

FEDERAL HOUSING ADMINISTRATION
WASHINGTON, D. C.

August 29, 1935.

Important Amendments to the National Housing Act,
the National Banking Laws and the National Bankruptcy
Act passed by the 74th Congress.

The 74th Congress which has just adjourned, enacted some very important legislation affecting the administration of the National Housing Act. This legislation is in the form of amendments to various laws which will tend to simplify and facilitate the operation of the Housing Act.

These various amendments are briefly as follows:

1. Act approved May 28, 1935 (HR.6021) contains four important provisions in reference to the Housing Act:
 - a) The limit of \$2,000 originally set on the amount of modernization and repair loans which were eligible for insurance, is increased to \$50,000 with respect to real property improved by or to be converted into apartment or multiple family houses, hotels, offices, business or other commercial buildings, hospitals, orphanages, colleges, schools or manufacturing or industrial plants.
 - b) The original Act is broadened so as to permit the Administrator to insure loans covering the purchase and installation of machinery and equipment in both business and residence properties without respect to the requirement that the equipment and machinery should so become affixed to the real estate as to become a part thereof.
 - c) Federal Home Loan Banks are authorized to make advances upon the security of insured mortgages to non-member mortgagees approved under Title II of the National Housing Act, if such mortgagees are chartered institutions subject to the inspection and supervision of some governmental agency. The Federal Home Loan Banks can make such advances up to 90% of the principal of the insured mortgages given as security.

This provision furnishes to banks and other qualified institutions an opportunity to use insured mortgages as collateral, in the event they desire to raise

funds at any time. The Home Loan Bank Board has fixed the interest for loans made upon the security of these mortgages to non-members at a rate of $\frac{1}{2}$ of 1% in excess of that charged members. This difference was necessary because the rate charged members is in connection with the requirement that they shall own stock in the Home Loan Bank which naturally entitles them to some preference in rate.

- d) This Act changes the basis on which debentures are issued in exchange for foreclosed property under Title II of the National Housing Act. It provides in effect, that the face amount of debentures issued by the Administrator to mortgagees in satisfaction of insurance claims shall include interest at the rate carried in the debentures (which at present is fixed at 3% per annum) from the date foreclosure proceedings are instituted by the mortgagee. The Act as originally passed provided for the payment of interest only from the date the title to the property was delivered to the Federal Housing Administrator, thus, it can be seen that before the amendment the mortgagee lost interest on a defaulted mortgage during the period necessary for foreclosure, while the amendment gives the mortgagee interest on the unpaid principal of the mortgage at 3% from the date he institutes foreclosure proceedings, no matter how long it takes to complete the proceedings.
2. The National Banking Act of 1935 (HR 7617) approved August 23, 1935, contains eight important provisions affecting the administration of the National Housing Act. These are as follows:
 - a) The restriction under the law heretofore in force prevented a national bank from making real estate loans on property situated outside its Federal Reserve District, or beyond 100 miles of its office, regardless of district lines. The National Bank Act of 1935 removes this restriction and there is no longer any such requirement.

This amendment should very materially facilitate the making and purchasing of mortgages by banks in sections of the country where there is a surplus of money from banks and lending institutions where there is a scarcity of mortgage credit.

- b) The new Banking Act also removes the requirement that in making a real estate loan a national bank must acquire the entire mortgage although the requirement as to the purchase of the entire mortgage is retained in reference to mortgages which may be purchased after made.

This provision makes it feasible for banks to join with one another in financing low-cost housing projects under Section 207 of the National Housing Act.

- c) The proportion of their funds that national banks may invest in real estate loans has been raised to 100% of their capital and surplus or 60% of their time deposits, whichever is greater.

In accordance with statistics which have been obtained, this amendment makes it possible for all the national banks to lend approximately \$4,700,000,000 on mortgages, which is an increase of approximately \$1,100,000,000. It is reported that national banks at the present time hold mortgages in the amount of approximately \$1,300,000,000. They can, therefore, under this amendment increase their mortgage loans by \$3,400,000,000 and still remain within the limits permitted under the law.

It should be noted here that mortgages which are insured under the National Housing Act may be for an amount up to 80% of the appraised value of the property on which they are secured.

- d) The new Banking Act provides that any Federal Reserve Bank, under Rules and Regulations prescribed by the Board of Governors of the Federal Reserve System, may make advances to member banks on security satisfactory to the Federal Reserve Bank.

It is understood that Regulations to be prescribed by the Board of Governors of the Federal Reserve System under this amendment will make real estate mortgages eligible for advances by Federal Reserve Banks.

Under this amendment and the proposed Regulations of the Federal Reserve System, banks which are members of the System, may use insured mortgages as collateral for loans by the Federal Reserve Banks. This should furnish satisfactory assistance to banks which are members of the Federal Reserve System in the event they desire to obtain cash funds at any time.

- e) The new Banking Act amends Section 21 (a) Paragraph 1 of the Banking Act of 1933 by exempting from its provisions any restriction which that section may have contained on the right of banks to sell mortgages held by it.

Under this section there was some doubt expressed as to whether or not institutions receiving deposits could engage in the business of making and selling insured mortgages, and the amendment was passed to remove this doubt. There is now, no longer any question as to the right of banks and other institutions receiving deposits to make these mortgages and sell them to other approved mortgagees.

- f) The new Banking Act contains an amendment to the National Housing Act authorizing the Administrator, in his official capacity, to sue and be sued in any court of competent jurisdiction, state or federal.

This amendment will remove an objection that has been raised by some of the lending institutions who did not want to be compelled to sue in the court of claims in the event of any controversy with the Administration, and it also facilitates the operation of the Act from the standpoint of the Administration.

- g) The new Banking Act amends the provisions of the National Housing Act dealing with low-cost housing so as to make it clear that low-cost housing properties already in existence, as well as those to be built, are eligible for insurance.

Due to the fact that the sections of the Act dealing with low-cost housing originally used the word "projects", it was suggested that this indicated an intention that only properties thereafter to be built were eligible. This amendment removes that doubt.

- h) The new Banking Act also contains an amendment to existing law under which the Comptroller of the Currency may classify FHA insured mortgages on low-cost housing projects as investment securities, rather than as real estate loans, and removes such mortgages from the restrictions and limitations contained in the investment security section of the banking law. (Par. 7, Section 5136, Revised Statutes)

Under this section national banks may acquire a part of a low-cost housing mortgage loan.

3. Congress also passed an Act (S.3058) amending Section 77B of the Bankruptcy Act, which is the so-called Corporate Reorganization Section, by excepting from its provisions bonds secured by mortgages insured under the low-cost housing provisions of the National Housing Act.

The low-cost housing program had been held back substantially by this section of the Bankruptcy Act. This was especially true in reference to projects which were to be financed by bond issues, due to the fact that it was difficult to market them in view of the provisions of Section 77B, which, it was urged, could indefinitely postpone the foreclosure of the mortgage and thus delay the procuring of the debentures. This amendment removes this obstacle.

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