

Office Correspondence

FEDERAL RESERVE
BOARDDate April 22, 1935To Governor EcclesSubject: Letter from Mr. Miller onFrom J. M. Daigerdefects in FHA program

G.P.O. 16-852

Attached is a copy of a confidential letter written by Mr. Charles A. Miller in answer to the question: "Why is there so little disposition to take advantage of Title II of the National Housing Act?" The inquiry is being made of various persons by Mr. Thomas S. Holden, vice president of the F. W. Dodge Corporation. The Mr. Syme referred to in the letter is the assistant to Mr. Lewis H. Brown in the Johns-Manville Corporation.

It seems to me that most of Mr. Miller's suggestions have real practical merit. In fact, as you will notice, the ideas expressed by Mr. Miller are not his alone.

Please regard this letter as confidential.

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SAVINGS BANKS TRUST COMPANY
14 Wall Street
New York

April 16, 1935

Mr. Thomas Holden
F. W. Dodge Corporation
119 West 40th Street
New York, New York

Dear Mr. Holden:

At the suggestion of Mr. Syme, I am submitting the following thoughts as to why there is so little disposition to take advantage of Title II of the Federal Housing Act.

In the first place, the failure to form mortgage associations under the provisions of Title III, due principally to the reluctance of capitalists to enter on an untried field at this time, and to doubts as to the market for their debentures— principally due to the fact that there will be a long period during receiverships, foreclosures, etc., when the interest on the mortgages underlying them might lapse -- has taken away the principal method which had been depended on for restoring mortgage money to circulation. The idea of the Act was that financial institutions might insure loans now held by them and over the legal percentage of appraised value but still under the 80% named in the Act, and sell these insured loans to mortgage associations, using the proceeds to make new loans on new construction. Obviously, without mortgage associations to purchase existing loans, after they are insured, new construction loans cannot be undertaken without increasing total mortgage holdings, which most institutions are unwilling or unable to do. Suggestion: Amend the National Housing Act so that the Housing Administration, on taking title, may date the debentures given for principal of the mortgage as of the date of commencement of foreclosure.

Secondly: Borrowers are unwilling to cooperate by re-writing their existing mortgages because of the expense of insurance and amortization, and cannot be compelled to do so because of moratorium laws. Suggestion: Amend moratorium laws by providing that they shall not apply when a chance to rewrite the loan for insurance under the National Housing Act has been offered the borrower and refused by him.

Thirdly: In many parts of the country where there is a great demand for new construction (Texas, for example, as I am advised), institutions are unwilling to apply for designation as approved

mortgagees because they have no funds of their own available for new construction and -- partly due to the absence of mortgage associations -- they cannot obtain funds from other parts of the country where people are seeking mortgage investment opportunities. Under these circumstances they are unwilling to be designated as approved mortgagees, because, if they were, they would have to admit their inability to function as such for lack of funds, and they think such admission would be injurious. Suggestion: Set up a mortgage association with private capital if possible; if not, with Government capital (R.F.C.) as a sort of example as to what can be done and what money earned by such an association.

Fourthly: The fact that an insured mortgage forfeits its insurance if assigned to anyone except an approved mortgagee is a great handicap. It bars out all individual purchases, trustee purchases, and probably charitable, educational, religious and other corporations -- except financial. There are insurance companies who would willingly add insured mortgages to their portfolios in large amounts, which are unwilling to be designated as approved mortgagees because of the pressure this would bring on them from their policyholders in various parts of the country where they think it undesirable to make loans.

Suggestion (1): Let a mortgage hold its insurance, after assignment, so long as it is serviced by the original approved mortgagee or some other approved mortgagee.

Suggestion (2): Create a class of institutions known as "approved assignees," who should have all the qualifications of "approved mortgagees" except that they decline to apply for such designation and provide that insurance shall not lapse on assignment of the mortgage to such institutions.

Fifthly: The Act is complicated and difficult for a layman to understand. The campaign about to be undertaken by the F. H. A. to explain its provisions to lenders, builders, etc., will have good effects but will take time. This was expected when the Act was drawn. Title I was looked upon as the part which would stimulate new construction, in the form of rehabilitation, in the near future, while Title II was expected to work gradually toward a bettering of conditions in the real estate and mortgage field with eventual but deferred benefits to the building industry. I believe I already see signs of increasing interest in the insured mortgages, which is bound in time to have its effect.

Suggestion: The applications should be as simple as possible. The original idea of the authors of the Act was that much of the re-

sponsibility should be placed on "approved mortgages," whose self interest would dictate reasonable conservatism and whose "approved" status would depend on their high character in this particular. This idea of the authors has largely been eliminated by the administrators of the Act and very rigid and complicated procedure substituted. This may have been necessary, but, so far as practicable, a return to the original idea would greatly facilitate operations.

I have received a memorandum from a committee of mortgage companies in the New York area, in which it makes the following recommendations:

"First: Reduce the maximum interest rate to five per cent on old construction.

"Second: Reduce the insurance premium to one-half of one per cent on old construction.

"Third: Make the insured mortgage salable to the world, the servicing and trust features of the mortgage to be retained by an approved mortgagee."

I quote them to you without committing myself to them in any way, except as to the last, which I approve.

Yours truly,

Charles A. Miller
President