

July 15, 1935

Mr. Robert M. Catharine
Federal Housing Administration
Washington, D. C.

Dear Mr. Catharine:

Pursuant to our discussion on Friday afternoon and our telephone conversation on Saturday morning, I have drafted a statement of the kind that I think Mr. McDonald might appropriately issue in the matter of discontinuing direct application for mortgage insurance. I have undertaken in this statement to provide a means of abandoning the practice with good grace.

I think it extremely important, however, that any public statement be supplemented by instructions to all FHA offices that they are to receive mortgage-insurance applications only from approved mortgagees, that all negotiations with regard to loans are to be left entirely to the prospective mortgagor and mortgagee, and that FHA representatives are under no circumstances to undertake to influence the amount of a loan.

The most dangerous aspect of the present practice, it seems to me, is that in which both the spirit and the letter of Section 203(a) of the Housing Act are departed from. It was never intended or anticipated that the FHA would have any part in a given mortgage transaction until a private lending agency was ready and willing to make the loan; least of all was it intended or anticipated that a relationship with prospective borrowers would exist to bring pressure on banks to make appraisals that they regarded as excessive.

In view of the fact that you and Mr. McDonald, as well as other officials in your organization, are fully agreed that direct applications by mortgagees should be discontinued, I hope that an early announcement of this step can be made. You will recall that I urged it some weeks ago, in connection with the reduction of costs and simplification of procedure which we had under discussion at that time. I refrained from pressing

the point then, you will remember, only because Mr. Riefler urged me not to do so until after the new regulations had been out long enough to have some effect.

The volume of business that the FHA is doing, and the improved condition of the mortgage market generally, seem to me to leave no reason for further delay on a policy that we all recognize as sound, whereas the continuance of the present policy, I am still quite convinced, can only impede and jeopardize the mortgage-insurance program.

Yours sincerely,

J. M. Daiger
Special Assistant to the Board

FHA TO RECEIVE APPLICATIONS FOR MORTGAGE INSURANCE
ONLY FROM APPROVED MORTGAGEES

Stewart McDonald, acting Federal Housing Administrator, today issued the following statement:

Instructions are being sent today to all regional, state, and local offices of the Federal Housing Administration to discontinue receiving applications for mortgage insurance from any persons other than mortgagees approved by the Federal Housing Administrator under the provisions of Title II of the National Housing Act.

At the same time the Federal Housing Administration will discontinue issuing tentative commitments to prospective mortgagors to insure mortgages. Commitments to insure will be issued henceforth only when the application for insurance is made by an approved mortgagee after the latter has appraised the property and notified the Federal Housing Administration of a willingness to make the loan if it is found acceptable for insurance.

In order to avoid, however, any confusion or misunderstanding on the part of prospective mortgagors who may have made direct application for mortgage insurance prior to the time the new instructions are received by the various offices of the Federal Housing Administration throughout the country, an exception will be made in the case of all such applications forwarded to Washington by FHA field representatives not later than July 31. These applications will be fully considered and tentative commitments

issued where the loans sought would be acceptable for mortgage insurance.

The practice of having the field offices receive applications direct from prospective mortgagors was adopted in March as a temporary expedient to meet a situation that has since materially improved. It was designed to accommodate persons who wished to obtain mortgage loans under the terms of Title II of the National Housing Act, but who had been unable to have their loan applications considered by any local lending agency. In some cases this inability to get attention from private agencies may have been due to the fact that none of these in the community had yet qualified with the Federal Housing Administrator as approved mortgagees; in others it may have been due to their unwillingness or inability to make any mortgage loans even if they were insured by the Federal Housing Administration.

Under these circumstances it was thought that prospective borrowers might be aided in their quest for a loan if they could say that the Federal Housing Administration was willing to insure the mortgage when an approved mortgagee was found ready to make the loan.

In many instances this actually proved to be the case. How many loans were obtained that might not have been obtained but for these tentative commitments, or how many delays in obtaining loans were avoided that might otherwise have occurred, it is of course impossible to say.

The fact is, however, that most of the persons to whom tentative commitments for mortgage insurance have been issued have now obtained the loans they sought.

On the other hand, the practice of issuing these commitments before any loan had been agreed upon has resulted in a good deal of confusion and misunderstanding among lending institutions. Some, mistakenly interpreting the practice as a method of "cracking down" on such private agencies as were slow to cooperate in the FHA program, have resented it. Others have gone to the opposite extreme and have welcomed the practice as a sort of free service by which they could relieve themselves of the necessity and responsibility of making their own investigation and appraisal before submitting a loan for insurance. These latter institutions were as much mistaken as the former in failing to recognize that the practice was instituted only to take care of exceptional cases and to meet a temporary situation.

Fortunately, there is now apparently no reason why the receiving of mortgage-insurance applications direct from prospective mortgagees need be continued. During the past three or four months the mortgage market has eased considerably, and it has become much less difficult for borrowers to refinance maturing mortgages or to obtain funds for new home-construction. All types of mortgage-lending institutions are showing a more willing disposition to make loans; these loans are in many cases being made on much more favorable terms

than borrowers have heretofore been able to obtain; a condition of healthy competition for sound mortgage investments is developing in which it seems unlikely that any appreciable number of good loans would go begging for an undue length of time.

This general improvement in the mortgage market is reflected in the volume of business now being done under Title II of the National Housing Act. Since March, when the practice now being discontinued was adopted as a temporary expedient, the volume of mortgage insurance applied for from week to week has more than trebled, and this increase has been well maintained through May, June, and the first half of July with a weekly total ranging in round figures from \$6,000,000 to \$8,000,000. A third of this represents mortgages on new construction and two-thirds the refinancing of mortgages on existing construction.

While these figures include applications received direct from prospective borrowers, the whole upward ^{trend} of mortgage lending would indicate that the situation which confronted many mortgage borrowers several months ago no longer exists in the country as a whole. There are now some 2,000 private lending institutions doing business under the terms of Title II of the Housing Act, and an additional 4,000, by qualifying as approved mortgages, have evidenced their intention of making loans under this title.

It would seem advisable, therefore, to simplify the mortgage-insurance procedure and avoid confusion and duplication of effort by having all applications for insurance made by the mortgagees in the first instance, since they must make such application in any event before a mortgage can actually be insured.