

Office Correspondence

FEDERAL RESERVE
BOARD

Date February 3, 1936

To Chairman Eccles

Subject: Housing matters

From J. M. Daiger

... 16-552

1. Mr. McDonald has asked Mr. Grimm and me to meet with him tomorrow morning to go over the proposed 1936 program in the light of the meetings that he held here last week. Mr. McDonald was in New York on Friday and told me then that he was having specific amendments drafted, partly on the basis of the proposals in my memorandum and partly on the basis of recommendations made by members of his organization and others who attended last week's meetings.

Neither Mr. Grimm nor myself were invited to attend the meetings last week, and neither of us knows what turn they took. According to an item that appeared in the New York TIMES on Friday the following persons were among those who did attend the meetings:

Arthur Walsh, assistant administrator Federal Housing Administration
Russell G. Smith, cashier Bank of America-National Trust and Savings
Association, San Francisco

B. F. Kauffmann, president Bankers Trust Company, Des Moines, Iowa
McCune Gill, vice president St. Louis Title Insurance Corporation, St. Louis
John Ahern, investment officer of the teachers' retirement fund of the
Carnegie Foundation

A representative of Robert V. Fleming, president American Bankers Association

2. I spent about three hours this morning with Mr. Grimm going over various housing matters with a view to expediting action as soon as he and I learn what Mr. McDonald's proposed modifications are. There is only one matter that Mr. Grimm and I discussed that you are not already familiar with and that is the question of what is to be done with regard to administration policy in respect of slum-clearance and low-rent housing. The issue will of course have to be faced. Senator Wagner told me last week that in a recent conversation the President had said to him that he wanted to find a way to do something about the matter without involving the Treasury in large outlays. Mr. Grimm has also discussed the matter with the President, with Secretary Ickes, and with Senator Wagner. I think that they are all now reconciled to the idea of abandoning direct government operation.

Mr. Grimm and his assistant, Mr. Wilmerding, have evidently had in mind proposing, as part of the program we have been discussing, that the government undertake a rent subsidy, subscribing say 40 per cent, or perhaps as much as 60 per cent, under an arrangement whereby the balance would be subscribed by State and local governments. They have

in mind the English method under which the central government joins with the county or municipal governments in providing so much per month per person for the payment of rent.

Mr. Grimm seemed very much surprised when I said that I thought there was no way of adapting this English method to the American problem. I pointed out that there was no way, as far as I knew, whereby the present Congress could bind future Congresses to vote the annual funds that might be required over the life of a long-term mortgage, say 30 or 40 or 50 years, such as Mr. Grimm had in mind. Mr. Grimm was under the impression that private enterprise would provide the housing if the Federal, State and local governments provided the rent subsidy; but I pointed out that neither private capital nor the State or local governments would likely undertake any operations predicated on a continuing annual appropriation by Congress. This was an aspect of the matter that apparently had not occurred to Mr. Grimm. The difficulty here, as I see it, is that too many persons in Washington, like Freed and his group outside of Washington, fail to discern the marked differences between housing operations under an imperial government and housing operations under a federal system of government.

I am trying, however, to work out a formula that will meet the purposes that the President has in mind without involving the Treasury in a large outlay. There is no doubt that a political position has been taken which will make it necessary for some specific proposal to be made with regard to slum-clearance and low-rent housing if the PWA type of operation is to be abandoned.

3. One of the matters that I have been working on for some time in New York is a large slum-clearance operation on the lower East Side, which is the area that the President, Senator Wagner, and others have chiefly in mind when they talk about slum-clearance. This is the matter that I mentioned to you on Friday as now taking definite form, but the persons who have it under way wish to have it held in strict confidence while they are assembling the large number of properties involved. You can understand why they are extremely anxious to avoid any discussion of the matter until they have effected an agreement among the financial institutions which hold the mortgages on these properties.

The plan itself, however, is susceptible of general application in slum areas where the mortgagee institutions are in practical control of the situation--or perhaps it might be accurate to say the victims of the situation. These institutions, except in the case of mortgages held in

trust estates, can pool their mortgages in a separate company, convey to that company the title and ownership of the properties, and receive in return a certificate of deposit or some other obligation apportioned according to valuation placed on the properties by the taxing authorities. The operating or holding company, whatever it might be termed, can then proceed to rehabilitate the entire area, say a single block or several blocks, acquiring for cash from trustees or other holders properties that cannot be voluntarily turned over in the manner of properties held by the institutions which control the greater part of the area.

On the lower East Side of New York there is a greater opportunity to do this than in any other comparable area. There are two reasons for this. The first is that more than half the properties on the lower East Side are vacant and hence a dead weight on the hands of the institutions that are carrying them. The second is that the moratorium has again expired on the fire laws and sanitary laws which require the properties to be rehabilitated, particularly with regard to fire-retarding walls and sanitary plumbing, before they can be reoccupied. Because of the first of these two reasons there are a number of blocks, aggregating a very large area, in which most of the properties that would have to be assembled for a large-scale rehabilitation project have been acquired under foreclosure proceedings by a comparatively small number of financial institutions. Hence there are relatively few properties that would have to be acquired by purchase, and in any event operations could proceed in a considerable part of the area even if there were some holdouts.

The men who are working on this matter now have the assurance of the support of the financial institutions chiefly concerned. What they were discussing with me last week was the possibility of carrying on the operation either under existing legislation or through a national mortgage association if such an association were organized under amendments that made it workable. My opinion is that the operation can be financed under existing legislation, though I think it might be simplified by some of the proposed amendments. The financing involved would probably not require anything like an 80 per cent mortgage, but in the aggregate of the operations now contemplated a good many millions of dollars would be involved.

I think that a start on the lower East Side would provide a pattern that would be widely copied elsewhere by financial institutions and other owners who are carrying derelict properties in blighted areas.