

Office Correspondence

FEDERAL RESERVE
BOARDDate August 8, 1935To Governor Eccles
From J. M. DaigerSubject: Further comment on FHA proposal
re participating certificates.

... 16-852

The attached clipping from yesterday's New York TIMES, which came to my notice only after I had dictated my memorandum of this morning on the proposed sale by banks of participating certificates in mortgages insured by the FHA, rather bears out my first impression, that this proposal is more Walsh than banker. In fact, I had remarked to Ferguson yesterday, when he first told me about the developments in New Jersey, that it seemed very much like the voice of the banker but the hand of Walsh.

I do not mean by this, of course, any reflection on Walsh. He is perhaps the star salesman of the FHA and a resourceful promoter. I simply think that he is out of his element when he undertakes to influence matters of fundamental policy relating to Title II; for I think that what he grasps about Title II is the day-to-day or week-to-week totals, and these from the sales manager's point of view rather than that of the designer or the engineer. In the year and a half that I have known him in association with the housing program, I have seen no evidence that he has any grasp of the banking and financial problems involved.

As a matter of fact, the demand within the FHA for various subterfuges and short-cuts comes from the fact that Title I on the one hand and Titles II and III on the other have been dealt with as if they were two parts of a huge sales proposition, not differing from each other materially either as to the method of approach or the nature of the personnel. The organization as a whole gives me the impression of being under terrific pressure for volume under Title II and of being seriously handicapped by an inferiority complex where Title II is concerned. All this is perhaps a natural result of the delays and mistakes of the second half of last year and the first quarter of this year, but it is nevertheless unwarranted by the current performance under Title II. That performance, in my opinion, at least, is a remarkable one when the prior history of FHA is considered.

It seems to me that what this situation calls for is a growing appreciation and evidence ^{of it}—some direct encouragement and congratulation—on the part of persons like yourself and others in high places in your contacts with McDonald, and perhaps also a little missionary work either to stop the critics or to build fires under them. At the same time, however, I think that the FHA people need to realize that they have only scratched the surface of eligible mortgagees. The kind of sales-

manship they have been using in regard to Title II has resulted in the enlistment of only a fraction of the potential total number of mortgagees, and the proportion of active mortgagees to the total potential number is extremely small.

In short, the efforts of FHA, as I see it, should be concentrated on the more efficient functioning of the existing machinery and authority and not diverted down bypaths that lead away from the main effort and divert attention from the main problems.

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The citation for the original is:

New York Times, "Sale of FHA Loans Is Urged On Grimm," August 7, 1935.