

PASK & WALBRIDGE

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F. H. A. Insured Mortgages

THE F. H. A.

I. The F. H. A. (Federal Housing Administration) was created under the National Housing Act of June 27th, 1934. All powers of the F. H. A. are vested in a Federal Housing Administrator appointed by the President to hold office for a term of four years. The National Housing Act is divided into several "Titles"—This pamphlet has to do with Title II, wherein provision is made for a long-term plan of home financing, and is only concerned with those mortgages under Title II which may not exceed \$16,000 in principal amount.

CONDITIONS OF MORTGAGE INSURANCE

II. The Administrator, through his agents, makes a thorough examination of the mortgagor as well as an appraisal of the property to be insured. The mortgagor's financial statement is examined, also the outlook for his anticipated income, as well as his present income. The Administrator must be satisfied that periodic amortization payments retiring the mortgage in some given period of time will be satisfactorily met. The property may be in an urban community and must be so situated and constituted as to present an economically sound project when considered in relation to the debt which it is called upon to support, as well as in relation to general approved housing standards.

The original principal obligation of the mortgage may not exceed \$16,000 nor 80% of the appraised value of the property as determined by the appraisal of the Administrator. The mortgage may have a term not to exceed twenty years. In general, to be eligible for insurance, the term may not exceed a con-

servative estimate of the stable value of the property and may not exceed the length of the period during which there is a reasonable expectation that the mortgagor's income will be sustained nor may the term be so short as to result in monthly payments which consume too large a proportion of the mortgagor's current income.

MORTGAGOR PAYS

III. The mortgagor pays, monthly, aside from his amortization payments, taxes, special assessments, fire and other hazard insurance requirements, a total of 6% per annum; 5% of this amount is for interest, 1/2 of 1% is to the Mutual Insurance Fund described in Paragraph No. VII, and the remaining 1/2 of 1% is paid to the servicing agent.

SERVICING AGENT

IV. The servicing agent is usually the originating mortgagee. We require that such agent be either a bank or a title company or some corporation with capital of not less than \$100,000, which has been approved by the F. H. A.

MORTGAGEE RECEIVES

V. The mortgagee will receive 5% interest from the mortgagor through the servicing agent. The servicing agent will disburse the interest and amortization funds monthly or quarterly as the mortgagee may request.

MORTGAGEE UPON FORECLOSURE

VI. The insurance entitles the mortgagee, in case it forecloses and acquires the mortgaged property and promptly conveys it to the Administrator and assigns to the Admin-

istrator all claims of the mortgagee against the mortgagor, to a debenture, guaranteed as to principal and interest by the United States, of a principal amount equal to the unpaid principal of the mortgage, plus interest, at the debenture rate, on such unpaid principal from the date foreclosure proceedings were instituted to the date of the conveyance of the property to the Administrator, less any amount received on account of interest accruing on such unpaid principal between such dates, and plus also the amount of all payments which have been made by the mortgagee for taxes and insurance on the property mortgaged. The mortgagee in such case will also be entitled to receive a Certificate of Claim from the Administrator for an amount which the Administrator determines to be sufficient, when added to the face value of the debentures, to equal the amount which the mortgagee would have received, if, at the time of the conveyance to the Administrator of the mortgaged property, the mortgagor had redeemed the property and paid in full all obligations under the mortgage and those arising out of foreclosure proceedings. The certificate of claim will become payable, if at all, upon the sale of the property, out of the net amount realized upon the sale thereof after deducting all expenses incurred by the Administrator and after deducting also the face amount of debentures, plus all interest paid on such debentures. Only the excess, if any remaining, will be applicable to the payment of the Certificate of Claim.

MUTUAL MORTGAGE INSURANCE FUND

VII. A Mutual Mortgage Insurance Fund has been established by the National Housing Act into which will be paid a premium by the mortgagor. This Fund is under the control of the Federal Housing Administrator. The moneys of this fund will be applied to the payment of the principal and interest of the debentures hereinabove referred to.

GUARANTEED DEBENTURES

VIII. The Debentures will bear interest at the rate of 3% per annum, payable semi-annually. These Debentures will be subject to the same taxes as the mortgages they re-

place and will have a maturity date three years after the first day of July following the maturity date of the mortgages they replace. They will be a primary obligation of the Mutual Mortgage Insurance Fund but all Debentures issued for mortgages insured prior to July 1, 1937, will be fully guaranteed as to principal and interest by the United States. This will protect the holders thereof against any deficiency in the Mutual Mortgage Insurance Fund.

OUR EXPERIENCE

IX. The maximum limit of the life of these mortgages may be twenty years, but the average which we have dealt with so far is between twelve and fifteen years. Also, the maximum amount of the mortgage to the appraised value of the property, land and dwelling may not be more than 80%, but the average loan we have dealt with so far is between 60% and 65% of the appraised value.

LOANING VALUE

X. The Federal Home Loan Bank Act has been amended (May 28th, 1935) so that each member bank is authorized to make advances to non-member mortgagees approved under Title II of the National Housing Act. Such mortgagees must be chartered institutions having succession and subject to the inspection and supervision of some Governmental agency and whose principal activity in the mortgage field must consist of lending their own funds. The same discount privileges are extended to holders of F. H. A. insured mortgages without the holding institution becoming a member of the Home Loan System. By this amendment the mortgagee is allowed to borrow up to 90% of the face value of the insured mortgages at the rate prevailing in the district in which the loans are made.

WHO MAY BUY and HOLD

XI. These mortgages may only be purchased and held by an approved mortgagee in order to receive the benefits of the Government insurance. Approved mortgagees include the following institutions: National Mortgage Associations; Federal Reserve Banks, Federal Home Loan Banks, The R. F. C. Mortgage Company,

and any other Government agency that is, or may hereafter be, empowered to accept F. H. A. insured mortgages as security or collateral for deposits of public funds or loans or advances made by such agency; also, members of the Federal Reserve System or the Federal Deposit Insurance Fund and the Federal Home Loan Bank System; also, any institution that is—A—a chartered institution or other permanent organization having succession;—B—is subject to the inspection and supervision of some Governmental agency (or shall submit an independent detailed audit of its books made by a C. P. A. reflecting conditions satisfactory to the Administrator and shall file with the Administrator similar audits once a year and be subject to examination as the Administrator may determine;—C—has sound capital funds property proportioned to its liability and extent of its operations which shall be valued at not less than \$100,000. Endowment funds may become approved mortgagees upon application and under certain conditions.

PASK & WALBRIDGE SERVICE.

XII. It has been generally recognized that a revival of residential building would be a great factor in reducing unemployment and reviving many lines of industry.

There has never heretofore been any attempt at uniformity of mortgage financing for such construction and in any locality mortgage money was usually obtainable only from investors or institutions in the same community. The National Housing Act by establishing uniform methods of appraisal, and including in their determination as to an acceptable risk more uniform methods and criterions, is in-

tended to broaden the field to which any community may look for mortgage financing.

This has, however, created a situation where the success of the plan requires the services of some organization, acting as a broker, to contact a mortgagor with an ultimate investor.

Pask & Walbridge for some time have been canvassing many parts of the country as to insured mortgages seeking a market and, on the other hand, as to institutions in other localities willing to invest in such insured mortgages.

No brokerage firm as such can become an approved mortgagee and in order to attempt to act as aid between mortgagor and investor it was necessary to arrange with New York banks to purchase mortgages offered to us, pending the time when such particular mortgages could be placed with the ultimate investor. Such arrangements have been made by Pask & Walbridge with the Manufacturers Trust Company and The New York Trust Company, both of which banks have been greatly interested in this field of activity and who have been most co-operative in helping to facilitate the creation of a national market for these mortgages.

With these facilities Pask & Walbridge is now able to arrange for the purchase and sale of insured mortgages and is today offering a substantial block of them from various States at prices to yield between $4\frac{1}{2}\%$ and 5% .

The mortgages which this firm arranges to purchase and reoffers for sale must be accompanied by essential documents. From our experience in handling these transactions we have prepared a list of such documents which will be required in all cases to accompany insured mortgages submitted for sale.

PASK & WALBRIDGE.