

## Office Correspondence

FEDERAL RESERVE  
BOARD

Date January 11, 1935.

To Governor Eccles

Subject: Subsidy and Revolving Fund

from Mr. Daiger

for P. W. A. Housing Projects.

Since our last talk about housing on the day before I left to go to the hospital, and particularly since reading the President's address to Congress, I have been trying to figure out what the basis is for the apparent assumption on the part of P. W. A. that its low-cost housing projects would stimulate rather than retard the investment of private capital.

It occurred to me only yesterday that part of this assumption at least may be based on some proposals advanced several months ago by what is known informally in the New York banking community, and also in the housing division of P. W. A., as the Oliver Roosevelt Committee. Accordingly, I have called one of my friends at P. W. A., and asked whether there have been any recent developments with regard to this Committee. The answer is, confidentially, that a conference between Secretary Ickes and Mr. Roosevelt, together with some of their respective associates, will probably be held in Washington next week.

In the light of this information, I should like you to read the attached memorandum (the copy is a confidential one) and then at your convenience let me talk it over with you. Meanwhile, I shall give you here a summary of pertinent matters that will not be wholly apparent from the memorandum itself.

The memorandum was written by Mr. Oliver W. Roosevelt, First Vice President of the Dry Dock Savings Institution, to Mr. Dwight L. Hoopingarner, Associate Director of the Housing Division of P. W. A. The writing of the memorandum grew out of a meeting held some time in August or September by the presidents and/or senior vice presidents of all the big New York savings banks and also officers of two or three of the Wall Street banks and one or two of

the large life insurance companies.

The meeting had been called in an effort to determine whether there was some particular housing project or projects on the Lower East Side that all the banks interested in that area would unite in supporting; and also to determine whether there was some common ground on which the East Side banking interests and the Housing Division of P. W. A. could meet. Mr. Hoopingarner attended the meeting as the representative of P. W. A.

The only specific action taken at the meeting was the appointment of a committee with Mr. Roosevelt as chairman. There immediately began, however, a series of conferences among the East Side savings banks, and also a series of conferences between Mr. Roosevelt and Mr. Hoopingarner, the principal outcome of which thus far, I believe, has been this memorandum dated October 3, 1934.

You will notice that what the banks propose amounts in practical effect to a governmental subsidy of 40 or 45 per cent, the bulk of which would be contributed by the Federal Government and the remainder by the City of New York. In addition, the project would be further subsidized by a substantial tax exemption. That is, for a period of years, the taxes would be on the basis of the present slum-value of the property rather than on the value of the property when the new buildings were completed.

In return for these subsidies, the banks propose to consider the financing of the mortgages in an amount not to exceed 55 or 60 per cent of the gross cost of the P. W. A. project or projects on the Lower East Side. The banks also propose that the mortgages be insured by the F. H. A. at a premium cost not in excess of  $\frac{1}{2}$  of 1 per cent per annum. The banks insist that they will not consider lending more than 60 per cent, notwithstanding the fact that 80

per cent loans in conformity with the National Housing Act have been made legal for savings banks, etc., in New York State.

There has also been vigorous opposition voiced by the banks to the P. W. A. proposal that the interest rate be limited to 4 per cent.

The position of the banks on this point is that, to the extent their funds were invested in these mortgages, they would be precluded from taking advantage of any opportunity to earn more than 4 per cent, regardless of the rate they might be paying their depositors. Furthermore, I understand that the Housing Division of P. W. A. regards the 20-year amortization as too short, and that its own computations on proposals on the Lower East Side have been made on a basis of 30 or 40 years.

The Lower East Side is, as you know, one of the greatest slum areas in the world. Thus far, however, none of the New York groups nor P. W. A. seems to have hit on a plan of operation that will not either play hell with the banking and insurance situation or else merely scratch the surface of the housing problem in this important area.

In connection with the work of the Oliver Roosevelt Committee, a proposal has been advanced that the banks and the P. W. A. look in the immediate future toward an operation involving some 16 or 20 city blocks and costing approximately \$50,000,000. This would represent only a fair start on the Lower East Side, though it might be large enough to influence the future of the area. The proposal is that the P. W. A. acquire all land that would be needed for a series of five \$10,000,000 operations within the terms of the National Housing Act, and that each of these operations be undertaken in turn in such a manner as to enable a substantial part of the P. W. A. advance on all the land and the first housing project to function as a revolving

fund.

In other words, supposing each operation to represent \$10,000,000, of which \$2,000,000 would be land cost and \$8,000,000 construction cost, P. W. A. would have an initial investment of \$10,000,000 in land and \$8,000,000 in the first housing unit. As each of the subsequent operations was undertaken, the P. W. A. would be reimbursed for the cost of the land out of the mortgage financing for the new building on that land. The P. W. A. would not be required to advance any construction funds beyond the original \$8,000,000 provided for that purpose.

I happen to be acquainted with a number of the persons who have participated in one or another aspect of these discussions; and I have been in a position, until the past couple of months, to keep in close touch with the situation on the Lower East Side, in which I am very much interested. It is one of the key problems in the housing picture, but still unsolved. The solution proposed by the Oliver Roosevelt Committee is not only poor housing policy; it is also, in the long run, poor banking policy. It is certainly not what is meant when we talk about a revival of private financing.