1/16/35 Final Draft

SUGGESTED MEMORANDUM TO THE INTERDEPARTMENTAL LOAN COMMITTEE

The Subcommittee on Housing is naturally concerned by the continued relative inactivity of home-mortgage financing, and hence by the failure of the regular lending agencies to provide a means for the orderly renewal of existing home mortgages and for the revival of home construction. This relative inactivity persists notwithstanding the extent to which the Home Owners' Loan Corporation has relaxed the pressure of distress mortgages on the mortgage market, and notwithstanding the inducements that the National Housing Act was designed to offer to mortgage investors.

Looking toward the causes of this inactivity, the Subcommittee believes that these causes are to be found partly in the prevalent reluctance of lending agencies to make long-term commitments, and partly by the failure of home owners and mortgage lenders alike to take advantage of the intended benefits of the home-mortgage insurance provided for in Title II of the National Housing Act.

As means of overcoming the reluctance of mortgage lenders to make long-term commitments, and of giving an immediate impetus to the conversion of existing home mortgages and to the making of mortgage loans on new construction, the Subcommittee recommends that certain changes be made in the Federal Reserve Act, in the National Housing Act, and in the regulations of the Federal Housing Administration governing Title II of the National Housing Act. The changes recommended are as follows:

1. Amendment of the Federal Reserve Act to make mortgages insured under Title II of the National Housing Act eligible for borrowing by the Federal reserve banks.

2. Amendment of the National Housing Act to permit approved mortgagees to sell insured mortgages to individual and institutional investors as well as to national mortgage associations.

3. Adoption by the Federal Housing Administration of (a) a uniform maximum interest rate of 5 per cent, and (b) a graduated scale of mortgage-insurance premiums based on the ratio of original principal of mortgage to appraised value of property.

4. Elimination by the Federal Housing Administration of the population and capital limitations now applicable to mortgagees, and adoption in lieu thereof of a regulation that would make lending agencies supervised by a State or Federal authority, including particularly all members of Federal Deposit Insurance Corporation, eligible mortgagees.

5. Simplification of the regulations of the Federal Housing Administration in such a manner as (a) to permit approved mortgagees to pass on the credit of mortgagors, (b) to place a substantial reliance on approved mortgagees in the making of appraisals, unless the circumstances are exceptional, and (c) to leave to the discretion of approved mortgagees whether

amortization payments in any given instance shall be required semi-annually, quarterly, or monthly, instead of making monthly collections by mortgagees mandatory in all cases as under the present regulations.

6. Suspension by the Federal Housing Administration of the operation of Title III of the National Housing Act pending a careful study of the considerations, some relating to the present form of the Title and some to prevailing conditions in the mortgage market, that apparently make extensive amendment or complete revision of this Title necessary.

These several 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 Interdepartmental 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.