

Office Correspondence

FEDERAL RESERVE
BOARD

Date January 7, 1936

To Governor Eccles

Subject: 1936 Housing Program

Jm J. M. Daiger

... 16-852

The attached summary follows point by point the sequence of the longer memorandum, but is confined to matters that would require changes in either legislation or regulation.

As you know, the program looks toward a very much larger volume of construction than is practicable under existing measures, without, however, involving any fundamental changes in these measures. Nevertheless, a good many details are involved in giving full effect to the larger program.

My experience in dealing with the Senate and House committees on the Housing Bill would lead me to believe that more time is saved than lost by spelling out in a bill exactly what is wanted. You will recall that the brevity attempted by the President in the Housing Bill as originally introduced got us into serious misunderstandings and protracted discussions in the course of the hearings on the bill.

Copies of this summary have been sent to the same persons who received the original.

Preliminary and confidential
January 6, 1936 (JMD)

SUMMARY OF SUGGESTIONS FOR 1936 HOUSING PROGRAM

Title I of National Housing Act

1. (a) Extend Title I from April 1, 1936, to July 1, 1937.
(b) Reduce insurance fund from \$200,000,000 to \$100,000,000.
(c) Confine insurance strictly to loans for improvements to real estate.
2. (a) Reduce authorized maximum interest rate from discount basis of 5 per cent on annual initial debit to 4 per cent.
3. (a) Provide for insurance of loans up to 10 years, and in amounts from \$1,500 to \$10,000, for structural changes to residential property.
(b) Fix authorized maximum interest on such loans at 6 per cent per annum.
4. (a) Establish insurance fund of \$100,000,000 as revolving fund up to July 1, 1937, to insure construction loans on one-family and two-family dwellings where such loans do not exceed \$4,500 per dwelling unit.
(b) Limit insurance liability to 20 per cent of total amount of such loans held by any approved mortgagee.

- (c) Require these construction loans to be accompanied by tentative commitment for mortgage loans under Title II.
- (d) Fix maximum service charge on such construction loans at 2 per cent flat and maximum interest at 5 per cent per annum.

Title II of National Housing Act

- 5. (a) Revise regulation governing maximum interest on Title II loans either by eliminating service charge of $\frac{1}{2}$ of 1 per cent per annum or by fixing maximum interest at $4\frac{1}{2}$ per cent per annum, plus service charge of $\frac{1}{2}$ of 1 per cent per annum.
- 6. (a) Increase volume of loans on new construction insurable under Title II from \$1,000,000,000 to \$5,000,000,000.
- (b) Provide that debentures issued in exchange for defaulted mortgages shall be fully guaranteed by Government as to principal and interest, without limiting such guaranty, as at present, to mortgages insured prior to July 1, 1937.
- 7. (a) Amend eligibility requirements for mortgage insurance to require that mortgagor of property covered by insured mortgage shall have made down payment of 20 per cent of purchase price in cash or its equivalent; or,

- (b) If mortgage is for refunding purposes, limit amount to aggregate mortgage indebtedness, including second and subsequent liens, as of July 1, 1935, provided such amount does not exceed 80 per cent of appraised value.
 - (c) Provide that amount of insurance on any mortgage shall not in any event exceed appraised value of improvements exclusive of appraised value of land.
8. (a) Authorize insurance up to 25 years, and up to 90 per cent of appraised value of property, where amount of loan does not exceed \$4,500.
- (b) Require on such loans down payment of 10 per cent in cash or its equivalent.
 - (c) Require on such loans that payment of an additional 10 per cent shall be fully guaranteed by operative builder or building contractor, or else guaranteed in several parts mutually agreed upon by such builder or contractor and two or more building-material manufacturers, such guaranty to continue until mortgage has been reduced to 75 per cent of purchase price of property.
 - (d) Authorize national banks and Federal savings and loan associations to make, purchase, and sell loans so insured and guaranteed, and national mortgage associations to purchase and sell loans so insured and guaranteed.

9. (a) Provide for Government to absorb cost of insurance, including retroactively that already in effect, where amount of mortgage does not exceed \$4,500 and where mortgage is insured prior to July 1, 1937.
10. (a) NOTE: Some suggestion has been made that insurance of mortgages on property constructed prior to passage of Housing Act be discontinued. Author of this memorandum, however, recommends that no change be made in existing provisions governing insurance of such mortgages.
11. (a) Discontinue government-financed advertising and sales-promotion campaigns.

(b) Use part of savings thus effected to strengthen administrative personnel in charge of Title II and to provide closer inspection of properties on which mortgages are insured.
12. (a) Do away with present compulsory requirement of separate appraisal by Federal Housing Administration in case of each application for insurance.

(b) Make requirement of such separate appraisal, unless demanded by mortgagee, optional with Administrator.

(c) Replace system of local-office appraisers with system of central-office or regional-office examiners to spot-check appraisals by approved mortgagees.

- (d) Provide that mortgagees found to be abusing approval status, or to be lax or incompetent in making appraisals, shall be subject to having approved status revoked, temporarily or permanently as Administrator may determine.

NOTE: Above suggestions regarding appraisal system could not be given effect until some time subsequent to adoption of suggestions in preceding paragraph regarding discontinuance of advertising and sales-promotion activities and strengthening of Title II administration.

- 13. (a) Provide for Government to absorb cost of insurance, including retroactively that already in effect, on mortgages insured under Section 207 ("Low-Cost Housing Insurance) prior to July 1, 1937.

NOTE: Suggestion has also been made that Government grant interest subsidy of 1 per cent per annum to sponsors of projects for which financing commitments are made prior to July 1, 1937.

- (b) Change heading of Section 207 from "Low-Cost Housing Insurance" to "Insurance of Mortgages on Large-Scale Housing," and make corresponding changes in text to eliminate "low-cost housing property and projects" and "housing for persons of low incomes."

- (c) Allocate \$10,000,000 as insurance fund to provide for complete segregation of risks under Section 207 from those under Section 202.
- (d) Provide that \$1,000,000,000 of \$5,000,000,000 of insurance authorized for mortgages on new construction may be used to insure mortgages on projects under Section 207.
- (e) Provide that mortgages insured under Section 207 may include construction and trust mortgages.
- (f) Provide that mortgages under Section 207 may cover projects for sale as well as projects for rent.
- (g) Provide that mortgage insurance on multiple-family dwellings under Section 207 shall not exceed an average of \$1,200 per room.
- (h) Provide that mortgage insurance on single-family dwellings under Section 207 shall not exceed \$4,500 per unit.
- (i) Provide that mortgages to be insured under Section 207 shall be for not less than \$100,000.
- (j) Provide that debentures in exchange for defaulted mortgages under Section 207 shall be issued upon assignment of mortgage to Administrator instead of, as now pro-

vided, upon delivery of title after foreclosure.

- (k) Provide that issuance of such debentures for unpaid principal of mortgage under Section 207 shall be in full satisfaction of insurance claim.
- (l) Provide that debentures issued in exchange for mortgages insured under Section 207 prior to July 1, 1937, shall have same exemption from taxes as bonds of Home Owners' Loan Corporation.

Proposed New Title or Section of National
Housing Act

- 14. (a) Provide for insuring any lending institution against aggregate losses up to 20 per cent of loans made on slum-clearance and neighborhood-rehabilitation projects.
- (b) Allocate for this purpose revolving fund of \$200,000,000 from housing funds available to President, or appropriate \$200,000,000 to establish such revolving fund.
- (c) Authorize insurance of loans up to 12 years, in amounts from \$100,000 to \$1,000,000, with interest not in excess of 5 per cent per annum, and with principal payable in 20 equal semi-annual installments beginning midway in third year or earlier.

- (d) Provide that interest and sinking fund shall be first charge after taxes on all rental or other income.
- (e) Provide that no lending institution shall be entitled to benefits of insurance to extent it may hold lien on property included in insured project or to extent it may be creditor of any owner or owners of such property.
- (f) Provide that Government shall grant interest subsidy of 1 per cent per annum on slum-clearance and neighborhood-rehabilitation projects for which financing commitments are made prior to July 1, 1937.

Title III of National Housing Act

- 15. (a) Authorize Federal Housing Administrator to purchase preferred stock up to 90 per cent of capital of national mortgage associations organized prior to July 1, 1937.
- (b) Provide that such subscription shall be contingent upon prior subscription of not less than \$1,000,000 of capital stock by financial institutions having state or federal supervision, or investment dealers registered with Securities and Exchange Commission.
- (c) Provide that Administrator shall not subscribe to capital of more than one association in each Federal Reserve district

and shall not subscribe to more than \$20,000,000 of capital in any one association.

- (d) Provide that dividend on preferred stock purchased by Administrator shall not exceed 4 per cent per annum, but that such dividend shall be cumulative.
- (e) Allocate to Administrator for use in purchasing preferred stock of national mortgage associations \$100,000,000 of housing funds available to the President, or appropriate \$100,000,000 to establish fund to be used for this purpose.
- (f) Make provision whereby preferred stock purchased by Administrator may be retired at any time after one year from date of such purchase and replaced by ordinary capital stock privately subscribed, such private subscriptions not to be limited, however, to institutional investors and investment dealers.
- (g) Increase amount of debentures mortgage associations may have outstanding from 12 times par value of outstanding capital stock to 25 times par value of such stock, or else remove altogether limitation on outstanding debentures in relation to capital.
- (h) Provide that banks may underwrite or deal in debentures of national mortgage associations in same manner as in direct or guaranteed obligations of Government.

- (i) Provide that debentures issued by national mortgage associations prior to July 1, 1937 shall have same tax exemption as bonds of Home Owners' Loan Corporation.
- (j) Provide that not more than 10 per cent of aggregate outstanding capital stock of any mortgage association may be owned by any one financial institution or investment house.
- (k) Authorize national banks and Federal savings and loan associations to invest in capital stock of national mortgage associations.
- (l) Repeal amendment reducing minimum capital requirement of national mortgage associations to \$2,000,000 and restore original requirement of not less than \$5,000,000.

Home Owners' Loan Act and Federal Home Loan

Bank Act

- 16. (a) Extend to July 1, 1937 authority of Secretary of Treasury to subscribe for income shares of building and loan associations, but provide that such subscription shall be made only when it appears that proceeds thereof are to be used for loans on new residential construction.
- (b) Extend from July 1, 1936 to July 1, 1937 authority of Federal Home Loan banks to make advances to members in order to enable such members to finance home repairs, improvements, and alterations under provision of National Housing Act.

- (c) Reduce discount rate of Federal Home Loan banks for advances to members to $2\frac{1}{2}$ per cent, or establish differential discount rate of $\frac{1}{2}$ of 1 per cent as between loans secured by insured mortgages and loans secured by uninsured mortgages.
- (d) NOTE: Suggestion has been made that eligibility requirements for membership in Federal Home Loan Bank System be re-examined and possibly amended.

Federal Reserve Act and National Banking Act

- 17. (a) Establish differential of $\frac{1}{2}$ of 1 per cent in rate of interest to be charged the Federal reserve banks on advances to member banks, according as notes, bonds, or mortgages having more than 5 years to run to maturity and given as security for such advances, are amortized or unamortized by approximately equal periodic curtailments or sinking-fund payments.
- (b) NOTE: Suggestion has also been made that Comptroller of the Currency and Board of Governors of the Federal Reserve System limit member-bank investments in bonds and notes to securities having not more than 5 years to run to maturity, unless such securities are parts of issues having serial maturities or sinking-fund provisions providing for retirement of issue by approximately equal periodic payments.