Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date February 7, 1936

To Chairman Eccles

Subject: Attached memorandum

From J. M. Daiger

GPO 16—852

The attached memorandum was prepared for yesterday's meeting, but I did not bring it up then because the set of amendments to which it refers was not taken up by the group.

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Confidential
February 6, 1936

TO Mr. Delano
Mr. Eccles
Mr. Fahey
Mr. Grimm
Mr. McDonald

SUBJECT: 1936 Housing Program

FROM J. M. Daiger

Though there is no conflict between them, there is an essential difference between the set of amendments to be outlined at today's meeting and the suggestions for a 1936 housing program outlined in my long memorandum of December 30, and then summarized in my memorandum of January 6, and further summarized with reference to the main items of the proposed program in my memorandum of January 20. The last-mentioned memorandum is the one that was used as the basis of discussion at the dinner meeting arranged by Mr. Eccles.

There is also an essential difference, though not any conflict, between the set of amendments to be outlined by Mr. Ferguson today and the conclusions tentatively reached in the series of daily meetings which was held by the FHA executive staff during the week of January 13 and which Mr. Grimm and I attended at Mr. McDonald's invitation. This series of meetings preceded the dinner meeting arranged by Mr. Eccles. Since then another series of meetings was held by the FHA executive staff and was attended by several of its field representatives and by representatives of several approved-mortgagee institutions.

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At a meeting of the FHA executive staff on Tuesday of this week, which Mr. Grimm and I were invited to attend, it was explained that the altered conclusions resulted from this second series of meetings. I shall therefore simply point out here what I regard as the essential points of difference between the later conclusions reached by the FHA staff and the suggestions which I have discussed at length with all the members of the present group.

The FHA staff has for some weeks regarded the establishment of a national mortgage association, with a capital of $100,000,000 of Government funds, as the most important housing amendment to be sought in 1936. This proposal was put forward before my first memorandum on the 1936 housing program was written. The purpose of the proposal was to give the FHA full control of operations under Title III and to put it in a position where it could stand ready at all times to take any insured mortgages offered to it by an approved mortgagee.

The proposal did not originally contemplate the making of direct large-scale loans by the association, which I coupled with my suggestions for financing large-scale operations to sell or rent at a relatively low price per dwelling unit. With a capital of $100,000,000, however, and with a 20 to 1 leverage, the association would be able in practical effect to constitute demand loans of $2,000,000,000 of insured mortgages, both those made under the general provisions of Title II

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and those made on large-scale projects under Section 207.

I fully agree with the view that such an association would effectually meet what the FHA regards as its most serious problem--namely, the resistance of lending institutions to the insured mortgage, not because it is insured, but because it ties money up over a period of 20 years, at an interest rate which lending institutions are still prone to regard as abnormally low, and at a time when the persistent talk of inflation puts a premium on demand and short-term commitments. But I do not regard as tenable from a Treasury standpoint an arrangement under which the Government would stand ready at any time to convert into cash insured mortgages up to $2,000,000,000.

The matter of making Title III workable occupied an important place in my list of suggestions. Nevertheless I did not and do not regard it as a matter to which all the other suggestions are subordinate. On the contrary, though I included it as an essential part of a 1936 program, I put the emphasis on two major objectives to be aimed at by the program as a whole and not on the organization of a national mortgage association as a major objective.

Coupled with a number of suggestions that contemplated mere amendments of detail, there were in my previous memoranda various items that tended to make of the proposed 1936 amendments an integrated program. This program was designed to give an impetus to, and to put the

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stamp of Administration approval and encouragement on, the construction of small houses to be financed in the ordinary manner and the large-scale construction of both small houses and apartments to be financed by means not now available. I included suggestions for handling loans up to 90 per cent of the purchase price, for establishing a land-acquisition and construction-loan insurance fund, for handling through private sources loans for slum-clearance and neighborhood-rehabilitation projects, and for using national mortgage associations as a source of direct loans on large-scale operations.

If consideration of the proposed $100,000,000 mortgage association is to be abandoned in view of the developments at the White House on Tuesday, then I think it would be easily possible to obtain Administration sponsorship for an integrated program such as that for which I have sought to obtain the support of the present group. As I see it, the economic need, and for that matter the political need as well, is for a clear-cut program, to be embodied in a Housing Act of 1936, and not merely a lot of miscellaneous amendments which, though necessary and helpful, make no appeal to the popular imagination and make only a casual approach to the kinds of construction activity for which there is the greatest economic and social need.

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