

Office Correspondence

Date March 2, 1936To Chairman EcclesSubject: Attached memoranda on slum-From J. M. Daigerclearance and housing coordination.

... 16-852

Following the suggestions made in the memorandum that I wrote for you on February 21, the night of the dinner meeting which you attended at Mr. Grimm's house, Mr. Grimm and I discussed at some length last week the matter of slum-clearance operations. The matter was further discussed last Thursday evening at another dinner meeting at Mr. Grimm's house.

The principal suggestions that I put forward were (a) that actual demolition under fire and sanitary codes be a condition precedent to any Federal subsidy; (b) that in no circumstances should the Federal Government force "demonstration" projects on a community; (c) that all projects involving either direct or indirect financial assistance by the Federal Government be passed by a Coordinating Board; (d) that the major financing be done through mortgages insured by the FHA and the equity financing through preferred stock purchased by the RFC Mortgage Company; (e) that the RFC Mortgage Company stand ready to take the insured mortgages, as in the case of large-scale operations approved by FHA, pending the private formation of national mortgage associations with authority to issue debentures against the insured slum-clearance projects as well as against other large-scale projects insured by the FHA.

PROGRAM FOR SLUM CLEARANCE

1. Any slum clearance or rehabilitation projects subsidized by the Federal Government shall be to replace old housing condemned under fire and sanitary codes and actually demolished.
 - a) The number of family units built shall not exceed the number destroyed.
 - b) The new housing may be on the site of the old housing or it may be elsewhere.
2. Any new housing subsidized by the Federal Government shall conform to minimum standards of adequacy and to maximum rent schedules prescribed by the Secretary of the Interior.
 - a) Housing shall be as low in cost as possible ^{and of a type of} ~~and built~~ construction suitable for financing up to 30 years. ~~to last 30 years~~ Design, construction, and equipment shall be simple and inexpensive.
 - b) Average rents of subsidized housing may not exceed average paid by families in slum areas where clearance is made.
3. Tenancy must be strictly limited to families unable to pay an economic rent for unsubsidized housing, new or old, of adequate standards.
4. All housing projects must be initiated, the sites selected and acquired, the buildings constructed and managed, by non-Federal agencies.
 - a) The Secretary of the Interior or the Coordinating Board for housing shall have power to collaborate with State, local, or private agencies in the preparation of plans and the organization

of projects.

5. At least fifty per cent of the rentals required to support the housing projects shall be obtained from the rentals actually charged the tenants; not more than one-half the remainder shall be paid as a subsidy by the Federal Government; and the balance shall be paid as a subsidy by State governments, local governments, or private citizens, acting jointly or severally.

- a) The Federal subsidy shall be payable in annual installments over the term of the mortgage.
- b) State, local, and private subsidies shall be paid in such form as suits the giver. Tax exemption shall be an acceptable form.

6. The following forms of financing are suggested:

- a) Borrowings by State or local governments secured by their full faith and credit, the bonds to be sold to banks, insurance companies, private investors, etc.
- b) Borrowings by State or local agencies or private corporations secured by mortgages on one or more housing projects, the mortgages to be insured by the FHA and to be sold to banks, insurance companies, National Mortgage Associations, private investors, etc., or the RFC Mortgage Company.
- c) Eighty per cent first mortgages as in (b) plus twenty per cent ^{equity financing to be provided by} ~~second mortgages to be sold to~~ the RFC Mortgage Company.

7. All subsidized housing which involves the Federal Housing Administration or the RFC Mortgage Company shall be submitted for approval to the Coordinating Board for Housing (the setting up of which is proposed elsewhere) and such approval shall determine the action of the Federal Housing Administration and the RFC Mortgage Company.
8. The Federal Government will agree to subsidize 20,000 dwelling units in 1936-37 and to increase this number at the approximate geometric rate of 50 per cent per year for the succeeding four years.
- a) The following schedule shows the full five-year program:

<u>Fiscal year</u>	<u>Number of units Subsidized each year</u>	<u>Cumulative</u>
1936-37	20,000	20,000
1937-38	30,000	50,000
1938-39	45,000	95,000
1939-40	67,000	162,000
1940-41	100,000	262,000

9. The Federal Government will agree to finance ~~by second mortgage or otherwise~~ ^{up to} 20 per cent ^{the cost of} of ^{all} units constructed each year.

- a) The following schedule shows the number of units to be Federally financed:

<u>Fiscal Year</u>	<u>Number of units financed each year</u>
1936-37	4,000
1937-38	6,000
1938-39	9,000
1939-40	13,400
1940-41	20,000

10. The following estimate of costs is presented. The Federal subsidy is assumed to be \$2 per room per month for 30 years, or one-quarter of an \$8 economic rent. A dwelling unit is assumed to cost \$3,000.

<u>Fiscal year</u>	<u>Yearly Appropriation for Annual Subsidy</u>	<u>Recoverable</u> Government's <u>Mortgage Loans</u> Equity Invest- ment
1936-37	1,680,000	12,000,000
1937-38	4,200,000	18,000,000
1938-39	7,980,000	27,000,000
1939-40	13,608,000	40,200,000
1940-41	21,008,000	60,000,000

N.B. The \$21,000,000 subsidy would continue annually for 25 years, after which period it would diminish for 5 years to \$8,400,000 in 1969-70 and to nothing in 1970-71. The present value of the total subsidy is \$390,900,000, figured at 3 per cent compounded semi-annually. The capital value of the houses built over the five-year period is \$786,000,000.