

Preliminary and confidential
February 21, 1936 (JMD)

MEMORANDUM ON PROPOSED HOUSING ACT OF 1936

At a conference in the White House on Tuesday afternoon, February 18, the President made it known that he wishes to have incorporated in a single bill whatever housing legislation the Administration is to sponsor at the present session of Congress. The President also evidenced his desire to have the bill reflect a consolidated policy in respect of housing and to present a comprehensive program, but to conform, of course, to the Administration's budget policy.

The purpose of the present memorandum is to outline the principal measures that might be incorporated in such a housing bill as the President indicated his willingness to sponsor. The memorandum assumes that the term housing, as currently used in reference to legislation, is restricted to urban dwellings, or at any rate to dwellings in residential communities as distinguished from dwellings located on farms. Within this limitation, the practical proposals of the measures outlined in the memorandum are,

briefly, as follows:

1. To correlate the policies of, and give a unified direction to, governmental agencies whose functions have an important bearing on current and future developments in the field of housing.

2. To continue the program of privately-financed repair and modernization of residential, commercial, and industrial properties.

3. To give encouragement and assistance to privately-financed construction as the most widespread available means of (2) reducing governmental expenditures for unemployment relief and (b) increasing the sources of federal, state, and local revenues.

4. To give encouragement and assistance to both public and private initiative in (a) the clearance of slums, (b) the rehabilitation of blighted areas, and (c) the construction of housing for low-income groups as additional means of stimulating employment in construction, transportation, heavy manufacturing, and related industries.

5. To avert the economic consequences of a rent crisis arising from the widespread shortage of housing and the nation-wide arrears of residential construction.

6. To take account of the long-term or capital nature of housing, and accordingly to spread governmental expenditures or subsidies for housing purposes over a period of years rather than to make them on a lump-sum basis.

An important legal point to be considered in connection with the measures outlined in this memorandum is the enabling legislation which has been enacted by the states. Amendments in the federal laws that would have the effect of nullifying existing state enabling acts would be manifestly undesirable. For example, forty-seven of the states have authorized state-chartered lending institutions to make mortgage loans under the provisions of Title II of the National Housing Act; and thirty-four of the states have authorized commercial banks, trust companies, etc., to invest in both the capital stock and the debentures of national mortgage associations under Title III.

It is essential, therefore, that amendments made at this time to the Housing Act or other federal legislation should simply be supplementary to the existing laws. However, the lack of state enabling legislation on any given point need not impair the effect of amendments to the federal statutes; for, again to cite the Housing Act as an example, half or more of the business done to date under Title II has been done directly under the federal legislation rather

than under the state enabling acts.

Permanent Coordinating Agency

There seems to be a widespread impression that the Administration is without a clearly defined policy and program with respect to housing, that its activities in this field have been largely improvised, and that several of its agencies are in conflict with one another, both in their aims and in their actual operations. It is therefore proposed that there now be established, as recommended in the program submitted to the President by his Committee on Housing in 1934, a Federal Housing Coordination Board. This Board would be made up of the heads of the various agencies chiefly concerned with housing and urban-mortgage financing, serving as members ex-officio, together with a chairman appointed by the President by and with the consent of the Senate. An alternative suggestion is that the Board have a chairman and two other full-time members in addition to the ex-officio members. The principal functions of this Board would be as follows:

1. To correlate all present federal activities in the housing field and to coordinate all federal agencies in this field (a) with one another, (b) with related state and local agencies, and (c) with related private enterprises.

2. To make such studies and surveys, and to compile such statistics, as may be required in connection with the activities of federal agencies in the field of housing and urban-mortgage financing.

3. To establish a division of technological research in housing, particularly with a view to studying the materials and methods of construction, and make the results of such studies available to all interested governmental agencies, federal, state, and local, and to private enterprises.

4. To prescribe rules and regulations governing the disbursement of such funds as may be appropriated by Congress for federal aid to state and local housing bodies, or to private agencies engaged in slum-clearance, neighborhood rehabilitation, and the construction of housing for families of low incomes.

5. To report to the next session of Congress on the urban housing situation in the United States, on the state of the construction industry, and on the extent of the need for federal aid in the housing field.

Repair and Modernization Program

Title I of the Housing Act will expire on April 1, 1936. It is proposed to extend this Title in modified form until December 31, 1936. One-half of the insurance fund of \$200,000,000 now provided for loans under this Title would be cancelled. The unused portion remaining on April 1 from the other half of the original fund would be used to insure repair and modernization loans up to 10 per cent of aggregate losses on loans made after April 1, 1936; that is, the reserves accumulated under Title I by lending agencies up to April 1, 1936, would be terminated, and such reserves as were ultimately not needed to pay losses would revert to the Treasury.

The sum available for insuring loans after April 1, it is estimated, will be between \$30,000,000 and \$40,000,000. Insurance of home-repair and modernization loans up to \$2,000 would be limited to improvements to the real estate; that is, the insurance of loans on household equipment would be discontinued. The insurance of repair and modernization loans up to \$50,000 on commercial and industrial properties, however, would continue to apply to machinery and equipment as well as to real-estate improvements.

Low-Priced Houses and Apartments

It is generally recognized that there is a pressing need for new houses and apartments built to rent or sell at prices that are

within the reach of families whose incomes range from \$1,500 to \$3,000 a year. It is also generally recognized that loans on small modern houses and on moderately-priced modern apartments constitute the best classes of mortgage risk. Hence, it is proposed to offer special facilities and inducements for the early construction of housing with an upper limit of \$5,000 as the selling price of a single-family house or a comparable figure for multiple-family dwellings. The principal measures for this purpose would be as follows:

1. To authorize the Federal Housing Administrator, until July 1, 1937, to insure mortgages on new construction up to 90 per cent of purchase price or appraised value, whichever is less; provided that amount of loan does not exceed \$4,500; provided further that purchaser makes a down payment of not less than 10 per cent in cash or its equivalent; and provided further that the building contractor or operative builder contracts to guarantee payment of the purchase-money mortgage down to 75 per cent of original basis of loan.

2. To authorize, until July 1, 1937, insurance of loans falling within the above category in advance of completion of construction; that is, a loan made for land acquisition and construction to be insured and, in event of the failure of the builder to complete the property, construction would be completed by the mortgagee, who would

then have the option of selling the property or receiving an FHA debenture for the face amount of the loan and a certificate of claim for any actual loss sustained completing the building operation.

3. To authorize national banks and federal savings and loan associations to make, purchase and sell mortgages up to 90 per cent as provided in the two preceding paragraphs, and to authorize national mortgage associations to purchase and sell such mortgages.

4. To authorize, until July 1, 1937, insurance of mortgages on multiple-family dwellings from \$16,000 to \$100,000; provided that on the basis of the number of family units the mortgage does not exceed an average of \$4,500 per unit, or some comparable figure if a room is used as the basis of computation; provided further, however, that in the case of such mortgages from \$16,000 to \$100,000 the mortgagor shall be required to make a down payment of not less than 20 per cent in cash or its equivalent.

5. To authorize the payment, for the account of mortgagors, of an interest subsidy of 1 per cent per annum on a total volume of residential construction up to \$100,000,000; provided (a) that mortgages so subsidized shall conform to the provisions of Title II of the National Housing Act; (b) that the amount of the mortgage shall not exceed \$4,500 in the case of a single-family dwelling, or an average of \$4,500 per family unit in the case of a multiple-family dwelling;

and (c) that the property shall be completed and principal and interest payments on account of the mortgage accrue from a date not later than July 1, 1937. (NOTE: This subsidy, on a \$4,500 mortgage under Title II, bearing 5 per cent and running for 20 years, would amount to \$44.39 in the first year and would gradually diminish to \$1.89 in the last year. The total amount of the subsidy would be \$525.47, or 11.7 per cent of the original face amount of the mortgage.)

General Provisions Affecting Title II and Title III

Several of the existing provisions of Title II and Title III of the Housing Act have been generally recognized as constituting hampering restrictions on the successful operation of the long-term, low-cost, monthly-payment single mortgage. To remove these restrictions it is proposed (a) to eliminate the provisions that the benefits of the governmental guaranty shall apply only on mortgages insured prior to July 1, 1937; (b) to increase the amount of insurance authorized on new construction to \$2,500,000,000; (c) to increase the authorized ratio of debentures to capital of national mortgage associations to 20 to 1; and (d) to authorize national mortgage associations to make direct loans of \$100,000 or more under the provisions of Section 207 of the National Housing Act.

It is also proposed that the service charge of 1/2 of 1 per cent now authorized on loans under Title II be eliminated, though

this is a matter of administrative regulation rather than of legislation.

A further proposal is that a down payment of 20 per cent in cash or its equivalent be required in the case of all property on which purchase-money mortgages are insured under Title II, and that in the case of refunding mortgages the amount of the insurance on the property as of January 1, 1936. These are matters that can be handled either by administrative regulation or by legislation.

Slum-Clearance and Low-Rent Housing

In view of the fact that a variety of plans for handling slum-clearance and low-rent projects are under discussion, without any tentative conclusions having been reached. It is suggested that this problem might be greatly simplified by resort to a further use of insurance as a means of financing slum-clearance and low-rent housing largely by private funds, with the Federal Government joining state or local governments in providing either a rent subsidy or an interest subsidy, or both, over a period of years running at least as long as the mortgage. The mechanism for financing the rehabilitation of blighted areas, where the character of the improvements to be made does not call for a subsidy, is already provided under

Section 207 of the Housing Act, and can in all probability be made operative on an extensive scale if Title III of that Act is made workable and if some initial impetus, by way of organization and planning (not financing) is done by such a body as the proposed Federal Housing Coordination Body.

As a basis for determining the extent of federal participation in the financing of low-rent housing projects, it is suggested that the actual demolition of properties condemned under fire and sanitary codes might be the most practical basis. In other words, the number of family units found unsafe or unsanitary, and actually demolished, would determine the extent of federal participation in the financing.

Large-Scale Housing Operations

The proposals made above in regard to the general provisions of Title II and Title III would provide ground for reasonable expectation that one or more national mortgage associations would be organized at an early date by private interests. Should such action not materialize, however, a substantial volume of large-scale housing operations that are greatly needed would be lacking practical means of financing.

It is therefore proposed that a capital fund of \$25,000,000 be established, \$10,000,000 of which shall be available to the Federal

Housing Administrator to establish under his own direction one national mortgage association formed for the exclusive purpose of making loans under Section 207 of the Housing Act up to July 1, 1937. The remaining \$15,000,000 would be available to the Federal Housing Administrator to subscribe up to 75 per cent of the capital stock of national mortgage associations organized prior to July 1, 1937, though not more than one such association would be authorized in any Federal Reserve District.