

TOWARDS A UNIFIED HOME FINANCING SYSTEM

What we must have in this country, if housing is to remain essentially a matter of private enterprise, is a co-ordinated national system of home mortgage financing, possessing the following main characteristics:

1. It must be based on the general use of the long-term fully amortized mortgage.
2. First mortgage loans must be obtainable in amounts up to 75 or 80 per cent of appraised values, in order to eliminate the second mortgage racket.
3. Terms and conditions of the mortgage must be standardized, particularly with respect to appraisals of the property, so that one mortgage is substantially as sound as another irrespective of the location of the property.
4. Machinery must be established to provide a nation-wide market for the standard mortgage, so that all communities may benefit from the supply of funds and the most favorable interest rates available for the country as a whole.
5. The system must have centralized control and supervision, primarily ~~primarily~~ for the formulation and enforcement of the appraisal standards, through which progressive improvement can be obtained in the quality of American housing.

THE PRESENT SET-UP

Leaving out of account the various Divisions of the Government using public funds, we have two principal federal agencies engaged in housing finance - the Federal Housing Administration and the Federal Home Loan Bank System. To a considerable extent their functions overlap and to some extent they conflict. Both are designed to foster the development of a home mortgage financing system with characteristics similar to those outlined above. But each is hampered, either by too narrow limitations of its field of action or by imperfections in the organic law under which it operates.

THE FEDERAL HOME LOAN BANK SYSTEM

This is the co-ordinating agency for the great group of home financing institutions operating on the principle of co-operative thrift and saving - notably the Federal savings and loan associations and other similar member institutions. It is admirably organized and administered, being one of the prize exhibits of the New Deal.

But under the present set-up it cannot accomplish the development of the nation-wide system required. In the first place, the institutions naturally belonging under its jurisdiction account for only from one-fourth to one-third of the home mortgage financing of the country. In the second place, the system is not designed to formulate and enforce standard terms and conditions of the mortgages, with respect to appraisals and in other particulars, although a high quality of long-term lending transaction is required of the member institutions. In the third place, the ability of the system in its present legal framework to provide a broad market for mortgages is not certain.

THE FEDERAL HOUSING ADMINISTRATION

This agency is designed theoretically to develop the complete home mortgage financing system required, in all particulars. Its central feature is mutual mortgage insurance, which is the means to the end of standardizing home mortgage lending procedure. Its program calls also for the establishment of national mortgage associations, to provide a nation-wide market for insured mortgages.

Unfortunately, its legal framework is defective, and with certain exceptions to be mentioned presently, its administration has not yet become very efficient. Moreover, if it should become fully successful, its very success would seriously damage certain valuable parts of the program of the Federal Home Loan Bank System.

Certain phases of its administration are excellent. This is notably true of the technical and appraisals divisions. A great deal of progress has already been made towards the establishment of standards that will go far to put home mortgage lending on a thoroughly sound basis and to bring about increasing improvement in land layout and the design and construction of residential property.

There are a number of minor defects in the organic legislation under which this agency operates, but the principal one is the costliness of the mutual mortgage insurance. Even at the minimum prescribed in the law, the cost amounts to approximately one per cent per annum on the outstanding principal of the mortgage. This fact is sufficient to prevent the fulfillment of a condition necessary for the success of the plan; namely, that the insured mortgage shall be so attractive to all concerned in the financing of home ownership that it is preferred over all other types.

SUGGESTED UNIFICATION

The Federal Housing Administration and the Federal Home Loan Bank System should be consolidated to form a single agency of the Government, occupying in the field of home mortgage financing a position somewhat analogous to that of the Federal Reserve System in the field of commercial banking. This would involve completely redrafting the respective statutes under which the two organizations now operate, to form a comprehensive whole. The basic principles of Title II of the National Housing Act, providing for mutual mortgage insurance, should be preserved; but the cost of the insurance should be limited to not more than one-half of one per cent per annum on the outstanding balance, and preferably it should be furnished free of charge by the Government, as a means to an end of first class national importance. If this suggestion appears unsound at first glance, a little reflection should serve to throw a different light on it.

Title III of the National Housing Act should be abandoned, but the law should be so revised as to permit the Federal Home Loan banks to perform the functions intended for the national mortgage associations.

I shall not attempt to discuss further changes here. The two organic Acts should be carefully studied, and a new bill should be drawn, perhaps not for introduction during the present session of Congress, but certainly during the next session.
