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SPECIFIC RECOMMENDATIONS WITH REGARD TO REGULATIONS CONCERNING TITLES 2 AND 3 OF THE FEDERAL HOUSING ACT.

Article 3, paragraph 2 (c) and 2 (d) read that no mortgaging institution will be approved for insurance ^{under section 202(a) of the National Housing Act} ~~of its mortgages~~ unless such institution is located in a town or city with a population of less than 6,000 and unless it has a paid-in capital of not less than \$100,000. The provision with regard to population should be deleted altogether and it should be mandatory on the part of the Administration to approve any institutions which are under the supervision of either Federal or state authorities, regardless of what ^{their} ~~the~~ paid-in capital is. Institutions not subject to any supervision should be required to have a paid-in capital of not less than \$25,000. The above amendments would result in making eligible many small town mortgages for which it would be exceedingly difficult to obtain insurance otherwise. Politically the regulations with regard to a minimum of 6,000 population and \$100,000 of paid-in capital are dangerous, for while I understand that it is not the purpose or intent to aid the farmer, small town property owners will find it more difficult to interest institutions at a distance in their real estate financing. It is only too obvious that the bulk of small country banks have paid-in capital of less than \$100,000 and that they are the institutions most likely to be interested in financing the property already in the towns in which they are situated.

Article 3, paragraph 2 (e) requires that in order to receive approval an institution must have its principal activity in the mortgage field consist in lending its own funds. It is not clear exactly what this provision means. However, I presume that it is aimed at the small operators

who insist on doing business on a slim margin of capital and borrowing heavily from the banks. If this is the correct interpretation, there would seem to me to be no real restriction in the above clause. ~~Although~~ Mr. Granville does not agree, since he believes that such a restriction is not necessary provided the mortgagee ~~meets~~ the other requirements and is able to prove its ability to properly serve the mortgages negotiated by it. A note at the end of Article 3 of the Regulation states that the above classification includes among others Mutual Building and Loan Associations. This would seem to me to cut out by inference for no good reason a class of institutions who could contribute a great deal to the program, for such institutions do a very substantial amount of real estate business.

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 but makes no reference to stock building & loan assoc

In Article 6, paragraph 2, the regulation states that a mortgagor must establish that the periodic payments required in the mortgage submitted for insurance bear a proper relation to his present and anticipated income and expenses", and paragraph 3 states "that a mortgagor must have a general credit standing satisfactory to the Administration". It is readily apparent that a strict interpretation of these two regulations would result, particularly at the present time, in materially cutting down the number of mortgages eligible for insurance. If they are ~~just~~ ^{merely} safeguards put in to be used only when the mortgagor meets all other qualifications but it is desired ^{for other reasons} not to accept his mortgage for insurance, they may be all right, but it seems to me that ~~the~~ ^{if} the property itself ^{to the proper measure} ~~is~~ ^{is} sufficient, I should suggest that paragraph 3 be deleted altogether and that paragraph 2 be changed to read that "a mortgagor must establish that the periodic payments required in the mortgage

no further

need to govern

submitted for insurance bear a proper relation to the present and anticipated income and expenses of the property". (Underscoring denotes changes.)

Paragraph 4 of Article 6, restricts by inference the property which a mortgage might insure to any located in an urban community.

no R As stated above, it is understood that this is not designed to aid farm land, but if a strict interpretation is put on the word "urban" the property in agricultural communities might well be not allowed as eligible.

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With regard to Title 3 Mr. Granville makes an excellent point, when he states that under the present anticipated set up ~~National Mortgage~~ ~~Associations~~ will be able to earn more than what should be a fair return on their capital. He points out that since all mortgages accepted by these associations will be insured that they should not suffer any substantial losses other than accrued interest and fore-closure costs in connection with those loans which it is necessary to foreclose. If the debentures issued by such national mortgage associations bear interest at the rate of ~~4%~~ and all the mortgages accepted by the national mortgage associations bear interest at the rate of 5% which is less than that called for in the present anticipated set up, the spread will amount to 1% which should be ample to absorb the above mentioned ~~costs~~ ^{costs} and usual expenses and still leave a fair return on the capital invested. ✓

A schedule of charges appears on page 5 of the Regulations. ~~the~~ the second column ~~appears~~ ^{shows} the interest rate exclusive of premium charge and ~~in the~~ third column the service charge. It would appear to me that the total of these two columns plus the mortgage insurance premium which must be paid will make the cost to the borrower absolutely prohibitive. I should suggest that the second and third columns be combined so as to make a flat maximum rate of 5%, inclusive of both interest rate and service charges. I would also like to suggest that in place of a mortgage insurance premium of one-half of 1% per annum in the first two classes and 1% in the second two classes, that a rate be made which would be uniform for all four classifications but which would be based on a sliding scale so as to vary in accordance with the relation that the appraised value of the property bears to the amount of the mortgage. In other words one-half of 1% might be charged as a mortgage insurance premium on a loan of 60% or less of the appraised value of the property, five-eighths

of 1% for a loan of 60% - 70% of the appraised value of the property, and three-fourths of 1% for a loan of 70% - 80% exclusive of incidental charges. This would keep the total annual charges down to 5 3/4% as against 5 1/2% to 7% under the old schedule. The old schedule makes no provision for the insurance of new indebtedness where there is no change of lender. This should obviously be allowed for although according to the set up I have proposed above there would not be any such break-down classifications as there are on the schedule on page 5.