

This was prepared at Mr. Eccles' request by
Mr. Daiger for Mr. Coolidge.
Mr. Eccles deferred sending it to Mr. Coolidge.

8/23/35

August 21, 1935

MEMORANDUM

It appears that the proposal to have the Federal Housing Administration authorize banks to pool mortgages and issue participating certificates against them is one of three that Mr. Grimm and his legal assistant, Mr. Riegelman, have been pressing with particular insistence on McDonald and his chief associates at FHA. The other proposals are (a) to have the Administrator create a special class of institutions to be known as "approved assignees" or "accepted mortgagees" as distinguished from "approved mortgagees," and (b) to have the Administrator authorize by regulation the payment of commissions to real-estate brokers of $2\frac{1}{2}$ per cent for negotiating loans on existing dwellings accepted for mortgage insurance by FHA and 4 per cent for construction loans.

As a matter of fact, all three of these proposals now have a history running back from nine months to nearly two years; they have been repeatedly urged by one or another "pressure group;"

they have been as often canvassed over again by men who are thoroughly familiar with the background of the Housing Act and with the FHA program; and they have been rejected each time for reasons that I think you would agree are sound, practical, and in accordance with good public policy from both an economic and a social point of view.

It seems to me extremely unfortunate, therefore, and I know it has been disconcerting and unsettling to the FHA people, to have someone apparently speaking with the authority of the Treasury come down to Washington and immediately champion and urge the proposals of these various pressure groups without first getting hold of some of the people who know the history of it all. That is the same mistake that Moffett made when he was put in as Housing Administrator, and you know what the consequences were and how long it has taken to get the program headed in the right direction again.

I think that you would be doing both your friend Grimm and the FHA program a good turn if you suggested that he himself undertake to get a fairly comprehensive view of the whole picture, from the appointment of the President's housing committee down to date, and then in the light of that pass on to McDonald for his consideration whatever new proposals seem to Grimm to have real merit and whatever factors he thinks have been overlooked or given insufficient weight when certain proposals have been rejected in the past. Our experience here with McDonald is that he is open to suggestions and easy enough to get along with, but that he has a

prudent Scot caution and wants to know just what it is all about and what the other side of the argument is before he acts. The way he overhauled his regulations and altered his operating set-up after a few weeks with Riefler and Daiger recently is evidence enough of that.

To come back to these two proposals besides the participating-certificate plan: Both of them go contrary to the purposes of the Housing Act and neither of them can do anything to increase the volume of residential construction. They might give a shot in the arm to FHA's volume, but that is not a good reason for passing over the other consequences.

The proposal to have the Federal Housing Administrator make provision for a special group to be known as "approved assignees" or "accepted mortgagees" comes from the Prudential Insurance Company. As far as I know, no other lending agency among all the thousands eligible for approval by FHA has asked for such a special designation or wants it. What, then, is unique about the Prudential Insurance Company that the Federal Housing Administrator should stretch the National Housing Act in order to pull out of it something that one agency among thousands says might induce it to buy some FHA mortgages?

The only reason advanced for the proposal is that the Prudential does not want its policyholders to regard it as a source of money for loans insured by the Federal Housing Administration. It takes the position that if it were so regarded policyholders who

are also mortgagors or prospective mortgagors would look to it for the FHA type of loan, and policyholders who were refused such loans by the Company would be resentful. Imagine the Federal Housing Administrator going along with that proposition, and then having to explain it to a Congressional committee next winter as a plan to spur residential construction and help home-buyers get mortgage money!

The proposal to provide for the payment of $2\frac{1}{2}$ per cent and 4 per cent commissions to real-estate brokers has been pressed by the National Association of Real Estate Boards for months. Their argument is that this is a proper cost for salesmanship and distribution for FHA loans, and that the failure of FHA to make provision for commissions at the rates mentioned is discriminatory and unfair.

In the first place, one of the essential purposes of the Housing Act was to reduce the cost of home-buying by eliminating various elements present in older methods of mortgage financing. With thousands of institutions around the country holding themselves forth as making FHA loans, and many of them paying good money right along to advertise that fact in the newspapers, what earthly reason is there for the prospective mortgagor to go to an intermediary and pay good money for a service that he is perfectly capable of performing for himself?

In the second place, the commissions ordinarily charged by real-estate brokers for negotiating loans are established by the local Real Estate Boards and paid by the borrower, and neither the FHA nor

any other governmental agency has power to regulate the transaction. For the FHA or any other governmental agency to propose that lending agencies under its authority make provision for the collection from borrowers of real-estate dealers' commissions would simply mean that thousands of loans which would ordinarily carry no such commission would be burdened with one.

In the third place, the realtors should not ask to have the benefits of FHA both ways--the commission on the sale and the commission on the loan in addition.