

May 7, 1934

NATIONAL MORTGAGE ASSOCIATIONS

As a final step in unfreezing the mortgage market, it is proposed to authorize the Federal charter of National Mortgage Associations. These would be private institutions which would be permitted to raise funds for the purchase of mortgages by selling their own bonds, or debentures, in the securities markets, provided that these obligations were covered 100 per cent by mortgages insured in the Federal Mutual Mortgage Insurance Corporation.

To prevent these new institutions from becoming subject to the abuses which characterized the mortgage companies in the past, they would be subject to the following strict limitations:

1. Their mortgages would be insured home mortgages and their obligations in the market would be issued only against such insured mortgages. This feature in itself will constitute the equivalent of a partial guaranty of the debentures, in that it would be impossible for public investors in the debentures of these institutions to incur a large \_\_\_\_\_ either in the principal or interest on their investments, even in case of complete default. More important from the point of view of the successful functioning of these institutions, however, is the fact that their investments would be confined to mortgages on the safest type of residential properties. They would not be faced with a renewal problem, furthermore, since the mortgages in their portfolio would

be long-term self-amortizing, insured mortgages, and the debentures which they issued against these mortgages would have maturities consistent with the amortization payments on these underlying investments. Had mortgage companies in the past confined their operations to this type of investment and been subject to the same protection against renewals, their experience would have compared favorably with the best experience of other types of mortgage finance institutions even without the insurance feature.

2. To make certain that these new national mortgage associations fulfill the function for which they are designed, the act provides that they should be not only chartered by the Federal Government through the agency of the Home Loan Bank Board, but, also, that they should be subject to its examination and supervision at every point. To be able to insure mortgages against which to issue debentures, they must be able to satisfy the Board <sup>that</sup> they will be able to service these properties. This will provide for the sound development of mortgage associations under unified national control and by usurping the field potentially available for such institutions will serve to prevent a recurrence of state-chartered mortgage companies with inadequate supervision such as we have had in the past.
3. To eliminate the necessity for expensive selling organizations to dispose of their securities, and also to insure that such national mortgage associations as are organized

will be subject to a constant scrutiny of their individual operating records by the financial press, it is proposed that they be required to have a minimum paid-in capital of \$5,000,000, and that their debentures be limited to a maximum of 15 times their capital. This provision will insure, first, that these associations will be large.

They will, therefore, be sufficiently limited in number to be subject to careful individual supervision. They will also justify the listing of their bonds or debentures in the New York security exchanges and will receive careful <sup>by</sup> scrutiny/the financial press and the investment services.

This means that they will be able to raise their funds where capital is most reasonable and thus be able to make lower cost money available for home financing. It also means that the investor in these debentures will be able to dispose of his investments, on occasion, in a liquid market.

4. By the basic terms of their organization, they will of necessity be confined to conservative financial operations and not be subject to stock-selling promotional abuses such as have accompanied state chartered mortgage associations in the past. Because their investments will be limited to insured mortgages with regard to which they can demonstrate to the Home Loan Bank Board that they are in a position to provide adequate servicing, they will not be able to re-capitalise properties for the purpose of selling securities nor to act as a mortgage outlet for affiliated speculative

real estate developments.

### Function of National Mortgage Associations

The two main functions to be performed by these associations represent key positions in the whole mortgage program. These functions relate first to the provision of adequate financial facilities for limited dividend and similar low-cost housing projects, customarily associated with slum clearance operations, and, second, to the liquefaction of the mortgage market.

### Limited Dividend Housing Projects

Many of the most important industrial states have now passed laws granting certain exemptions and privileges to low-cost housing projects, provided they are constructed and maintained under public supervision. Other attempts to deal with the same problem of providing low-cost housing to urban industrial workers are being worked out by such bodies as the New York Housing Authority and the Federal Emergency Housing Corporation.

It is planned that the national mortgage associations will form an essential link in providing these projects with low-cost financing. The first mortgages on these and similar projects will be eligible for insurance in segregated risk funds under the Federal Mutual Mortgage Insurance Act. These mortgages will be for large individual amounts and will of necessity require large financial institutions, to handle them. The per dollar cost of servicing mortgages on such projects, furthermore, will be low. All of these factors will make them prime investments for national mortgage associations and these associations will be able, by providing financing for this type of project, to

multiply several times the availability of funds for this type of housing development.

#### Mortgages on Owner-Occupied Homes

In addition, the national mortgage associations will form an essential link in liquifying the market for insured mortgages upon owner-occupied homes. Mortgages on these types of properties are of necessity small in individual amounts, and must usually, to be sound, be granted and serviced by local institutions, thoroughly familiar with local conditions and in a position to keep close watch on the condition of the property and the responsibility of the borrower. By this very fact, the majority of our home mortgages are financed with local money, that is, the savings of the community in the form of savings bank deposits and purchasers of shares in building and loan associations represent the bulk of the funds which are invested in local mortgages in each community.

This same fact, however, has tended to make mortgage conditions vary from one locality to another, and to produce, not only wide and unjustified disparities in the cost of home financing to the home owners, but also, periodic freezing of the home mortgage market. It has also operated to produce unsound investment practices. This comes about by reason of disparities in the demand for and the supply of mortgage capital. The demand for new mortgage money is obviously greatest and most economically justified in growing communities. It is these same communities, however, which are usually most deficient relatively in local savings available for mortgage financing. Settled communities, on the other hand, where there is no great economic demand for new building, are characteristically those in which

per capita savings are high and in which there is ~~an~~ consequently a large available supply of mortgage funds. The national mortgage associations are designed to operate toward liquidating these situations in a sound way and toward permitting a flow of mortgage funds from communities where these funds are in abundance toward those where they are needed. They will, therefore, supplement the activities of the insurance companies already performing this function in a small way but not on a sufficient scale to handle the situation.

They will operate, specifically, as follows: Savings banks, and savings departments of commercial banks, as well as funds gathered in trust accounts, must now be invested in local home mortgages or withdrawn from the home mortgage field because the officers responsible for the investment of these funds are not in a position to scrutinize and service a mortgage property if it is not in their locality. If these institutions, as frequently happen, are in settled regions where there is an excessive supply of mortgage capital, the restriction of their investments to local mortgages tends to produce an unsound building situation because the supply of funds is an excess of the economically valid local demand for construction. Part of the difficulties of the New York ~~22~~ situation, where mortgage money even from the most conservative local institutions was loaned on condemned slum properties at inflated values, illustrates the vital need of providing a sound outlet for these funds in other areas where new construction is economically required. It is planned,

therefore, to provide such an outlet by permitting these institutions to invest their funds not in redundant local mortgages at inflated values but in the bonds and debentures of national mortgage associations.

These mortgage associations in turn would make these funds available to growing areas, where interest rates on mortgages are now unconscionably high because of the lack of fluidity in the mortgage market, by purchasing insured home mortgages from the building and loan associations and savings departments of commercial banks which operate in these areas. Because of the limited profit possibilities of these associations, the fact that all of the their investments must be insured mortgages, and the higher cost of servicing new mortgage loans when the outstanding commitment is a high percentage of the appraised value, these mortgage associations would not in general be able to operate profitably in direct competition with existing local agencies in the making of new mortgage loans. They would find their field rather in purchasing mortgages from these local agencies after they had become seasoned and were amortized down to a very conservative proportion of their appraised value. Because the cost of servicing such mortgages would be less, and also because most of these mortgages would originate in high interest areas where even an insured mortgage yielded 6 per cent, these associations might at times be in a position to purchase such mortgages at a slight premium. In any case, they would afford a sound outlet for seasoned mortgage instruments to local originating building and loan and savings institutions in communities where mortgage funds are scarce. At one

time, it was contemplated that these associations might be forbidden by law from originating insured mortgages or acquiring them before they were thoroughly seasoned. In view of the restricted outlook of certain local associations in certain areas, however, this suggestion was dropped, since it would permit these local lenders to maintain a monopoly on their local situation and perpetuate rates of 8, 9 per cent or more. Instead, the law provides that the Home Loan Bank Board shall be in a position to assure itself that the National Mortgage Association is in a position to service its insured mortgages properly. This will furnish an equal safeguard to the public interest which is concerned with sound mortgage financing at legitimate rates and still permit the full utilization of national mortgage associations for their intended purpose.

MEMORANDUM ON NATIONAL HOUSING PROGRAM

May 9, 1934

The purpose of this memorandum is to outline the National Housing Program as recommended by the National Emergency Council, and to show what parts of it will require further emergency legislation or amendments to existing statutes in order to give immediate effect to the program as an additional instrument of economic recovery.

The program is one of nation-wide housing improvement and industrial reemployment. It is designed for the dual purpose of raising the standard of human habitations throughout the country, and, in the process of doing so, to reduce drastically or eliminate entirely the remaining volume of unemployment. As a corollary of this, the need for the present large burden of emergency public relief would also be eliminated.

The essential purpose of the program may be summarized by reference to the message addressed to Congress by President Roosevelt on April 13, 1933, asking for legislation to protect small homeowners from inequitable enforced loss of their homes and to relieve them of a portion of their burden of excessive interest and principal payments. In that message President Roosevelt said:

"Implicit in the legislation which I am suggesting to you is a declaration of national policy. This policy is that the broad interests of the Nation require that special safeguards should be thrown around home ownership as a guaranty of social and economic stability. . . . ."

During the year that has elapsed since this declaration of

policy was made by the President and confirmed by Congress in the Home Owners' Loan Act, widespread relief has been afforded to homeowners who were in distress through the threat of foreclosure. This relief has been accomplished by the exchange of bonds guaranteed by the United States Government for home mortgages held by banks, building and loan associations, mortgage companies, insurance companies, and other mortgage lenders. Furthermore, partly as a result of the direct relief thus afforded, and in still larger part because of the progress made during the past year in commercial, agricultural, and financial recovery, the nation-wide pressure of mortgage-lending institutions to liquidate real estate and real estate mortgages has been definitely relaxed.

But all this represents only an arresting of the destructive forces that until the present time have made impracticable a positive and aggressive approach to (a) the further encouragement of home ownership, (b) the decisive raising of housing standards, (c) the correction of speculative abuses and excesses in real estate promotion and mortgage financing, (d) the resumption of home construction, and (e) the consequent reemployment of the persons ordinarily engaged in the building trades and related occupations.

The Federal Government is meeting the problem of re-financing distress mortgages; it is also providing funds for the financing of farm mortgages, slum clearance, low-cost housing projects, and subsistence homesteads; and it has recently made provision for the renovation of homes refinanced by the Home Owners' Loan Corporation. New lending on real estate by private agencies, on the other hand, still remains at an abnormally low and wholly inadequate figure.

This great deficiency and lag in mortgage lending and home-improvement financing constitutes the most serious problem that the American industrial system has to grapple with. At the same time, however, it points the way to our greatest industrial opportunity--namely, the field of modern housing. The sound development of this field affords the opportunity for (a) the secure investment of capital and credit that is now idle, (b) the economic use of our immense industrial equipment and abundant natural resources, and (c) the long-continued employment of that part of our industrial population which has been most seriously affected by the failure of the so-called heavy industries to

share in the recent economic recovery proportionately with the consumption-goods industries.

As a problem, the continued lack of activity in the industries ordinarily dependent on renovation, modernization, and new residential construction now accounts more than any other factor for the continuance of unemployment at its present volume. As an opportunity, the prompt resumption of the activity now suspended among these industries would accomplish a twofold purpose:

1. A return of the unemployed, more rapidly than by any other practicable means, to the useful and gainful occupations for which their abilities are trained and to which their social habits are adjusted.
2. A continuous translation of the results of this wide-spread reemployment into the form of tangible wealth for which there is the greatest social as well as economic need.

There is no field in which the actual standard of living in this country is more deficient in comparison with our natural, industrial, and financial resources than in the dwellings now occupied by the greater part of our population. Neither is there any field in which demand will revive more quickly, or in greater immediate volume, if practical and adequate means are provided to make the potential demand effective. Almost every element of our population needs better housing accommodation. This accommodation would be availed of, moreover, either by the improvement of existing dwellings or by the purchase of modern types of dwellings, provided only there was a reasonable certainty as to future income and a reasonable reduction of housing costs, including financing, to a capacity-to-pay basis.

It is to meet the problem and the opportunity thus presented that the National Housing Program has been formulated.

### Specific Steps in the Housing Program

In projecting the National Housing Program, frank recognition has been given to the necessity of providing governmental leadership and direction in the two branches of private enterprise that occupy the key positions in the heavy industries, namely, home construction and mortgage financing. The general plan of operation under the program, however, contemplates the full application of private enterprise and resourcefulness in the construction industry and the mortgage-lending business to public ends.

The principal steps in the program are as follows:

1. The establishment, by direction of the President, of a Federal Housing Coordination Board, with a membership drawn from the principal governmental departments and agencies now concerned with one or another aspect of the housing problem. The function of this Board is to establish a more coherent, constructive, and effective attitude on the part of the Federal Government toward the housing problem as a whole. For the immediate future the Board will undertake to coordinate the present policies of the Federal Government with regard to housing and to prepare recommendations, for submission to the next Congress, looking to a more complete and more permanent unification of governmental activities in the housing field.
2. The inauguration, under governmental sponsorship, of a nation-wide movement to stimulate at once the repair, maintenance, and modernization of existing dwellings and of industrial and commercial properties as well. This involves --
  - (a) The provision of guidance, support, and cooperation for modernization campaigns organized and managed by volunteer groups in urban and rural communities throughout the country. The function of these local groups is to enlist in the modernization movement the interest and participation of all elements in the community.
  - (b) The enlistment of the cooperation of industry, transportation, and labor in a common effort to assure prices that will offer a compelling in-

ducement to homeowners to undertake home improvements within the remaining months of 1934, or within such longer period as may be required to take up the arrears of work of this character. This cooperation is necessary to assure a greatly increased volume of business and reemployment, and to retain the support and good will of the homeowner.

- (c) The enlistment of savings banks, building and loan associations, commercial banks, finance companies, and other private lending agencies in the prompt extension of home-improvement credits in their local communities.
- (d) The appropriation of \$200,000,000 for an insurance fund to protect lending agencies participating in the home-improvement credit plan. The purpose of this fund is to assure the availability of home-improvement credits in adequate volume, on moderate terms of repayment, and at a lower cost than has heretofore prevailed for similar accommodation. It is proposed to reimburse lending agencies for any losses they may sustain up to 20 per cent of the total of their home-improvement advances. This ratio of credit insurance to total advances is considerably in excess of the maximum calculable risk as determined by a comprehensive analysis of consumer-credit experience, including the most unfavorable period of the depression.

3. The opening up of the mortgage market in such a manner as to provide an orderly flow of funds to meet the renewal of maturing mortgages on existing properties and to finance the purchase of new homes in areas where the latter are needed to replace dwellings that are either obsolete or actually unfit for human habitation. This unfreezing of the mortgage market is an essential prerequisite to the resumption of activity in the heavy industries on a scale sufficiently large to meet the normal demands of the home-building market, and to provide the normal volume of employment in construction, transportation, building materials and supplies, and related activities.

At the present time funds for residential construction are in many sections of the country either scarce or completely unavailable, even where new homes are manifestly needed and economically justified. The market for existing mortgages, furthermore, is in such a condition as to require a serious consideration of national mortgage policy. The continued high rate of applications for loans from the Home Owners' Loan Corporation indicates the existence of a serious refinancing problem in the home mortgage field, as does also the situation of the building and loan associations. The latter institutions, which occupy an important position in the home-mortgage field, face a competitive problem because of the recent insurance of bank deposits. They are, therefore, naturally insistent on an extension of similar insurance privileges to building and loan shares.

The reorganization of the mortgage market on sound and conservative lines must be squarely faced as a problem of the first magnitude in the dual program of improving housing standards and effecting a general resumption of employment in the heavy industries. The plan of reorganization here contemplated is as follows:

- (a) Inauguration of a national system of real estate appraisal for the purpose of standardizing appraisal practices and protecting future home-financing from a recurrence of the abuses that have characterized the prevalent haphazard and disorganized methods of appraisal. The new coordinated system of appraisal would be used by the Home Loan Banks and their affiliated institutions, and would be made available to private lending agencies generally in furtherance of a uniformly sound procedure.
  
- (b) Provision for the insurance of home mortgages on a mutual basis. The opportunity to insure mortgages for their full face value would be afforded for the next three years to accredited private lenders who presented mortgages that conformed to the following standards:
  - (1) In the case of new residential construction (owner-occupied houses, low-cost and limited-dividend housing projects, etc.), not to exceed 80 per cent of the current appraised value of the property.
  
  - (2) In the case of existing owner-occupied homes, not to exceed 60 per cent of the current appraised value of the property.
  
  - (3) In the case of either (1) or (2) low interest cost to the borrower--ordinarily 5 per cent, with the provision for 6 per cent under exceptional conditions.
  
  - (4) Complete provision for long-term amortization. In event of default on insured mortgages, the lenders would be guaranteed return of the full principal and also a moderate return of interest, not in excess of 3 per cent.

Under this plan of insurance borrowers would be able to obtain their entire home-purchase financing, including the portion usually covered by a second mortgage, on a single instrument.

This instrument would continue until the loan was fully retired, and hence would eliminate the customary recurrent renewal charges. It would also place this financing on a lower cost and on easier terms than have been generally available heretofore. In consideration of these advantages, the borrowers would pay only a moderate premium, but one nevertheless sufficient both to absorb the cost of the insurance and, during the later years of the loan, to curtail the principal.

The Treasury would stand behind this home-mortgage insurance. The insurance plan is set up in such a manner, however, as to give the Treasury full protection against ultimate loss, even under extremely adverse circumstances.

- (c) Authorization for the charter of national mortgage associations by the Federal Home Loan Bank Board. These associations would constitute a new type of financial agency in the home-mortgage field. They would be subject to strict Federal supervision, and would be authorized to raise funds from the investing public only by the issuance of bonds or debentures fully covered by home mortgages insured in the manner described above. They would be effective in providing liquidity to the home-mortgage market. Furthermore, since they would be able to raise funds in the large financial centers, they would also be effective in making low-cost funds available in remote areas where the volume of local savings is insufficient to meet home-financing requirements.
- (d) Revision of Federal banking laws and other Federal statutes insofar as such revision would be required to make the new mortgage instrument widely and immediately effective. In addition, revision of Federal banking laws to permit short-term construction loans, under adequate safeguards, pending insured-mortgage financing of the completed property.

### Means of Implementing the Housing Program

In part the National Housing Program here outlined can be put into effect under existing legislative authorizations. No new legislation is required for the establishment of a Federal Housing Coordination Board whose membership is drawn from present officials of the Government. The institution of improved facilities for sound appraisal standards, and the establishment of an organization to conduct the modernization campaign, can also be accomplished without new legislation.

Specific authorization by Congress will be required, however, to give effect to the measures on which the success of the modernization campaign and the plan to revive residential construction primarily depend. These measures are embodied in the proposed bill entitled "National Housing Act".

Title 1 of this Act provides for the insurance of home-improvement credits and for the insurance of home mortgages. Title 2 provides for the Federal incorporation of national mortgage associations. Title 3 provides such amendments to existing statutes as are required to make Title 1 and Title 2 fully effective.

Further legislation, prepared by the Federal Home Loan Bank Board, is embodied in a separate bill entitled, "Insurance of Savings and Loan Savings". Title 1 of this bill provides for the insurance of shares in building and loan associations and similar institutions. Title 2 provides for the enlargement of the discount facilities of the Federal Home Loan Banks and also for the issuance of debentures by the Federal Home Loan Banks.

The insurance of building and loan shares is designed to restore confidence to the large number of shareholders and certificate holders who for many years have been accustomed to place their savings in this type of mortgage lending institution. With the confidence of these small savers thus restored, building and loan associations throughout the country would again be put in a position to resume active lending.

## MEMORANDUM ON HOME IMPROVEMENT CREDITS

May 9, 1934.

Competent surveys show that there is a huge amount of deferred maintenance on private dwellings, apartments, small stores and offices which, if taken up at once, would result in the re-employment of large numbers of skilled workers identified with those groups which have suffered the most from the depression. Although the economic and social value of maintaining such properties in good repair and modernization is generally recognized, the actual work can not be undertaken in numerous cases because the owner lacks funds or credit.

The following plan has been devised to meet the dual problem presented by this situation.

1. Making credit available in small amounts to the property owner entitled thereto on terms which he can conveniently meet out of current income, and the expenditure of which will increase the value of his property as much or more than the credit advanced.
2. Releasing of capital funds, now held by private financial agencies and seeking investment, for such credits, thus materially reducing direct governmental expenditures for the relief of unemployment.

To meet these two problems credit in suitable amounts will be made available to all title owners of improved real property whose current income and reputation for meeting obligations are satisfactory.

The plan provides a degree of attractiveness not available today through existing channels, in the form of low cost, extended time for repayment, and freedom from restrictions as to security. At the same time, the borrower is amply protected against the assumption of uneconomic debt.

Availability to title owners will be assured by releasing the funds and utilizing the facilities of three groups of private lending agencies,

Commercial and Savings Banks,  
Finance or Acceptance Corporations, and  
Building and Loan Associations.

As the existing system of "consumer credit" has been built to a large extent upon the use of re-possessible chattels as security, the plan provides governmental insurance against loss in lieu of such security.

The financing charges provided in the plan are about half the lowest costs of similar types of financing available through private sources today, yet, through the cooperation of all parties to the transaction, these charges will be adequate to cover necessary costs.

The plan will be worked through the following agencies.

HOME CREDIT INSURANCE CORPORATION

A Federal corporation, with headquarters in Washington, D.C., will be created with a capital of \$200,000,000 provided by the Federal Government. It will function as follows:

1. Determine standards for qualifying private financing agencies (Commercial and Savings Banks, Finance or Acceptance Corporations, and Building and Loan Associations) with whom contracts of insurance will be made, insuring them against losses on promissory notes, up to 20 percent of the combined total face value of such notes purchased by them, and provided:
  - (a) Notes are on legal forms specified by the Home Credit Insurance Corporation.
  - (b) Notes have been executed in settlement of the cost of economically justified repairs, alterations or renovations to private dwellings, apartment houses, stores or office buildings and are signed by the title owner of such property.
  - (c) The title owner has qualified under such credit standards as to income and moral reputation as may be required by the Home Credit Insurance Corporation, as furnished from time to time to contracted lending agencies.
  - (d) Notes conform to such terms as required by contracted lending agencies, but which qualify within the following minimums and maximums.

Minimum principal amount of loan, \$100, plus interest for period of loan.

Maximum principal amount of loan, \$2,000, plus interest for period of loan.

Minimum monthly payment, \$10.00.

Maximum term of note 5 years.

Maximum interest, added to the principal cost of the job, must not exceed 5 per cent true interest per annum on decreasing balances.

- (e) In the discretion of the Home Credit Insurance Corporation, notes may be made payable in quarterly payments, or in the case of title owners engaged in agriculture, payments may be made to conform to crop income dates, with a minimum of one annual payment.
- (f) Details of work performed, for which notes are given in settlement, are shown on forms provided by the Home Credit Insurance Corporation, signed by a duly qualified contractor and the title owner, and that the note carries, by endorsement, a suitable guarantee of workmanship by the contractor.
- (g) The total cost of the renovating job may include a service fee authorized by the Home Credit Insurance Corporation, in addition to the 5 per cent interest provided for above. Lending agencies will be authorized to discount the face of the note by the amount of interest added therein, plus such authorized service fee.

The authorized service fees are shown below and are calculated on the following basis.

Credit Investigation and entry on books - \$2.00 per note.

Collection costs - 50 cents per payment.

Supervision and Legal costs - 1/2 of 1% per annum on amount of job.

MEMORANDUM ON MUTUAL MORTGAGE INSURANCE

May 9, 1934

The proposals outlined in this memorandum are designed to overcome the conditions now prevailing in the mortgage market and to remove the obstructions that now impede a free movement of mortgage funds. It is proposed to provide a new mortgage instrument that will --

1. Afford ample security and an adequate interest return to private lending institutions.
2. Lower the cost of mortgage money to the borrower.
3. Eliminate the need for second mortgage financing.

The first of the means by which these purposes are to be realized is the organization of the Mutual Mortgage Insurance Division of the Home Credit Insurance Corporation. This division will be authorized to insure the full payment of principal of all eligible home mortgages, and to insure also a minimum interest return (in general 3 per cent) on insured mortgages that may default. Any mortgagee, institutional or individual, acceptable to the Board, may insure mortgages under this plan.

It is naturally expected that the principal users of the plan will be the existing private lending agencies--namely, savings banks, commercial banks, trust companies and other trustees, insurance companies, building and loan associations, mortgage companies, etc. If this does come about as contemplated, private agencies now deterred from lending by the uncertainties of the real estate market will be able to release mortgage money for new financing wherever it may be economically justified.

The financial soundness of the plan will rest primarily upon the appraisals on which the mortgage insurance is based. The

Board of the Corporation is therefore directed in the proposed act creating the Home Credit Insurance Corporation to develop a national standardized system of appraisal practice. This system will be used by the Board and will also be available to guide the appraisal practice of private institutions. In addition, the Board will make occupancy surveys, develop construction standards, and carry on similar activities of a research or a statistical nature designed to conserve sound mortgage values.

To be eligible for insurance under this plan, a mortgage must conform to the following recognized standards of sound mortgage practice:

1. The mortgage must be a first lien on an owner-occupied dwelling. (Certain exceptions in the case of slum clearance and low-cost housing projects will be referred to later.)
2. The mortgage must be held by mortgagee acceptable to the Board of the Corporation.
3. The mortgage must provide for regular amortization until the loan is completely retired. In general, this amortization period is established at not more than 20 years. Provision is made, however, for establishing an amortization period up to 30 years, in the discretion of the Board of the Corporation, on properties of exceptionally stable value.
4. The mortgage must be of such a nature that the insuring of it by the Corporation is beneficial to the mortgage market as a whole; and it must conform to such standards in respect of the character and income of the mortgagor as may be established by the Board of the Corporation.
5. The mortgage must be for an amount not in excess of 80 per cent of the appraised value of the property in the case of new construction, or 60 per cent of the current appraised value in the case of existing dwellings. It must also conform to such other appraisal standards as may be established by the Board of the Corporation. It has been suggested that in general insured mortgages should not exceed 100 per cent of the

value of improvements. Because of the security afforded by the insurance, and by the other standards to which the mortgage must conform, the entire first and second mortgage financing can be safely combined in a single instrument. This will eliminate both the need of second mortgage financing and the disturbing effects of such financing on banking and investment conditions in general.

6. The net interest return to the lender must not be in excess of 5 per cent, except that the Board of the Corporation may, where the local mortgage market requires it, authorize a rate up to a maximum of 6 per cent in order to attract mortgage funds.

Except with regard to the requirements just enumerated, the customary relations between mortgagor and mortgagee are fully retained under the operation of the insurance plan. If the mortgage becomes delinquent, the mortgagee may still foreclose, or refrain from foreclosing, as at present, without interference on the part of the Board of the Corporation. Should the mortgagee elect to realize on his insurance, however, he must foreclose and give title to the property, free of taxes or other charges, to the Board of the Corporation, and at the same time give to the Board a statement of claim of his expenses incident to foreclosure. The statement of claim of expenses may include foreclosure costs, delinquent interest and amortization charges, and repairs made by the mortgagee, etc. This statement of claim is subject to approval by the Board.

Upon the election of the mortgagee to realize on his insurance, the Board will deliver to the mortgagee a debenture or debentures guaranteed as to principal and interest by the United States Government, the amount of such debenture or debentures to equal the unpaid principal on the face of the mortgage as of the date on which title is transferred to the Board, plus taxes and other advances specifically authorized by the Board of the Corporation. These debentures will bear the rate of interest (not in excess of 3 per cent) agreed upon at the time the mortgage was insured; and the debenture will mature 3 years after the mortgage would have been paid off if it had remained in good standing.

At the same time the Board will issue to the mortgagee a preferred certificate, up to a maximum of 10 per cent of the unpaid principal on the face of the mortgage as of the date on which title is transferred, covering expenses incurred because of delinquency and foreclosure. The Board will also issue a further certificate of claim for all such expenses allowed by the Board in excess of this 10 per cent. When the Board has fully realized on the property it will first reimburse itself for its debentures issued, and then honor these certificates of claim up to the full amount permitted by the realization on the property.

If the sum realized on the property exceeds both the amount of the debentures and the full amount of the certificates issued to the mortgagee, the Board will turn the remainder of the proceeds over to the mortgagor. Should the sum finally realized, however, be insufficient to cover both the amount of the debentures and the amount of the preferred certificate of claim, the Board will reimburse the mortgagee on such preferred certificate of claim pro rata with the Board's own realization on the property.

The premium for mortgage insurance under the plan will vary from one-half per cent to 1 per cent per annum of the original face value of the mortgage, according to the risk. This premium will be paid by the mortgagor to the mortgagee in addition to the interest and amortization payments provided in the mortgage. The mortgagee will in turn remit this insurance premium to the Board of the Corporation.

The insurance principle involved is similar to mutual life insurance. This premium is considerably in excess of the amount of risk ordinarily involved in mortgages of this type, and hence should eventually be returned in whole or in part to the mortgagor. The premiums thus returned will be paid to the mortgagee to pay off the mortgage for the benefit of the mortgagor. For example, if there were no loss at all, insured mortgages carrying amortization charges calculated to retire the principal in 20 years, would build up, at the end of about 17 years, an insurance reserve sufficient to retire at that time the remaining unpaid principal of the mortgages. In that event the insurance would be terminated and the reserve, after certain deductions for a general reinsurance fund, would be used to take up the mortgages for the benefit of the mortgagors.

The insurance premium therefore covers both insurance risk and additional, but unspecified, amortization. On a twenty-

year amortization contract yielding 5 per cent to the lender, the borrower would be required to pay an annual total charge--for interest, amortization, and insurance--equal to 9 per cent of the original face value of the loan. This charge is much lower than the present equivalent combined cost of first and second mortgage money, and also lower than the equivalent cost even during favorable periods in the past.

By paying this total annual charge of 9 per cent, including interest, amortization, and insurance, the borrower might retire his total mortgage in something over 17 years, and would in any event be guaranteed complete retirement in 20 years. The length of payment between 17 years and 20 years would depend on the extent of the general losses sustained by the insurance reserve.

The insured mortgages will be segregated at the time of insurance into separate funds containing substantially similar risks; they will not be lumped in a single-risk fund. A lending institution, that is to say, could still benefit to the full by insuring its mortgages even if it desired to confine itself to stricter requirements than those prescribed in the mortgage-insurance law.

For example, an institution could confine itself to 60 per cent mortgages instead of making loans to the limit of the 80 per cent permitted as a maximum for new construction, and know at the time of insurance that its mortgages were segregated with others of the same type. Such mortgages would naturally involve fewer realizations on the governmental guaranty, and therefore would not be required to share in the risk of mortgages made on a higher basis of appraisal. All premiums paid on mortgages of common characteristics as to risk would be kept separate in a single fund, and all costs and realizations incidental to realization on the insurance would be debited and credited to this fund.

At the termination of the fund--that is, whenever any one of these separate segregated funds became large enough to take up the debentures issued to make good the mortgages insured by the fund, and also to pay off the remaining indebtedness of borrowers in good standing in the fund--the Board of the Corporation will be required, prior to the termination of the fund, to deduct from 10 to 15 per cent of the fund for a general reinsurance reserve. This reinsurance reserve would take care of losses in particular funds where the premiums proved insufficient to cover the insured losses of the fund. It would also furnish a mechanism whereby the exceptional losses of abnormal periods could be met out of reserves established in periods of smaller losses.

From careful calculations made on an actuarial basis, the plan of mortgage insurance here outlined would involve no loss to the Treasury on its guaranty of principal and interest on the debentures issued to replace the defaulted mortgages. As was previously stated, the premium payments on maximum twenty-year amortization mortgage, if no losses are incurred, would be sufficient to retire the principal of the mortgage commitments in about 17 years, the exact period depending on expenses of operation (which should be relatively low) and on percentage of the reinsurance deduction made by the Board of the Corporation.

In order to determine the extent to which this period of approximately 17 years might be extended by losses, the following loss-assumptions were made the basis of actuarial computations of risk:

1. That all mortgages in a single fund were insured at the maximum risk--that is at 80 per cent of appraised value.
- 2.. That 25 per cent of the total face value of mortgages in a single fund defaulted.
3. That the ultimate realization of the fund on these properties in default was only 50 per cent of the original appraised value of the properties.
4. That all the defaults occurred during the earlier years and reached a peak in the fifth year when, owing to the lower extent of amortization, the insured risk was large.
5. That two years were required for the fund to dispose of the defaulted properties.
6. That reimbursement to the mortgagees was made out of the fund for maximum foreclosure expenses as allowed under the preferred claims.

On this set of assumptions, all of which are far more drastic than past experience would justify as an average calculation of the risk on home mortgages, the fund was still solvent, and would have been terminated some time in the nineteenth year, without drawing on the general reinsurance fund.

The general provisions of the proposed act insuring mortgages on a mutual basis are written also to cover the problem of financing public or semi-public projects for the stimulation of low-cost housing and slum clearance. It is contemplated that the Board will establish separate insurance funds in which mortgages on property of this type can be insured under special conditions as to interest, amortization, and insurance to be determined by the Board. This should permit slum-clearance and low-cost-housing projects to obtain financing on a self-insurance basis at much lower rates than has been possible in the past.

To create liquidity throughout the whole field covered by home mortgages, and also to assist in making new mortgage money available, it is proposed further:

1. To amend the Federal banking laws to permit construction loans on projects of a type likely to be accepted as eligible for Federal Mutual Mortgage Insurance.
2. To amend the Federal banking laws to permit member banks of the Federal Reserve System to hold the new type of insured amortized mortgages in preference to the existing type of unamortized short-term renewal mortgages.
3. To amend the Home Loan Bank Act to permit the Home Loan Banks to rediscount mortgages insured under the mutual mortgage insurance act up to 90% of their full face value.

MEMORANDUM ON NATIONAL MORTGAGE ASSOCIATIONS

May 9, 1934

Two main functions will be performed by these associations: first, the provision of adequate financial facilities for limited dividend and similar low-cost housing projects, customarily associated with slum clearance operations, and, second, the provision of liquidity in the mortgage market.

Many of the most important industrial states have now passed laws granting certain exemptions and privileges to low-cost housing projects, provided they are constructed and maintained under public supervision. Other attempts to deal with the same problem of providing low-cost housing for urban industrial workers are being worked out by such bodies as the New York Housing Authority and the Federal Emergency Housing Corporation.

These national associations will have the resources to handle, and service at low cost, first mortgages for these projects in large individual amounts, mortgages, furthermore, which will be eligible for insurance in segregated risk funds under the Mutual Mortgage Insurance plan, thus multiplying several times the availability of funds for housing developments of this type.

Mortgages on owner-occupied homes are of necessity small in individual amount, and preferably should be originated and serviced during their first years by local institutions, thoroughly familiar with local conditions and in a position to keep close watch on the condition of the property and the responsibility of the borrower. After these mortgages have been amortized to a conservative figure, however, they will constitute safe and acceptable investments for these associations operating over a larger field, which will be able to obtain cheaply the funds used to purchase such insured mortgages from local institutions at a favorable price and thus release fresh funds for local investment.

The primary reason for high interest rates (often as high as 8 or 9 per cent), renewal fees, etc., on home mortgages in many sections of the country is the inadequacy of local savings available

for mortgage financing in growing communities. Settled communities, on the other hand, where there is no great economic demand for new building, are characteristically those in which per capita savings are high and in which there is consequently a large available supply of mortgage funds.

These associations, by reason of their size, will be located in such settled communities and will provide an attractive outlet for accumulated savings, often in excess of the economically valid local demand for construction, by utilizing them for the purchase of mortgages in communities where funds are scarce.

National mortgage associations will be operated under the following strict limitations.

1. They may issue their own debentures only against amortized or self-liquidating mortgages on the safest type of residential properties, insured under the Mutual Mortgage plan, and for maturities consistent with repayments on these mortgages.
2. They will be chartered, supervised and examined by the Federal Home Loan Bank Board and will be required to satisfy the Board that they are in a position to service the insured mortgages held by them.
3. They will be required to have a minimum paid-in capital of \$5,000,000 and their debentures will be limited to a maximum of 15 times their capital.

These limitations will insure the soundness of these institutions. They will not be subject to the hazards arising out of short-term renewal loans on commercial property. They will be large institutions and therefore sufficiently limited in number to be subject to careful individual supervision. Their size will (1) justify the listing of their bonds or debentures on the security exchanges, thus providing the individual or institutional investor with a readily salable mortgage instrument, and (2) insure that their operations receive constant scrutiny by the financial press and the investment services.

The insurance feature of their underlying mortgages will constitute the equivalent of a substantial guaranty of their debentures. Because they will raise their funds in centers where capital is most reasonable, they will be in a position to make lower cost money available for home financing. By the basic terms of their organizations, they will of necessity be confined to conservative financial operations and not be subject to stock-selling promotional abuses. Because their investments will be limited to insured mortgages, for which they are in a position to provide adequate servicing, they will not be able to re-capitalize properties for the purpose of selling securities nor to act as a mortgage outlet for speculative real estate affiliates.

May 8, 1934.

MEMORANDUM

To: Mr. John H. Fahey,  
Chairman.

Dear Mr. Fahey: In re: INSURANCE OF SAVINGS AND LOAN SAVINGS.

Two very worthy and necessary objects are to be accomplished by this proposed legislation. The first thing to be accomplished is to provide absolute protection to the savings of working men and women who save a few dollars each week or month in these institutions so that such savings will not be lost. These are not the people who invest in stocks and bonds but are the people who save up small sums week after week with which to acquire homes, to educate their children, and to provide for old age. The second thing to be accomplished is to assure an even and steady flow of funds into this type of institution, which loans substantially all its money to finance small homes. This flow of money must be started again to put back to work many hundreds of thousands of men who have been idle.

In order to insure the small savings of these working people, it is proposed that the Government provide a capital of \$100,000,000 to establish confidence, and that these savings institutions pay annual insurance premiums which are carefully calculated to cover all anticipated losses. These savings are loaned to home owners on long-term, monthly-amortized mortgage loans, and, being mutual institutions which are very economically operated, the savers receive a return very close to the rate charged to the home owner. This plan does not insure the liquidity of these long-term institutions but contemplates that these savers will be insured, that they will get their savings back through the ordinary processes of the associations or, in the event of liquidation, from the Insurance Corporation in due time. This legislation, together with the Federal Home Loan Bank Act, will provide not only for the protection of these savings but for more uniform and economical conduct of this savings plan, which is said to be serving more than ten million savers who have accumulated about eight billions of dollars.

The type of local mutual financial institution here dealt with in normal times has provided more money for home building than any other type of institution. It is estimated that they finance 65 per cent of all small homes. The flow of savings into these institutions has been largely diverted in recent years into postal savings and insured bank deposits. It is believed that this plan will again start the flow of funds into these institutions so that they can provide money to improve small homes and to build small homes in their local communities through-

out the Nation. Money saved in these associations is immediately loaned to build homes, and therefore spent for building materials and labor. It is important to the country that this labor be put to work. These associations do not ordinarily carry any cash, but loan their money for home building as fast as they get it.

The demands upon Home Owners' Loan Corporation are enormous and these demands will increase as loans mature unless provision is made for these institutions to refinance some of such loans.

It is the policy of the Government to protect small savers and to promote home ownership. This legislation will protect the most deserving class of small savers and the most deserving class of small home owners.

Very truly yours,

Horace Russell,  
General Counsel.

HR:RHM

4E 5/10/34

*Return to Mr. Riefler*  
**THE HOUSING PROBLEM***Mr. Riefler -*

The housing problem, with which this bill is concerned, has become the key log in the economic jam from many points of view. The construction industry, as a whole, is outstanding among the large industries in this country. It is also by far the most depressed of any large industry, and, aside from such activity as is imparted by public works allotments, has shown the least response during the past year to the general recuperation. The aggregate volume of construction activity in this country has fallen from an annual aggregate of eleven billion dollars to one that averages about three billions. In this total drop in construction, residential building has shown an even greater relative decrease, from around three billions annually to a figure of only 300 millions.

From the point of view of unemployment, the construction industry is also responsible for our largest single relief problem. About 3,500,000 persons are normally employed directly in the construction industry or in making, transporting, and selling construction materials. If account is also taken of those indirectly attached to the industry such as those who produce raw materials, etc., the aggregate number of persons affected directly by construction may reach as many as 5,000,000.

If these workers, or any appreciable part of them can be restored to normal employment, it will, of course, stimulate the service industries and offer increased <sup>of</sup> general employment there.

Finally, the building industry is responsible for our largest remaining financial problem at the present time. The mortgage debt of this country aggregating \$43,000,000,000 is the largest single outstanding block of long-term indebtedness in the capital market, more than three times as large as the total ~~public~~ railroad debt, four times as large as the total public utility <sup>or</sup> ~~and~~ industrial long-term debt, and nearly as large as the total National, State, County and Municipal debt combined. About one-half of ~~this~~ this total mortgage debt, or \$21,000,000,000, is represented by individual mortgages upon homes. Most of this huge indebtedness was <sup>created</sup> ~~greatest~~ under the unsound financial practices prevailing during the boom conditions of 1922-1929. Among these practices the most detrimental are the following:

1. The practice of financing new construction through the use of second mortgage financing at exorbitant costs.
2. The practice of charging high interest rates and excessive fees for renewals, etc.
3. The practice of making long-term mortgage loans upon a short-term basis. Many of these mortgages were originally written on a three or five-year basis, made no provision for their gradual repayment out of the income of the borrower, and were expected as a matter of course to be refinanced in the mortgage market at their maturity.

Due largely to these unsound conditions, the mortgage market has been unable to stand the strain of the depression and active mortgage financing has practically disappeared in many sections. From almost the beginning of the depression, employment on new residential construction, even where it was justified has been drastically curtailed by the inability of borrowers to secure second mortgage financing. As existing mortgages have matured, furthermore, borrowers have found it difficult to secure renewals and have been pressed for heavy loan repayments at that time when they were least able to make them.

By 1933 when the Home Owners' Loan Act was enacted, it was estimated that 10 per cent of all mortgaged urban homes had been foreclosed, and foreclosures were then going forward at a rate of nearly 25,000,000 per month. Since then this rate has declined to about 20,000 per month reflecting largely the activities of the Home Owners' Loan Corporation, which to date has received 1,250,000 applications aggregating more than four billions of dollars.

These facts make it clear that reorganization of the mortgage market is as vital to the unfreezing of our financial institutions as is the resumption of construction to the reemployment of the huge army now being carried upon the relief roll. We have here in fact a sort of vicious circle in which, on the one hand, unemployment is maintained at a high figure because of the absence of facilities for financing new construction, while, on the other, the financial burden of the existing mort-

gage debt is becoming increasingly difficult to carry because of the widespread prevalence of unemployment. In the following program, this problem is attacked from four different angles, each calculated to bring support to the construction and mortgage lending industries at those points where strength is most urgently needed. They are essential parts, moreover, of an interrelated whole that will break this vicious circle by encouraging a general renewal of building activity along sound financial lines where it is economically justified and at those points where economic demand is present. ¶ The four components of the program are as follows:

1. ~~Modernization of residential, commercial, industrial,~~  
Modernization
2. Mortgage Insurance.
3. Mortgage Associations.
4. Insurance of Building and Loan Associations.

Modernization.

1. ~~The most~~ <sup>After 5 years of neglect of a gross</sup> widespread potential demand for building activity ~~at the~~ <sup>now</sup> ~~present time~~ <sup>in the field of</sup> modernization, repair, and rehabilita-

tion. By providing definite incentives in the way of reasonable costs and advantageous credit terms ~~for undertaking to make up for~~ <sup>of</sup> ~~five years~~ ~~neglect of our physical properties~~, we are stimulating

~~and renewed activity and employment in the~~ <sup>the kind of construction work in which</sup> ~~at that~~ <sup>most</sup> ~~point where~~ <sup>results can be most quickly obtained.</sup> The modernization campaign ~~will~~ <sup>would</sup> embrace all ~~types of~~ <sup>modernization</sup>, commercial

and industrial <sup>holding</sup> as well as residential, but the special credits, because of their \$2,000 limit, ~~will~~ <sup>would</sup> be confined largely to residential properties.

2. Mortgage Insurance.

By offering to insure mortgages on existing properties that conform to model financial practices, private capital will be induced to invest in mortgages once more, and thus start the unfreezing of the mortgage market. By offering to insure mortgages on new construction along the same sound lines, but up to a maximum of 80 per cent of the appraised value of the property, new construction will be enabled to go forward in the absence of a second mortgage market. Only mortgages will be insured where such insurance is beneficial to the mortgage market and no construction will be financed of a speculative type or in localities where there is an existing surplus of modern homes. New construction, therefore, will be limited to that which is economically justified in its locality. This means that new construction for the immediate future will be localized. As the rehabili-

tation campaign gets well under way, <sup>and</sup> ~~the~~ the general recovery program becomes further advanced, these justified demands will spread in an ever-widening circle, etc.

Mortgage Associations.

By providing for the national charter of mortgage associations under rigid supervision and restricted in their dealings to insured mortgages, we provide an instrument which will be able to spread these advantages throughout the country.

Insurance of Building and Loan Associations.

By insuring shareholders in sound building and loan associations we restore confidence in these mortgage-lending institutions and rehabilitate them so that they can resume their function of making mortgage loans.

THE HOUSING PROBLEM

Viewed from any one of several points of view, the housing problem is the key log in the economic jam.

In the first place, the construction industry as a whole is outstanding among the large industries of the United States. It is also by far the most depressed of any large industry. Furthermore, except for the activity imparted to it by public works allotments, it has shown the least response during the past year to the general economic recovery.

Even when the expenditures for public works are taken into account, the volume of construction is today only about one-fourth its former total. In residential construction, moreover, the present volume is but one-tenth the former total. The extent of the decline is shown by the following brief comparisons:

Former annual aggregate of construction	\$11,000,000,000
Present annual aggregate	3,000,000,000
Former annual residential construction	\$ 3,000,000,000
Present annual residential construction	300,000,000

From the point of view of unemployment, this enormous decline in the volume of construction is accountable for our largest single problem of emergency relief. That is to say, the great bulk of the persons ordinarily engaged in the construction industry and related activities are still unemployed; and these workers and their families constitute the largest group still dependent on public and private relief.

The number of persons normally employed directly in the construction industry, or in making, transporting, and selling construction materials, is about 3,500,000. If account is also taken of the persons indirectly dependent on the construction industry-- such, for example, as those engaged in the production of raw materials-- the number of workers normally affected either favorably or adversely, according to the state of the construction industry, may be placed at approximately 5,000,000. This figure must of course be multiplied several times in order to arrive at the actual number of persons normally dependent on the construction industry for their livelihood.

If the workers in the building trades, or any appreciable part of their number, can be restored to normal employment, their reemployment will in turn further stimulate the so-called service industries, such as transportation, and thus provide additional employment there in proportion to the increase in the construction industry.

Besides being accountable at the present time for our largest industrial problem and our largest unemployment relief problem, the construction industry is also accountable for our largest remaining financial problem. The real estate mortgage debt in the country as a whole is \$43,000,000,000. This is the largest single class of outstanding long-term indebtedness in the capital market. It is more than three times as large as the total railroad debt, four times as large as the total public utility long-term debt, and four times as large as the total industrial long-term debt. It is nearly as large as the combined totals of National, State, County, and Municipal debt.

Of this total mortgage debt, \$21,000,000,000, or approximately half the total, is represented by individual mortgages on homes. Most of this huge home-mortgage debt, furthermore, was created under the unsound financial practices that prevailed during the boom conditions of 1922-29. These unsound practices are now universally recognized and discredited. The most detrimental of them however, were the following:

1. The practice of financing new construction through the use of second mortgage financing at exorbitant costs.
2. The practice of charging excessive fees, in addition to high interest rates, for the renewal of maturing mortgages.
3. The practice of making long-term loans on a fictitious short-term basis. That is to say, mortgages were written on a three-year or five-year basis, but without any provision for their gradual repayment out of the income of the borrower; and they were expected as a matter of course, usually by borrower and lender alike, to be renewed or refinanced at maturity.

Owing largely to those unsound practices of the years 1922-29, the mortgage market has been unable to stand the strain of the depression. In many sections of the country active mortgage financing has virtually disappeared. New residential construction, even where it is fully justified, has from almost the beginning of the depression been drastically curtailed because of the inability of borrowers to obtain second mortgage financing. It has also been exceedingly difficult, and in numerous instances impossible, for borrowers to secure the renewal of mortgages; and they have been pressed for heavy repayments at the time when they were least able to make them.

By 1933, when the Home Owners' Loan Act was enacted, it was estimated that 10% of all mortgaged urban homes had been foreclosed. Foreclosures were going forward, furthermore, at the rate of nearly 25,000 homes per month. Since then the foreclosure rate has declined to about 20,000 homes per month, reflecting to a large extent the relief afforded by the Home Owners' Loan Corporation. To date this governmental agency has received 1,250,000 applications aggregating more than \$4,000,000,000.

These facts make it plain that the reorganization and reopening of the mortgage market is as vital to the unfreezing of our financial institutions as is the resumption of construction to the reemployment of the huge army of workers that is now being carried on the relief roll. We have here, in fact, a sort of vicious circle: unemployment is maintained at a high figure because of the absence of facilities for financing new construction, while at the same time the financial burden of the existing mortgage debt is becoming increasingly difficult to carry because of the continuing large volume of unemployment.

In the program that is summarized in the following paragraphs, this problem is attacked by four different methods, each calculated to bring support to the construction industry and the mortgage-lending business at those points where strength is most urgently needed. The four methods of attack are essential parts of an interrelated whole, the aggregate force of which will break the vicious circle just referred to by encouraging a general resumption of building activity, on sound financial lines, in those areas where new construction is economically justified and where an economic demand is present.

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The four component parts of the program are as follows:

1. Modernization.
2. Mortgage Insurance.
3. Mortgage Associations.
4. Insurance of Building and Loan Associations.

Modernization. After five years of neglect of our residential, commercial, and industrial properties, a widespread potential demand now exists for construction in the field of repair, renovation, and modernization. By providing definite incentives in the way of reasonable costs and advantageous credit terms, we can stimulate a renewal of activity and employment in the kind of construction in which substantial results can be most quickly obtained. The modernization campaign that has been proposed to induce the undertaking of this work would embrace commercial and industrial as well as residential property; but the special credits which have been proposed would, because of their \$2,000 limit, be confined in the main to residential property.

Mortgage Insurance. By insuring mortgages on existing homes up to 60 per cent of their currently appraised value, we can induce private capital to invest in mortgages once more and thus start the unfreezing of the mortgage market. By offering to insure mortgages on newly completed homes, but up to 80 per cent of the appraised value, we can enable new construction to go forward without any occasion for reviving the second mortgage market. Mortgages would be insured, however, only where the insurance would be beneficial to the mortgage market. That is to say, no construction of a speculative type would be eligible to mortgage insurance, nor would the insurance be granted in areas where there was an existing surplus of modern homes. New construction, therefore, would be limited to that which is economically justified in each community. In other words, new construction would for the immediate future be localized. As the modernization campaign got under way, however, and the general recovery program became farther advanced, the justified demand for new construction would spread in an ever-widening circle.

Mortgage Associations. By authorizing the Federal charter of mortgage associations, placing these associations under rigid federal supervision, and restricting their dealings to the insured mortgages, we can provide an effective means of attracting funds from financial centers in which there is a surplus of capital for investment to areas in which local savings are insufficient to meet the requirements of home financing. In this manner the advantages of low-cost, long-term financing can be spread to communities throughout the country.

Insurance of Building and Loan Associations. By insuring the shareholders in sound building and loan associations, we can restore the confidence of small savers in these important mortgage-lending institutions, and rehabilitate them in such a manner as to enable them to resume their normal mortgage-lending functions.

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DO NOT REMOVE

THE NATIONAL EMERGENCY COUNCIL

FOR IMMEDIATE RELEASE.

May 14, 1934.

Frank C. Walker, Executive Director of the National Emergency Council, today made public the following supplemental information with regard to the problem that is dealt with in the housing program which the Council has recommended to President Roosevelt and on which the President today asked Congress for legislation:

From any one of several points of view, an attack on the housing problem can at the present time be made a major factor in economic re-adjustment.

In the first place, the construction industry as a whole is outstanding among the large industries of the United States. Furthermore, it has been the most severely depressed of our large industries, and the one that has shown the least response during the past year to the general economic recovery. The decline of residential construction to but one-tenth its former total has been even more severe than the decline of construction generally. The extent of the decline in the construction industry is shown by the following brief comparisons:

Former annual aggregate of construction	\$11,000,000,000
Present annual aggregate	3,000,000,000
Former annual residential construction	3,000,000,000
Present annual residential construction	300,000,000

From the point of view of unemployment, this enormous decline in the volume of construction is accountable for our largest single emergency-relief problem. The great bulk of the persons ordinarily engaged in the construction industry and related activities are still unemployed. These workers and their families constitute the largest group still dependent on public and private relief.

The number of persons normally employed directly in the construction industry, or in making, transporting, and selling construction materials, is about 3,500,000. If account is also taken of the persons indirectly dependent on the construction industry--such, for example, as

those engaged in the production of raw materials--the number of workers affected either favorably or adversely, according to the state of the construction industry, may be placed at approximately 5,000,000. This figure must of course be multiplied several times in order to arrive at the total number of persons in the families of workers normally dependent on the construction industry for their livelihood.

If the workers in the building trades, or any appreciable part of their number, can be restored to normal employment, their re-employment will in turn further stimulate the so-called service industries--such, for example, as retail trade--and thus provide additional employment there in proportion to the increase in the construction industry.

Besides being accountable at the present time for our largest industrial problem and our largest unemployment relief problem, the construction industry is also accountable for our largest remaining financial problem. The real estate mortgage debt in the country as a whole is \$43,000,000,000. This is the largest single class of outstanding long-term indebtedness in the capital market. It is more than three times as large as the total railroad debt, four times as large as the total public utility long-term debt, and four times as large as the total industrial long-term debt. It is nearly as large as the combined totals of National, State, County, and Municipal debt.

Of this mortgage indebtedness, \$21,000,000,000, or approximately half the total, is represented by individual mortgages on homes. Much of this huge home-mortgage debt, furthermore, was created under the unsound financial practices that prevailed during the boom conditions of 1922-29. These unsound practices are now universally recognized and discredited. The most detrimental of them, however, were the following:

1. The practice of financing new construction through the use of second mortgage financing at exorbitant costs.

2. The practice of charging excessive fees, in addition to high interest rates, for the renewal of maturing mortgages.
3. The practice of making long-term loans on a fictitious short-term basis. That is to say, mortgages were written on a three-year or five-year basis, but without any provision for their gradual repayment out of the income of the borrower; and they were expected as a matter of course, by borrower and lender alike, to be renewed or refinanced at maturity.

Owing largely to these unsound practices of the years 1922-29, the mortgage market has been unable to stand the strain of the depression or to share in the general recovery. In many sections of the country, active mortgage financing has virtually disappeared. Now residential construction, even where it is fully justified, has from almost the beginning of the depression been drastically curtailed because of the inability of borrowers to obtain second-mortgage financing. It has also been difficult for borrowers to obtain the customary renewal or refinancing or maturing mortgages; and they have in numerous instances been pressed for heavy repayments at the time when they were least able to make them.

By 1933, when the Home Owners' Loan Act was enacted, it was estimated that 10% of all mortgaged urban homes had been foreclosed. Foreclosures were going forward, furthermore, at the rate of nearly 25,000 homes per month. Since then the foreclosure rate has declined to about 20,000 homes per month. To date the Home Owners' Loan Corporation has received 1,250,000 applications aggregating more than \$4,000,000,000.

These facts make it plain that the reorganization and reopening of the mortgage market is as vital to the free functioning of our financial institutions as is the resumption of construction to the reemployment of the huge army of workers that is now being carried on the relief roll. We have here, in fact, a sort of vicious circle. Unemployment is maintained

at a high figure because of the absence of facilities for financing new construction, while at the same time the financial burden of the existing mortgage debt becomes increasingly difficult to carry because of the continuing large volume of unemployment.

In the program that has been recommended to the President by the National Emergency Council, this problem is attacked by four different methods, each calculated to bring support to the construction industry and the mortgage-lending business at the points where strength is most urgently needed. The four methods of attack are essential parts of an interrelated whole, the force of which will break the vicious circle just referred to by encouraging, in areas where new construction is economically justified and where an economic demand is present, a resumption of building activity, but under new and sound financial practices.

The four component parts of the program are as follows:

1. Modernization.
2. Mortgage Insurance.
3. Mortgage Associations.
4. Insurance of Building and Loan Associations.

Modernization. After five years of neglect of the ordinary maintenance of our residential, commercial, and industrial properties, a widespread potential demand now exists for construction in the field of repair, renovation, and modernization. By providing definite incentives in the way of reasonable costs and advantageous credit terms, we can stimulate a renewal of activity and employment in the kind of construction, both urban and rural, in which substantial results can be most quickly obtained. A modernization campaign and a plan of home-improvement credit have been proposed as a means of inducing the prompt undertaking of this work. The modernization project would embrace commercial and industrial property as well as residential property. The special credits that have been proposed, however, would be limited to a maximum of \$2,000 each, and hence would be availed of for the most part by homeowners.

Mortgage Insurance. A plan of mutual mortgage insurance, under governmental direction, has been proposed as one of three principal means of reopening the mortgage market. By insuring mortgages on existing homes up to 60 per cent of their currently appraised value, we can induce private capital again to invest more freely in mortgages. By offering to insure mortgages on newly completed homes, but up to 80 per cent of the appraised value, we can enable new construction to go forward without any occasion for reviving the second-mortgage market. Mortgages would be insured, however, only where the insurance would be beneficial to the mortgage market. No construction of a speculative type would be eligible to mortgage insurance, nor would the insurance be granted in areas where there was an existing surplus of modern homes. New construction, therefore, would be limited to that which is economically justified in each community. In other words, new construction would for the immediate future be localized. Then as the modernization campaign got under way, and the general recovery program became farther advanced, the justifiable demand for new construction would spread in an ever-widening circle.

Mortgage Associations. As another important means of reopening the mortgage market, the authorization of privately owned and operated mortgage associations, to be incorporated under Federal charter, has been proposed. By placing these associations under rigid Federal supervision, and restricting their dealings to the insured mortgages, we can provide an effective means of attracting funds from financial centers in which there is a surplus of capital for investment to areas in which local savings are insufficient to meet the requirements of home financing, and in which the local cost of such financing is therefore unduly high. In this manner the advantages of low-cost, long-term financing can be spread to communities throughout the country.

Insurance of Building and Loan Associations. The insurance of the shares and certificates of sound building and loan associations has been proposed as still another important means of reopening the mortgage market. These institutions have been placed at an inequitable disadvantage since the insurance of bank deposits was put into effect at the beginning of the present year. By insuring building and loan savings, we can remove this disadvantage and again enable the associations to attract small savings for mortgage lending.

SUGGESTIONS FOR LEGISLATION IN HOUSING

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MESSAGE  
from

THE PRESIDENT OF THE UNITED STATES

transmitting

SUGGESTIONS FOR LEGISLATION TO IMPROVE CONDITIONS FOR  
THOSE WHO LIVE IN HOUSES, THOSE WHO REPAIR AND CON-  
STRUCT HOUSES, AND THOSE WHO INVEST IN HOUSES

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May 14, 1934.-Referred to the Committee on Banking and  
Currency and ordered to be printed

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To the Congress:

May I draw your attention to some important suggestions for legislation which should tend to improve conditions for those who live in houses, those who repair and construct houses, and those who invest in houses?

Many of our homes are in decadent condition and not fit for human habitation. They need repairing and modernizing to bring them up to the standard of the times. Many new homes now are needed to replace those not worth repairing.

The protection of the health and safety of the people demands that this renovizing and building be done speedily. The Federal Government should take the initiative immediately to cooperate with private capital and industry in this real-property conservation. We must lay the groundwork for this effort before Congress adjourns its present session.

The purpose of the program is twofold: First, to return many of the unemployed to useful and gainful occupation; second, to produce tangible, useful wealth in a form for which there is great social and economic need.

The program consists of four major, interrelated divisions:

1. Modernization, repair, and new construction;
2. Mortgage insurance;
3. Mortgage associations; and
4. Building and loan insurance.

The modernization phase of the program will furnish national guidance and support for locally managed renovizing campaign throughout the country and protection for home owners against unwarranted cost advances. For these purposes and to assure adequate financing at low cost and on moderate terms of repayment, a new governmental agency is required.

Modernization of commercial and industrial structures is envisioned, as well as residential, but the new features providing governmental assistance are confined largely to home improvements.

Loans to individuals will be made by private agencies which will be insured by a governmental agency against loss up to a certain percentage of their advances. This insurance against loss on the rehabilitation loans will

be met by the Government and will be confined to advances of credit that meet standards and conditions designed to protect both the home owners and the co-operating agencies.

To make funds available for new home construction and to improve the mortgage market, the second phase of the program is long-term mortgage financing. It provides mutual mortgage insurance under governmental direction to enable private agencies to make first-mortgage loans on newly constructed houses up to 80 percent of the appraised value of the property, and to make new mortgages on existing homes up to 60 percent of the appraised value of the property. The loans will usually carry not more than 5 percent interest and will be amortized by periodic payments over 20 years. Similar insurance arrangements are provided to help finance low-cost residential projects of the slum-replacement type.

The third phase provides for the incorporation of mortgage associations under strict Federal supervision to increase the amount of mortgage funds available in regions where interest rates are unduly high because sufficient local funds are lacking. The activities of these associations will be limited almost entirely to insured residential mortgages.

Insurance for share and certificate holders in building and loan associations, similar to the insurance provided for bank depositors, is the fourth phase of the program. These institutions are custodians of the funds of small savers, and it is essential that they should be given every reasonable protection. Insurance of this type is necessary in order to arrest any further drain on these institutions and to put them in a position to resume their normal useful functions.

I believe that the initiation of this broad and sound program will do much to alleviate distress and to raise perceptibly the standards of good living for many of our families throughout the land.

FRANKLIN D. ROOSEVELT.

The White House, May 14, 1934.

*Report prepared  
for N.E.C. meeting -  
meeting postponed*

May 15, 1934

To: Mr. Walker                      Subject: The Housing Program.  
From: Mr. Riefler

The President yesterday transmitted to Congress legislation necessary to carry into effect the Housing Program developed by the National Emergency Council. The bill which was prepared by the Council was introduced in both houses during the afternoon. A general statement by the President showing the need for the legislation was released at noon and in the afternoon Mr. Walker released a statement stressing the importance of the housing problem.

The legislation finally submitted includes in one bill most of the points discussed at the last meeting of the Council, namely:

1. Provision for insurance of financial agencies against loss on rehabilitation loans.
2. Provision for insurance of residential mortgages, up to 60 per cent in the case of loans upon existing properties, and up to 80 per cent in the case of loans for new construction. Loans upon existing properties are

further limited in the bill to a maximum total of \$1,000,000,000.

3. Provision for the Federal charter, examination and supervision of national mortgage associations.
4. Provision for the insurance of shareholders and certificate holders in Savings and Loan Associations.

In addition to these features, covered by the legislation, the program envisages an effort by the Emergency Council to reduce construction costs through the cooperation of industry, transportation and labor, and the establishment by Executive Order both of a Housing Administrator to give guidance and support to locally managed modernization campaigns throughout the country, and of a Housing Board to coordinate the various current activities of the Government in the field of housing.

The staff of the Emergency Council has been more or less swamped trying to handle urgent preliminary details in connection with the formulation of this program. The subject of housing is so important and the interest in it so widespread that an enormous amount of work has developed for this group to handle. The correspondence alone is extremely large. Much of it is from important groups and requires careful attention in the preparation of replies. There have also been an exceptional

number of inquiries from members of Congress, numerous alternative suggestions and plans presented for analysis, and a large number of callers to be interviewed.

To date the regular staff of the Emergency Council has been aided in handling this work by Dr. Taylor, who was loaned to the Council by the Department of Commerce, and Mr. Deane, who was loaned by the N. R. A. In addition, Mr. Gaiger was added to the staff of the Council on a temporary basis. The work of all of these officials has been correlated through Mr. Charles Edison, State Director for New Jersey, who volunteered his services until the undertaking was organized.

It should be thoroughly understood that all of this work is of a preliminary nature only, and reflects solely the urgencies of the situation. No arrangements of any kind have been made either as to present organization or policy. Pending the establishment of a permanent organization and the further formulation of policies by the Council, however, the work continues to increase and will require further temporary appointments of a clerical or junior staff nature, some of which may require a small expenditure of Council funds.

The Council now has available to meet these needs \$1,000,000 allotted from the P. W. A. for the housing program, and particularly the modernization campaign, but it has seemed wiser not to draw upon this allocation until the housing legislation has been passed by Congress.

June 3, 1934 FE

NATIONAL HOUSING ACT  
BRIEF  
(PROPOSED "LONG" BILL)

TITLE I - INSURANCE OF LOANS FOR REPAIRS

Provides \$200,000,000 for Federal insurance of loans made prior to January 1, 1936, which are used to finance the alteration, repair, or improvement of real property. All types of accredited financial lending institutions would be permitted to insure eligible loans, including banks, trust companies, personal finance companies, mortgage companies, building and loan associations and installment lending companies. Loans might be insured up to a maximum of \$1,000,000,000 the total recovery of any single institution from the Government on account of losses being limited to a maximum of 20 per cent of the total of its insured loans. Individual loans eligible for insurance would be limited to a maximum of \$2,000 and would be required to bear interest, have maturities, and contain such other terms, conditions and restrictions as the Government might require. The cost of this insurance would be paid by the Government out of the \$200,000,000 provided which would also be available for the redemption of insured loans.

TITLE II - MORTGAGE INSURANCE.

Provides \$10,000,000 for the establishment of a Federal Corporation to insure first mortgages upon residential properties presented prior to July 1, 1937. As the insurance provided under this title rests upon a self-sustaining basis, the funds appropriated are limited to those required to organize the Corporation. To be eligible for insurance mortgages would have to be presented by responsible lenders, provide for complete amortization, carry an interest return to the lender of not more than 5 per cent (except under certain circumstances where 6 per cent return would be allowed) and be otherwise satisfactory to the Corporation. Mortgages upon existing properties could be insured for an amount up to 60 per cent of the appraised value of the property and in a total amount aggregating \$1,000,000,000. Mortgages upon properties constructed after the enactment of the act would not be limited as to aggregate volume and could be insured up to a maximum of 80 per cent of the appraised value of the property. No home mortgage in excess of \$20,000 would be eligible for insurance, but mortgages upon multiple unit low cost housing projects could be insured for larger amounts.

Insurance premiums would be segregated in separate funds classified according to the estimated risk involved and all excess amounts in such funds after payment of losses, expenses and the deduction of reserves for a general insurance fund would be credited to the borrower in final liquidation of the mortgage.

Realization on the insurance would not take effect until after foreclosure, when lenders would be entitled to exchange the foreclosed property for a government debenture bearing not more than 3 per cent interest and having a maturity date approximately three years after the maturity date of the insured mortgage. Amounts realized on foreclosed property would be used first to reimburse the insurance fund, second, to reimburse the lender for necessary expenses incident to foreclosure, any remainder over and above such charges being returned to the original borrower.

### TITLE III - NATIONAL MORTGAGE ASSOCIATIONS.

Provides for the Federal charter of national mortgage associations under the supervision and examination of the Federal Home Loan Bank Board. Such associations would be required to have a minimum paid-in capital of \$5,000,000 and would be permitted to issue bonds or debentures up to a maximum of fifteen times their capital provided such bonds or debentures were fully covered by mortgages insured under Title II.

### TITLE IV - INSURANCE OF SAVINGS AND LOAN SAVINGS.

Provides \$100,000,000 in bonds of the Home Owners Loan Corporation for the establishment of a Federal Savings and Loan Insurance Corporation under the management of the Federal Home Loan Bank Board to insure the accounts of purchasers of certificates or shares in building and loan associations or other institutions conducting a substantially similar business. Each of these institutions as are members of the Federal Home Loan Bank system would be eligible to apply for insurance of their accounts, but all Federal Savings and Loan Association members would be required to apply for such insurance. Upon default and liquidation of an insured institution, the holder of such insured account would be entitled to receive 10 per cent of such account in cash and 90 per cent of the remainder within one year and the balance within three years up to a maximum of \$2,500. Each insured institution would be required to pay a regular annual premium of 1/2 of one per cent of its creditor obligations plus the total amount in the insured accounts of all of its members until the reserve of the Insurance Corporation reached a total equal to 5 per cent of the insured accounts and creditor obligations of all of the insured members. Thereafter a similar premium would be imposed when such payment was necessary to maintain this reserve. In addition, the Insurance Corporation would be authorized to assess member institutions an extra insurance premium to cover losses up to a maximum in any one year of 1/4 of one per cent of their insured accounts plus other credit obligations.

Insured institutions would be required to continue payments of premiums for three years after voluntary withdrawal from membership in the fund. Insured institutions would further be required to build up reserves equivalent to 5 per cent of their insured accounts within 10 years and would be subject to general supervision and regulation by the Corporation.

### TITLE V - AMENDMENTS

Sec. 401 Amends the Home Loan Act to permit the Federal Home Loan Banks to make advances to members (1) up to a maximum of 90 per cent upon mortgages insured under Title II, (2) in the case of other amortized home mortgages, up to 65 per cent of the value of the loan,--but not in excess of 60 per cent of the value of the property, and (3) in the case of all other home mortgages, up to 50 per cent of the value of the loan but not in excess of 40 per cent of the property.

Sec. 402 Empowers the Federal Home Loan Banks to advance funds to member institutions to enable them to make loans for repairs, and improvements as provided in Title I.

Sec. 403 Amends the Federal Home Loan Bank Act to permit the issuance of debentures.

Sec. 404 Amends the Farm Credit Act of 1933 to permit production credit associations to make loans for repairs and improvements as provided in Title I.

Sec. 405 Amends the Federal Reserve Act to permit national banks to hold mortgages insured under Title II.

Sec. 406. Amends the Federal Reserve Act to permit member banks to classify construction loans as commercial loans and provides re-discount privileges for such loans at the Federal Reserve Banks.

4E  
SC -

July 21, 1934

### NEIGHBORHOOD REHABILITATION

To meet the problem of rehabilitating decaying urban areas such as are or appear in the process of becoming slums, it is tentatively suggested that the following method of procedure be explored:

1. Secure legislation (state) permitting Neighborhood Improvement Associations to be incorporated by the State Housing Board or Municipal Housing Authority under the following conditions and with the following powers:

Conditions:

- A. Each such association shall apply to contiguous urban territory covering at least one urban block.
- B. The total financial interest of the members of each such association at the time of application for charter must equal at least one-half of the total assessed valuation and at least two-thirds of the total taxable assessed valuation of the neighborhood covered. The total "financial interest" applicable to each unit of property in the neighborhood shall consist of its total assessed value, which shall be apportioned among owners, mortgagees and other lien holders for the purpose of forming a neighborhood improvement association

as follows: The financial interest of an owner shall consist of the total amount, if any, by which the assessed value of the property exceeds the total of mortgages or other similar liens thereon, while the "financial interest" of mortgagees or holders of other similar liens shall consist of the face amount of such liens up to the aggregate total permitted by the assessed value of the property.

- C. No such association may be formed when occupant property owners holding title to ten per cent or more of the total assessed valuation of such neighborhood remain outside such association at the time of application for charter, provided that the assessed valuation assigned as applicable to such occupant owners shall be based upon residential property actually occupied by them or their families for dwelling purposes and not premises or parts of premises rented or available for rent for income purposes.

Powers.

- A. Upon issuance of a charter showing that the Association conforms to the above conditions, such association may (shall) institute condemnation proceedings looking toward the acquisition by the association of title in all of the property included in such neighborhood, both the property belonging to applicant owners and property outside the association at the time of its application

for charter.

- B. Upon completion of condemnation proceedings, after full appraisal by the court, the court shall order title in all property in the area covered by the Association to be turned over to the Association which shall issue in payment therefor income debentures up to 50 per cent of the appraised value of each unit of property, payment for the remainder being made in common stock. Mortgagees and holders of senior liens shall have first right to receive the debentures up to the share of their interest in the property. Tender of such debentures and stock by the Association shall constitute full payment therefor under the condemnation proceedings, and title to properties in the area shall be vested in the association upon certification of such tender by the court.
2. With such legislation it would be possible for a majority of mortgage holders and owners in a decaying area to pool their properties for purposes of rehabilitation of the area as a whole. The Associations so formed, furthermore, would be in a position to raise funds through the issuance of bonds for the purpose of rebuilding the area in whole or in part as might be needed. Such rebuilding and such issuance of bonds should at all times and in all respects be subject to the approval of the City Planning Commission,

Housing Authority or other appropriate public body which is charged with the responsibility of guiding the city's growth and preventing a repetition in the future of the present decay.

3. Legislation should be secured permitting banks, trust funds and other investors, subject to public supervision, to enter such associations and hold such securities of the Associations as were acquired as a result of such pooling of property.

581

*Walker  
Wickens  
mortgage  
9/29*

September 29, 1934

Mr. Frank C. Walker  
1600 Broadway  
New York City

Dear Mr. Walker:

Enclosed a draft of your speech for the Mortgage Bankers Association. As I told you yesterday, I have had to prepare this very hastily. In general I think that it covers the subject as you desire. I am not at all sure, however, that I may not have unwittingly included several slips which you would not desire to proclaim in public or which it would not be politic for you to enunciate. Do not take it as a final result of serious thought on my part. I have simply not had time to go over it in that manner.

I am enclosing also some suggestions for the speech which Mr. Wickens drew up for me. The great advantage of these suggestions is that they work in recent material from the Peoria Survey. I intended at first to incorporate some of this material in my draft for you but decided in the end that either line would be good but that the two didn't exactly mix in the same speech. I will leave you to choose which one you care to use.

Very truly yours,

Winfield W. Riefler  
Economic Adviser

Enclosure

September 29, 1934

THE FEDERAL HOUSING PROGRAM

A proposed draft of an address by  
Frank C. Walker before the National  
Mortgage Bankers Association, Chicago,  
October 4, 1934

During the past eighteen months I have been requested to speak upon many occasions and have refused in most instances, not because of lack of appreciation of the honor conferred upon me but rather because of a conviction on my part that the audience would not find in me what they sought. Such invitations naturally accrue to those of us who have participated actively in the new administration in Washington, and we in turn are under a moral compulsion to respond; for it is proper that we should explain our activities, state the problems of government as we have found them, and the measures we have undertaken to cope with them. Personally, however, I have felt that others were better fitted than myself to discuss the manifold activities which have been initiated to stop the onrolling rush to chaos in which we found ourselves in the early months of 1933. By this I mean specifically that I was not the most appropriate spokesman to discuss such measures as those taken for the rehabilitation of agriculture under the AAA, or of industry under the NRA, or of banking under the three-fold leadership of the Federal Reserve System, the Federal Deposit Insurance Corporation and the Reconstruction Finance Corporation.

In the present instance, however, when I was invited to address the Mortgage Bankers Association, I was bound to accept. It is entirely appropriate that, given the opportunity to be here with you, I should hasten to comply, for during the past year in Washington a greater proportion of my time and attention has been focussed upon the mortgage problem than on any other. From January when the President requested the Executive Council and the National Emergency Council to take the lead in formulating a coordinate program for the various housing and mortgage activities of the Federal Government until the end of June when the resultant National Housing Act was enacted into law by Congress, the complicated and exhausting series of problems which this assignment literally "dumped on my lap" left me little time to spend on anything else, no matter what its seeming importance. As those problems, or at least one major aspect of those problems, are also your problems, gentlemen, it is appropriate that I should come before you today to tell you something of the background of that episode, and outline to you the future of this program as we see it today.

I do not propose to go into the details of the National Housing Act as such. You today probably know some of those details as well or better than I. Rather, I propose to outline the problems which we found, the scope and place of the measures which we developed, and the whole coordinated Federal housing program which we hope to achieve.

In all of our work in Washington during the past eighteen months, we have run up against three major pivotal situations each of which, from its own angle, is intimately bound up in the Federal housing program, namely, the mortgage situation, the unemployment and relief situation in the construction industries, and the housing situation. Much time and effort at Washington in recent years has been devoted to the problems presented by these three situations, and a great proportion of the recovery activities has been devoted to their alleviation. I wish to summarize some of the salient features of each, therefore, to indicate their importance, and outline the general direction of our activities with regard to them.

First of all there is the mortgage situation. The total volume of outstanding mortgages, including farm, urban and commercial instruments, was estimated in the neighborhood of \$45,000,000,000 in 1930. This is by far the largest single block of private capital debt outstanding and it has a bearing—a very important bearing, in fact—upon all of the problems growing out of the collapse of our capital markets and the attendant slump in the heavy industries whose products are sold largely through capital financing. These problems are peculiarly difficult in the case of mortgages because mortgages, unlike industrial bonds, are secured by individual properties, the ultimate value of which is difficult to evaluate even by the skilled appraiser. They lack almost completely, therefore, liquidity in times of depression, especially when, during the

preceding boom, the aggregate volume of mortgage debt had been over-expanded and the placing of mortgage debt had been complicated in many cases by questionable financial practices.

*delinquencies  
high rates*

The Federal Government has dealt with this problem from many angles. Banks and other financial institutions, which were embarrassed by their holdings of large portfolios of mortgages, have been aided freely through loans by the RFC. This activity has eased the problems of individual institutions in the mortgage market and has lifted some of the pressure on the market in general. It has not, however, represented the sort of activity which would encourage a resumption of mortgage lending.

In addition, in the case of farm mortgages and urban home mortgages, the Federal Government, through the Farm Credit Administration and the Home Owners' Loan Corporation, has actively refinanced borrowers on a large scale, thus contributing toward the preservation of individual owners, and the further rehabilitation of mortgage-lending institutions.

The second major situation with which we have had to deal in Washington which has a bearing on the coordinated Federal housing program is the unemployment situation and the enormous continuing need for relief for large parts of our people. This unemployment is concentrated very heavily in the heavy industries, or in the dependent service industries, and particularly in the construction industry. It is clear that if we are going to escape the financial dangers which attend an indefinite continuance of the heavy load of relief

which we have had to carry during the last eighteen months these people must again find private employment. It is further clear that this employment must come in large part from the heavy industries, particularly the construction industry.

In this situation again the Federal Government has acted to alleviate conditions from many angles. In the first place, through the Federal Emergency Relief Administration it is carrying the largest proportion of the relief expense. Second, through the Public Works Administration it is providing current employment in the construction of useful public works for hundreds of thousands of the otherwise unemployed. This activity, however, we realize is temporary and does not solve the problem of the unemployment in these industries. The increase in Federal public works, in fact, tremendous as it has been, has not been sufficient to offset the decline in public works undertaken by state, local and municipal and other public bodies in this country in normal years.

Finally we come to the housing situation. Here we find the most amazing contrast in conditions. Speaking by and large, the American people are not well housed, that is, housed on a standard comparable with other elements in our civilization. Particularly is this true of the lower-income groups who have never been able to afford adequate housing. On the other hand, we find a temporary situation of oversupply, particularly in certain localities where houses that are vacant because of delinquencies are pressing on the market. From a longer run point of view, however, we find in housing the one great

source of capital investment which can go furthest to absorb our productive capacity in the future. There are those who tell us that the present heavy volume of unemployment is likely to prove permanent, that this country, with foreign investment channels cut off, cannot find work for its people to do, that only a small proportion of our population is needed to feed us and clothe us, and that, therefore, a large group will remain permanently on our relief rolls. This is, of course, silly. We have only to look around us at our present housing facilities to find a market for all of our enormous productive capacity. There are few families in this country who are so fortunate that they could not, provided they could afford it, use more housing, absorb more space, live in better physical conditions. We have the resources in this country to provide these houses, we have the skill, we have the labor, and we have the need for housing by which we can utilize these capacities to the full. Our only problem is to find an intelligent method by which we can utilize these advantages for the good of all of us.

It is these three major situations which we are trying to coordinate in the housing program into a regenerative force that will not only help to lift us out of the depression but will also, provided we are skilful enough, afford a major outlet for our industrial capacity through the next generation, comparable to that which attended the development of the railroad and the automobile in the past. We have no illusions about the magnitude of the task nor the nature of the enormous difficulties to be overcome. We do feel, however,

that this combination of factors presents us with an opportunity of the first magnitude, with a situation which will reward conscientious effort on our part with better results in national well-being than any other situation in the picture. We are under no illusions, furthermore, that these sought-for results can be obtained by administrative fiat from Washington. They will require painstaking cooperation and effort from every element in the community, from industry, from finance, and from state and local government as well as from Washington. All that we can do is to try to formulate the general program, coordinate the thousands of diverse elements in the picture, and lend national support where national support is needed.

We do not propose to rely on direct Federal building or subsidy to achieve this result. That would be neither good building nor good finance. There are exceptional situations such as those represented by certain demoralized slum areas, or by subsistence homestead projects, where it is desirable to point the way out through direct Federal building or direct Federal aid to building. These activities are largely experimental, however, and cannot be looked to to revive general industry or to raise the general standard of housing in this country. That happy result can only come about through the widest possible utilization of all the elements that deal with the housing situation, both private and public, on a sound basis. I feel strongly that we will not be able to revive building and provide really better housing facilities for the millions of our people which need them until and unless we achieve this result through methods which represent good industry, good real estate conditions and good finance.

The National Housing Act is designed to give a start to this program. Through it we hope (1) that the widespread need for modernization will provide building labor and the building material industries with a revival of activity during the coming year, (2) that the insurance of mortgages on existing homes of the better type will serve to liquify the mortgage market and to make these mortgages more widely attractive in investment circles, and (3) that the insurance of mortgages on new construction, where it is economically desirable, will provide renewed activity to the construction industry and increased employment to the building trades. We hope also through the standardization of practice that will be introduced in the insured mortgage to improve financial practices in home-lending and to lend support to the efforts of far-sighted leaders in the housing field in their efforts to improve housing conditions generally, especially in the direction of better neighborhood standards and protection against neighborhood deterioration. Finally, through the insurance of mortgages upon low-cost housing projects we hope to unify and expand the efforts that have been made in so many communities to deal intelligently and realistically with the extremely difficult problems presented by slum areas.

This is a sufficiently large order to occupy our energies for the present. Eventually, it is my hope that the Federal Government through its efforts toward coordination in this field, will be able to help achieve more uniform mortgage legislation, more equitable taxation practice, and also possibly to aid in the development of

research facilities in construction methods.

I wish to add a final word regarding the position, the responsibilities, and the opportunities of the mortgage banker in this program. One of the outstanding facts that has impressed itself on my mind during the last year has been the multiplicity of factors that enter into the housing picture. Not only is the industry extremely diversified in a physical sense, so that what is true of one town is false in another, or even in other sections of the same town. In addition, even on the site of construction there is little organized unity of interest. If I wish to obtain an automobile I can obtain one by a simple retail purchase. If I wish to go into its qualities or cost I can inform myself by contacting simply the automobile retailer and the manufacturer. The whole industry, in other words, is integrated into a simple, logical producing and selling organization. Anyone who would build, on the other hand, must take into consideration land location and land costs, neighborhood trends, and taxation rates; he must deal with a variety of business and professional interests, such as the various supply manufacturers, architects, contractors and subcontractors, to say nothing of the various building trades. Finally, he must deal with finance. This is, of course, an old story with all of us, so old and so habitual as to be taken almost as a matter of course. The variety and complexity of the situation is brought home anew, however, to anyone in Washington who is concerned either with code-making or with coordination in the housing field. Among all of these diverse elements, the mortgage banker comes nearer to having

a comprehensive and unified angle of approach than any other. He after all is responsible for arranging the financing of that finished product which we call a house and must, therefore as a matter of course, take into consideration every diverse element in land assembly, labor utilization, and construction which enters into that final product. He finances on a long-term basis, furthermore, and is more directly concerned than anyone else, except of course the owners, with the ultimate soundness of the venture, with the trend of the investment. Occupying this field as he does, he stands at a pivotal point in all housing developments. The granting or withholding of mortgage money, for example, could accomplish much toward better city development and the elimination of decaying neighborhood trends.

The mortgage banker, more than any other single element in the picture, can, if he will, be a unifying and constructive element in developing this new housing program. Through his help and cooperation, we will be able to achieve that happy combination which we all desire, of better housing at a cost within the income of the mass of our people, houses, furthermore, that<sup>are</sup> not only ~~are~~ soundly constructed but are also located in decent neighborhoods of stable values.

*M. L. H. 5 B1*  
*material*

During the past five years the country has become keenly aware of its degree of dependence on the construction industry, particularly as applied to the construction and maintenance of satisfactory housing facilities.

This work of constructing homes for people constitutes a large part of the total economic effort of the country and a substantial part of total employment is dependent upon the regular functioning of some phase of the construction or repair of buildings, the financing of the operations and the leasing or sale of the properties. Whenever this course of operations becomes interrupted, as during the past four years, there are serious consequences for the people and for industries concerned.

To illustrate, a recent inquiry has shown that for the representative city of Peoria in this State the number of new residential properties constructed each year during the past fifty years has averaged about 2 (1.8) percent of the total number of residential properties in the city in 1934. During the past four years the number of such properties constructed has fallen to an average of one-third of 1 percent. This is a serious interruption of a large group of activities of the community, and when this experience is duplicated in practically every city it has undesirable consequences for the whole country.

Along with this paralysis of construction go delinquent rentals that affect the incomes of property owners, and delinquent mortgages

that affect the lending capacity of financial institutions and may threaten their solvency.

While investors are thus brought to a loss of confidence, important social losses result. Many families needing new houses cannot obtain them and many others needing their dwellings repaired cannot have it done.

The principal immediate cause of this situation in these needed activities is the disparity between individual incomes and the cost of housing accommodations represented by rents and debt service. The delinquent rents are owed mostly by families with low income (3-5). Mortgages on properties of higher than average value are more frequently delinquent than others (0-1, 4, 13).

We must recognize the important place which the family of low income has in the normal operation of the construction industry. The Department of Commerce financial survey of 5000 families in Peoria has found that:

47 percent had incomes less than \$1000  
35 percent had incomes between \$1000 and \$2000  
18 percent had incomes of \$2000 or more

If this lowest income group, constituting nearly half of the city, is to be so housed as to permit healthful living and at such cost as their means of payment will permit, every reasonable economy must be used in providing the accommodation.

It is clear that any means that can bring housing costs more nearly within the paying capacity of the people who are expected to use housing facilities, will cause an improvement in all of the <sup>h</sup> phases

of construction and housing work, now recognized as out of balance.

The Federal Housing Act does this. Construction is at bottom a commitment of capital. A reduction in financing cost by use of the community's combined power brings a major increase in the number of good houses within reach of the families needing them.

The Department of Commerce study has shown that the average cost of one-family dwellings in Peoria during the past forty years has ranged from \$2000 to \$6000. New construction and financing terms must give recognition to the preponderance of demand for the low-cost dwelling. This is particularly necessary since we are again in a period of low incomes. The Housing Act's provisions for constant availability of funds, lower interest rate, higher loan ratio, longer term and insurance of that part of the risk which has always given most trouble in financing houses, will help materially to remove former obstacles and to eliminate drastic interruptions of the construction industry and its attendant activities.

There will continue to be a need of trained mortgage men capable of exercising discriminating judgment in handling properties. Mortgages that are to be insured must be well placed and their risk well calculated. Regularity of employment at work for which they are trained is most likely to maintain the number and quality of mortgage bankers needed for effective housing work. It is desirable that as much of their time as possible be devoted to appraising risks and arranging credits, and as little as possible in caring for defaults

and in managing acquired properties.

The Housing Act means more employment and business activity of all kinds since it will permit more and better housing for the same total income of the people. These questions have become of more than individual or local concern. The Government is therefore supplementing individual and local effort in order to make it more effective.

October 2, 1934

To be inserted after first paragraph on page 4:

Until recently we have known very little except in a general way about practices of residential mortgage financing. Excellent information is just now becoming available from the Financial Survey of Urban Housing conducted in January of this year in more than sixty cities as a CWA project under the general supervision of the Bureau of Foreign and Domestic Commerce. They have courteously released some of this material for my use today.

The survey shows that rates charged borrowers on residential mortgages vary very widely, not only geographically but within the same area, and that they are distinctly on the high side. In representative cities, including Indianapolis, Providence, Salt Lake City, Seattle, and other large cities covered by the study, 27 per cent of first mortgages carry interest rates of more than 6 per cent, with rates of 8 per cent or higher charged on 15 per cent of the loans. These are contract rates, without allowance for discounts and other financing charges which add materially to the cost of mortgage credit to the borrower. A reduction in the carrying charge on these loans in consonance with the general drop in the level of interest rates in other markets would go far to solve the problem of overindebtedness.

For example, out of 1700 home owners reporting from one representative mid-western city, one-half reported real estate debt in

excess of 50 per cent of the value of the property. What is more, 40 per cent of these loans ranged from 50 to 80 per cent of the value of the property. This margin above 50 per cent of the value of the property now constitutes a common obstacle to home refinancing. Under present arrangements, most lenders are fearful of assuming that risk and commonly the borrower is able to obtain such funds at high cost, if at all. It is true that delinquencies have been heavy as a result of the depression. Out of more than 50,000 representative loans with a value exceeding \$125,000,000 outstanding in the cities covered by this survey at the beginning of the current year, around 35 per cent of first mortgages were in arrears. I would like to call your attention, however, to the larger proportion of these mortgages with no arrears at all. These loans have stood the extreme depths of the depression and constitute in general the highest type of credit risk.

Under these circumstances, if we are to be successful in moving the present mountain of home mortgage debt, we must cooperate in a plan which will enable the home owner with debt in excess of fifty per cent of the value of the property, who has nevertheless stood the test of the depression and kept his mortgage in good standing, to refinance the entire instrument at a lower rate of interest. In this way we can adjust the carrying charge to the change in property values without loss on the principal of the loan.

Census of Occupations 1930  
 Gainful workers 10 yrs and over - Peoria Illinois  
 % in bdg\*

Brick stone masons & tile layers	193	92	77
Builders and building contractors	254	90	229
Carpenters	843	81	759
Electricians	362	29	105
Painters	592	97	574
Paper hangers	14	100	14
Plasterers & cement finishers	101	97	98
Plumbers & gas & steam fitters	310	69	214
Roofers & slaters	34	100	34
Structural Iron Workers	71	80	57
Tinsmiths & sheet metal workers	230	37	85
Laborers & helpers, bldg constr.	533	100	533
			<u>2779</u>

* Proportion for U.S.	Total Male Gainfully Occ	36049	7.7%
	Total Gainfully Occ	48819	5.7%

Census of Construction 1929  
 wage earners employed (by General Contractors)  
 (and Sub Contractors)  
 September 1929, peak, 1739

October 1, 1934. 7.151

Until recently we have known very little, except in a general way, about practices of residential mortgage financing and the distribution of mortgage holdings. Excellent information is just now becoming available from the Financial Survey of Urban Housing conducted in January of this year in more than 60 cities as a CWA project under the general supervision of the Bureau of Foreign and Domestic Commerce. They have courteously released some of it for my use today.

The survey shows that rates charged borrowers on residential mortgages vary widely, not only geographically, but within the same area, and that they are distinctly on the high side. In representative cities including Indianapolis, Providence, Salt Lake City, Seattle and other large cities covered by the study, 27 per cent of first mortgages carried interest rates of more than 6 per cent, with rates of 8 per cent or above charged on 15 per cent <sup>of the mortgages</sup>. These are contract rates, without allowance for discounts and other financing charges which add materially to the cost of mortgage credit

for the borrower. *A reduction in the carrying charge on these loans in consonance with the general drop in the level of interest rates in recent years would go far to solve the problem of over-indebtedness. Delinquencies have been heavy as a result of depression. Out of more*

than 50,000 representative loans with a face value exceeding \$125,000,000 outstanding in these cities at the first of the year, more than 35 per cent

of first mortgages were in arrears. It is obvious that methods of financing that carry terms which cause default, <sup>materially</sup> defeat the purposes of the loans <sup>and</sup> are of doubtful value to the borrower.

*I would like to call attention to the fact that these loans, which have stood the supreme test of the depression, constitute in general the highest type of credit.*

~~Protection of the lending agency as well as the borrower, is essential for a continuing system of credit, particularly if the lender is an institution that accepts public deposits for safe keeping. At the first of this year the Financial Survey of Urban Housing indicated that one-third of the first mortgages held by commercial banks and trust companies in 47 cities had payments in arrears. It is scarcely less important that people who have pooled their savings in order to build and buy a home should not have their plans frustrated or their past efforts threatened through financing arrangements. Yet on January 1, an average of more than 45 per cent of the loans reported as held by building and loan associations were in arrears on payments to some extent.~~

If credit is to serve to its maximum capacity in providing satisfactory housing, it is desirable that there be sufficient margin above the amount usually represented by the first mortgage. For example, of 1700 (1694) home owners reporting from one representative mid-western city (Peoria, Ill.) one-half reported real estate debt in excess of half of the value of the

property. What is more, 40 per cent of the loans ranged from 50 to 80 per cent of the value of the property. This margin above 50 per cent of the value of the property now constitutes a common obstacle to home financing. Under present arrangements most lenders are fearful of assuming that risk, and commonly the borrower is able to obtain such funds at high cost, if at all.

Preliminary.

October 1, 1934

Range of Contract Interest Rates Charged  
on First Mortgages.

50 selected cities

<u>Rate of Interest (per cent)</u>	<u>Number of Mortgages</u>	<u>Per Cent of Total</u>
4 or less	565	1.2
Over 4 and less than 5	76	.2
5	3,487	7.1
Over 5 and less than 6	1,863	3.8
6	22,405	45.8
Over 6 and less than 7	2,222	4.6
7	9,876	20.2
Over 7 and less than 8	997	2.0
8	6,427	13.2
Over 8 and less than 9	278	.6
9	197	.4
Over 9 and less than 10	22	<u>1/</u>
10	419	.9
11	4	<u>1/</u>
12 and over	44	<u>1/</u>

1/ Less than one-half of one per cent.

Financial Survey of Urban Housing, Bureau of Foreign and  
Domestic Commerce.

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PREPARED FOR MR. WALKER \* DRAFT.

September 24, 1934

During the past eighteen months I have been requested to speak upon many occasions and have <sup>almost always</sup> refused in most instances, not because of lack of appreciation upon my part of the honor conferred upon me but rather because of a conviction on my part that the audience would not find in me what they sought. Such invitations naturally accrue to those of us who have participated actively in the new administration in Washington, and we in turn are under a moral compulsion to respond on all proper occasions for it is right and fitting that we should explain our activities, state the problems of government as we have found them, and the measures we have undertaken to cope with them. Personally, however, I have felt that others were better fitted than myself to discuss the manifold activities which have been initiated to stop the enrolling rush to chaos in which we found ourselves in the early months of 1933. By this I mean specifically that I was not the most appropriate spokesman to discuss such measures

as those taken for the rehabilitation of agriculture under the AAA, or of industry under the NRA, or of banking under the threefold leadership of the Federal Reserve System, the Federal Deposit Insurance Corporation and the Reconstruction Finance Corporation.

In the present instance, however, when I was invited to address the Mortgage Bankers Association, I was bound to accept. It is entirely appropriate that given the opportunity to be here with you, I should hasten to comply, for a greater proportion of my time and attention in Washington during the past year has been focussed upon the mortgage problem than on any other. From January when the President requested the Executive Council and the National Emergency Council to take the lead in formulating a coordinate program for the various housing and mortgage activities of the Federal Government until the end of June when the resultant National Housing Act was enacted into law by Congress, the complicated and exhausting series of problems which this assignment literally "dumped on my lap" left me little time to spend on anything else, no matter what its seeming

importance. As those problems, or at least one major aspect of those problems, are also your problems, gentlemen, it is appropriate that I should come before you today to tell you something of the background of the episode, and outline to you the future of this program as we see it today.

I do not propose to go into the details of the National Housing Act as such. You today probably know some of those details as well or better than I. Rather, I propose to outline the problems which we found, the scope and plan of the measures which we developed, and the whole coordinated Federal housing program which we hope to achieve.

In all of our work in Washington during the past eighteen months, we have run up against three major pivotal situations each of which, from its own angle, is intimately bound up in the Federal Housing Program, namely, the mortgage situation, the unemployment and relief situation in the construction industries, and the housing situation. Much time and effort at Washington over in recent years has been devoted to the problems presented by these three situations, and a great proportion of the recovery activities have been devoted to

their alleviation. I wish to summarize some of the salient features of each, therefore, to indicate their importance, and outline the general direction of our activities with regard to them.

September 25, 1934

First of all there is the mortgage situation. The total volume of outstanding mortgages, including farm, urban and commercial instruments, was estimated in the neighborhood of \$45,000,000,000 in 1930. This is by far the largest single block of private capital debt outstanding and it has a bearing—a very important bearing, in fact—upon all of the problems growing out of the collapse of our capital markets and the attendant slump in the heavy industries whose products are sold largely through capital financing. These problems are peculiarly difficult in the case of mortgages because mortgages, unlike industrial bonds, are secured by individual properties, the ultimate value of which is difficult to evaluate even by the skilled appraiser as contrasted with the ordinary investor. They lack almost completely, therefore, liquidity in times of slump such as we have recently come through, especially when during the preceding boom the aggregate volume of mortgage debt had been over-expanded and the placing of mortgage debt had been complicated in many cases by questionable financial practices.

The Federal Government has dealt with this problem from many angles. Banks and other financial institutions holding large portfolios of mortgages have used them as a basis of loans from the RFC in order to meet current liabilities. This activity has eased the problems of individual institutions and lifted some ~~pressure~~ of the pressure on the mortgage market in general, but has not been of the type to encourage resumption of mortgage lending activity.

In the case of farm mortgages, the Federal Government, through the Farm Credit Administration, has actively refinanced the borrowers on a large scale, thus contributing toward the rehabilitation of the investor in mortgage funds and the preservation of farm owners. The Home Owners' Loan Corporation has performed an enormous task along similar lines in the case of worthy but delinquent home owners. All of these activities have acted to ease the pressure of collapse in the mortgage market either upon the institutions holding mortgages or upon the debtors. They have not, however, except in a negative sense, tended toward a resumption of practical mortgage financing.

The second major situation with which we have had to deal in Washington which has a bearing on the coordinated Federal housing program is the unemployment situation and the enormous need for relief by large parts of our people. This unemployment is concentrated very heavily in the heavy industries, or in the dependent service industries, and particularly in the construction industry. It is clear that if we are going to escape the dangers which attend the heavy load of relief which we have had to carry during the last eighteen months these people must again find employment. It is further clear that this employment must come in large part from the heavy industries, particularly the construction industry.

In this situation again the Federal Government has acted to alleviate conditions from many angles. In the first place, through the Federal Emergency Relief Administration it is carrying the largest proportion of the relief expense. Second, through the Public Works Administration it is providing current employment in the construction of useful public works for hundreds of thousands of the otherwise ~~country's~~ unemployed. This activity again, however, we realize is

temporary and does not solve the problem of the unemployment in these industries. The increase in Federal public works, in fact, tremendous as it has been, has not been sufficient to offset the decline in public works normally undertaken by state, local and municipal and other public bodies in this country.

Finally we come to the housing situation. Here we find the most amazing contrast in conditions. Speaking by and large, the American people are not well housed, that is, housed on a standard comparable with other elements in our civilization. Particularly this is true of the lower-income groups who have never been able to afford adequate housing. On the other hand, we find a temporary situation of oversupply, particularly in certain localities where houses that are vacant because of delinquencies are pressing on the market.

Finally, looking to the future, we find in housing the one great source of capital investment which can absorb our productive

capacity. There are those that tell us that the present heavy volume of unemployment is likely to prove permanent, that this country, with foreign investment channels cut off, cannot find work for its people to do, that only a small proportion of our population is needed to feed us and clothe us, and that, therefore, a large group will remain permanently on our relief rolls--which is, of course, silly. We have only to look around us at our present housing facilities for a market for all of our enormous productive capacity. We have the resources in this country, we have the skill, we have the labor, and we have the need for housing by which we can utilize our capacities to the full if we can only find an intelligent method by which to utilize them. There are few families in this country who are so fortunate that they could not, provided they could afford it, use more housing, absorb more space, live in better physical conditions.

It is these three major situations which we are trying to coordinate in the housing program into a regenerative force that will not only help to lift us out of the depression but will also, provided we are skilful enough, afford a major outlet for our industrial capacity through the next generation, comparable to that which attended the development of the railroad and the automobile in the past. We have no illusions about the magnitude of the task nor the nature of the enormous difficulties to be overcome. We do feel, however, that this combination of factors presents us with a situation which will reward conscientious effort on our part with better results in national well-being than any other in the picture. We are under no illusions, furthermore, that these sought-for results can be obtained by administrative fiat from Washington. They will require painstaking cooperation and effort from every element in the community, from industry, from finance, and from state and local government as well as from Washington. All that we can do is to try to formulate the general program, coordinate the thousands of diverse elements in the pic-

ture, and lend national support  $\frac{1}{2}$  at those places where national support is needed.

Let me illustrate from the mortgage situation what I have in mind in formulating these broad general principles. There is no single panacea, no magic formula which can clear up this situation over night. We can, however, approach these problems individually and try to solve them as intelligently as possible, keeping in mind at all times both their specific idiosyncrasies and their bearing on the general situation. Thus, through the Reconstruction Finance Corporation, the Farm Credit Administration and the Home Owners' Loan Corporation we have been able to cushion the shock of the collapse of the mortgage market on our key financial institutions and save the homes and farms of hundreds of thousands of our citizens. In spite of these activities, however, which are being pushed as far as they can be justified either in terms of the national credit or in terms of competition with existing agencies, we now seek, through Title II of the National Housing Act to carry this process of allevia-

tion further, to make of it a positive force for the regeneration of activities in the whole mortgage and housing field. This is the title which deals with insurance of mortgages.

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C  
W  
24*

September 24, 1934

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MEMORANDUM

To: Mr. Riefler

From: Mr. Wickens

Herewith are some paragraphs centering about some of the Peoria data and some of the mortgage bankers' known problems.

DLW/has

*David L. Wickens*  
D. L. Wickens

*Please find proposition  
of Peoria pop. engaged  
in building in 1930 census*

During the past 5 years the country has become keenly aware of its degree of dependence on the construction industry, particularly as applied to the construction and maintenance of satisfactory housing facilities.

This work of constructing homes for people constitutes a large part of the total economic effort of the country and a substantial part of total employment is dependent upon the regular functioning of some phase of the construction or repair of buildings, the financing of the operations and the leasing or sale of the properties. Whenever this course of operations becomes interrupted, as during the past 4 years, there are serious consequences for the people and for industries concerned.

To illustrate, a recent inquiry has shown that for the representative city of Peoria in this State the number of new residential properties constructed each year during the past 50 years has averaged about 2 (1.8) percent of the total number of residential properties in the city in 1934. During the past four years the number of such properties constructed has fallen to an average of one-third of 1 percent. This is a serious interruption of a large group of activities of the community, and when this experience is duplicated in practically every city ~~of the country~~ it has undesirable consequences for the whole country.

Along with this paralysis of construction go delinquent rentals that affect the incomes of property owners, and delinquent mortgages that affect the lending capacity of financial institutions and may threaten their solvency.

While investors are thus brought to a loss of confidence, important social losses result. Many families needing new houses cannot obtain them and many others needing their dwellings repaired cannot have it done.

The principal immediate cause of this stalemate in these needed activities

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is the disparity between individual incomes and the cost of housing accommodations represented by rents and debt service. The delinquent rents are owed mostly by families with low income (T-5). Mortgages on properties of higher than average value are more frequently delinquent than others (O-L, 4, 13).

We must recognize the important place which the family of low income has in the normal operation of the construction industry. The Department of Commerce financial survey of 5000 families in Peoria has found that:

47 percent had incomes less than \$1000  
 35 percent had incomes between \$1000 and \$2000  
 18 percent had incomes of \$2000 or more

If this lowest income group, constituting nearly half of the city is to be so housed as to permit healthful living and at such cost as their means of payment will permit, every reasonable economy must be used in providing the accommodation.

It is clear that any means that can bring housing costs more nearly within the paying capacity of the people who are expected to use housing facilities, will cause an improvement in all of the phases of construction and housing work, now recognized as out of balance.

The Federal Housing Act does this. Construction is at bottom a commitment of capital. A reduction in financing cost by use of the community's combined power brings a major increase in the number of good houses within reach of the families needing them.

The Department of Commerce study has shown that the average cost of one-family dwellings in Peoria during the past 40 years has ranged from \$2000 to \$6000. New construction and financing terms must give recognition to the preponderance of demand for the low cost dwelling. This is particularly necessary since we are again in a period of low incomes. The Housing Act's provisions for constant availability of funds, lower interest rate, higher loan ratio,

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longer term and insurance of that part of the risk which has always given most trouble in financing houses, will help materially to remove former obstacles and to eliminate drastic interruptions of the construction industry and its attendant activities.

There will continue to be a need of trained mortgage men capable of exercising discriminating judgment in handling properties. Mortgages that are to be insured must be well placed and their risk well calculated. Regularity of employment at work for which they are trained is most likely to maintain the number and quality of mortgage bankers needed for effective housing work. It is desirable that as much of their time as possible be devoted to appraising risks and arranging credits, and as little as possible in caring for defaults and in managing acquired properties.

The Housing Act means more employment and business activity of all kinds since it will permit more and better housing for the same total income of the people. These questions have become <sup>of</sup> more than individual or local concern. The Government is therefore supplementing individual and local effort in order to make it more effective.

September 29, 1934

THE FEDERAL HOUSING PROGRAM

A proposed draft of an address by  
Frank C. Walker before the National  
Mortgage Bankers Association, Chicago,  
October 4, 1934

During the past eighteen months I have been requested to speak upon many occasions and have refused in most instances, not because of lack of appreciation of the honor conferred upon me but rather because of a conviction on my part that the audience would not find in me what they sought. Such invitations naturally accrue to those of us who have participated actively in the new administration in Washington, and we in turn are under a moral compulsion to respond; for it is proper that we should explain our activities, state the problems of government as we have found them, and the measures we have undertaken to cope with them. Personally, however, I have felt that others were better fitted than myself to discuss the manifold activities which have been initiated to stop the enrolling rush to chaos in which we found ourselves in the early months of 1933. By this I mean specifically that I was not the most appropriate spokesman to discuss such measures as those taken for the rehabilitation of agriculture under the AAA, or of industry under the NRA, or of banking under the three-fold leadership of the Federal Reserve System, the Federal Deposit Insurance Corporation and the Reconstruction Finance Corporation.

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In the present instance, however, when I was invited to address the Mortgage Bankers Association, I was bound to accept. It is entirely appropriate that, given the opportunity to be here with you, I should hasten to comply, for during the past year in Washington a greater proportion of my time and attention has been focussed upon the mortgage problem than on any other. From January when the President requested the Executive Council and the National Emergency Council to take the lead in formulating a coordinate program for the various housing and mortgage activities of the Federal Government until the end of June when the resultant National Housing Act was enacted into law by Congress, the complicated and exhausting series of problems which this assignment literally "dumped on my lap" left me little time to spend on anything else, no matter what its seeming importance. As these problems, or at least one major aspect of these problems, are also your problems, gentlemen, it is appropriate that I should come before you today to tell you something of the background of that episode, and outline to you the future of this program as we see it today.

I do not propose to go into the details of the National Housing Act as such. You today probably know some of those details as well or better than I. Rather, I propose to outline the problems which we found, the scope and place of the measures which we developed, and the whole coordinated Federal housing program which we hope to achieve.

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In all of our work in Washington during the past eighteen months, we have run up against three major pivotal situations each of which, from its own angle, is intimately bound up in the Federal housing program, namely, the mortgage situation, the unemployment and relief situation in the construction industries, and the housing situation. Much time and effort at Washington in recent years has been devoted to the problems presented by these three situations, and a great proportion of the recovery activities has been devoted to their alleviation. I wish to summarize some of the salient features of each, therefore, to indicate their importance, and outline the general direction of our activities with regard to them.

First of all there is the mortgage situation. The total volume of outstanding mortgages, including farm, urban and commercial instruments, was estimated in the neighborhood of \$45,000,000,000 in 1930. This is by far the largest single block of private capital debt outstanding and it has a bearing—a very important bearing, in fact—upon all of the problems growing out of the collapse of our capital markets and the attendant slump in the heavy industries whose products are sold largely through capital financing. These problems are peculiarly difficult in the case of mortgages because mortgages, unlike industrial bonds, are secured by individual properties, the ultimate value of which is difficult to evaluate even by the skilled appraiser. They lack almost completely, therefore, liquidity in times of depression, especially when, during the

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preceding boom, the aggregate volume of mortgage debt had been over-expanded and the placing of mortgage debt had been complicated in many cases by questionable financial practices.

The Federal Government has dealt with this problem from many angles. Banks and other financial institutions, which were embarrassed by their holdings of large portfolios of mortgages, have been aided freely through loans by the RFC. This activity has eased the problems of individual institutions in the mortgage market and has lifted some of the pressure on the market in general. It has not, however, represented the sort of activity which would encourage a resumption of mortgage lending.

In addition, in the case of farm mortgages and urban home mortgages, the Federal Government, through the Farm Credit Administration and the Home Owners' Loan Corporation, has actively refinanced borrowers on a large scale, thus contributing toward the preservation of individual owners, and the further rehabilitation of mortgage-lending institutions.

The second major situation with which we have had to deal in Washington which has a bearing on the coordinated Federal housing program is the unemployment situation and the enormous continuing need for relief for large parts of our people. This unemployment is concentrated very heavily in the heavy industries, or in the dependent service industries, and particularly in the construction industry. It is clear that if we are going to escape the financial dangers which attend an indefinite continuance of the heavy load of relief

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which we have had to carry during the last eighteen months these people must again find private employment. It is further clear that this employment must come in large part from the heavy industries, particularly the construction industry.

In this situation again the Federal Government has acted to alleviate conditions from many angles. In the first place, through the Federal Emergency Relief Administration it is carrying the largest proportion of the relief expense. Second, through the Public Works Administration it is providing current employment in the construction of useful public works for hundreds of thousands of the otherwise unemployed. This activity, however, we realize is temporary and does not solve the problem of the unemployment in these industries. The increase in Federal public works, in fact, tremendous as it has been, has not been sufficient to offset the decline in public works undertaken by state, local and municipal and other public bodies in this country in normal years.

Finally we come to the housing situation. Here we find the most amazing contrast in conditions. Speaking by and large, the American people are not well housed, that is, housed on a standard comparable with other elements in our civilization. Particularly is this true of the lower-income groups who have never been able to afford adequate housing. On the other hand, we find a temporary situation of oversupply, particularly in certain localities where houses that are vacant because of delinquencies are pressing on the market. From a longer run point of view, however, we find in housing the one great

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source of capital investment which can go furthest to absorb our productive capacity in the future. There are those who tell us that the present heavy volume of unemployment is likely to prove permanent, that this country, with foreign investment channels cut off, cannot find work for its people to do, that only a small proportion of our population is needed to feed us and clothe us, and that, therefore, a large group will remain permanently on our relief rolls. This is, of course, silly. We have only to look around us at our present housing facilities to find a market for all of our enormous productive capacity. There are few families in this country who are so fortunate that they could not, provided they could afford it, use more housing, absorb more space, live in better physical conditions. We have the resources in this country to provide these houses, we have the skill, we have the labor, and we have the need for housing by which we can utilize these capacities to the full. Our only problem is to find an intelligent method by which we can utilize these advantages for the good of all of us.

It is these three major situations which we are trying to coordinate in the housing program into a regenerative force that will not only help to lift us out of the depression but will also, provided we are skilful enough, afford a major outlet for our industrial capacity through the next generation, comparable to that which attended the development of the railroad and the automobile in the past. We have no illusions about the magnitude of the task nor the nature of the enormous difficulties to be overcome. We do feel, however,

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that this combination of factors presents us with an opportunity of the first magnitude, with a situation which will reward conscientious effort on our part with better results in national well-being than any other situation in the picture. We are under no illusions, furthermore, that these sought-for results can be obtained by administrative fiat from Washington. They will require painstaking cooperation and effort from every element in the community, from industry, from finance, and from state and local government as well as from Washington. All that we can do is to try to formulate the general program, coordinate the thousands of diverse elements in the picture, and lend national support where national support is needed.

We do not propose to rely on direct Federal building or subsidy to achieve this result. That would be neither good building nor good finance. There are exceptional situations such as those represented by certain demoralized slum areas, or by subsistence homestead projects, where it is desirable to point the way out through direct Federal building or direct Federal aid to building. These activities are largely experimental, however, and cannot be looked to to revive general industry or to raise the general standard of housing in this country. That happy result can only come about through the widest possible utilization of all the elements that deal with the housing situation, both private and public, on a sound basis. I feel strongly that we will not be able to revive building and provide really better housing facilities for the millions of our people which need them until and unless we achieve this result through methods which represent good industry, good real estate conditions and good finance.

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The National Housing Act is designed to give a start to this program. Through it we hope (1) that the widespread need for modernization will provide building labor and the building material industries with a revival of activity during the coming year, (2) that the insurance of mortgages on existing homes of the better type will serve to liquify the mortgage market and to make these mortgages more widely attractive in investment circles, and (3) that the insurance of mortgages on new construction, where it is economically desirable, will provide renewed activity to the construction industry and increased employment to the building trades. We hope also through the standardization of practice that will be introduced in the insured mortgage to improve financial practices in home-lending and to lend support to the efforts of far-sighted leaders in the housing field in their efforts to improve housing conditions generally, especially in the direction of better neighborhood standards and protection against neighborhood deterioration. Finally, through the insurance of mortgages upon low-cost housing projects we hope to unify and expand the efforts that have been made in so many communities to deal intelligently and realistically with the extremely difficult problems presented by slum areas.

This is a sufficiently large order to occupy our energies for the present. Eventually, it is my hope that the Federal Government through its efforts toward coordination in this field, will be able to help achieve more uniform mortgage legislation, more equitable taxation practice, and also possibly to aid in the development of

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research facilities in construction methods.

I wish to add a final word regarding the position, the responsibilities, and the opportunities of the mortgage banker in this program. One of the outstanding facts that has impressed itself on my mind during the last year has been the multiplicity of factors that enter into the housing picture. Not only is the industry extremely diversified in a physical sense, so that what is true of one town is false in another, or even in other sections of the same town. In addition, even on the site of construction there is little organized unity of interest. If I wish to obtain an automobile I can obtain one by a simple retail purchase. If I wish to go into its qualities or cost I can inform myself by contacting simply the automobile retailer and the manufacturer. The whole industry, in other words, is integrated into a simple, logical producing and selling organization. Anyone who would build, on the other hand, must take into consideration land location and land costs, neighborhood trends, and taxation rates; he must deal with a variety of business and professional interests, such as the various supply manufacturers, architects, contractors and sub-contractors, to say nothing of the various building trades. Finally, he must deal with finance. This is, of course, an old story with all of us, so old and so habitual as to be taken almost as a matter of course. The variety and complexity of the situation is brought home anew, however, to anyone in Washington who is concerned either with code-making or with coordination in the housing field. Among all of these diverse elements, the mortgage banker comes nearer to having

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a comprehensive and unified angle of approach than any other. He after all is responsible for arranging the financing of that finished product which we call a house and must, therefore as a matter of course, take into consideration every diverse element in land assembly, labor utilization, and construction which enters into that final product. He finances on a long-term basis, furthermore, and is more directly concerned than anyone else, except of course the owners, with the ultimate soundness of the venture, with the trend of the investment. Occupying this field as he does, he stands at a pivotal point in all housing developments. The granting or withholding of mortgage money, for example, could accomplish much toward better city development and the elimination of decaying neighborhood trends.

The mortgage banker, more than any other single element in the picture, can, if he will, be a unifying and constructive element in developing this new housing program. Through his help and cooperation, we will be able to achieve that happy combination which we all desire, of better housing at a cost within the income of the mass of our people, houses, furthermore, that<sup>are</sup> not only ~~are~~ soundly constructed but are also located in decent neighborhoods of stable values.

**The Capacity-to-Pay Farm Mortgage**

I

Form of a typical farm mortgage.

**THIS MORTGAGE**, made the first day of December nineteen hundred and twenty nine, between William Smith, the mortgagor, and The First Farm Mortgage Company, the mortgagee.

**WITNESSETH**, That to secure the payment of an indebtedness in the sum of one thousand dollars (\$1,000.00), lawful money of the United States, which debt the mortgagor hereby acknowledges, and covenants to pay to the mortgagee on the first day of December, nineteen hundred and thirty four, with interest thereon to be computed from December 1, 1929, at the rate of 6 per centum per annum, and to be paid on the first day of December next ensuing the date hereof and on the first day of December annually thereafter, the mortgagor hereby mortgages to the mortgagee the following described premises, being a farm of one hundred sixty (160) acres.  
(Here insert legal description of land)

And the Mortgagor covenants with the Mortgagee as follows:

1. That the mortgagor will pay the indebtedness as hereinbefore provided.
2. That the mortgagor will keep the buildings on the premises insured against loss by fire for the benefit of the mortgagee.
3. That no building on the premises shall be removed or demolished without the consent of the mortgagee.
4. That the whole of said principal sum shall become due after default in the payment of any installment of principal or of interest for 30 days, or after default in the payment of any tax, water rate or assessment for 30 days after notice and demand.
5. That the holder of this mortgage, in any action to foreclose it, shall be entitled to the appointment of a receiver.
6. That the mortgagor will pay all taxes, assessments or water rates, and in default thereof, the mortgagee may pay the same.
7. That the mortgagor within 10 days upon request in person or within 30 days upon request by mail will furnish a statement of the amount due on this mortgage.
8. That notice and demand or request may be in writing and may be served in person or by mail.
9. That the mortgagor warrants the title to the premises.

**IN WITNESS WHEREOF**, this mortgage has been duly executed by the mortgagor.

(Signature)

In Presence Of:

(Witnesses and acknowledgment)

II

Form of application for refunding a 6 percent straight term mortgage into an amortization mortgage requiring annual payments equal to the cash value of a fixed quantity of farm products.

I hereby make request that the mortgage now on my farm be refunded into an amortization mortgage bearing 5 percent interest, providing for the payment of the cash equivalent of an amount of a principal farm crop which when computed at the average price for the period indicated will pay the interest and retire the principal in 20 years.

Name \_\_\_\_\_

Address \_\_\_\_\_

Location and description of farm \_\_\_\_\_

Amount of present mortgage \$ \_\_\_\_\_.

Principal crop grown on farm \_\_\_\_\_

III  
Average Cash Farm Prices of Wheat, Corn and Cotton  
1893-1932, by States <sup>1/</sup>

State	Wheat (per bushel)	Corn (per bushel)	Cotton (per pound)
	cents	cents	cents
Maine	117	93	
New Hampshire		89	
Vermont	130	87	
Massachusetts		96	
Rhode Island		104	
Connecticut		96	
New York	112	81	
New Jersey	112	74	
Pennsylvania	109	74	
Ohio	108	58	
Indiana	104	51	
Illinois	101	53	
Michigan	104	66	
Wisconsin	100	64	
Minnesota	96	49	
Iowa	94	51	
Missouri	101	60	12.4
North Dakota	88	48	
South Dakota	88	46	
Nebraska	89	50	
Kansas	93	52	
Delaware	106	66	
Maryland	108	68	
Virginia	115	82	13.5
West Virginia	118	86	
North Carolina	130	84	13.5
South Carolina	115	85	13.5
Georgia	113	78	13.5
Florida		81	13.1
Kentucky	113	70	
Tennessee	120	73	13.0
Alabama	133	82	13.3
Mississippi		80	13.9
Arkansas	106	76	13.1
Louisiana		79	13.0
Oklahoma	93	58	12.5
Texas	98	69	13.1
Montana	87	68	
Idaho	85	71	
Wyoming	82	60	
Colorado	85	55	
New Mexico	98	77	14.2
Arizona	122	107	17.5
Utah	90	93	
Nevada	115	103	
Washington	93	83	
Oregon	95	87	
California	110	94	14.6
UNITED STATES	94	58	13.2

<sup>1/</sup> U.S. Dept. Agriculture. State prices are U.S. average prices, plus or minus average State differentials during 1921-1932

## IV

Amortization table for a loan of \$1,000 bearing  
5 percent interest per annum repayable in 20 years  
by annual installments of \$80.24

Completed years	Interest at 5 percent			
	Total payment	Interest on unpaid principal	Applied on principal	Principal still unpaid
	Dolls.	Dolls.	Dolls.	Dolls.
1.....	80.24	50.00	30.24	969.76
2.....	80.24	48.49	31.75	969.76
3.....	80.24	46.90	33.34	904.67
4.....	80.24	45.23	35.01	869.66
5.....	80.24	43.48	36.76	832.90
6.....	80.24	41.65	38.59	794.31
7.....	80.24	39.72	40.52	753.79
8.....	80.24	37.69	42.55	711.24
9.....	80.24	35.56	44.68	666.56
10.....	80.24	33.33	46.91	619.65
11.....	80.24	30.98	49.26	570.39
12.....	80.24	28.52	51.72	518.67
13.....	80.24	25.93	54.31	464.36
14.....	80.24	23.22	57.02	407.34
15.....	80.24	20.37	59.87	347.47
16.....	80.24	17.37	62.87	284.60
17.....	80.24	14.23	66.01	218.59
18.....	80.24	10.93	69.31	149.28
19.....	80.24	7.46	72.78	76.50
20.....	80.33	3.83	76.50	—
Total	1,604.89	604.89	1,000.00	—

## V.

## Form of a typical refunding crop payment mortgage.

THIS MORTGAGE, made the first day of December, nineteen hundred and thirty three, between William Smith, the mortgagor, and The First Farm Mortgage Company, the mortgagee.

WITNESSETH, that to secure the payment of an indebtedness in the sum of one thousand dollars (\$1,000.00), lawful money of the United States, with interest thereon at 5 per centum per annum, which debt the mortgagor hereby acknowledges and covenants to pay according to the conditions described below, the mortgagor hereby mortgages to the mortgagee the following described premises, being a farm of one hundred sixty (160) acres. (Here insert legal description of land)

And the Mortgagor covenants with the Mortgagee as follows:

1. That the mortgagor will pay the mortgagee, his legal representatives or assigns, in installments as follows: The cash equivalent of eighty five (85) bushels of wheat, or one hundred thirty eight (138) bushels of corn, or six hundred eight (608) pounds of cotton, (the designated commodity to be used throughout the period of payment) such farm product to be valued at the average farm price of the commodity in the State during the preceding twelve months as determined by the United States Department of Agriculture; said payment to be made on the first day of December next ensuing, and an amount similarly determined annually thereafter, (until the full amount of the principal is paid; together with the interest thereon from the date hereof and on the unpaid balance from time to time at the rate of 5 per centum per annum payable in installments as herein described.) - OR - (until 20 full annual payments have been made. The payment of such annual cash equivalent shall be considered a full payment of interest at 5 per centum per annum plus the full payment on principal required to amortize this mortgage in 20 years, and 20 full successive annual payments of such cash equivalent shall constitute a full discharge of all obligations as to interest and principal incurred under the terms of this instrument.)
2. That the mortgagor will keep the buildings on the premises insured against loss by fire for the benefit of the mortgagee.
3. That no building on the premises shall be removed or demolished without the consent of the mortgagee.
4. That the whole of said principal sum shall become due after default in the payment of any installment for 30 days, or after default in the payment of any tax, water rate or assessment for 30 days after notice and demand.
5. That the holder of this mortgage, in any action to foreclose it, shall be entitled to the appointment of a receiver.
6. That the mortgagor will pay all taxes, assessments or water rates, and in default thereof, the mortgagee may pay the same.
7. That the mortgagor within 10 days upon request in person or within 30 days upon request by mail will furnish a statement of the amount due on this mortgage.
8. That notice and demand or request may be in writing and may be served in person or by mail.

9. That the mortgagor warrants the title to the premises.

IN WITNESS WHEREOF, this mortgage has been duly executed by the mortgagor.

(signature)

In Presence of:

(Witnesses and acknowledgment)

Mr. Riefler

October 20, 1934

4E  
memo and  
notes

CONFIDENTIAL

THE NEXT STEP IN THE  
FEDERAL HOUSING PROGRAM

The modernization and repair phase of the Federal Housing Program is now launched, and the second phase dealing with the insurance of mortgagee will get under way next month. It is appropriate at this time, therefore, to review the program as a whole, to indicate, first, what has been accomplished, second, what has been initiated in such a manner as to give every promise of progressive development, and third, what problems need further attention at the present time.

Genesis of the Program.

In its main outlines, this program was formulated to meet and correct the conditions presented by the depression. In 1932 that large segment of the American economic system which is concerned with the provision of shelter for our people was close to a condition of complete collapse, a collapse that was testified to by a decline in the current volume of residential building of between 85 and 90 per cent, and was reflected in a stagnant market for lumber, brick, cement and other building materials; in a contraction of rail traffic; and in a widespread and devastating state of unemployment among the building trades, and among architects and allied professional groups. It was further attested by a staggering

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need for relief; by the collapse of the real estate market, where rents in many areas had declined by an amount sufficient to wipe out the margin over carrying charges; and by the collapse in the mortgage market, where delinquencies ran between 30 and 40 per cent, foreclosures tripled and the whole basis of real estate values trembled under the constant threat of widespread dumping of foreclosed properties on the market.

#### Aims of the Program.

The aims of the administration in dealing with this situation have been two-fold; first and most immediately, to meet the emergency with a variety of devices calculated to support the weakest elements in the whole complex situation; and second, to rehouse America in a manner consistent with our standard of living. Housing conditions in this country are not and never have been adequate in relation to our huge resources. Today, they are particularly bad, reflecting, first, unsound building developments during the boom, and, second, five years of underbuilding, in addition to five years of inadequate maintenance of existing buildings. From a long-run point of view, furthermore, better housing presents the one great source of capital investment capable of material expansion to absorb our huge productive facilities. There are few families in this country who are so fortunate that they could not, provided they could afford it, use more housing, absorb more space, live in better physical conditions. We have the resources in this country to provide these houses, we have the skill, we have the labor, and

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we have the need for housing by which we can absorb these capacities to the full. There need be no continuing problem of a permanent body of unemployed if we turn our attention to housing. Our only problem is to find an intelligent method by which we can utilize the skill and resources of our people in the solution of the difficulties that lie in the way.

#### Methods of Approach.

As has already been indicated, no single uniform solution has been attempted for this problem. Rather, the procedure to date has consisted of the adoption of a realistic approach calculated, on the one hand, to meet the most urgent needs, and, on the other, to fit into the long-time effort toward better housing. Thus, the collapse of the mortgage market which was accompanied by mounting foreclosures and delinquencies, and threatened to end in a collapse of our whole structure of real estate values, was met, first, by liberal loans on mortgage collateral to essential financial institutions from the R.F.C., second, by Federal aid in the refinancing of the most distressed mortgage situations through the FCA and the HOLC, and, third, by insurance of existing institutions through the FDIC and the F.S.L.I.C., while the immediate problem of unemployment in the building industries was met by relief under the FERA, and work opportunities under the PWA, the CWA and F.W.R.A. Most of these activities were under way when the coordinated Federal Housing Program which eventuated in the FHA was instituted last spring, and

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had demonstrated their effectiveness in arresting the cumulative deterioration in the real estate field together. Today, the whole real estate market is showing these beginnings of movement and life which form a prerequisite to successful constructive action. This is evidenced by such developments as (1) a decrease in vacancies reflecting, on the one hand, the gradual elimination of surplus and inadequate housing through fire loss, demolition, etc., and, on the other, greater reemployment, the undoubling of families, a renewed flow of population from farms to urban areas and an increase in the marriage rate, (2) the stabilization of rents in most sections of the country and some increase in rents over large areas, (3) the reappearance of effective immediate demands for new residential construction in particular areas such as Washington, Houston and Atlanta.

The second phase of active stimulation of housing activity is now getting under way. In its beginning it rests primarily on the maintenance and modernization program that is being developed by the FHA, aided and supplemented by the modernization work being financed by the HOLC, the slum clearance and subsistence homestead operations being financed by the PWA and the stranded families being rehoused by the FEHA. Of all of these activities, the modernization campaign of the FHA offers the most immediate promise of activity in almost every area. That the physical need for repair and maintenance is

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both huge and widespread is attested by the Real Property Inventory under the CWA sponsored by the Department of Commerce. The willingness of home owners to remedy this situation when their resources permit by taking advantage of the facilities offered by the FHA has already been demonstrated during the sixty days in which the FHA has been conducting its campaigns. From the record of loans insured to date it is evident that financial institutions with knowledge of the technique of making small loans have not lacked borrowers willing and ready to take advantage of them. This phase of the work, then, is well under way and will show success as additional financial institutions learn how to make these loans. The FHA and the Federal Reserve Board are now cooperating on this phase of the problem.

The next phase which promises widespread activity over large areas will begin on November 1 when the FHA will announce its plans for the insurance of mortgages and the chartering of national mortgage associations. These activities promise widespread revival for the mortgage market and also new construction of individual homes where they are needed. Like all broad programs that offer large ultimate results, the introduction of these new elements into the situation will require an extraordinary amount of administrative and educational work in the beginning. They promise, however, to reward this effort by floating the mortgage debt burden through lower interest rates to borrowers and by creating really secure as-

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sets for lenders, by promoting new individual home construction at low financing costs wherever there is present an economic demand for such construction, and by controlling the trend of this building both as to the soundness of its construction and the protection of its neighborhood environment so as to avoid the major pitfalls which are accountable for much of the present plight of the construction industry.

#### Group Housing Problems.

This resume indicates that the Federal housing program is already well on the way toward complete launching in so far as the dominant form of American urban housing is concerned, namely, the individually owned unit house. The major efforts of the HOLC and the FHA are both directed toward this typical form of urban housing. There remain to be considered the housing problems of two large sections of the population which are not so directly affected by these programs, namely, our large rural population where the problem of better housing is closely tied up with the productivity and prosperity of agriculture, and these large sections of our urban population which because of congested conditions must be housed in large tenement or apartment units. Housing conditions with respect to a part of the former of these groups has been and will continue to be affected to a certain extent by the development of subsistence homestead projects under PWA, FERA, and TVA. Farm housing is also covered to a limited extent so far as repair and modernization is

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concerned under the program of the FHA. In addition, however, the FCA might well formulate plans for aid in the rehousing of individual owner occupant farms, such plans to be put into effect as soon as and where agricultural conditions justify increased capital expenditures.

The housing of urban groups located in congested areas will be improved to a limited extent by Federal action already taken or now under way, namely, the inauguration of low-cost housing projects under the PWA, and the insurance facilities for mortgages on low-cost housing projects which will soon become available under the FHA. The potentialities presented by this sector of the housing field have not been fully exploited, however. If we desire to stimulate construction employment rapidly in the housing field this winter, we can do so through application to this problem. Its complexities are so great, however, and the amount of funds which it can usefully absorb so large that it will require both the careful formulation of an intelligent general approach toward the problem and the close coordination of the work of four major Federal agencies, namely, the PWA, the FHA, the RFC, and the FERA.

#### Statement of Policy and Program.

##### I. Unified Administration.

A program in this particular field cannot be simple—too many interests, Federal, State, municipal, local, and financial are involved. If the problem were not extremely complicated there would be no slums to clear, for slums are not created by any

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overt desire, they are the result of real estate problems too complex to be solved without carefully thought through public intervention. If, in the face of these complexities, we hope to obtain large results on a wide scale with immediate effects on employment and business conditions, the Federal Government's approach to the problem must be unified, in that local groups should be required to make only one Federal contact. The Federal program must, furthermore, be as simple as possible and sufficiently flexible to meet a wide variety of situations.

RECOMMENDATION I: That a single Federal office be created to deal directly with local groups on all problems concerned with the stimulation of urban apartment housing activity, this office to make the necessary contacts and clearances with the various major Federal agencies involved.

## II. Conservation of Public Resources through Utilization of the Insured Mortgage.

Since the program may require hundreds of millions or possibly billions of dollars, available resources should be husbanded and used as efficiently as possible. Fortunately, the present provisions of the Housing Act which deal with the insurance of mortgages on low-cost housing projects make available for the program an almost unlimited supply of private mortgage capital at very low rates. This supply should be used to the utmost, and other available Federal funds should be reserved for that

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part of the program which cannot be financed privately through the insured mortgage.

RECOMMENDATION II: The insured mortgage on low-cost housing projects under the FHA should be looked to to provide the bulk of the funds required. The Housing Division of the PWA should finance the cost of their direct slum-clearance operations in so far as possible through the FHA insured mortgage, thus multiplying many times the effectiveness of the funds available to this Division for direct investment in low-cost housing projects. The RFC should also consider refinancing as large a part as possible of its mortgages on the Fred I. French slum-clearance development in the lower East Side through the issue of an insured mortgage, thus recovering funds to be made available for other parts of the Housing Program.

### III. Local Participation.

The program should not be limited to direct slum clearance operations constructed and financed by the Housing Division of the PWA. In addition, provision should be made for Federal cooperation with local groups--municipalities, housing authorities, neighborhood associations, and limited dividend corporations--which will permit these groups to inaugurate work on a much wider scale than is possible on direct projects where Washington must assume responsibility for intimate supervision of details. To exploit this large field of local initiative, however, the requirements for Federal aid must be much simpler

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than in the case of similar undertakings in the past. They must be of a character which will permit interested local groups to know immediately what general conditions they must meet so that they can undertake to meet these conditions without constant clearance at Washington.

RECOMMENDATION III:

The following set of general requirements for locally sponsored projects should be announced:

A. Clearance of slums or decayed neighborhoods.

The approach should be on a large enough scale to promise substantial correction of a civic sore spot. In the lower East Side in New York, for example, the project should contemplate the rebuilding of the entire area. A project limited to a few blocks would elicit little cooperation because it would not promise to arrest or reverse the progressive decay that has been the root of the difficulty.

B. Land Utilization.

The project should conform fully to the highest requirements of urban planning, urban growth trends, and the most desired methods of land utilization. This means that the whole neighborhood should be revamped to fit into the lines of desirable city growth and not confined to its present characteristics. In some cases, this will involve the demolition of a decaying lower middle-class neighborhood and its replacement with dwellings for workers. In other cases, it will mean the conversion of a festering slum area into a white-collar neighborhood. In the lower East Side in New York, for example, where the restriction of immigration and the movement of industry has resulted in a population decline of 50 per cent during the last generation, the project should contemplate a rebuilding of the entire area for the class of population to which it is best suited, namely, the white-collar worker

employed in lower Manhattan or in the Forty-second Street district.

C. Avoidance of Overbuilding.

The program should be directed toward the preservation of sound real estate conditions and should not countenance overbuilding. To do so would not only be unsound. It would create inexcusable delay in its inauguration by arousing opposition among local real estate interests. It should, therefore, provide that the new housing undertaken should provide for the demolition of an equivalent number of existing residential units, or for housing a population equivalent in numbers to that now inhabiting the area to be demolished.

D. Substantial Local Equity Required.

To prevent this type of program, which contemplates the full utilization of local initiative, from resulting in incompetent local management, a program should contemplate both Federal aid in financing and a substantial local equity. To this end, the FHA should announce that where a proposed project involves the clearance and demolition of a congested area, it stands ready to insure mortgages up to the full amount required for the project other than the cost of land assembly. This cost should be carried by the local group and should constitute their equity in the project. The Federal Government can help in this land assembly, however, in many ways outlined below.

E. Limitation of Return.

The limited dividend corporation device offers the greatest possibilities for stimulating widespread local initiative, provided it is interpreted and applied somewhat more liberally than in the past. In permitting local groups to enter assembled land as their full equity in a limited dividend low-cost housing project, the return on this equity should be limited not to 6 per cent of present estimated value (which is frequently so low that owners prefer to wait for a rise in values) but rather 6 per cent of the value of the property in the period 1926-1929 when most of the present incumbrances were placed. The plan should also permit this return to increase to 8 per cent or even 10 per cent after the property is completely amortized.

**F. Limitation of Rentals.**

The project should provide for limitation of rentals but these limits should be written in terms of the type of renter for whose use the project was formulated. In the lower East Side, for example, the rent should be limited in such a way as to be a substantial protection for the white-collar worker for whom the project is designed. It would stultify the success of the whole project to try to set a level of rents applicable to the incomes of the people now living in the lower East Side.

**V. Federal Government Aid.**

The ready availability of mortgage funds under the FHA constitutes the greatest single source of Federal aid to this program, especially so in view of the fact that the wording of the law is quite flexible and permits a much more liberal and realistic definition of what constitutes low-cost housing than has existed in past legislation. In addition, however, there are many other ways in which the Federal Government can lend its aid in the quick assembly of land and the rapid inauguration of projects.

**A. Help in Demolition.**

Through the FERA, the Federal Government can offer to carry the cost of demolition of existing structures in connection with the undertaking of approved low-cost housing projects. This will add no cost to the Federal Government that is not already being carried, it will provide useful activity for the work relief program of the FERA, and it will result in a material saving in the overall cost of new projects. In the lower East Side in New York, it is estimated that this will result in a saving equivalent to \$.75 a square foot of land assembled.

**B. Aid in Lowering the Net Cost of Land Acquisition.**

The requirement recommended above that the existing real estate situation be preserved by limiting either the number of new housing units to be constructed or the number of people to be housed, to those displaced by the demolition of existing structures, increases somewhat the relative cost of land assembly since sponsors will be prevented from making up for high-cost land by building larger and higher buildings. This impediment can be more than neutralized, however, by having the PWA lend funds to municipalities for the purchase of land in these areas for parks, parks that are usually needed because congestion, high land costs, and inadequate park and playground facilities are usually associated in slum areas. The existence of over-congested districts today is due to inadequate social planning, and it is proper that society assume the cost of relieving this congestion through purchase of property for public uses, especially so when the contemplated expenditure is part of a program such as this where the surrounding properties which will benefit by the improvement are limited as to their return so that the net benefit of the expenditure of public funds is bound to be returned to the public in the form of lower rents. An additional inducement to municipalities might be provided by requiring projects of this kind to turn over a part of their net revenues to the municipality after amortization of the insured mortgage financing is completed.

**C. Aid in Actual Property Acquisition.**

The RYC can well take the lead in aiding local groups to assemble the property needed for projects such as those outlined above. A typical assembly under the above plan would require the formation of a local limited dividend housing corporation or neighborhood association. To proceed effectively, this body, after formulating its general plans in accordance with the requirements outlined above, would meet the very practical immediate problem (1) of acquiring title to all of the land in the large area required, and (2) of arranging for the sale of part of this land to the city for park purposes. In general, outright purchase of all of the land either in the market or through condemnation procedures would be too slow. A plan should be formulated, therefore, which would contain strong inducements for the majority of the local owners, particularly those that are heavily over-mortgaged, to pool their

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properties voluntarily in order to put the program into operation and to salvage their investment. A possible set-up for such a plan would work as follows:

1. The RFC would organize a trust company in cooperation with cooperating local owners who would turn over their titles to the trust company in return for capital stock in the same, the relative values of such properties in the exchange to be determined by an independent valuation and arbitration committee of high local standing after the plan was far enough along to insure its success.
2. This trust company would arrange with the city for the sale to it of a certain percentage of the area for park purposes provided the entire area is assembled and the project is formally inaugurated.
3. The PWA would lend the funds to the municipality to finance this purchase.
4. The trust company with these funds from the sale of land as security would then be in a position to borrow additional funds from the RFC, putting it in possession of total cash resources up to, say, a third of the total value of the property to be assembled, such value to be determined, not by the current market, but by the value of the property in the period 1926-1929.
5. With these funds in hand or in prospect, the trust company would then invite all owners of property in the area to be assembled to turn over their titles to the company on the same basis as the original sponsors, namely, in exchange for stock in the trust company, the total value of all such stock issued to be equivalent to the total value of the area on a 1926-1929 basis, with the relative ratio of each individual piece of property turned over to this total to be determined by the impartial arbitration committee noted above. This arbitration committee would not function until substantially all of the property were turned over. It would then value both the entire area and each individual unit on a 1926-1929 basis. On the basis of this valuation, the trust company would

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offer one-third cash and two-thirds in stock to each of the participating owners in return for final transfer of title.

6. With the land assembled, the trust company would proceed to incorporate a limited dividend low-cost housing project to meet the requirements outlined above.

#### V. State Legislation Desired.

This program should engender a maximum of local cooperation. Present owners would stand to get immediate cash for their holdings up to one-third of a 1926-1929 valuation and an equity in the limited dividend low-cost housing project on which they might earn as much as 6 per cent on the remainder. This would constitute an attractive offer to most owners and an irresistible offer to holders of mortgages against the properties required. It should also enlist general civic support because it (a) promises to remove a sore spot in civic development, (b) promises increased employment and business activity, and (c) does not create an addition to existing vacancies. Every move so far outlined, furthermore, can be inaugurated on the basis of existing legislation.

If new legislation is needed to supplement the program, it will be largely state legislation to remove local hindrances and restrictions. The need for this where it exists will usually become apparent and can be secured as the program is pushed into operation.

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One additional piece of state legislation that would be extremely helpful, however, can be seen now, namely, a variation of the customary condemnation laws which will require all property owners in a given area to exchange their titles for equities in a pooled ownership association under a plan similar to that outlined above, provided a majority, or two-thirds of the owners voluntarily do so. Such a bill was up before the New York State Legislature at the summer session and is said to have a good chance of enactment at the coming winter session. Immediate preparation to secure the passage of this type of legislation in all states having key cities faced with slum problems constitutes the most pressing requirement of the program at the present time. Given such legislation there is every probability that slum clearance could be inaugurated upon a very wide scale during the winter.

October 25, 1934

SET-UP FOR ENTIRE LOWER EAST SIDE

250,000 Rooms to House 250,000 Persons  
 Including Stores, Theaters, etc.  
 (No local tax exemption)

Cost of Construction (to be financed by insured mortgage):

Building, including builder's fee.....	\$230,000,000
Architects and Engineers.....	9,000,000
Interest, Taxes, Insurance and Surety Bond.....	17,000,000
Contingencies.....	<u>13,000,000</u>
Total Outlay for Construction.....	\$270,000,000

Resolition (to be carried by FERA)..... ( 4,000,000)

Land Assembly

\$330,000,000 less \$30,000,000 for parks sold to city. 300,000,000

CAPITAL SET-UP (CONSOLIDATED)

ASSETS		LIABILITIES	
Land.....	\$300,000,000	Insured mortgage...	\$270,000,000
Buildings.....	270,000,000	Loan from RFC.....	75,000,000
	<u>                    </u>	Capital stock.....	<u>225,000,000</u>
Total.....	\$570,000,000		\$570,000,000

October 25, 1934

I. INCOME ANALYSIS

First Twenty Years

Annual Expenses

Operation of building, repair and maintenance.....	\$7,000,000
<u>Deduct: Profit from submetering..</u>	<u>1,700,000</u>
NET.....	\$5,300,000
Taxes.....	650,000
Reserve for replacement.....	<u>1,350,000</u>
TOTAL.....	\$7,300,000
Interest on insured mortgage 3-1/2%.....	9,450,000
Amortization and mortgage insurance 2%.....	<u>5,400,000</u>
<u>Total income necessary to cover FHA.....</u>	<u>\$22,150,000</u>
Interest on RFC loan at 4%.....	3,000,000
Amortization at 3% (20 years).....	<u>2,250,000</u>
<u>Total income necessary to protect RFC.....</u>	<u>\$27,400,000</u>
Dividends on capital at 5% (until RFC loan retired).....	<u>11,250,000</u>
<u>Total income required to float project,...</u>	<u>\$38,650,000</u>
Available for surplus.....	<u>1,351,760</u>
TOTAL.....	<u>\$39,901,760</u>

Annual Income

Stores

41,500 lineal feet (16.6 ft. per 100 pop.) at \$110 per ft.....	\$ 4,565,000
<u>Apartments - 250,000 rooms at \$12.50 per month per room.....</u>	<u>37,500,000</u>
Total.....	\$42,065,000
Less 5% for vacancies.....	<u>2,163,240</u>
TOTAL INCOME.....	\$39,901,760

<u>Rent Required:</u>	<u>Per month per FOSA</u>
1. To float entire project.....	\$12.50
2. To protect RFC.....	9.00
3. To protect FHA.....	6.50

II. INCOME ANALYSIS

Second Twenty Years

Annual Expenses:

Operations, Taxes and Reserves (see I)..	\$ 7,300,000
Interest on insured mortgage.....	9,450,000
Amortization and mortgage insurance.....	<u>5,400,000</u>
<u>Total income necessary to cover FHA..</u>	<u>\$22,150,000</u>
Dividends on capital at 7 per cent.....	<u>15,750,000</u>
<u>Total.....</u>	<u>\$37,900,000</u>
Available for surplus.....	<u>2,001,760</u>
<u>TOTAL.....</u>	<u>\$39,901,760</u>
<u>Receipts (see I):.....</u>	<u>\$39,901,760</u>

III. INCOME ANALYSIS

(After retirement of F.H.A. Mortgage)

Annual Expenses:

Operations, taxes and Reserves (See I)..	\$ 7,300,000
Dividends on capital at 10%.....	22,500,000
Available for rent reduction or for dividend to city.....	<u>11,101,000</u>
<u>TOTAL.....</u>	<u>\$39,901,760</u>

December 27, 1934

THE HOUSING PROBLEM

W. W. Riefler

A paper read before the American  
Association for the Advancement  
of Science, December 31, 1934

Gentlemen:

One of the notable developments of the past year has been the quickening of interest in the problem of housing. In part, this increased attention has constituted merely a normal public response to the discussion which accompanied the enactment of the National Housing Act and to the publicity which has been given to the activities of the Federal Housing Administration. In a more fundamental sense, however, both the National Housing Act and the Federal Housing Administration constitute the response of government to one of the most significant problems in the American scene, a problem that was present throughout the building boom of the post-war era even before we had gone through the experience of five years of unparalleled depression in the housing industry. I refer to that whole complex of phenomena that are associated with the housing problem, not only the housing situation in physical terms but also to the building labor situation, the foreclosure situation, the mortgage situation, the industrial situation and the tax situation. With the gradual awakening during the past year to the importance of this problem, there has come an appre-

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ciation of its widespread ramifications in the availability of employment and the necessity for relief, of its financial implications to home owners as well as to mortgage investors, and finally of its social consequences, not only in terms of disease-ridden slums, but also in terms of economic security and of the general well-being and standard of living of the mass of the people.

Housing in its broadest terms deals with all of the factors which determine the condition of our human habitations, and the problem of housing is the problem of raising the standard of these habitations to a level commensurate with our physical resources, our technical equipment, and our industrial efficiency. It is not merely a problem of depression, though it has certainly constituted one of the most important factors in the depression, nor is it solely a problem of recovery even though a resumption of housing construction would constitute a major factor in a revival of general activity. It strikes broader and reaches deeper than these phenomena. The housing problem, though not so readily apparent, was with us long before this depression began in the relative deterioration of our housing accommodations. Following the war, the standard of our human habitations failed to reflect the increase in our resources, our industrial capacity and our skill. In terms of provision for the three primary human needs--food, clothing and shelter--by which the economic performance of a civilization is tested, our provision for human habitation became increasingly inadequate as compared with other major aspects of our life.

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Compare for a moment our record in housing with our progress in other respects. During the post-war decade, the inventive skill of the country and its genius for mass production were used to re-make almost every phase of our national life that lent itself to modernization, all, that is, except the most important phase of all, our housing facilities. We developed the automobile and the radio to the point where they became integrated into the standard of living of the mass of the people; we covered the continent with a network of high-speed, hard-surfaced highways; we rebuilt our factory plant and equipment along the most scientific lines. We also engaged in construction on an unprecedented scale--we constructed office buildings, bank buildings, hotels, movie palaces, churches, on a plane of affluence never witnessed before. In the field of housing construction, however, though the physical volume of new building was large, the quality in the main was shoddy, the cost out of reach of the mass of the people, and the activity governed more by speculative considerations than by economic realities. There was but little improvement in the housing of the white-collar worker, the laborer, and the farmer. Even among the more fortunate income groups, it became common for the head of the family to work in office surroundings conforming to a higher standard of taste, furnishings, and general construction, than he could provide for his family, for that family when it went to a movie, a hotel, or a church, to move in a higher standard of elegance than they were accustomed to at home, and for the children of the family when they departed for college

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to enjoy living conditions in dormitories and fraternity houses of a quality that would be denied to the major portion of them throughout the remainder of their lives. In short, even at the peak of industrial and commercial prosperity immediately prior to the depression the great bulk of our people had become accustomed, almost as a matter of course, to sub-standard housing.

The problem of modernized housing, therefore, not only deals with a great human needs; it discloses a great economic opportunity. In the provision of habitations for human beings commensurate with the standards we have provided in other parts of our economy, there is scope for the full absorption of our surplus savings, for the full utilization of our surplus resources, for the full employment of our surplus labor. A movement for modernized housing, in fact, not here and there only, but in every community, a movement that really measured up to the magnitude which the need and opportunity call for, would require labor, resources and skill on a scale hitherto unseen, even at the pre-depression height of our industrial modernization. It is against a scale such as this that the potentialities for recovery that lie in the housing movement must be measured.

This sketch of the background of the housing problem should serve to indicate its far-reaching ends, its vast implications for human well-being. Mr. Hoben of the Housing Division of the Public Works Administration, whose paper follows this, will indicate to you some of the long-term aspects of the problem, some of the

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difficulties that must be faced if we are to attain these objectives, some of the decisions that must be made. On my part, the remainder of this paper will sketch briefly the emergency aspects of the problem and some of the emergency measures adopted toward its solution.

From the onset of the depression, economists have become increasingly impressed with the overwhelming importance of the construction industry in the current business picture. According to the latest study of construction volumes recently issued by the National Bureau of Economic Research, the expenditures of the American people on construction of all kinds, including maintenance and repairs, totalled \$15,900,000,000 in 1928. In 1929, it was \$14,400,000,000, in 1930 \$11,900,000,000. By 1933 it had declined to \$5,300,000,000. In short, the decline in construction accounts for the direct loss of employment on the part of more workers than any other single industry. This unemployment has not been confined to the building trades, it has engulfed teamsters hauling construction materials to the site of activity; employees of railroads transporting lumber, brick, cement, plumbing, heating and electrical supplies; factory workers engaged in the processing of these commodities; lumberjacks and miners producing the raw materials from which they are made. Among the professions, it has thinned the ranks of architects and engineers, and among the service industries, it has dispensed with the labor of thousands of real estate brokers, mortgage brokers, and appraisers.

This huge total of construction volumes cannot be restored directly by a renewal of housing activities alone. In the 1928 total

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of nearly \$16,000,000,000 are included the normal construction outlays of our Federal Government and our states, counties and municipalities, amounting in the aggregate to a sum about equivalent to the amounts invested in residential construction during the decade of the twenties and exceeding residential construction activities many times over during recent years. A second large segment of this construction total once consisted of commercial buildings of all kinds, such as office buildings and hotels. A third segment consisted of new industrial building: factories, railroad extensions, utility installations, etc. With the decline in general business activity these two latter types of construction have almost disappeared. A fourth consisted of commercial and industrial maintenance which has been held to a minimum in recent years because of the general policy of conserving cash resources. Finally, there is housing, residential construction, which in 1928 amounted to over \$3,000,000,000 and by 1933 had declined to one-tenth that amount. Of the major types of construction activities, public works have declined least during the depression, reflecting in part the sharp increase in Federal public works activities and the assistance which the Federal Government has given to the maintenance of construction on the part of local public bodies.

Of the various recovery efforts which are being instituted to revive construction activity outside the field of works financed from public funds, the stimulation of repair, maintenance, and

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modernization seems to offer by far the greatest promise for immediate results. You are all probably aware of the organized efforts which thousands of communities have undertaken in recent months to bring home to their people the desirability, more, the necessity of maintaining, repairing, modernizing their homes, their office buildings, stores, factories, in short, their physical properties of all kinds. This movement is promising in so far as quick results are concerned, first, because a great need is present, for under the stress of the last five years proper provision for adequate maintenance has been postponed in all too many cases; second, because work of this character can be inaugurated quickly--elaborate plans and long-drawn out preparations being unnecessary; and, third, because there has come sufficient revival in general business activity during the last two years to reawaken in owners a greater realization of the need for the preservation and modernization of their physical assets than was present during the months that preceded the nadir of the depression.

In the case of home owners, the Federal Government has gone further in its efforts to stimulate a renewed interest in adequate repair, maintenance, and modernization. It has appropriated \$200,000,000 to insure banks, building and loan associations, finance companies, in short, accredited financial institutions of all kinds which are accessible to the home owner, against losses which they may incur in extending small loans to borrowers who desire to repair or improve their properties. As a result of this effort, thousands

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of financial institutions are now learning to make loans to a class of people with whom in general they have not dealt before and for a purpose for which credit has been difficult if not impossible to obtain and, when available, has required the tender of mortgage security. Results of this movement to date indicate that there is a genuine legitimate demand for this new type of credit which will probably continue to be met even after the special aids now provided by the Federal Government have lapsed. Thousands of banks are making the acquaintance of a new type of customer. They are learning that small home-owner borrowers repay their debts by and large. In all probability, many of them will continue to make their facilities available to these people as a permanent service.

Stimulation of private activity in new construction as contrasted with repairs, maintenance, and modernization offers greater difficulty. In general, current business volumes preclude the economic availability of any great volume of demand for new construction at this time in the form of office buildings, hotels, or extensions to industrial plant and equipment. Such demands will arise with revival but in general they will reflect revival rather than act as an initiating stimulus. In the field of housing, however, there is a greater immediate opportunity. Here too construction of new housing will be small in those neighborhoods where existing vacant structures of an attractive character are available and pressing on the market. There are areas, however, where revival has proceeded to the point where this condition no longer exists, and there are many other

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areas where a renewed demand for housing is imminent. With the decline in new residential construction since 1929 and the continued disappearance of existing structures from the market due to fire, demolition, or decay beyond hope of adequate repair, we are steadily approaching the time when a revival of new residential construction will constitute an urgent necessity rather than a desirable element in a recovery program. Recent studies of the Bureau of Foreign and Domestic Commerce show that in 64 scattered cities selected for their representative character, vacancies in the winter of 1933-34 were reduced to 8 per cent, on the average, of the total number of houses surveyed. Of this total, over 2 per cent consisted of structures unfit for human habitation. In these same cities, doubling up of families in the same dwelling unit totalled 7 per cent. In other words, even as long as a year ago, a revival in business activity in these representative cities, merely sufficient to permit families to live by themselves without doubling up, would have more than absorbed the available housing facilities which were of a character suitable for human habitation.

A revival of new private residential construction, however, implies as an essential prerequisite a revival in mortgage financing, for home construction is dependent almost wholly on borrowed funds. Under the conditions prevailing during recent years, it requires more than this, it requires the virtual reconstruction of the mortgage market--a major revision in the basic practices of mortgage financing as they have been developed in this country. I refer

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specifically to three fundamental defects, first, the dependence on second mortgage financing for new home construction, financing that has been associated with practices sufficiently dubious to have acquired the sobriquet "the mortgage racket", second, to the prevalence of first mortgages written on a three-to-five-year basis, which were never expected to be repaid in that short period--rather, it was blindly assumed as a matter of course, both by home-owners and mortgage investors, that investment funds would be available for their refinancing on maturity; and, third, to the lack of adequate provision for liquidity of mortgage investments, especially in periods of financial stress. Permeated with these structural weaknesses, the mortgage market approached a state of collapse as the depression developed. Owing to losses sustained in speculative building ventures during the boom, second-mortgage financing began to disappear in some localities as early as 1930, thus restricting sharply the availability of funds for new residential construction. By 1931, the availability of funds for the refinancing of existing first mortgages was affected, reflecting in part an unsatisfactory experience on the part of mortgage investors with home owners who had suffered serious loss of income as a consequence of the depression, and, in part, the growing credit crisis with its emphasis upon the necessity of increased liquidity for investment portfolios. Under the full impact of this crisis in 1932 and early 1933, the market for first mortgage loans, including loans on unquestioned security, became frozen.

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Institutions, which had hitherto specialized in this type of investment, finding that they were not as liquid as had been assumed, sought to diminish their aggregate outstanding commitments as rapidly as could be. There was a flight from mortgages as a class of investment and a universal desire to confine new investment to U. S. Government securities and other highly liquid instruments.

The Federal Government has sought to mitigate this pressure by a variety of measures: first, through loans by the Reconstruction Finance Corporation and the newly created Federal Home Loan Banks to financial institutions holding mortgage portfolios; second, through the direct refunding of mortgages on distressed farms and homes by the Farm Credit Administration and the Home Owners' Loan Corporation; and, third, through provision for the insurance of mortgages by the Federal Housing Administration.

This last phase of the general program for rehabilitation of the mortgage market is now in process of development and applies to sound mortgages on existing properties as well as to mortgages covering the financing of new residential construction. It provides for the genuine reconstruction of home financing and offers both home owners and mortgage investors protection from the vicissitudes which have been showered upon them during the past five years. To the home owner it offers, first, an avenue of escape from the hazards of second-mortgage financing, for first mortgages on good homes may be insured up to as high as 80 per cent of their appraised value. This means that the prospective home owner who has accumulated savings

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to the extent of twenty per cent of his investment will be permitted to borrow the remaining 80 per cent in a single transaction; second, it offers the home owner an opportunity to acquire a debt-free home in twenty years, for these mortgages provide that the principal of the debt must be amortized currently by small periodic payments and permit this period of amortisation to run for as long as twenty years. The mortgage investor also is offered protection in this new type of instrument such as he has never had before. In the first place, before certifying a mortgage for insurance, the Federal Housing Administration must be satisfied that the income and prospects of the owner indicate that he will be able to carry the loan without undue strain. From the point of view of the investor this means that these mortgages will possess the same elements of security that are enjoyed by the best types of consumer credit instruments. From the point of view of the prospective home owner it means that the Federal Government is introducing into mortgage lending an objective credit test based on credit standards derived from experience of the home owner's ability to pay, thus increasing both the investment security and protecting the over-optimistic sales prospect from the persuasive powers of the less scrupulous type of real estate promoter. Secondly, these mortgages will possess the highest quality of real estate property as security. Insured mortgages must be secured by properties measuring up to high standards with respect

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not only to design but also to workmanship, quality and the neighborhood environment in which they are placed. By instituting these standards as a prerequisite to insurance, the Federal Government is placing its support back of housing officials, socially minded architects and others concerned with protection of the home owner against shoddy housing and protection of the community against decayed neighborhoods and unsocial environmental developments. Finally, in addition to both of these elements of security, which will give these mortgages new standards of quality as private investments, mortgage investors will enjoy all of the advantages that accrue to an investment insured by the Federal Housing Administration.

Although these measures have been designed frankly to meet an emergency situation, they possess long-term implications of far-reaching import. Most important perhaps of these long-term aspects are the effects which the various standards of mortgage practice, including those just indicated, may be expected to exert throughout the housing field. Because of the fact that the Federal Housing Administration makes no loans of its own but instead makes available definite privileges to all types of private mortgage investors who meet its standards, it is in a position to promote the introduction of high standards of practice throughout a huge segment of our economic activities. Most important of these standards, probably, is the insistence that economic and social realities should be faced at the time when a capital debt such as a mortgage is contracted, and that the debt transaction should not be consummated until and unless

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serious consideration has been given to and adequate provision has been made for all of the major hazards that may be expected to develop during the outstanding life of the commitment. In taking advantage of the facilities opened up to them through the National Housing Act, private mortgage investors of all types will be brought into close contact with these basic considerations and with the most modern methods that have been devised for their solution. It may be expected, therefore, that these same investors will be stimulated gradually to adopt comparable practices with regard to other long-term investments that are not eligible for insurance through the aid of the Government.

First among these is adequate provision for amortisation. If this depression has taught us anything concerning debt burdens and the problems of over-indebtedness, it has taught us the value, more the utter necessity of adequate provision for amortization. Long-term capital debts should be repaid gradually out of income during the life of the property which they were created to finance. They should provide in the original contract for such repayment and the original contract should be written for a period of sufficient years to permit the retirement of debt out of income. This is not new. It is an old principle of sound financial practice, more honored in the breach than in the observance. In fact, the laws of this country, Federal as well as state, with their requirements for three-and-five-year loans, have actually forbidden important groups of home mortgage investors from applying these principles. Had it been

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honored throughout the long-term investment field during the past generation, our debt problems today would present a very different aspect. The introduction of amortization practices throughout the real estate field, in consequence, may be expected to produce profound changes in our future real estate problems. We may not find in the future, as we do today, when we desire to convert an infested slum area to other uses of a more economic and social character that we are continually brought face to face, not only with problems of excessive land valuation, but also with an almost inextricable interweaving of these land values with debts--debts held by investment institutions that are custodians of our savings, debts created in the past under highly different conditions but projected into a present situation where the values they once represented have disappeared. These debts have persisted because there was not sufficient appreciation at the time they were made that the most recurrent theme of modern civilization is change and that investors of all men should attune their operations to the recurring rhythm of that theme.

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*The* COMMITTEE *for* ECONOMIC RECOVERY <sup>I</sup>/<sub>C</sub>  
- - - 730 FIFTH AVENUE - NEW YORK CITY - - -  
NATIONAL HEADQUARTERS

OFFICE OF CHAIRMAN

July Eighth,  
1935.

Dear Win:-

I was very sorry to have missed you in Washington. I arrived the day after you left. Am leaving tomorrow for a six weeks' trip to Europe to get a much-needed rest, and to study economic conditions over there. As you know, I am particularly interested in the housing situation, and intend to study, very carefully, housing experience in England. I certainly hope I will be able to see you almost immediately after my return.

While I am away, I have a suggestion to make to you. Mr. Edward A. Gould, of the Bankers Bond & Mortgage Guaranty Company, #521 Fifth Avenue, New York, has been working with our Committee on a building report that we intend to have ready upon my return. He comes from Chicago, and has recently connected with the above company. I feel that he has a vast fund of knowledge on the subject of home mortgages, and can contribute a great deal to the efforts of the Government. He has a very definite plan in mind in the formation of a company under Title III. For some reason or other he has not been able to make any progress in Washington. I suggested that he drop you a line and arrange to see you when you are in New York. In the event that you are not going to be in New York soon, I believe he would gladly go up to Cape Cod. When you hear from him, I hope you will arrange the appointment with him.

I hope you are having a real pleasant Summer. Will get in touch with you upon my return, which is now planned for August 19th.

Kindest regards.

Sincerely yours,

*Allie (Speed)*  
Chairman,

COMMITTEE FOR ECONOMIC RECOVERY

Mr. Winfield Riefler,  
Brewster, Mass.

5131  
Am...  
W. G. B...



TREASURY DEPARTMENT

WASHINGTON

November 12, 1935

Dear Dr. Riefler:

Thank you for your letter of  
the 6th.

I understand your point of view  
now completely.

I fully agree that it would be  
wise for FHA to stress the refinancing of existing  
construction during the winter season.

I was glad to hear from you again.

Sincerely yours,

A handwritten signature in ink, appearing to be "T. G. B.", written over the typed name.

Dr. Winfield W. Riefler,  
The Institute for Advanced Study,  
20 Nassau Street,  
Princeton, N. J.

PG:hh

November 6, 1935

Dear Mr. Grinn:

Thank you for your letter of October 31. I am very sorry that there has been any misunderstanding of my views on the question of the relative emphasis to be placed on new construction as compared with refinancing under Title II of the National Housing Act.

Broadly and fundamentally speaking, it is my view that both phases of the Act must be emphasized, namely, that while our objectives are (1) revival of employment in the building industries, (2) improvement in standards of housing of our people, and (3) reorganization of the mortgage market upon a sound basis, the accomplishment of these high objectives requires not only adequate provision for the financing of new construction but also provision for the refinancing of existing properties. An analogy to my thought might be drawn from the automobile market. Every experienced automobile man knows that you cannot build and market new cars unless you have at your disposal a thoroughly sound and functioning market for used cars taken in trade. I believe it is equally true that you will not experience a real revival of new building until the financial problems that encumber owners of existing property are cleared away.

So much for my general position. In terms of strategy, it has

Mr. Peter Grimm

November 6, 1935

been my feeling that Title II could be made to function more quickly by concentrating a major portion of effort this winter on refinancing. As I told the Secretary, we are now entering the season of dullness in new construction and efforts towards the stimulation of building as such cannot be expected to bear great fruit until next April or May. We can strengthen our organization enormously during the winter by concentrating on refinancing and thus be in a position to stimulate new construction to the full when seasonal factors again become favorable in the spring.

Very truly yours,

WINFIELD W. REEFER

Mr. Peter Grimm  
Assistant to the Secretary  
Treasury Department  
Washington, D. C.

WWR/ICE



## TREASURY DEPARTMENT

WASHINGTON

October 31, 1935

Dear Dr. Riefler:

The Secretary mentioned to me this week that he had seen you and that you mentioned a misunderstanding on my part of the views you expressed respecting new construction under Title II of the NHA.

I should most sincerely regret having repeated your statement inaccurately. But my recollection then and now is that it was in your mind and in the minds of those associated with you in the drafting of the Act that new construction was not to be financed at all and that the financing of new construction was more or less forced into the Act by subsequent considerations. You may recall that I expressed some surprise at the suggestion that this phase of FHA activities might well be subdued, and that at that point I asked Jeff Coolidge to join us as his thought was so much at variance with yours.

However, I know how easy it is to misinterpret another's views. While I should deplore falling into that error in any case, I should particularly deplore doing so in yours because of the weight which I attach to your judgment in this extremely important field.

If you can conveniently do so, I will appreciate an expression of your thought on the question of emphasis on new construction as compared with refinancing existing construction under the Act.

Sincerely yours,

A handwritten signature in cursive, appearing to read "Peter G. ...".

Dr. Winfred Riefler,  
Princeton University,  
Princeton, New Jersey.

December 10, 1936

Governor Eccles

FHA matters for discussion at  
tomorrow's luncheon.

J. M. Daiger

I think that Mr. McDonald's invitation to you and me to meet him at luncheon tomorrow with Mr. Walsh and Mr. Catherine is due in part to his desire to have Walsh and Catherine hear your views on the FHA and in larger part to his desire to form a sort of working alliance with you on the 1936 program.

In the conversation at last week's luncheon, you hit out pretty hard at the FHA set-up, particularly from the standpoint of the operating personnel in the regional and local offices. At the same time you evidenced a good deal of support for some of the measures that the Freed-Moley group has been pressing, not so much through the FHA as through the Federal Home Loan Bank Board and the Department of Commerce.

Hence I should like to analyze briefly these two aspects of the matter—the FHA set-up and the 1936 program—before we get into the discussion of them at tomorrow's luncheon.

The bulk of the FHA business under Title II has come thus far from the member banks of the Federal Reserve System. The banks generally, member and non-member, account for about 70 per cent of the business, but most of this is from the member banks. The member banks also have among them the largest volume of funds currently available for mortgage investment—considerably more than is held by any other class of institutions.

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Because of these very practical considerations, I have argued that the obvious way to advance the FHA program is for the FHA to have the kind of set-up that, on the one hand, will win the confidence of a much larger number of banks and thus result in a much larger and more widespread number of approved-mortgages banks, and, on the other hand, will create among prospective borrowers a larger demand among these banks for the FHA type of mortgage loan. It is my opinion that the FHA does not have this type of set-up, and I should therefore like you to press this view tomorrow, as dealing with a situation that definitely needs to be met quite apart from the 1936 program.

Some of the best mortgage men I know have stated without qualification that the FHA has established a sounder system of appraisal practice than any private institution has ever devised. They tell me that they have adopted its standards regardless of whether or not they insure their loans with the FHA. They count the standards as one of the notable contributions of the New Deal to the field of mortgage financing.

In other words, a loan made according to FHA standards is a prime investment. It is such an investment even without the ultimate guaranty afforded by the Federal Government.

But to establish the standards is one thing and to enforce them is another and quite different thing. Too many banks, I am afraid, have the impression that the practices of the FHA are lax and that this

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laxity is due to high-pressure promotion methods which put the emphasis on volume rather than on quality. Instead of regarding the FHA as affording a good business mechanism through which to open up more freely on mortgage loans, the banks are impressed by the fact that the regional and local offices are under great pressure from Washington for volume at any price. The inevitable result, as I see it, is to defeat the very objective that the FHA is preoccupied with—namely, volume.

The point about this that I would call particularly to your attention is that the responsibility for whatever laxity there may be is right here in Washington, not in the regional and local offices. I think that you may tend to overemphasize the shortcomings of the regional and local personnel and to ascribe to these men faults that are largely due to the kind of pressure they are under from headquarters. I know, of course, that the FHA got off to a political start, but it also started with the fallacious notion, in Mr. Moffett's classic phrase, that the FHA is "purely a selling proposition."

In its approach to the banks, the FHA has in my opinion relied altogether too much on the inducement of high interest rates. Manifestly, a low interest rate for a long-term loan was the potent means that the FHA had for creating a demand among borrowers for the FHA type of loan. The groundwork for this demand was laid in the publicity that preceded and accompanied the passage of the Housing Act. But after a year and a half of FHA operation the 5 per cent rate contemplated in the Act as the maximum except under unusual circum-

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stances has not yet materialized, though a lower rate would now be easily possible if the 5 per cent rate had been established at the outset.

Like the high-pressure promotion and the tendency toward laxity that is its counterpart, the high rates of interest maintained by the FHA have in my opinion been a deterrent rather than an inducement where the banks are concerned. The rates of  $6\frac{1}{2}$ , 6, and  $5\frac{1}{2}$  per cent, which the FHA has established from time to time, have been wholly out of line with the prevailing rates on high-grade investments. The result here, I think, has been to cheapen the FHA type of mortgage in the minds of bankers and to raise the question, at least subconsciously, whether there is not after all some doubt as to the quality of the mortgages insured by the FHA.

In other words, I have argued that the banks would place a much higher value on the ultimate guaranty of the Federal Government on the FHA type of mortgage if the return on these mortgages were in line with the return on other prime long-term investments. I have said that the FHA cannot "bribe" banks into making loans by offering a rate a point or half-a-point above the market, but that it could induce them to lend by using a low rate to emphasize high quality.

If you agree with this view from a banking standpoint, I should like you to emphasize it tomorrow as well as the need for

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making the practices of the FHA conform to its much-advertised standards.

The point about the Freed-Moley program to which I would particularly call your attention is that it is directed to the "outs" rather than to the "ins." It looks toward mortgage financing through the building and loan associations and toward housing promotion through the Department of Commerce. Its emphasis on the building and loan associations is due to its drawing a mistaken analogy between them and the British building societies, disregarding the fact that the widespread holding of available funds for mortgage lending in this country is among the banks and that the funds of our building and loan associations are pretty much depleted. Personal differences between McDonald and Freed and personal relationships between Freed and one of Secretary Roper's assistants account in large part, I think, for the proposal to take FHA out of the housing-promotion field and turn that work over to the Department of Commerce.

The points about the Freed-Moley program that I am in accord with are, first, the emphasis on the type of housing for which there is virtually an unlimited market, and, second, the opportunity for larger units to operate profitably in the low-cost housing field. These are the two aspects of the British housing program that have been chiefly responsible for its magnitude and its success.

The Freed-Moley group gives a greatly mistaken impression, in my opinion, in attaching primary importance to the low rate of interest and to the small down-payment, and especially in regarding

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the latter as readily adaptable to the situation in this country. The housing boom in Great Britain began when the interest rate charged by the building societies was close to 6 per cent. The rate fell to  $5\frac{1}{2}$  per cent after the boom was well under way and reached  $4\frac{1}{2}$  per cent only in the latter part of last year, two and a half years after the boom was ~~far advanced~~ started.

As to the 10 per cent down-payment, that is made possible by the size and financial responsibility of the British building-companies. These companies "go on the mortgage" in the same way that our automobile dealers, for example, are parties to automobile sale-contracts with finance companies. The British builders leave part of their investment in the mortgage with the building society until the mortgage is paid down to about 75 per cent. We do not yet have operators who are capable of doing that. Our home-building is carried on by thousands of small developers and contractors operating on a shoe-string, whereas most of the building in Great Britain is done by a handful of big companies.

The best explanations of the British boom that I have seen are those given by the Westminster Bank and by the London Economist. The gist of their explanation is that the housing boom is attributable to great advances in wages, to great reductions in the prices of food and clothing, to the successful operation of unemployment insurance, and to the resultant increased purchasing

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power flowing into the housing field.

Finally, the essential example to be drawn for us is that the housing boom in Great Britain is a boom in low-cost houses. The price range is from \$2,500 to \$4,000, and the average is about \$3,000. My argument, in substance, is that we have an enormous potential market among families that can buy houses on a down-payment of \$800 to \$1,000 and a monthly payment of \$30 to \$40 under the FHA set-up. These would be houses in a price range of \$4,000 to \$5,000. I think that this is the very best that we can do on a large scale under our existing cost structure.

Much as I should like to see a further reduction of the interest rate, and certain as I am that the mortgage market would accept it, I do not see how it can become an important factor except in relation to the type of houses for which there is a large market. It is primarily the total cost of the house, and not a difference of half-a-point or one point in the interest rate, that determines whether or not the borrower can carry the monthly charge.

Which is a way of saying, in short, that governmental propaganda and governmental inducements should be focussed on the price class where the potential volume is.

*The Donaldson  
Lambert 49.8*

FEDERAL HOUSING ADMINISTRATION  
WASHINGTON

STEWART McDONALD  
ADMINISTRATOR

May 17, 1938

Dr. Winfield W. Riefler  
Institute for Advanced Study  
69 Alexander Street  
Princeton, New Jersey

Dear Win:

At the suggestion of James Roosevelt, I invited my old friend, Gerald Lambert, of Princeton, New Jersey, to come to Washington in the hope that we might press him into some kind of governmental service. He is an exceedingly resourceful man, and is gifted with a quick mind which operates in channels not marked by the usual lights and buoys.

We hope that, among other things, his ingenious mind might crack what appears to be the inner-tomb of the housing pyramid -- namely, putting construction of homes on a wholesale basis.

We have had some excellent moving pictures of the English method made by Pathe, and are in the hopes that through these and some idea which Mr. Lambert may conceive, we will not only awaken further interest in housing, but set it on the right channels in respect to lower costs, wholesale prices, and elimination of labor rackets. Next time you are in Washington, don't fail to remind me to show you these pictures.

Of course, we are immensely pleased with the way the Federal Housing Administration is moving right now, especially as we are apparently running contrawise to all other indices. The accompanying chart will give you a very good idea, and in addition to this, I might say that the large scale housing operations are beginning to take hold and the renewal of Title I has been exceedingly effective, inasmuch as approximately Three and One-half Million Dollars' worth of strictly modernization notes is being reported weekly.

The fact remains, however, that small homes are still built at the cobbler's last by an army of small contractors, and while they do not as a rule employ union labor and are not subject to the

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Dr. Winfield W. Riefler

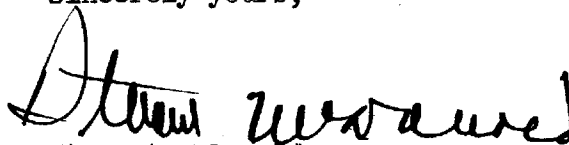
May 17, 1938

building rackets as much as large scale housing operations, they are, on the other hand, built at a terrifically high cost, due to the fact that these small operators must not only pay retail prices for the building materials, but generally are charged extra on account of poor credit -- and all this goes on the price of the house.

I have asked Mr. Lambert to give you a ring, as I know you will enjoy chatting "housing" with him, and if it is not calling upon you too heavily, I am hoping you will give him something of the background of the Housing Act, in which you were so largely instrumental in establishing.

With best wishes, I am

Sincerely yours,

A handwritten signature in cursive script, reading "Stewart McDonald". The signature is written in dark ink and is positioned above the typed name and title.

Stewart McDonald  
Administrator

June 19  
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. Prepler -

Everyone last night, including me, missed you at the gala FFA dinner. You were applauded in absentia, which is the next best thing to being applauded in person.

I hope that your wife will soon be better.

Bob Fisher

*49 A*  
*Henry*

TWO-FIFTY PARK AVENUE

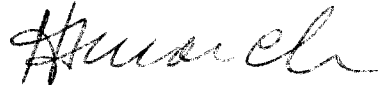
October 6, 1938.

Winfield W. Riefler, Esq.,  
Institute for Advanced Study,  
Princeton, New Jersey.

Dear Sir:

Mr. Lambert is not in the office but  
requested that the enclosed copy of Outline of a  
Plan in connection with housing be sent to you.

Yours very truly,



Secretary to  
Gerard B. Lambert.

HFM:T

## OUTLINE OF A PLAN TO INTEREST PRIVATE CAPITAL IN THE CONSTRUCTION OF LOW-COST HOUSING

### The Problem

In his message to Congress on November 29, 1937, the President said:

"The long-continued lag in building is a drag on all industry and trade. This presents an urgent problem which is the common concern of industry, labor, and government. All business needs the infusion of orders and the diffusion of purchasing power that come when building is thriving. Great numbers of people look directly or indirectly to the construction industry for employment. This industry, to a greater extent than any other, can put idle funds to work and thus speed up the circulation of the Nation's money supply. This, in turn, would increase national income, reduce unemployment, and as a result contribute toward a balancing of the Budget."

This quotation may be supplemented by the statement that if private capital does not provide sufficient housing in the lower income groups, expenditures of State and Federal funds to meet an insistent demand will increase the burden on the taxpayers of the country.

### Object of the Plan

The object of the plan is to induce a form of capital, not now actively employed in housing, to invest large sums in low-cost housing. The capital referred to is that which is ordinarily invested at a low rate of interest, and which would

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not engage in purely speculative building. A further object is to employ this capital in the form of large corporations, so that the obvious advantages of quantity building and operation may be utilized.

### The Market Available

Generally speaking, private capital has never erected new dwelling units for rental or for sale which are planned for immediate occupancy by those in the lower income groups; hence a large untouched market exists in this field. Of the 12,000,000 urban rental families in the country--

- 4 million pay rent of less than \$5 per room per month
- 5 million pay rent from \$5 to \$10 per room per month
- 3 million pay rent of more than \$10 per room per month

For the first group some provision is being made by the activities of the United States Housing Authority, although the recent appropriation for that purpose will eventually take care of only about 200,000 families. Of the last group only about 60,000 families are being provided for by the erection of rental units. The very large undeveloped market is for those families in the middle group paying rent from \$5 to \$10 per room per month.

### The Plan

If private capital, not now engaged directly in building, could be directed to a market not now being touched, the

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result on our national income would be equivalent to the discovery of a new industry. The plan proposed herewith should accomplish that result.

It is suggested that a new type of corporation shall be recognized in Federal law. These corporations might be called Limited Profit Housing Corporations. They could be incorporated in any State.

Securities of the corporations would be limited to a maximum return of 4 per cent on the capital invested, and no profit could accrue to the corporation or investor beyond this return. To accomplish this, it is proposed that the invested capital be returned to the investor by yearly payments, and that a 4 per cent return be paid only on the amount of capital outstanding in any one year. That is to say, the investor shall receive annually an even amount which will return the capital over a period of years and yield a return of 4 per cent on the amount of money still invested in the property in any one year. When any given housing unit has returned the capital and 4 per cent thereon, the unit must be turned over to the community if the houses were built for rental purposes, or to the occupants if built for sale.

In the case of a rental project that is to be turned over to the community after the retirement of the capital, it is reasonable to expect that, before the project is undertaken,

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arrangements could be made with the municipality, because of the acquisition of such a valuable asset, to accept local taxes only in the amount required for essential services to the property. This saving in current taxes would reduce one of the substantial charges which make for higher rentals, and yet the arrangement would eventually afford the municipality a property producing for it a revenue exceeding that ever expected from taxes. In other words, the community acquires a capital asset and a source of revenue, which together may justify a marked reduction in local taxes. The community can, of course, use its discretion in the case of each housing unit, as it would have no forced obligation under the Federal law. The eventual ownership by the communities of properties of this sort would constitute a distinct advance in social control. In fact it would be advisable to provide that the community may, in its discretion, obtain a property at any time after fifteen years from the date of its construction by payment of the outstanding amount of the invested capital.

The required release of the title to the property eliminates all desire or possibility of speculation, and in doing so permits lower rents or lower monthly payments. A study of rental projects now being built by private capital discloses that the desire for speculative profit is a large factor in the prevention of low rentals.

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It is proposed that corporations under this plan shall have no mortgages, thus eliminating the various charges, other than interest and amortization, which are incidental to mortgage financing.

With such a plan as outlined, the maximum financial charge will be limited to the return of the capital by amortization, and earnings of 4 per cent on that capital. As no speculative profit would be possible for the investor, the security for the investment would be sought by reaching the mass market of the low income group. Such an objective offers an incentive for capital in large blocks to use its facilities to lower building costs by quantity buying of materials, improved methods of building, and steady employment of labor.

#### Control of Earnings

It is proposed that, although the rate of return for these securities may not exceed 4 per cent, the rate for any new issue may, if circumstances warrant, be made less than 4 per cent by joint action of the Secretary of the Treasury and the Federal Housing Administrator. This provision would prevent any possible conflict with Federal financing, and also would afford effective control by the Government if further expansion of these corporations is considered inadvisable.

#### Inducement to Capital

Having set up the mechanism which in operation would

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certainly provide new housing for the income group not now being reached, it is essential to include in the plan a factor that is a strong inducement to capital to make the investment.

This is true because, as outlined, the plan requires capital to limit its return—to give up all chance of profit—to forego any guarantee of its investment or earnings—and to offer control of its rate of return and future expansion to a governmental body.

The inducement should be consistent with the policies of the Administration and of the Treasury Department. It should also be of a character which will actually attract capital in large amounts and for continuing periods. The inducement suggested herewith complies with these requirements.

It is proposed that all revenue accruing directly to individuals from these corporations shall be subject to all Federal income taxes, but that on account of the public good resulting from the investment a reward or subsidy be permitted in the form of a deduction from the final tax figure, which deduction is equivalent to the surtax on income from these corporations up to ten per cent of an individual's income from all sources, including tax exempt securities.

In other words, an individual may invest in any amount of these securities, and the usual income taxes apply, but the tax on an amount up to ten per cent of his total income, as far

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as it may come from this type of corporation, shall be offset by a deduction equivalent to the surtax on that part of his income. For example, if an individual has an income from all sources of \$100,000, and \$40,000 of it is from these corporations, a deduction of the equivalent of his surtax on \$10,000 is allowed. If only \$5,000 of his income comes from these corporations, a deduction equivalent to his surtax on \$5,000 is allowed.

It is clear that this provision makes it impossible for persons of high income to retire behind these securities in an effort to avoid their proportionate share of Government expenses. Corporations holding such securities do not present any surtax problem. In the case of the limited profit housing corporations themselves, the very nature of their operations would suggest that they be relieved altogether of Federal taxes on corporations, or else be given a substantial credit or reduction that the low-rental purpose would require.

#### Consistency

It has been stated above that the proposed inducement to capital would be consistent with Government policy. This statement is true for two reasons:

I. The Government has found it wise and necessary to offer some aid to promote various housing activities. In the case of the United States Housing Authority very substantial subsidies are offered. In the case of the Federal Housing Administration a contingent liability is undertaken. The assistance

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or subsidy suggested here applies to the income group lying between those benefitted by the activities of these two agencies. In this case, however, the operation of the plan results in no disbursements by the Government, no contingent liabilities of the Government, and in fact an increase in the net revenue of the Treasury. This increase in revenue comes from Federal taxes on the stimulated industrial activity resulting directly from the investment, and that increase can be shown to be greater than the tax deduction allowed.

II. Granting of tax deductions, as proposed for an inducement, is consistent with the President's message of April 14, 1938. Furthermore, the usual objections even to tax exemption do not apply.

The usual objections to exemption are as follows:

I. Tax exemption has a tendency to withdraw funds from active industry.

Under this plan, on the contrary, capital would be withdrawn from an inactive state to stimulate an industry readily susceptible of expansion.

II. Tax exemption results in a decrease in the revenues of the Treasury.

Under this plan there would be a net increase in the revenue of the Treasury, not otherwise obtainable from the building industry.

III. Tax exemption on municipal issues has a tendency to bring about unnecessary increases in the debt of communities because of ease of borrowing.

Under this plan no new debt to the municipalities is involved. On the contrary, they will receive a permanent asset and a new source of revenue. Moreover, any unearned increment in the properties will run to the municipalities rather than to private owners.

IV. It is socially wrong that wealthy persons may completely avoid their share of Government and State expenses by investing in tax exempt bonds.

Complete or even a material avoidance of income taxes is impossible under the plan proposed.

The tax deductions proposed are in return for a direct social and economic benefit. It should be pointed out, however, that these deductions accrue to an individual in decreasing amounts each year, and the returned capital must be reinvested, probably in new construction.

#### In Conclusion

The most important single step necessary to achieve low-cost housing with private capital is the creation of large investing corporations, employing their financial resources and technical skill to lower building costs. The proposed plan should

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bring about this desired result. It is essential, however, that all component parts be permitted to function in combination, otherwise the present untouched market will not be reached.

October 4, 1938

Bruere  
J.H.A.

496

April 29, 1940

Mr. Henry Bruere, President  
The Bowery Savings Bank  
110 East 42nd Street  
New York City

Dear Mr. Bruere:

Thank you for your letter of April 25th enclosing the opening pages of your article on the F.H.A. My recollection is not too accurate. I remember talking over with you the problem of the mortgage market and the building industry in the early fall of 1933. I know also that at that time my chief preoccupation was to devise a mortgage instrument that would eliminate the second mortgage. I know that I had not yet conceived of the insured mortgage as of that time. The idea came to me around the end of the year, I believe in the first days of January, 1934. We were all greatly concerned at that time with the collapse of the mortgage guarantee companies and were trying to devise financial mechanisms that would work against a recurrence of such collapses in the future. It is altogether probable, therefore, that we covered the mortgage guarantee companies in our conversations. In fact, I have dim recollections of going over that situation with you at various times during 1933.

I have no objection, of course, to your making reference to our conversations at that time.

Very sincerely yours,

Winfield W. Riefler

# THE BOWERY SAVINGS BANK

110 EAST 42<sup>ND</sup> STREET

NEW YORK

HENRY BRUÈRE  
PRESIDENT

April 25, 1940

Dr. Winfield W. Riefler  
Princeton University  
Princeton, New Jersey

Dear Dr. Riefler:

I am writing a little piece on the F.H.A.,  
for one of the bank journals.

Will you be good enough to look over the  
enclosed introductory paragraphs in which I  
have taken liberties with your name? If my re-  
collection is incorrect in whole, or in part,  
will you be good enough to suggest any changes  
to conform with the facts?

I would like to have your consent to make  
these references to you.

Yours very sincerely,

HB-enc.

  
President

### Epitaph for the FHA Graveyard

Here lies the single mortgage,  
Sound, amortized, chaste,  
The foe of all fake values,  
The scourge of debt and waste.

FHA's chief stock in trade,  
Praised throughout the land  
Then sacrificed to suit the taste  
Of the retail lumber band.

Proud, aloof and celibate  
It scorned the motley fray  
It wouldn't flirt with second liens  
It wasn't made that way

John Fahey tried to strike it down  
With foul and deadly blows  
But Dr. Fisher rose in wrath  
And tramped on Fahey's toes.

McDonald, too, put in some licks,  
Was even heard to say,  
He'd see old John secure in hell  
Before he'd give away.

Then when all seemed fairly won,  
And it feared no more attack,  
A subtle group it thought its friends,  
Just knifed it in the back.

But be not too dismayed, good folk  
When you read this epitaph,  
Me thinks that from the tomb will come  
The last and choicest laugh.