. No; I meant the cost.

Mr. MEYER. Oh, the cost per room? That is a pretty hard thing to say. I can give you the present-day cost of them. The present-day cost of them would run around, without the land, \$1,400 or \$1,500; other ones down to about—well, in the Government project at Woodside it ran about \$900, and in the private enterprise it ran to about \$1,200—of the cheap ones—a room.

Senator TOWNSEND. Why is there the difference between the Government project and the private project?

Mr. MEYER. Well, the rate of interest; and that is a limited-dividend corporation. We couldn't charge but a certain amount for the rooms. It was \$11 per room.

Senator TOWNSEND. But we are figuring on the actual cost; not the charge.

Mr. MEYER. The actual cost was predicated upon the rent we would get. If we get \$11 a room, we can only pay \$900 or \$1,000 a room, so we made them in a certain kind of architecture with certain types of brick trim on the windows and entrances, and all that sort of thing.

The modern conditions are very different from what they were when this development originally started in 1911 or 1910. Today we can have self-operating elevators, which reduces the cost of operation considerably, making it very, very much less expensive than it was 25 or 30 years ago.

Senator FRAZIER. They are satisfactory?

Mr. MEYER. Yes; perfectly. We have had those in Woodside operating 3 years.

Senator FRAZIER. Do you mean to say that you plan the cost of your building out of the rent that you are going to get out of it? I thought it was customary to determine it the other way.

Mr. MEYER. We judge the market. We do not build projects and hope for a market.

We are down here with the Federal Housing Administration for the purpose of putting up seven big units, running from 60 to 190 families a unit.

Senator TOWNSEND. Under the present F. H. A.?

Mr. MEYER. Under the present F. H. A.; yes. We are down here studying it now. Those buildings will run about \$1,400 a room, based upon a rental of about \$20 or \$22 a room. That is predicated upon a study of the demand—possible demand—that will be developed there. We have come to the conclusion that rooms that rent

for \$25 and over cannot be marketed today. We would like to build them to rent for \$18 instead of \$20, \$20 instead of \$22, because our demand for them is much greater.

We had at the peak over 8,000 applications for 1,000 apartments, and I think today on the books there are 5,000 people who want to come into those \$11 apartments. Now, the difficulty there has been not to rent the apartments but to keep out of them the people who can afford better apartments. Those apartments were not built for them; they were built for people in the small-income group.

We classify—at least, I have personally classified—this sort of thing into three divisions. The first division comprises the fellow with a \$1,000 income. He can pay about \$6. The next division is the group with an income from \$1,000 to \$2,500, and you can rent up to \$18 or \$17. Your third division is the \$2,500 and over group. They lend themselves to a very clear classification. If you have a building which you have got to rent for \$6 a room, it cannot be built in New York City. The dividing market is \$7.14 a room. Therefore, everything under that has got to be entirely a governmental undertaking.

Senator FRAZIER. The \$7.14 would be a room?

Mr. MEYER. A room.

Senator FRAZIER. But the cost would be what?

Mr. MEYER. Your cost would run—well, Mayor LaGuardia showed me the cost of his Williamsburg project the other day. He is renting his for about \$8 a room. The cost would be around—you could do it for \$1,000.

Senator McADOO. When you refer to a room, what do you mean by a room? Do you mean, for instance, closets and bathrooms are counted as rooms?

Mr. MEYER. No; a sitting room, a bedroom, a kitchen. Sometimes the kitchen is an alcove.

Senator McADOO. That is three rooms?

Mr. MEYER. That is the unit.

Senator McADOO. What accompanies that in your structure? You have closets?

Mr. MEYER. Yes; we have closets. In those Woodside houses, which are in a Government project, limited dividend, there are electric refrigerators.

The CHAIRMAN. By Government project you mean that the Government made the loan?

Mr. MEYER. The P. W. A. made the loan. We carried on and did the building and amortized that loan over a period of 28 to 30 years.

The CHAIRMAN. I did not want the impression to be left that when you referred to a Government project it was a project built by the Government.

Mr. MEYER. No. The first class is entirely governmental. The second class is governmental and private. The third is entirely private enterprise. Those classifications are set down entirely by myself.

Senator McADOO. I wanted to get clearly in my mind the classifications of the rooms. You say that a unit consists of a bedroom, a sitting room, and a kitchen? That is a three-room unit?

Mr. MEYER. Yes.

Senator McADOO. That would be available only for a man and his wife? He could not take care of any children?

Mr. MEYER. Yes; because they use the living room as a bedroom for more than one person. I have not the figures here, but I do not think you would want to get the absolute details.

Our biggest demand is for three and one-half room apartments. There is very little demand for five-room apartments. Then they go down to two.

Senator McADOO. What is the half room in such an apartment?

Mr. MEYER. The alcove.

Senator McADOO. Three and one-half rooms at \$7 a room would bring \$25 a month?

Mr. MEYER. Yes.

Senator McADOO. That is \$300 a year?

Mr. MEYER. Yes.

Senator McADOO. What will such accommodations cost to build?

Mr. MEYER. It will cost you a thousand dollars a room without the land.

Senator McADOO. Is that for an apartment?

Mr. MEYER. This is an apartment house. These are all apartment houses—multiple family dwellings—that I am speaking of, because I am speaking of municipal areas.

Senator TOWNSEND. Are you figuring on the present cost of material?

Mr. MEYER. I figure it as approximately 38 cents a foot to build.

Senator McADOO. Per cubic foot?

Mr. MEYER. Per cubic foot.

Senator TOWNSEND. How do the prices compare with the prices of 2 or 3 years ago?

Mr. MEYER. They are higher.

Senator McADOO. By about what percentage?

Mr. MEYER. You are back to your 1929 level.

Senator McADOO. As to materials?

Mr. MEYER. Materials are high, but maybe not to the 1929 levels.

Senator FRAZIER. Are you familiar with the rate per room that is paid in apartment houses here in Washington?

Mr. MEYER. No; but I have gone out to Colonial Village with some of the F. H. A. people, and I was looking over some of the houses they had at Falkland and at one place out here on Sixteenth Street, but I am not familiar with the details of it.

Senator FRAZIER. I have heard a good deal of discussion about the prices that are paid. In many of the three-room apartments in Washington \$50 to \$60 a month is what is charged. They are nice rooms, but they are not large. I was wondering what size your rooms are.

Mr. MEYER. I will give you the sizes and the classifications exactly.

Your cubical content of the \$11 apartments would be about 2,800 feet. The cubical content of the middle-class rooms would be about 3,200 or 3,300 feet. In the high-class apartments the cubical content would be about 4,000 feet. Your 2,800 foot rooms would be about 200 square feet—10 by 20.

Senator FRAZIER. The kitchen would be smaller, and so would the breakfast room?

Mr. MEYER. The biggest room would be 200 feet.

The CHAIRMAN. Mr. Meyer, the Woodside development is the one where you have the limited dividend corporation?

Mr. MEYER. Yes.

The CHAIRMAN. There do you try to limit the occupants to those having an income below a certain sum?

Mr. MEYER. Every tenant that comes in there is investigated as to his resources. His resources are about \$2,200 a year or thereabouts. We consider that he is qualified to come in, and he is allowed to come in. As far as we know, he has nothing more than our investigation reveals.

The Housing Commission in New York City has also assisted us in that sort of thing, because it is to its interest to have these lower-income groups taken care of first.

Senator FRAZIER. Do your apartment men charge them what their salaries will bear?

Mr. MEYER. No. The men who need the assistance are the fellows whom we are looking for, not the fellows who are chiseling. We do not want the fellow with a \$3,500 income to come in and get a \$11 room, because he is putting out somebody who needs such assistance. This is supervised by the housing authorities of the State; it is not run by us in whatever manner we desire to have it run. What we may and may not do is very clearly regulated by the State authorities. One of the restrictions in the law was that we had to have the consent of the housing authorities to begin an undertaking.

Senator McADOO. Aside from his income, what is his capacity to pay the rent?

Mr. MEYER. We do not want the fellow who can live in a \$15 or \$18 room taking an apartment away from a fellow who cannot afford to pay all of that.

Senator McADOO. Precisely. You enable the lower-income groups to get better housing facilities than they now enjoy.

Senator MALONEY. Can it be self-supporting under that plan?

Mr. MEYER. It is self-supporting and pays depreciation, taxes, and amortization. It is doing very well, indeed.

Senator MALONEY. Then, why does it need Government help?

Mr. MEYER. Because of the low rate of interest. We cannot hope to make the same arrangements for that enterprise privately that we could make through the Government.

We are back again with a suggestion to the Government that we go on with this project at Forest Hills, which is right alongside the fair, right alongside Grand Central Parkway, overlooking that lagoon.

I believe as a real-estate owner that we are better off with moderate prices and low rents than we are with high rents and possible vacancies in times of depression like this, or in 1929, 1930, or 1931. I would rather go along with moderate rents and have my apartments full than to get a big rent for 2 or 3 years and then have 50 percent or 30 percent of vacancies at other times.

I think we ought to come to the leasing proposition. The reason why I think that is that a leasehold reduces the capital over the structure, and you can afford to lease on a leasehold for a small interest rental. That is taken out of the cost of that enterprise, because you can afford to give them the low-interest rate on account of the security. In a foreclosure proceeding, the rent is there.

Senator TOWNSEND. What is the present rate of interest?

Mr. MEYER. Around $4\frac{1}{2}$ and 5 in New York. The best is $4\frac{1}{2}$, and it goes up above that.

Senator McADOO. In England, are not the developments leased on long-term leases?

Mr. MEYER. Yes.

Senator McADOO. It reduces the cost of investment. The capital required is less.

Mr. MEYER. The cost of the land in this proposition at Forest Hills immediately eliminates a million dollars. We can take \$30,000 a year and say, "Go ahead," and you can build anything you want on it. A million dollars, if you have to buy the land, is quite an item.

Senator TOWNSEND. You say you pay $4\frac{1}{2}$ percent interest at the present time?

Mr. MEYER. In the big centers it is low; in the outlying districts it is high.

Senator TOWNSEND. Is that paid to the F. H. A., guaranteed, or is that private money?

Mr. MEYER. Our rate, I think, is $4\frac{1}{2}$ percent at Woodside.

Senator TOWNSEND. To whom?

Mr. MEYER. To the P. W. A. on the insured loans.

Senator TOWNSEND. Do you think that is too high?

Mr. MEYER. No; I do not. This is all predicated on the hope that there will be mortgage associations established throughout the United States. I do not think we can have any big building boom until then. If we took, for example, your 12 Federal Reserve banking districts and established mortgage associations in each of those districts, and those mortgage associations bought Federal Housing Administration insured mortgages, put them in a pool, and issued debentures against them, bearing interest at the rate of $3\frac{1}{4}$ or $3\frac{1}{2}$ percent, you would have securities that would be next in importance in their quality to the securities of the United States Government, Federal obligations.

In this central pool, if any of those mortgages that have been insured by the Federal Housing Administration become delinquent or go sour for any one reason or another, turn that over to the Federal Housing Administration to service and salvage, and let the Federal Housing Administration substitute another mortgage of an equal amount, never greater, with the amount of the mortgage or debenture taken out or due at that time. In other words, you would have your security perpetually, and it would be sound. There would be no "ifs" and "ands" about it at all, because the Federal Housing Administration is sound, and therefore the security would be sound.

Senator TOWNSEND. Is that not the same plan on which a good many mortgage companies were protected in the beginning?

Mr. MEYER. No; there was never any insurance.

Senator TOWNSEND. No; they were not backed by the Government, but they worked on the same plan?

Mr. MEYER. Yes; they pooled them and sold mortgage participations against them.

Senator TOWNSEND. What was your experience with that?

Mr. MEYER. Very sad.

The CHAIRMAN. They were entirely unregulated and could do as they pleased?

Mr. MEYER. They were not regulated. There was no cash reserve or no reserve fund whatever set up. In this mortgage-association plan, in order for it to be sound, there would have to be a reserve set up, depending upon the value of the mortgages insured. There has been made a loose estimate that approximately \$700,000,000 reserve would be the peak of reserve that would be necessary for the Government to set up for the F. H. A., and that reserve would be paid back as the revenue from the mortgages was accumulated. That money would go right back to the source from which it came. If it came from the R. F. C. it would be paid back over a period of years until ultimately the entire \$700,000,000 would have been substituted by association money instead of Federal money.

Senator TOWNSEND. Do you think that the one-quarter of 1 percent that is being set up would be sufficient?

Mr. MEYER. Well, I estimated that if there was one-half of 1 percent for service and one-half of 1 percent for premium and insuring, that would be satisfactory. That is, of course, a guess.

Senator TOWNSEND. There would be a tremendous building program, and it would accumulate very fast?

Mr. MEYER. An estimated \$21,000,000,000 for the United States.

Senator BULKLEY. Over what term of years?

Mr. MEYER. Over 7 or 8 years—9 years. You must realize that east of the Rocky Mountains there were only 54,000 units built in 1936.

Senator TOWNSEND. The F. H. A. has been able to guarantee about a billion dollars in 2 years.

Mr. MEYER. But it is not operating. In your F. H. A. today, if your mortgage goes sour, you cannot get your money for possibly 18 months. For those debentures that have been issued by these mortgage associations you can get your money tomorrow morning.

Senator McADOO. I have always been in favor of mortgage companies.

Mr. MEYER. It is the only way.

Senator McADOO. I think it is a very important element in this program.

Mr. MEYER. It has got to be done nationally and cannot be done locally. All the efforts are made by private enterprise. I think all those associations should be private enterprises. But in the States where the money is not available, I think the Government should start. Others will take hold the minute they find out there is money in it. You have got to make a provision for the private enterprise, or the man is not going to risk his investment. It is a perfectly normal situation. What you allow should be predicated upon what you estimate the profits would be. It will never be a large money-making venture, but it will be a good, sound money-making venture.

Senator TOWNSEND. Which would develop the larger building program, and cost the Government less money: This present bill or a reduction of the income and inheritance taxes on money invested in small homes?

Mr. MEYER. I am not prepared to answer that.

Senator MALONEY. Which, in your opinion, would cost the Government less money: This plan or an out and out subsidy of at least 1 percent?

Mr. MEYER. I do not think this plan would cost the Government a cent; it washes itself out.

Senator MALONEY. This plan, Mr. Meyer, calls for a loan of 90 percent on this sort of construction.

Mr. MEYER. On the cheap house; 80 percent on multiple-family houses.

Senator MALONEY. Would it be possible for a contractor to make money on that?

Mr. MEYER. Yes; surely.

Senator MALONEY. I mean just on the building operations.

Mr. MEYER. Yes; 90 percent is practically the English practice, and they make a lot of money. It has been the basis of recovery in England. It is a 90-percent loan.

Senator MALONEY. So, before the contractor does a thing to rent or lease the property under the 90-percent loan, he shows a profit?

Mr. MEYER. Yes.

Senator MALONEY. So, he could turn it right over to the Government without any further worry and still come out all right?

Mr. MEYER. Oh, no; he could not turn it over. The minute the fellow who bought the house had paid his deposit, he, the contractor, would be out. He might get out square, but he could not build a house and make enough money to make it worth while for him to resign and desert.

Senator MALONEY. I perhaps have not made myself entirely clear. I presume that under this plan or set-up, when the building operation is started, a 90-percent loan is based upon the high wage cost?

Mr. MEYER. Yes.

Senator MALONEY. Upon the going wages. A man builds a large property, such as you have in mind, and he gets lower-cost workmanship if he can. I am wondering if, with the 90-percent loan and with what advantage he can get by much skill in buying and in the employment of men, he cannot build the property for actually less money than the Government lends him.

Mr. MEYER. With a large project he is not allowed to get 90 percent; he is only allowed to get 80. If he has got Government assistance, he is going to try to sell for a profit and get out of it.

Senator TOWNSEND. The thought back of the bill is that the large building project will come from building a large number of small houses.

Mr. MEYER. I was talking about multiple-family units.

Senator MALONEY. I am for the small houses, but I am fearful that after we get through, the Government is going to own a lot of big houses.

Mr. MEYER. The fact is that we supply the land and the Government supplies the building. That is, roughly speaking, what happens to us. We do the construction and do the administrative operating of the properties after they are constructed.

Senator MALONEY. But you are not in such bad shape, in my opinion, that you could not let go of the property after you had finished it and still come out all right.

Mr. MEYER. No; we are not with the big properties. The Woodside has been the most successful. We could not get out of that. The minute we would get out of that, we would lose \$600,000.

Senator TOWNSEND. You say it costs 4½ percent. What would it cost with private capital for a big proposition like that?

Mr. MEYER. It will cost $5\frac{1}{2}$ or 6 percent for money. You might have to pay a commission. It depends upon the part of the country in which you are operating.

Senator TOWNSEND. Why is that, when call money is so very, very cheap?

Mr. MEYER. It is slow security. If you take a loan on stock-exchange collateral, you can convert it in 24 hours. For a loan of a couple of million dollars on a building project it will take 2 years to convert it.

A lot of banks in New York City today are operating hotels and apartment houses. One just opened up on Central Park West, the Hampshire. It was a \$9,000,000 or \$10,000,000 proposition. It had stayed idle since the depression and was not fully completed until this year. Real estate is a slow asset, and for that you pay your extra rates of interest.

The CHAIRMAN. Mr. Meyer, as to these individual homes, even if a builder erects a number of individual houses, he gets an insured loan up to only 80 percent of the value?

Mr. MEYER. Ninety percent on the small.

The CHAIRMAN. No; it is the owner of the small home that gets the 90 percent; the builder of the entire project gets only 80 percent.

Mr. MEYER. But he owns the house until it is sold.

The CHAIRMAN. But when I want to buy that \$6,000 house, I get the 90 percent.

Senator TOWNSEND. That amounts to the same to the builder.

Mr. MEYER. For all practical purposes it is a 90-percent loan until the place is sold.

The CHAIRMAN. The builder does not get it. It is the owner who gets the 90-percent loan—the occupant of the home himself.

Mr. MEYER. He gets a building loan up to the time when the house is sold.

Senator TOWNSEND. But it finally goes to the builder.

The CHAIRMAN. Yes; the 90 percent becomes the obligation of the owner of the home.

Senator MALONEY. Then you do not think the Government is going to own any of these large projects?

Mr. MEYER. It is not going to own any of mine, if I can help it.

Senator MALONEY. I would like to have the record show that I think it will.

Senator FRAZIER. Do you mean his?

Senator MALONEY. All of them.

Senator BARKLEY. I would like to have the record show that I hope you are wrong.

Senator TOWNSEND. So would I, but I believe he is right.

Senator HITCHCOCK. They have been doing this in England and in Europe right along, have they not? Just because it happens to be a little new here we are all scared to death.

Mr. MEYER. On the financing of it they are 25 years ahead.

The man who buys a house does not buy it to speculate. He is not going to give up his home. The citizens of the United States are real citizens. They want family life. I have lived among those people and sold them enough houses to know their general idea. They want to own their homes.

In the big metropolitan areas that is not possible; it costs too much. That is the reason why the multiple-family house came into the cities. I hate to see multiple-family houses go into the outlying districts. It is too bad. In the cities, however, it is a necessity.

I would like to see the multiple-family houses restricted to 40 percent, and under, of the land. In other words, there should be provision made for light, air, cross-ventilation, and park areas.

The reason why Woodside is so good is that it occupies only 23.6 percent of the land, and the property is parked. There is no building so close that a person can look out of his windows and see his neighbor preparing for bed at night. That is essential when establishing standards. Your park areas are necessary in order to prevent slums. Park area buildings will never be slums; they cannot be slums.

We have an area that you know of, Senator Wagner, down on Delancey Street and Eldridge Street in New York City—330 acres. It is just terrible. Those 330 acres stand on the tax books at about 80 million dollars—40 million dollars improvement and 40 million dollars real value. The 40 million dollars improvement is not worth a snap of the fingers. It is going down, down, and down. It cannot get better; it cannot be rehabilitated. The city of New York has got to go in there and raze 330 acres.

Senator TOWNSEND. How long have those houses been built?

Mr. MEYER. Some of them were built in the Civil War time. They are the old-style tenements. They have bad plumbing, bad heating, bad walls. They are just bad buildings.

The CHAIRMAN. Some of the rooms have no windows in them at all.

Mr. MEYER. Some have no windows; and in some there have been cut little squares in the upper parts of the rooms to conform with the new tenement-house law. When the inspectors go around, they make the owners do that. There are violations all over the place.

Take the black belt in New York—Harlem. It is so bad they are afraid to touch it. That should be entirely a governmental enterprise; there is no profit in there for private enterprise.

The CHAIRMAN. It would not be in competition with private enterprise?

Mr. MEYER. Never.

There are one million out of seven and a quarter million people in New York who will never pay an economical rent.

Senator TOWNSEND. The testimony before this committee generally has been that the reason why the present F. H. A. plan has bogged down, causing doubt about the new plan's functioning, was that the present price of labor and material was too high. What is your judgment about that?

Mr. MEYER. I think that is partially true. The real reason for these insured mortgages not going ahead faster is the lack of liquidity.

Senator MALONE. Actually they are going ahead fairly fast?

Mr. MEYER. Well, they are not going ahead fast enough. They are going ahead, all right, by a lot of pressure from able men. If they had not been pushed, they would not have gone at all.

Senator McADOO. It is analogous to running your automobile in first speed?

Mr. MEYER. Yes; and a country like this is built for the best. These things cannot be arrived at quickly; time is needed for education. We started in with these housing ventures, practically unschooled. Our conditions are not the same as conditions in England, Sweden, Germany, or France. We have to learn our own problems and solve our own problems. We do know today what we want, whereas 5 or 6 years ago we did not know.

We can now plan for better citizenship, because we can give the public the proper set-up and better living conditions. Those are very important factors in metropolitan areas.

Senator REYNOLDS. You said a few moments ago that there are a million people in the city of New York, a city having a population of more than seven million, who do not pay you any amount sufficient to support the property.

Mr. MEYER. Yes.

Senator REYNOLDS. Can that condition in any wise or manner be remedied?

Mr. MEYER. No.

Senator REYNOLDS. Does that mean that somebody else is going to have to support those million and a half people who are not in a position to pay rent in sufficient amount to support the property?

Mr. MEYER. That is what we are doing today.

Senator REYNOLDS. Who is paying that, then?

Mr. MEYER. Hospitals, asylums, prisons. Cripples; and those people, are being supported by the taxpayers.

Senator REYNOLDS. I thought you referred to people who were living in their respective domiciles and were paying rent for those respective houses.

Mr. MEYER. No; this is taking the whole area.

Senator REYNOLDS. You do not mean people who are living in houses which are sufficient in number to house those people, who are not paying rent?

Mr. MEYER. No; I am referring to the whole population of the city of New York. Out of that population there are a million who never will earn an economic rent.

Senator REYNOLDS. That situation which exists there is no different from situations of a similar condition which exist in the other metropolitan areas of the United States?

Mr. MEYER. I think it is probably proportional.

Senator REYNOLDS. A little bit larger?

Mr. MEYER. I think ours is larger, because New York is the largest city.

Senator ADAMS. Why do you say they will not earn an economic living?

Mr. MEYER. Because they are not competent. They are half-witted. They do odd jobs like shining shoes, and things of that sort.

Senator REYNOLDS. They are unemployables?

Mr. MEYER. They are unemployable, to a certain extent.

Senator TOWNSEND. Feeble-minded?

Mr. MEYER. Yes.

Senator BARKLEY. They actually occupy houses?

Mr. MEYER. Not all of them; some of them are in the asylums.

Senator BARKLEY. But there are not a million in the asylums, are there?

Mr. MEYER. No; but they are living.

Senator BARKLEY. Those million, you say, cannot pay an economic rent, by which you mean a rent that will support the property in which they live?

Mr. MEYER. Yes.

Senator BARKLEY. What is going to happen as that property continues to deteriorate? If the rent is not sufficient to support it, the owner cannot afford to improve it, and as the years go by it will deteriorate and become less inhabitable.

Mr. MEYER. Senator Wagner and I will take you through New York and show you. It is getting worse and worse. In the city of New York we cannot go any longer without doing something about it.

Senator BARKLEY. So, you have reached the point where something has got to be done to turn the tide the other way, or you are going to continue to have more cripples and more insane people to care for, who were brought up in that sort of atmosphere?

Mr. MEYER. That atmosphere is damning.

Senator BARKLEY. It is not only damning to the city of New York, but it breaks down the standard of citizenship for the whole country.

Mr. MEYER. In New York, I desire to say, the mayor told me that he was afraid to tackle the black-belt problem. It has got to be done through Federal, State, and municipal arrangements; it cannot be done by private enterprise.

Senator REYNOLDS. Is the black-belt problem the most serious in the city of New York?

Mr. MEYER. Yes; I think so.

Senator REYNOLDS. I will ask you if another very serious condition is not that which is brought about by the vast number of aliens who are entering the port of New York annually.

Mr. MEYER. You would not call the Puerto Ricans aliens, would you?

Senator REYNOLDS. Yes.

Mr. MEYER. They are citizens, and there are 200,000 of them in the black belt.

Senator REYNOLDS. They live in that section described by you?

Mr. MEYER. Yes; and they are all sick.

Senator REYNOLDS. From tuberculosis?

Mr. MEYER. Everything. The way they sleep, for example, is terrible. In some of the rooms there are shelves put up. Sometimes there will be as many as three shelves above a bathtub, and those shelves are beds.

Senator FRAZIER. That is in New York City?

Mr. MEYER. That is in New York City, and they are rented for 25 cents or other amounts. That is what is going on in New York City today.

Senator TOWNSEND. That is a very dark picture which you are painting.

Mr. MEYER. That is only in spots. We have brighter spots.

The CHAIRMAN. The Senators heard about that before in connection with the slum-clearance legislation.

Mr. MEYER. I cannot urge upon you too seriously this problem. It is a frightful one, and the mayor understands it.

Senator MALONEY. This is not the way to correct that, is it?

Mr. MEYER. No; this is not the way to correct it. Your slum clearance comes into that classification, which is entirely a governmental enterprise, as against any personal or private interest.

Senator TOWNSEND. To get back to what we were discussing a few minutes ago, if material and labor are too high for this bill to function properly, have you any hope that those prices can be brought down; or what is your plan?

Mr. MEYER. It may be folly, but I would like to see the time come when we could take labor into partnership; when I could go to the labor unions involved in the building trades and say to them, "We are going to build this project. This project is going to take us a year or a year and a half to complete. We do not want any strikes during the construction of this project or during the life of this project. We will participate in the profits with the labor unions over and above a reasonable return on invested capital."

I would like to have that go on for the life of the building, provided I could get a responsible labor union to carry it out. The trouble today is that labor is being exploited by its leaders; not by its employers. If we can get responsible unions in the building trades, half our worries are over.

We had a strike at Woodside that cost us \$200,000, because the unions could not decide whether the carpenters should bore holes through the floors for the steam risers instead of the plumbers.

Senator REYNOLDS. If labor unions were incorporated, your company would feel more at ease, so to speak, in entering into negotiations relative to building programs?

Mr. MEYER. Just think of the worries it would eliminate.

Senator BARKLEY. How would incorporation eliminate worries? I have heard a lot of talk about making unions responsible. How are you going to make them responsible? Are you going to make them responsible criminally or civilly? Are you going to bring suit for damages? If so, how are you going to collect damages from a union? The average union or laboring man has not much money. How are you going to work out this responsibility that we hear talked about so much?

Mr. MEYER. I would not care so much if they had any money there or not, if they would stick to their contract.

Senator BARKLEY. It is always, of course, a possibility that anybody will not keep a contract. The remedy for that, however, is an action in damages for violation of the contract, where damages have accrued.

If you have an organization of labor union men and they enter into a wage agreement with you, do not keep it, and go on strike, we will say, before the time for the termination of the agreement, or for any other reason, what is the remedy?

Mr. MEYER. I think the only remedy at the moment would be participation in the profit that is in the enterprise.

Senator BARKLEY. That is an inducement to them.

Senator MALONEY. It is not an inducement; it has not been offered yet.

Senator BARKLEY. It is an inducement when it is offered. I am trying to get your idea of the degree of civil or other responsibility that is to be charged up to a labor union, whether you incorporate it or do not incorporate it.

Senator TOWNSEND. Several of the labor unions have shown that they have a good deal of responsibility and wealth, for they have been able to contribute a lot of money to different political activities.

Mr. MEYER. Yes.

Senator BARKLEY. Although the carpenters' union, the plumbers' union, the brick masons' union, and others exist in their communities, they have a loose national organization. They are not organized nationally like the United Mine Workers or some of the others. I am just wondering what is the meaning of this propaganda that we hear a good deal about, and to which there might be some merit, about holding the union responsible. I do not suppose anybody would advocate that they be prosecuted criminally for even a violation of a contract.

Mr. MEYER. I certainly would not do that.

Senator BARKLEY. If you are not going to hold them responsible in damages for violation of a contract, even if you can do it theoretically, what is the practical way of bringing about this responsibility we are hearing a lot about but about which nobody has offered any concrete plan?

Mr. MEYER. I have no plan to offer you, except that I believe that with labor organized or incorporated labor would be——

Senator BARKLEY (interposing). I think the average labor-union man, whatever his organization may be, is a pretty good citizen. I think he recognizes his own responsibilities as well as I do mine. I happen to be a member of the legal profession. I do not think there is any greater degree of responsibility and conscientiousness on the part of business or professional men than there is on the part of the workers. It may be that there are some in that line, just as there are in other lines, who are not meticulous with respect to keeping up their obligations.

When you are dealing with masses of men, many of whom are inexperienced and who are not trained in the niceties of contractual relations, public policy, and all those things, I am wondering just what is meant by the proposal that we are to pass some kind of law to hold them responsible, just as business is held responsible.

The liability of men in all professions for the keeping of their contracts is a liability that is imposed by State law, by the laws of our country, not by any act of Congress.

I am really interested to know what is behind this proposal that Congress should pass some kind of law fixing a civil or other liability or responsibility on a labor union because it happens to be a labor union.

Mr. MEYER. I speak from a feeling of possible relief in dealing with a responsible union, because if the union was a responsible union we could then make a contract with it for the life of the building or the duration of the construction of the building. That we cannot do today. We have to take a union's word, and that word can be broken or not, as they see fit.

The CHAIRMAN. Have you tried to make such a contract?

Mr. MEYER. Yes; we are talking to the heads of unions now about this new project, to get them to agree upon a wage scale, so that we can go through to completion. I think we will get somewhere, but we cannot afford such a situation as came about in Woodside.

I believe that if the laborers themselves in the unions had more say about them, there would then be moral responsibility of the men themselves. As you say, they are a fine lot of citizens. However, I think labor is being exploited by its leaders.

I think the trouble comes about by reason of the fact that those fellows do not have to give any accounting for the money they receive, because the unions are not regulated. The man who pays his \$2 a month or a week into a union is never given a report.

The CHAIRMAN. I do not want to get into that controversy. I know something about that. There are accountings made by the unions. As a matter of fact, I have seen some of them. I have seen the statement—the financial statement—of the garment workers' union. It is sent to every member of that union.

I do not want to get too deep into the question of responsibility, but there was a study made of that about 2 years ago by the Twentieth Century Foundation, a very qualified organization supported primarily by enlightened employers. It showed, as a matter of fact, that the record of labor organizations in keeping their contracts was better than that of employers in the long run, because you have got irresponsible employers. As a matter of fact, the breach of contracts was very, very small in both cases as compared with the number of contracts made.

Mr. MEYER. But this question is one of comparatively recent times.

The CHAIRMAN. You are speaking of these jurisdictional disputes?

Mr. MEYER. I am speaking about the disputes among labor unions themselves, of which we are the victims. Our laborers are in a class by themselves, as far as I have seen them. Labor in the United States is way ahead of labor as I have analyzed it abroad, and I have gone into Germany, France, and England, to study their conditions. They talk about wages. We pay higher wages, but we get more work.

Senator MALONEY. So, labor is not overpaid?

Mr. MEYER. I would not go so far as to say that; that all depends on the state of the income of the country. Your wages have got to fluctuate.

The CHAIRMAN. We had here yesterday a witness who testified that 80 percent of our families earn less than \$2,000 a year.

Mr. MEYER. I would go so far as to say 90% of the citizens earn less than \$2,500 per year.

The CHAIRMAN. So, it is a high-wages problem?

Mr. MEYER. High wages are a good thing for the country. I would like to see laborers get as much as they can get.

It is immaterial to us, insofar as that goes. I would like to take labor in as a partner for the life of the structure, and I really mean it.

Senator BARKLEY. Do you mean to pay them their wage and hold out a share of whatever profit you make?

Mr. MEYER. I will give the man with the capital or the owner of the property a fair return on his property and divide it with the labor unions over and above that.

Senator McADOO. I am very much interested in your suggestion, because I have thought a great deal about that profit-sharing method. I have thought of it more in connection with industrial corporations than I have in connection with these building operations in which you are engaged. However, I do not see why the principle could not be applied to your case and to all contractors.

Mr. MEYER. They, of course, could get the men to go along with it and have a definite period over which it should pay him—I mean to the completion of the particular contract.

Senator McADOO. There is one point in there that I have never been able to work out in my own mind. Your idea is to meet that by letting the unions share in the profits and let them be responsible for the distribution of the profits to the individual?

Mr. MEYER. It goes into the union treasuries—the plasterers' treasury, the plumbers' treasury, the bricklayers' treasury, and that is held there for the benefit of the union and not particularly for the people engaged on one job. And real estate adjusts itself to that sort of thing where leaseholds can be established.

The CHAIRMAN. How about the material man? Where would he come in on it?

Mr. MEYER. The material man does not come in on it. This is the labor in connection with the construction.

Senator McADOO. Suppose the labor union accumulates, during the period of a contract on which all of its members are engaged, a large sum of money, and a considerably larger sum of money than would be normally distributed to the members of the union; is it your idea that that would be distributable to the members of the union in the way that a corporation would declare dividends?

Mr. MEYER. That is for the union.

Senator McADOO. I would assume the union would do as to corporation would do—give the benefits to the members of the union.

Mr. MEYER. It might be sickness benefits or unemployment benefits. But it certainly would be a step toward cementing the friendship between industry and capital—labor and capital.

The CHAIRMAN. I think they are getting to that all the time, aren't they?

Mr. MEYER. Yes, sir; but it is very slow.

Senator MALONEY. Do you think there is any possibility of building materials coming down, Mr. Meyer? Or, rather, do you think it is possible they can come down?

Mr. MEYER. If this depression continues, they have to come down.

Senator MALONEY. Are they not entirely regulated by supply and demand?

Mr. MEYER. Yes; to a certain extent by supply and demand. Yes. You are asking me to predict for the future, which I am not qualified to do.

Senator MALONEY. In the present conditions, is it not true that some lumber mills are refusing orders right now because they cannot make a profit?

Mr. MEYER. Well, a friend of mine is engaged in the lumber business in Arizona and he has had to shut down two mills.

Senator MALONEY. Because he could not make a profit?

Mr. MEYER. No; he has been making good money right up to today. But he does not have the volume of business sufficient to keep those two mills running now.

Senator TOWNSEND. Mr. Meyer, can you tell us the underlying causes of this slump?

Mr. MEYER. Of course, there are many. But I think one of the most serious is the capital-gains tax. I think that is very serious. I think it is serious because it takes away the initiative of a man to go out and take a chance.

Senator McADOO. It takes away the incentive of the enterprise, does it not?

Mr. MEYER. It certainly does. You take an individual with a lot of possessions—and which are not stock exchange bonds or stocks, and he converts those over a year or two, and at the time his conversion is completed he puts them into United States tax-exempt bonds. Then he will have more income than he would have by working. In other words there is a premium placed on his getting out of business.

Senator TOWNSEND. A premium on idleness?

Mr. MEYER. Yes; a premium on idleness.

Senator McADOO. Mr. Meyer, have you ever formed any idea on this subject—and, of course, this is a difficult question to answer; but I wondered whether you had formed any ideas on the subject as to what extent the prosperity of the country depends upon the continuation of new enterprises and upon the continued encouragement of what I may call the adventurous spirit of the individual to engage in new enterprises? To what extent do you think these new enterprises figure in the prosperity of the country?

Mr. MEYER. Well, I cannot speak for the country or for all the industries of the country, but in the building industry and the real-estate industry it is absolutely essential to have a stimulant that will make men wish to go out to do new things.

Senator McADOO. And to take a chance?

Mr. MEYER. They have got to take a chance. And if the reward is taken away from them, they will not take the chance. In our business you cannot do it—and it is a speculative business.

Senator McADOO. My feeling about the last depression—the one we have been going through—and you would not expect a Democrat to concede, I suppose, that there is any depression now.

Senator TOWNSEND. What would you call it?

Senator McADOO. Well, we would call this a slight relapse.

But speaking seriously, I think we have considerable recession now; I do not know whether it is assuming the proportions of a depression yet, or not. I think we can overcome it by intelligent treatment.

But I noticed during the whole of the worst of the last depression that one of the most serious situations and one of the most serious developments of it was the complete cessation of new enterprise. Men could not get the money. They could not get the credit to engage in such new enterprises; and there was no incentive to do it, because the chance of reward was taken away by excessive taxation.

Now, those are factors that really have to be considered in any treatment of the problem, it seems to me.

The CHAIRMAN. Do you think a change of the capital-gains tax would help?

Mr. MEYER. Oh, yes, Senator; there would be relief overnight.

Senator McADOO. I am frank to say that I thought the capital-gains tax was a mistake, and I thought so in the beginning.

The CHAIRMAN. So do I.

Senator McADOO. Because you take away a large part of the incentive of capital to venture. And I think that form of taxation is distinctly unwise.

The CHAIRMAN. We have asked Mr. Meyer about everything except the pending bill. Is it your opinion, Mr. Meyer, that the enactment of the pending bill, which I am sure you have studied, will help in the present situation?

Mr. MEYER. Yes; decidedly it will help.

But, Senator, I am not familiar enough with the pending bill today. I have been waiting until the bill got ironed out more before I went into it. I have read a synopsis of it, but I am not qualified to give an opinion.

I am very much interested in the bill, and you are on the right track; there is no question of doubt about it. And if it is not your bill, it will have to be some other bill to be passed to give us relief—in San Francisco, Chicago, Portland, and so forth. It is the only way it can be done—by Government aid.

Senator MALONEY. When you say "give relief" do you mean the building industry or the fellow who wants a home?

Mr. MEYER. I mean the man who wants a home and cannot pay more than five to seven dollars a room. That is the man who has to be taken care of.

The CHAIRMAN. Of course, if we are to encourage construction we also want to encourage building in the cities. What is your opinion as to whether a project can be erected with a limitation of a thousand or twelve hundred dollars per room, say, in the city of New York.

Mr. MEYER. If you want to help the moderate-income group, you have to go higher; you have to go to \$1,350 or something thereabouts.

And there is another point I should like to suggest to you: I think a unit of \$300,000 is too small for the big cities, Senator; I think it should be \$500,000; and for a maximum lay-out you would put an authority like the F. H. A. to determine whether the location is qualified to support that amount of money.

Take the project we are talking about for the F. H. A. in Forest Hills—that will run about \$5,000,000, and there is no one of those units as low as \$300,000. You see, when you are running into 70 or 100 apartments in a building you have a big structure.

Of course, in certain places you do not need that much money for perhaps only 40 or 50 families. But I do not think you want a restriction to \$300,000 when you have the authority to guard the Government against inadvisable loans. I think \$500,000 would be better, because in a big city 300,000 would cut out many of the big buildings. And that would be economically unsound, because those buildings have been enlarged to take advantage of the contour of the ground, whereas you could not go ahead if it were limited to \$300,000.

The CHAIRMAN. Is it your idea that if we keep it down to \$1,000 or \$1,200 within the city the homes for the moderate-income class could not be constructed with that restriction?

Mr. MEYER. No; you would have to go up to \$1,350; that is, with the present scale of materials and wages.

Senator FRAZIER. Then what will the rent be?

Mr. MEYER. About \$20.

Senator FRAZIER. \$20 a room?

Mr. MEYER. Yes.

Senator FRAZIER. That would be about \$60 for three rooms, and the moderate-salaried group could not pay that.

Mr. MEYER. Yes; they can; we will fill them—by the time the buildings we are building are completed I will predict we will have three times the number of applications by prospective tenants as we will have room for them. We can rent \$20 rooms just as fast as we can build them. I should like to build them even cheaper than that.

I am going to try, in another location, to get them down to \$15 or \$16. I think that can be done on leasehold. That is why I think it can be done there.

Senator MALONEY. But the group we are trying to help only get \$60 a month.

Mr. MEYER. As I understand, the grouping of the citizens falls into three classes: Those who have to be helped by the Government, those that Government and private enterprise enter upon, and those entirely by private enterprise.

Now, these misfits, and so forth, come into the governmental financing entirely.

The CHAIRMAN. That is, under the slum clearance?

Mr. MEYER. That is slum clearance pure and simple.

Senator FRAZIER. What priced buildings are you going to put up to take care of the cleaning up of the slums?

Mr. MEYER. We are going to put up buildings that will rent for under \$7.14 a room.

Senator FRAZIER. What would be the cost of those rooms?

Mr. MEYER. What would be the cost? Well, the cost will be, if it is fireproof, around \$1,200. If it is not fireproof or semifireproof, \$950.

Senator FRAZIER. \$7 a room would be, for three rooms, \$21 a month?

Mr. MEYER. Yes.

Senator FRAZIER. They could not pay \$21 a month, according to your previous statement, could they?

Mr. MEYER. Some of them can. In other words, you do not have to take \$7 a room. You have the cushion between what they can pay and what it costs to put the enterprise and project into being. That is the amount of money that must be absorbed by the Government, the Nation, the State, or the city. You can make it \$2 a room; it is just a question of the amount to be absorbed.

Senator FRAZIER. But may we have your opinion of whether or not cheaper buildings can be put up and still give them sanitary living conditions?

Mr. MEYER. \$900 a room, I should say, would be about the minimum.

The CHAIRMAN. Of course, Senator, that is under the other bill and not under this bill.

Senator FRAZIER. I understand.

The CHAIRMAN. But there, if it is necessary to bring the rent down to \$4 or \$5 a room in order to reach that group, we simply fix the price, and then the Government makes up the difference by its subsidy.

Mr. MEYER. Yes. Under \$7.00 there is no money in it. You can go just as far as you like; you can go to \$2 or \$1.

Senator TOWNSEND. Or you can give them the rent and let the Government take care of the whole thing?

Mr. MEYER. Yes.

If we eliminated the Government charges at Woodside, that would reduce the rental of those rooms from \$11 to \$6.18, and pay the set charges.

Senator MALONEY. What do you mean by the Government charges?

Mr. MEYER. Interest, amortization.

Senator TOWNSEND. Is it cheaper to take care of the people in the city in this matter than to move them into the country?

Mr. MEYER. Nobody has been able to do that. They tried to do that in the days of Rome; the emperors tried to move them to the country and get them to grow corn, but they could not do it.

The CHAIRMAN. Also, it is a question of transportation. The people want to be near the places where they are employed. They have a difficult problem that we do not all appreciate unless we have been through that situation ourselves, as children—a family of that kind, struggling along to earn enough so as to have something to eat. We are in comparative comfort, but they have their difficulties.

Mr. MEYER. A good many of them; yes.

The CHAIRMAN. Yes.

Are there any other questions of Mr. Meyer?

(No response.)

The CHAIRMAN. Well, thank you very much, Mr. Meyer.

Mr. MEYER. Thank you, gentlemen, for your kind attention. I have bored you for quite awhile, I think.

The CHAIRMAN. No; you did not. Thank you very much, sir.

Mr. McDonald will be next, please.

STATEMENTS OF STEWART McDONALD, ADMINISTRATOR, FEDERAL HOUSING ADMINISTRATION ABNER H. FERGUSON, GENERAL COUNSEL, FEDERAL HOUSING ADMINISTRATION; MILES L. COLEMAN, DEPUTY ADMINISTRATOR IN CHARGE OF LARGE-SCALE HOUSING DIVISION, FEDERAL HOUSING ADMINISTRATION; ERNEST M. FISHER, DIRECTOR OF ECONOMICS AND STATISTICS, FEDERAL HOUSING ADMINISTRATION

The CHAIRMAN. Mr. McDonald, as a result of the hearings that I know you have either attended or read about, do you have any further suggestions to make to the committee?

Mr. McDONALD. I wish to say this to the committee, that this bill, as it stands, and without certain features, cannot do as much as a great many people expect in the way of stimulating construction. There is no magic in this bill if you divest it of the benefits which must be derived through the operation of a large mortgage association which will furnish liquidity to the mortgages and tap large funds which are not now available. The mere 10 percent, for instance, and the other changes in the bill will have some little effect—how much, I cannot tell you; but unless the mortgage association is formed on a large scale and operated sympathetically—I mean, not in a canny manner to see how much money they can make, but in a

sympathetic manner with the entire plan, and with tax-exempt securities which they may issue—why, you cannot get the full stimulation which this enterprise deserves.

At the present time, for instance, the Federal Housing insured mortgages have practically no liquidity. We have arranged for a little liquidity for them through the facilities of the R. F. C. Mortgage Co. They have purchased, I think, about \$35,000,000 of mortgages on new construction, and we have moved out of there again through a rather awkward process probably \$10,000,000 of those mortgages which we have placed with different life-insurance companies, here and there. It has been a pushing proposition all the way.

Senator McADOO. What rate of interest do they bear?

Mr. McDONALD. The original mortgage carries 5 percent interest plus $\frac{1}{2}$ percent service charge. They have no tax-exempt features; and the R. F. C. has been in the habit of leaving three-fourths of 1 percent with the local, originating institution, for reservicing purposes.

Senator TOWNSEND. Why are they not left with the bank?

Mr. McDONALD. The bank has a long investment in them. They are not liquid; and they are a monthly collection affair, besides. The bank wants a certain number of them in its portfolio, but banks do not want to be changed into entirely a loan society, for instance.

Senator MALONEY. But they are a better loan than the old-style insurance?

Mr. McDONALD. Oh, yes; at least, they have the assurance that the banker gets his hat back.

Senator MALONEY. And they are amortized?

Mr. McDONALD. Yes, sir.

Senator MALONEY. In the old days that was not true?

Mr. McDONALD. No; it was not.

Senator MALONEY. And the Government is borrowing money at 3 percent or less, and is borrowing considerably more?

Mr. McDONALD. I do not believe I understand you.

Senator MALONEY. No; I mean the insurance of the mortgages. The Federal Government is showing a profit on its Federal savings and loan activities now?

Mr. McDONALD. That is a different situation; that is a part of the Home-Loan Bank System. Oh, yes; they have a very happy arrangement, as I noticed here, in the National Association of Real Estate Boards' bulletins. They cannot understand, for instance, why the Federal home-loan bank can issue securities at 1.8 percent—which, of course, are tax exempt in every way—and then, of course, the funds obtained in this way go to the home-loan banks who, in turn, loan them to building and loan societies, who in turn loan them out to the public—and compete against the very banks having no tax-exempt features and no liquidity for their mortgages.

Senator MALONEY. I am leading up to a question I want to ask you and which I did ask Mr. Meyer. I am wondering if, as a substitute for this bill—and I base my question on the notion that the Federal Government's helping the small home-builder is a wise procedure; I am wondering if you think it would cost the Government less and at the same time prove just as great an incentive to build-

ing, if we subsidized the small home owner by giving him 1 percent off, a year, for building?

Mr. McDONALD. Instead of what?

Senator MALONEY. Cut his interest rate on his mortgage 1 percent.

Mr. McDONALD. You mean, his building interest, whatever it might be?

Senator MALONEY. Yes.

Mr. McDONALD. Irrespective of where he got his money from?

Senator MALONEY. Yes.

Mr. McDONALD. In other words, if he got 8 percent from some building and loan society, you would cut it to 7 percent?

Senator MALONEY. Yes; to him. But does he pay 7 or 8 percent?

Mr. McDONALD. Well, the records of the Federal home-loan bank show that he is paying as much as 8 percent.

Senator MALONEY. I understood that he is paying 5 percent.

Mr. McDONALD. In the Federal Housing Administration he pays 5½ percent; and we propose to cut that to 5 percent.

However, the operations of the Federal home-loan bank, as reported in the review of November 1937, indicate that the majority of their mortgages run from 6.2 percent to about 8.2 percent, or something like that.

Senator MALONEY. Instead of cutting it to 5 percent and taking the risk, we take on these building operations?

Mr. McDONALD. You mean, just subsidize them to the extent of 1 percent?

Senator MALONEY. That is right.

Mr. McDONALD. Of course, that is a hypothetical question.

Senator McADOO. He could not sell his mortgage, could he?

Mr. McDONALD. The mortgage would be sold, but he would be donated 1 percent.

Senator MALONEY. The Federal mortgage associations are issuing mortgages right now and are showing a tremendous profit.

Mr. McDONALD. Well, we should like to have for the Federal Housing Administration the same facilities for borrowing money. If we had those same facilities, it would eventually bring our money down below 5 percent. And you must understand that the debentures of the Federal Housing Administration today have no tax-exempt features whatsoever. The banker who loans his money on a house and has to foreclose it and receive one of our debentures, guaranteed only to the extent of 3 percent, and not even covering the foreclosure expenses, has no such sinecure as the man who has the tax-exempt securities.

Senator MALONEY. I do not care very much as to what agency handles it, but I am wondering if the Government would not finally save money by just subsidizing the home owners to the extent of cutting down the mortgage rate 1 percent.

Mr. McDONALD. I am unable to state.

Senator HITCHCOCK. As a matter of fact, the Government has not lost any money yet, I believe.

Senator MALONEY. I am talking about making money.

Senator HITCHCOCK. Then why worry about this?

Mr. McDONALD. My thought is that to have the situation function actively in the operation of a large mortgage association, in effect it would act as a mortgage discount bank.

Senator, I should say that at the present moment I cannot stress too urgently the fact that whatever we do should be done right now during this special session of Congress. Because if we are going to get any momentum at all from this new act, it will require a great deal of ground work on the part of the Federal Housing Administration; it will require time on the part of the real-estate developers and contractors, and so forth, to lay their plans and acquire land, and so forth and so on. Therefore if we lose time now we are going to lose a great deal of momentum; and nothing that this bill has in mind would in any way interfere with any future consolidation or ironing out, in those other matters. I should be in favor of pushing this bill through right now with the amendments as explained by Governor Eccles yesterday.

The CHAIRMAN. You think that ought to be done?

Mr. McDONALD. I certainly do.

The CHAIRMAN. I want to have this clear in my mind: There is authority to issue debentures for property taken over by the F. H. A. is there not?

Mr. McDONALD. There is.

The CHAIRMAN. Then, you also have debentures which may be issued by the mortgage association?

Mr. McDONALD. The mortgage association would not be a part of the Federal Housing Administration.

The CHAIRMAN. I understand that. But I was going to ask you whether it is your view that both types of debentures or bonds the association may issue should be tax exempt?

Mr. McDONALD. I should think so.

The CHAIRMAN. Or are you talking only of the debentures you issue?

Mr. McDONALD. I think it is essential that both should be.

Senator HITCHCOCK. How could you do that—on the mortgage association?

Senator McADOO. The mortgages on the properties?

Mr. McDONALD. No; the debentures.

Senator HITCHCOCK. How can you do that when they are not Government?

Mr. McDONALD. Of course, they are a Government agency.

Senator HITCHCOCK. How near a Government agency are they?

Mr. McDONALD. I do not know.

Senator McADOO. I think we have a right to do it, Senator, undoubtedly. We have done it in so many cases. We have a right to make any mortgage which is hypothecated; for instance, in the Federal land-bank system we declared all property, upon which mortgages were sold to the Federal land banks and against which land-bank mortgages were issued, to be instrumentalities of the Federal Government.

Senator BULKLEY. Senator, I think you are mistaken about that. I think we made the obligations—the Federal land-bank bonds—tax exempt, and not the mortgages.

Senator McADOO. Oh, yes; we made the mortgages against the land exempt from tax, plus the bonds issued.

Senator BULKLEY. No; I think you are mistaken about that.

Senator McADOO. I am pretty sure I am right. Of course, it has been a long time since.

Mr. McDONALD. Here is a list of five agencies today that have tax-exempt privileges: The Federal home-loan bank, in which a certain percentage of the capital is private capital, and I think the intention is to have all private capital. I think the Federal home-loan banks have around \$150,000,000 capital, of which \$126,000,000 or \$120,000,000 is Government money and the remainder is private capital; and the intention is to have it all private capital, I believe. They enjoy tax-exempt privileges, and just put out an issue here of \$25,000,000, 3-year debentures, bearing 2-percent interest, to yield 1.8-percent interest.

Senator BULKLEY. What issue is that?

Mr. McDONALD. The Federal home-loan bank.

Senator ADAMS. Mr. McDonald, when they become fully privately capitalized, then the situation will be quite different, will it not, because you may find a different legal problem developing?

Mr. McDONALD. Our general counsel advises us there is no legal problem involved there. Of course, you are better advised on that than I am.

Senator ADAMS. I do not see any difficulty now, but perhaps it might develop.

The CHAIRMAN. Mr. McDonald, I should like to ask the legal adviser on what theory these mortgage associations are instrumentalities of the Government?

Is it on the same theory that the national banks are?

Mr. McDONALD. Yes; I should say so—or something like that. They are a credit mechanism of the Government, because their raw material is entirely a Federal-insured mortgage. It is the only thing they can issue a debenture upon. They cannot issue a debenture on anything except a Federal-insured mortgage. Any security going to the public is based upon a Federal-insured mortgage.

The CHAIRMAN. Your view is that that is sufficient to put them in the classification of Government instrumentalities?

Mr. McDONALD. That would be my thought; yes.

Senator BROWN of Michigan. Mr. McDonald, in section 7, page 3, will the national banks be permitted to take mortgages and divide them, as in section 7, in the case of mortgages issued on a house of \$16,000 or less? Will the national banks be able to take those mortgages?

Mr. FISHER. You mean the 80-percent mortgages?

Senator BROWN of Michigan. Yes.

Mr. FISHER. Yes.

Senator BROWN of Michigan. Will it be eligible for rediscount at the Federal Reserve banks?

Mr. FISHER. Yes. That is, they are not technically eligible for any discount; they are eligible for collateral and loans and that sort of thing.

Senator McADOO. I should like to put into the record the provisions of the act of July 17, 1916, on the question of these exemptions, because my colleague, Senator Bulkley, thought I was in error about it.

The act provides that first mortgages executed to Federal land banks or to joint-stock land banks, and farm-loan bonds issued under the provisions of this chapter, shall be deemed and held to be instrumentalities of the Government of the United States; and as such they