

Housing

Governor Eccles

From J. M. Daiger

July 17, 1935

Mr. Abner H. Ferguson
Federal Housing Administration
Washington, D. C.

Dear Abner:

Apropos of our telephone conversation this morning, I am enclosing herewith a copy of all the relevant part of the letter that I wrote yesterday to the banker who inquired, among other things, about (a) the direct-application policy adopted by the FHA a few months ago, and (b) the making of insured loans by banks in cases where the banks regarded the FHA appraisals on these direct applications as excessive and knew that the borrowers had no equity in the property.

I may say that the banker in this case regarded the making of 100 per cent loans as a practice definitely traceable to the policy of receiving mortgage-insurance applications from prospective borrowers. You will yourself observe, however, that while this policy may encourage and foster such loans, precisely the same result could follow where the applications for insurance are submitted by approved mortgagees.

I must confess that, until the possibility of insuring loans for 100 per cent of the purchase price was recently brought to my attention by the banker in question, it had not occurred to me that neither the law nor the regulations made any provision against such a contingency. I offer you, however, for what it may be worth, my purely personal suggestion that the fostering and insuring of 100 per cent loans is doubtful policy for the Federal Government, and especially so where a contingent liability of the Treasury is involved.

Yours sincerely,

J. M. Daiger
Special Assistant to the Board

Enclosure