

June 1935

MEMORANDUM TO THE INTER-DEPARTMENTAL LOAN COMMITTEE

The Subcommittee on Housing believes that an immediate impetus would be given to the conversion of existing home mortgages, and to the making of mortgage loans on new construction, if the following steps were taken to assure the widespread acceptance by home owners and mortgage lenders alike of the mortgage insurance provided for in Title II of the National Housing Act:

1. Adoption by the Federal Housing Administration of a uniform maximum interest rate of 5 per cent in lieu of the six classifications of interest rates and service charges now authorized in the regulations governing Title II; and adoption of a graduated scale of mortgage-insurance premiums, based on the ratio of original principal of mortgage to appraised value of property, in lieu of the flat rates now authorized on the basis of the six classifications of transactions set forth in the insurance schedule.

2. Suspension of the operation of Title III of the National Housing Act pending thorough inquiry into the statutory provisions and the practical considerations of the mortgage market that apparently make extensive amendment of this Title necessary; and, in order to assure in part at least the flow of individual and institutional funds contemplated in Title III, prompt amendment of Title II in such a manner as to authorize approved mortgagees to sell

insured mortgages held by them, provided that the servicing of the mortgage is continued by the approved mortgagee in accordance with the terms of the original insurance contract. If Title II were amended in the manner here suggested, it would be necessary for the Federal Housing Administration to authorize approved mortgagees to make an annual service charge to investors. This charge might properly be limited to one-half of 1 per cent, and would be deductible from the interest paid by the mortgagor; but the mortgagee would not be precluded from selling the mortgage at <sup>a</sup> ~~the~~ premium and in fact might well be expected to do so in the case of preferred risks.

3. Adoption by the Federal Housing Administration of a regulation authorizing approved mortgagees to pass on the credit of the mortgagor, both with respect to the periodic payments required in the mortgage and to the general standing of the mortgagor. Being under the necessity of servicing the mortgage, and standing to suffer an impairment of income if the mortgagor should default, the approved mortgagee may reasonably be relied on to make a proper credit investigation of the mortgagor, and to certify the result to the Federal Housing Administration. This procedure would greatly expedite the making of loans under Title II, and would eliminate any need for the exhaustive and complicated credit

investigation now provided for in the insurance regulations and the supplementary detailed written statements required of mortgagors.

4. Amendment of the Federal Reserve Act in such a manner as to make mortgages insured under Title II eligible for re-discount by the Federal reserve banks. Under its present emergency powers, the Federal Reserve Board has authority to make these mortgages eligible for rediscount, but as a matter of practical policy an amendment specifically authorizing the rediscounting of insured mortgages would have a much greater influence on the mortgage operations of banks and other lending agencies.

These four steps impress the Subcommittee on Housing as the most important that might be taken at this time in the interest of home-mortgage financing. Once they were taken, the Inter-Departmental Loan Committee might well consider recommending to the Comptroller of the Currency, the Federal Reserve Board, and the Federal Deposit Insurance Corporation that they urge all banks under their supervision to begin the prompt conversion of their mortgage portfolios in accordance with the facilities and safeguards that would then be available to them.