White House
Delivered to President
11/24/37
Copy to Dan Bell 11/24/37 at 6:00 p.m.

Delivered to President at White House

November 24, 1937.

SUGGESTIONS FOR MESSAGE ON HOUSING

In my message to the Congress upon the convening of the Extraordinary Session on November 15, I said that I would address you further in regard to proposals to encourage the private construction and financing of housing on a large scale. The proposals which I am presenting for your consideration now are an important part of the program for increasing general business activity and employment during the coming year.

From the point of view of widespread and sustained economic recovery, housing constitutes the largest and most promising single field for private enterprise.

Housing construction has not kept pace with either the needs or growth of our population. From 1930 to 1937, inclusive, the average annual number of new dwelling units constructed in the United States was 180,000 as contrasted with an annual average of 800,000 in the seven years prior to 1930. In addition, much of our existing housing has seriously deteriorated, or has been demolished.

It is estimated that an average of 600,000 to 800,000 dwelling units ought to be built annually over the next five years to overcome the accumulated deficit and to meet the normal growth in number of families. In other words, we could build over the next five years 3 or 4 million housing units, which at a moderate estimate of $4,000 per unit would aggregate from 14 to 17 billion dollars, without creating a surplus of housing accommodations, and consequently without impairing the value of existing housing that is fit for occupancy.

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 must 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 so raise the velocity of circulation of the nation's money supply. This, in turn, would increase national income, reduce unemployment and thus contribute towards a balancing of the budget.

Since 1933 we have had a great recovery movement in which housing construction has played only a minor part. That it should play a major part has been clearly recognized by this Administration from the outset. But, though much has been done to encourage construction activity, the results have not yet been satisfactory. Instead of a seasonal rise in housing construction through the past spring and summer, there was an early downturn. This was one of the principal reasons why general business failed to forge ahead during the latter part of the year.

We must recognize clearly that housing will not be built if costs are too high in relation to the consumer's income. The fact that housing costs rose sharply between September of 1936 and March of 1937 was primarily responsible for the downturn in housing and thus in recovery generally this year.

Revival of housing construction must be based on reduction of the costs of building rather than on a resumption of the rising costs that stopped progress in this essential field last spring and summer. Housing must be produced at prices and rents that the mass of our people can afford to pay.

The government has made provision, through assistance to municipal housing, for many of the most needy. But private enterprise and private capital must bear the burden of providing the great bulk of new housing. The measures I now suggest are to encourage private building to meet the needs of families of moderate means. These proposals cannot be effective, however, unless all elements concerned in the construction industry--builders, contractors, manufacturers of materials and equipment, labor, and finance--cooperate in producing housing that is within reach of the incomes of the vast majority of our citizens.

If the building industry is to play the vital part that it ought to have in our economic system, it must do it in the characteristic American way. It must develop, as other great industries have developed, the American genius for efficient and economical large-scale production. The lower unit costs resulting from large-scale production will make for greater annual returns for the entire building industry, including all workers engaged in that industry, and for a higher standard of living for the country as a whole.

The problem of reducing costs to a point where larger volume, longer employment, and higher annual earnings are possible is one that must be solved in major part by the building industry itself. The government, however, can take the initiative by bringing about a reduction of financing costs, by making it easier for families of moderate means to buy or rent new houses and by providing mechanisms to make it practicable for private enterprise to engage in large-scale housing operations for the mass market.

In order, therefore, that government may give the fullest encouragement to a broad revival of building, I recommend that the Congress adopt at this time measures to facilitate the financing of every type of housing construction, whether for sale or for rent, and ranging from the small house to entire residential communities and large apartment buildings. In addition to measures to stimulate new construction, I recommend that provision be made for an extensive program of repairs and modernization.

As a practicable means of encouraging and facilitating a more effective operation of private enterprise and private capital in the housing field, I am suggesting enlargement of the framework of the National Housing Act in the light of actual experience. This legislation, enacted by the Congress in 1934, provided a new financial mechanism applicable to all types of lending institutions that make loans for housing purposes. Enabling legislation giving effect to this new mechanism was subsequently enacted by all the states. Within the limits of the types of housing to which it applies, it has proved to be both popular and practical.

Under the National Housing Act the Congress established the Federal Housing Administration, which insures mortgages on certain types of housing, but itself makes no loans. The agency is designed to become self-sustaining through the operation of a mortgage insurance fund, into which premiums are paid by borrowers who obtain loans under the provisions of the act from private lending institutions. An ultimate guaranty of loans that may default is given by the Federal Government, but this guaranty becomes operative only in the event that recoveries from the sale of defaulted properties, together with all the monies in the insurance fund, should be insufficient to pay the insured claims. Hence, even if any cost should result to the government because of this guaranty, it would be negligible when measured by the volume of construction and employment induced by the fact that the guaranty is there should it ever have to be availed of.

The benefits of financing under the National Housing Act apply to two main classes of transactions--namely, those in which a single house becomes security for a loan and those in which a limited-dividend company obtains a loan in order to develop a rental housing project. The amendments which I am suggesting are of three kinds: (1) to effect further reductions in financing costs; (2) to extend the insurance of mortgages to types of housing operations not now adequately provided for in the act; (3) to make the funds of institutional and individual investors more easily available for the financing of large-scale operations.

Because it takes the ordinary buyer of a house or investor in housing a long time to pay for the property, the cost of financing is in the long run one of the largest items in housing costs. In the case of rental housing it is a determining factor, first in whether construction shall be undertaken at all, and second in arriving at the scale of rentals to be charged.

Institutions making loans to be insured by the Federal Housing Administration are now permitted by regulation to make an interest charge up to 5 per cent and a service charge of 1/2 of 1 per cent, or a total of 5½ per cent per annum. It is proposed to reduce this to 5 per cent net by amending the administrative regulations.

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

Another change that I would ask the Congress to make in the existing legislation is to raise the insurable limit from 80 per cent of the appraised value of the property, as at present, to 90 per cent in the case of loans to owner-occupants where the appraised value of the property does not exceed $6,000. This proposal is of great importance. It recognizes the fact that most persons who desire to own homes of their own cannot make a first payment as large as 20 per cent of the purchase price. This is particularly true after the severe depression of recent years, in which the savings of millions of prudent and thrifty families were depleted.

The fact is not generally recognized that the majority of our urban families are not home-owners. In the larger cities, the proportion of rented dwellings runs from 60 to nearly 80 per cent of the total. Accordingly, I am suggesting for your consideration measures designed especially to facilitate the construction and financing, under the economies of a blanket mortgage, of groups of houses for rent, or for rent with an option to purchase. Such operations would afford economies in construction as well as in financing, and would therefore, I believe, lead to the formation of substantial companies to avail themselves of the opportunities in this particular field. These same measures are also designed to encourage the construction of apartment buildings to be operated on a moderate scale of rentals, with the mortgage in any case not to exceed $1,000 per room. This is a type of apartment property particularly adapted to the requirements of our smaller cities.

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

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

I would therefore urge the Congress to liberalize the provisions of the act under which the chartering of National Mortgage Associations is authorized, and, amohg other things, to give these associations explicit authority to make loans on large-scale properties that are subject to special regulation by the Federal Housing Administrator. The effect of the change here proposed would be to enable these properties to be financed by National Mortgage Associations through the sale of housing bonds or debentures amply secured by the insured mortgages on the properties.

In order that one or more such associations may be promptly organized, I shall ask the Reconstruction Finance Corporation to make available, out of the funds already allocated to the RFC Mortgage Company, $50,000,000 for capital purposes. Under the amendments proposed, this would provide the basis for $1,000,000,000 of private funds obtainable through the sale of National Mortgage Association debentures.

Another of the suggested amendments that I regard as of special importance would make the limitation of $2,000,000,000 on the amount of mortgages insurable under the National Housing Act apply to the amount of insurance to be outstanding at any time and would remove the limitation of July 1, 1939, now applicable to the ultimate guaranty of the Federal Government. These changes would measurably encourage private financing under the act without increasing the amount of the contingent guaranty provided in the existing legislation. [In connection with these changes, I would suggest that the Congress limit the insurance of mortgages after April 1, 1938, to housing on which the application for mortgage insurance is approved prior to the beginning of construction.]

Finally, I am suggesting that insurance be provided for repair and modernization loans in a manner similar to that which was formerly provided under Title I of the National Housing Act, This former provision expired by limitation on April 1 of the present year.

Considered in relation to existing provisions of the National Housing Act, the Federal Reserve Act, the Federal Home Loan Bank Act, and extensive enabling legislation that has been enacted by the several states, the adoption of these measures would for the first time provide all the financial mechanisms essential to a widespread and sustained revival of housing construction. The terms of financing would be the most favorable ever made generally available in this country for housing purposes--half, or less than half, the cost of loans of comparable proportions under the system of first, second, and third mortgage financing that was widely prevalent in the 1920's. Large and continuous activity and employment in housing construction, which is not feasible under our present limited methods of financing, would be put decisively on a practicable basis.

The success of such a program as this, however, cannot be assured by governmental action alone. It will depend mainly on the willingness of industry and labor to cooperate in producing housing at costs that are within the reach of the mass of our people. The goal at which both industry and labor should aim is sustained large-scale production at lower costs to the consumer. This will mean a larger annual wage for labor because of the larger amount of employment than is possible at high hourly rates with long periods of unemployment. It will mean a larger annual income for industry because of the larger volume of production than is possible at high unit prices with greatly restricted output.

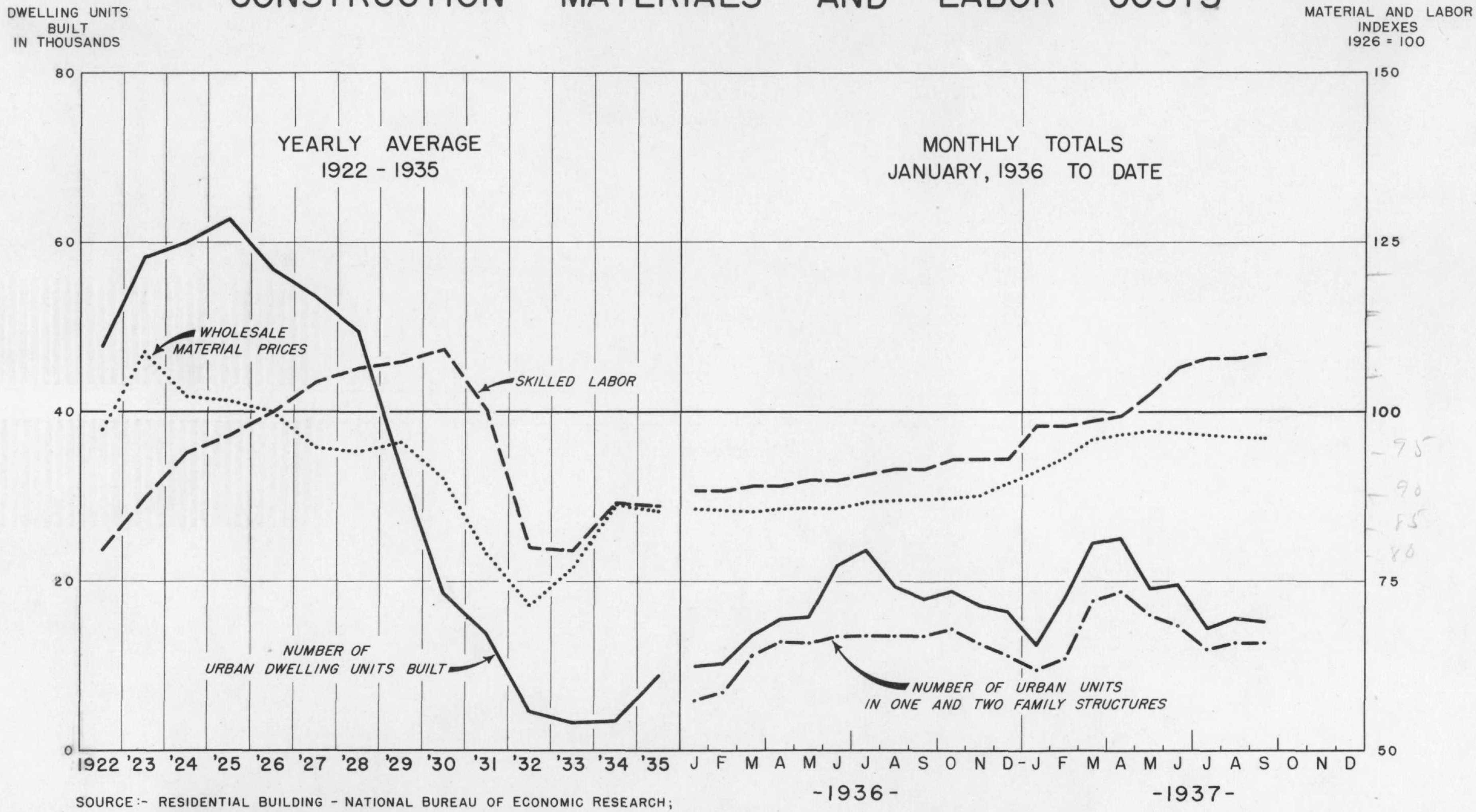
Because this was not the goal of industry and labor during the past construction year, the result soon proved injurious not only to the building industry and its workers, but to business and employment generally. The sharp rise of wage rates and prices in this industry, just before the last building season, reduced by 100,000 to 150,000 the number of new dwelling units that competent authorities had estimated were in prospect for 1937.

It is now clear that we cannot have a strong revival of housing construction on the terms that were exacted by industry and labor last spring. The rise in wage rates and material prices was too rapid and too great for the consumer to bear. A similar rise in costs likewise checked production and buying in other industries as well. In emphasizing these facts, I am not seeking to apportion blame, for manifestly no industrial or labor groups would deliberately adopt a policy that would react to their own disadvantage. I am simply pointing out what did occur and what the consequences were.

In the budget of the great mass of our families, the point is quickly reached where increased costs mean reduced consumption. Reduced consumption, in turn, means a decline in someone's business and someone's employment. The essential problem of the construction industry and its workers, then, is to find a reasonable way, through continuity of production and employment, to adjust the costs of housing to the consumer's means.

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

RESIDENTIAL BUILDING VOLUME AND CONSTRUCTION MATERIALS AND LABOR COSTS



SOURCE:- RESIDENTIAL BUILDING - NATIONAL BUREAU OF ECONOMIC RESEARCH; FEDERAL HOUSING ADMINISTRATION
WHOLESALE MATERIAL PRICES - BUREAU OF LABOR STATISTICS
SKILLED LABOR RATES - ENGINEERING NEWS - RECORD

FEDERAL HOUSING ADMINISTRATION
DIVISION OF ECONOMICS AND STATISTICS
CHART NO. 575 AB

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RESIDENTIAL BUILDING VOLUME
AND
CONSTRUCTION MATERIALS AND LABOR COSTS

Yearly	Number of Urban Dwelling Units Built (a) (Monthly Average)	Index of Wholesale Material Prices (b) (1926=100)	Index of Skilled Labor: Hourly Wage Rates (c) (1926=100)
1922	47,750	97.3	79.6
1923	58,200	108.7	87.2
1924	60,000	102.3	94.0
1925	62,750	101.7	96.5
1926	56,800	100.0	100.0
1927	53,600	94.7	104.4
1928	49,500	94.1	106.4
1929	33,300	95.4	107.3
1930	18,600	89.9	109.2
1931	13,700	79.2	100.2
1932	4,700	71.4	80.0
1933	3,300	77.0	79.5
1934	3,400	86.2	86.5
1935	8,800	85.3	86.0
Monthly			
1936			
JAN	9,000	85.7	88.4
FEB	9,300	85.5	88.4
MAR	13,700	85.3	89.2
APR	15,600	85.7	89.2
MAY	15,800	85.8	90.0
JUN	21,900	85.8	90.0
JUL	23,700	86.7	90.8
AUG	19,400	86.9	91.6
SEP	17,900	87.1	91.6
OCT	18,900	87.3	93.1
NOV	17,200	87.7	93.1
DEC	16,500	89.5	93.1
1937			
JAN	12,500	91.3	97.9
FEB	18,000	93.3	97.9
MAR	24,500	95.9	98.7
APR	25,000	96.7	99.4
MAY	19,100	97.2	102.6
JUN	19,500	96.9	106.6
JUL	14,400	96.7	108.0
AUG	15,600	96.3	108.0
SEP	15,200	96.2	108.7

Source:
(a) National Bureau of Economic Research
(b) Bureau of Labor Statistics
(c) Engineering News-Record

Federal Housing Administration
Division of Economics and Statistics
October 29, 1937

DESCRIPTION OF SERIES

Number of Urban Dwelling Units Built

This series is comprised of annual estimates, divided by twelve for the years 1922 to 1935 inclusive so as to place them on a comparable basis with the monthly figures from January 1936 to date.

The yearly estimates from 1922 to 1935 inclusive are those of the National Bureau of Economic Research. The monthly figures from January 1936 to June 1937 were compiled by K. C. Beede on the basis of estimates by six-month periods, prepared by the Bureau of Labor Statistics. The figures for July, August, and September 1937, were estimated by assuming the same percentage change relative to a year ago in total urban building as occurred in some 1,500 reporting cities of 2,500 population and over.

Index of Wholesale Building Material Prices

This is the well-known series compiled by the Bureau of Labor Statistics as a part of its monthly price statistics on 784 commodities.

Index of Skilled Labor Hourly Wage Rates

This index is based on the wage data reported monthly to the Engineering News-Record by correspondents in 20 principal cities of the United States. The figures on skilled labor are computed from the average wages actually paid to carpenters, bricklayers, and structural iron workers, whether union or non-union or both.