FEDERAL HOUSING ADMINISTRATION
MEMORANDUM

June 25, 1936.

TO: Hon. Marriner S. Eccles,

I know you will be interested in reading the enclosed statement reprinted from the Congressional Record.

The following figures, and the chart attached, indicate the rapid recovery of residential building.

NEW RESIDENTIAL BUILDING PERMITS ISSUED

Cities of 10,000 and over
Source: Bureau of Labor Statistics

	1934	1935	1936
Jan.	$ 4,448,000	$ 9,163,000	$ 30,434,000
Feb.	4,962,000	10,144,000	29,368,000
Mar.	8,878,000	20,192,000	37,916,000
Apr.	10,515,000	23,128,000	45,523,000
May	11,958,000	25,573,000	45,720,000

Paralleling these figures, the insured mortgage business of the FHA increased 237% during May, 1936 over May, 1935.

The FHA does not lend government money. It insures loans made by banks, building and loan associations, insurance companies and other private lending institutions.

Stewart McDonald
Administrator

ACHIEVEMENTS

OF THE

FEDERAL HOUSING ADMINISTRATION

STATEMENT BY

HON. STEWART McDONALD
FEDERAL HOUSING ADMINISTRATOR

REPRINTED FROM
THE CONGRESSIONAL RECORD - APPENDIX, JUNE 2, 1936

FHA Form No. 771

U S GOVERNMENT PRINTING OFFICE: 1936

EXTENSION OF REMARKS

OF

HON. BENNETT CHAMP CLARK

OF MISSOURI

IN THE SENATE OF THE UNITED STATES

Monday, June 1, 1936

FEDERAL HOUSING ADMINISTRATION—STATEMENT BY STEWART McDONALD, ADMINISTRATOR

Mr. CLARK. Mr. President, I ask unanimous consent to have printed in the Appendix of the RECORD a statement by Stewart McDonald, Adminstrator, on the achievements of the Federal Housing Administration.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

The Federal Housing Administration launched the Modernization Credit Insurance Plan, a temporary recovery measure, in August 1934. The Mutual Mortgage Insurance Plan, a permanent measure, was placed in active operation during the spring of 1935, when the States had paved the way with necessary amendments to their laws. Today, within less than 2 years of operation under the National Housing Act, the total business transacted under the two plans, representing more than 1,125,000 individual loans, amounts to $828,-000,000, and during next August should pass the billion-dollar mark.

It should be borne in mind that the money advanced under the Federal Housing Administration program is all private capital. The Administration makes no loans—it merely reinforces the tie between the borrower and the lender by providing credit insurance for loans meeting certain required conditions. Thus far, the confidence of the Government in the willingness and capacity of its citizens to meet such obligations has been fully justified, as the claims for losses under the insurance plans have been very small.

MODERNIZATION CREDIT INSURANCE PLAN

The modernization credit insurance plan gave new heart to the whole recovery movement by unlocking sources of credit in practically every city, town, and county. At the time the National Housing Act was passed less than 1 percent of the banks were either organized or prepared to make personal loans based on character and income of the type necessary to make the act function properly. Now banks that have made insured modernization loans represent over 85 percent of the total banking resources of the country. In all more than 6,000 banks, building and loan associations, finance companies, and other institutions have participated actively in making loans under the plan.

More than 8,000 local better-housing committees and other voluntary agencies were stirred into action because of the credit that was made available, and have generated total modernization work estimated at $1,500,000,000. As a result of these activities millions of our people are now living in improved homes and thousands of wage earners in the durable-goods industries—which were the hardest hit by the depression—have received jobs or have had steadier work and bigger pay checks.

The progress of the modernization credit insurance plan is shown by the following tables:

Volume of modernization notes insured

Month	Monthly		Cumulative	
	Number	Amount	Number	Amount
1934				
August	514	$251, 595	514	$251, 595
September	7, 361	3, 274, 425	7, 875	3, 526, 020
October	20, 886	8, 834, 565	28, 761	12, 360, 585
November	23, 961	9, 852, 992	52, 722	22, 213, 577
December	19, 936	8, 237, 006	72, 658	30, 450, 583
1935				
January	15, 310	6, 582, 034	87, 968	37, 032, 617
February	12, 206	5, 269, 524	100, 174	42, 302, 141
March	18, 644	7, 814, 722	118, 818	50, 116, 863
April	28, 254	11, 300, 416	147, 072	61, 417, 279
May	36, 374	14, 415, 746	183, 446	75, 833, 025
June	41, 285	16, 154, 052	224, 731	91, 987, 077
July	63, 418	21, 084, 565	288, 149	113, 071, 642
August [1]	71, 297	24, 240, 035	359, 446	137, 311, 677
September	87, 970	30, 403, 178	447, 416	167, 714, 855
October	81, 251	27, 163, 130	528, 667	194, 877, 985
November	93, 712	31, 051, 675	622, 379	225, 929, 660
December	86, 026	28, 141, 069	708, 405	254, 070, 729
1936				
January	82, 273	26, 337, 862	790, 678	280, 408, 591
February	55, 028	17, 521, 022	845, 706	297, 929, 613
March	82, 673	28, 627, 748	928, 379	326, 557, 361
April	89, 259	39, 052, 131	1, 017, 638	365, 609, 492

[1] Act amended to include notes of over $2,000.

Volume of modernization notes by States, reported by address of borrower through April 1936

State	All notes	
	Number	Amount
Alabama	8, 528	$2, 708, 512. 15
Arizona	8, 863	3, 224, 162. 09
Arkansas	8, 424	2, 959, 814. 93
California	180, 823	57, 665, 219. 75
Colorado	5, 578	2, 087, 266. 16
Connecticut	13, 451	5, 406, 287. 64
Delaware	1, 914	807, 181. 23
District of Columbia	5, 434	2, 718, 312. 82
Florida	13, 780	5, 639, 956. 03
Georgia	11, 762	4, 528, 394. 79
Idaho	6, 690	1, 994, 039. 42
Illinois	47, 467	17, 345, 512. 21
Indiana	26, 511	7, 705, 109. 14
Iowa	10, 056	3, 701, 455. 38
Kansas	6, 545	1, 961, 150. 23
Kentucky	9, 654	3, 367, 901. 20
Louisiana	12, 304	3, 219, 157. 15
Maine	2, 843	1, 091, 740. 13
Maryland	11, 405	4, 702, 379. 37
Massachusetts	33, 799	12, 470, 975. 71
Michigan	47, 608	13, 891, 344. 04
Minnesota	14, 337	5, 457, 343. 12
Mississippi	5, 597	2, 155, 325. 24
Missouri	30, 519	9, 253, 012. 98
Montana	2, 525	1, 310, 969. 55
Nebraska	4, 340	1, 484, 162. 66
Nevada	1, 971	860, 473. 90
New Hampshire	3, 260	1, 353, 334. 21
New Jersey	68, 651	24, 657, 448. 31
New Mexico	2, 105	1, 052, 413. 08
New York	150, 508	69, 198, 280. 15
North Carolina	1, 724	2, 808, 246. 02
North Dakota	1, 229	584, 797. 87
Ohio	39, 211	11, 871, 045. 17
Oklahoma	11, 590	3, 610, 306. 11
Oregon	16, 273	5, 221, 789. 59
Pennsylvania	56, 727	19, 131, 364. 87
Rhode Island	6, 593	2, 679, 875. 40
South Carolina	4, 370	1, 674, 747. 11
South Dakota	1, 696	752, 348. 41
Tennessee	10, 837	4, 057, 228. 23
Texas	33, 829	11, 108, 322. 16
Utah	4, 802	1, 795, 952. 91
Vermont	1, 772	661, 006. 92
Virginia	11, 443	4, 800, 421. 42
Washington	35, 727	11, 836, 540. 61
West Virginia	4, 183	1, 663, 161. 31
Wisconsin	10, 395	4, 295, 723. 33
Wyoming	1, 408	718, 636. 27
Alaska	110	95, 021. 17
Hawaii	439	241, 275. 85
Puerto Rico	20	18, 980. 00
Canal Zone	3	4, 067. 00
Total	1, 017, 638	365, 609, 492. 50

MUTUAL MORTGAGE INSURANCE

Mutual mortgage insurance is now firmly tied into the financial fabric of the Nation through the amended laws of 47 States and through the amendments that have been made to the National Banking Act and other Federal laws. Financial institutions are finding that mortgage insurance, through the means which it provides for distributing the burden of losses that may arise from time to time, has substantially broadened the scope of conservative home-mortgage lending, just as fire insurance had already done in times past.

Improved techniques of appraisal and of analyzing mortgage risks have been developed as an inherent part of the mutual mortgage insurance system. These methods are applied by the thoroughly trained professional underwriting staff of the Federal Housing Administration, and provide a primary protection to both borrowers and lenders as well as the Administration itself. The protection afforded lenders and borrowers is thus enhanced beyond the direct benefits provided by the presence of the mutual mortgage insurance fund.

Within less than a year's operation of the plan, home-mortgage credit, which had been frozen almost solid for several years, was made generally available to home owners on the most attractive terms in the history of the Nation.

Formerly home owners, in order to obtain as much as 80 percent of the value, were often obliged to seek junior loans and were thus at the mercy of second-mortgage sharks. Now, however, one insured loan up to 80 percent of the appraised value may be obtained, and for a term up to 20 years, at a lower interest rate than formerly prevailed in many States for highly restricted short-term loans.

Mutual mortgage insurance provides for a free flow of mortgage funds from centers of supply into communities where funds are normally scarce. It has effected a reduction in mortgage financing charges for large sections of the country, due to the uniform interest rate established by the Administration. Thus in several States where home mortgage interest rates averaged about 8 percent, or even higher, the Administration has insured loans amounting to many millions of dollars at an interest rate of 5 percent, plus one-half of 1 percent service charge and the mortgage-insurance premium.

There can be no dispute as to the need for improvement in the mortgage lending system of the country, nor of the timeliness of the mutual mortgage insurance plan as a response to that need. The shortcomings of the old system need no recital. It financed extensive overselling of houses at inflated values, to borrowers unable to pay for them; further, first-mortgage lenders who apparently operated conservatively, frequently acted as parties to home-financing transactions in which the second mortgages involved exorhibitant charges. There were, of course, many institutions that made fully amortized mortgages, usually ranging from 7 to 12 years in duration, and for amounts up to 60 or 75 percent of the appraised value. However, in many areas such amortized mortgages involved substantially as high charges and as onerous terms in other respects as a combination of a first and a second mortgage. A large proportion of mortgages were for relatively short terms and were not amortized; hence the coming of the depression led to wholesale embarrassment on the part of numerous lending institutions, for they could not, or would not, because of shrinking values, renew the old mortgages and borrowers were not in a position to make lump-sum curtailments. Hence, many institutions found home mortgages a frozen asset.

Now, on the other hand, the insured home mortgage is being constantly amortized; it is readily salable, under ordinary conditions; and it is also discountable at Federal home loan banks, as well as being in part usable as collateral for advances at Federal Reserve banks.

The old system again failed to function properly during the period of deflation when a temporary wave of overcaution resulted in making reasonable credit unobtainable for many prudent prospective home owners whose support would have meant much to the home real-estate market.

The load placed upon the Home Owners' Loan Corporation to take over approximately $3,000,000,000 worth of home mortgages, representing a million properties, testified to the magnitude of the breakdown.

Increases in population and in the number of families, together with the present deficit in housing, are bound to result in a large revival in home-building activity during the next few years. It is of incalculable importance to the Nation that the major mistakes of the past be avoided in financing this program. The mutual mortgage insurance system is exerting a powerful influence in the right direction. It is helping to raise home-building standards, including the proper layout and financing of new subdivisions, site planning, intelligent design, adequate standards for materials, and good workmanship throughout. It helps to bring the conservative buyer into the market by giving him adequate credit at reasonable terms. It discourages financing of borrowers who attempt to buy beyond their means, and the exorbitant financing charges that frequently went with such transactions. It encourages each home owner to make a sound purchase within his means.

The progress of the mutual mortgage insurance plan is shown in the following tables of mortgages accepted for insurance each month; i. e., the mortgages which the administration commits itself to insure. In the case of new construction, the actual insurance is not in effect until the building operations are complete and the home owner begins payment of the insurance premium.

Volume of mortgages accepted for insurance

Month	Monthly		Cumulative	
	Number	Amount	Number	Amount
1935				
January	102	$514, 280	102	$514, 280
February	435	2, 136, 480	537	2, 650, 760
March	1, 211	5, 101, 596	1, 748	7, 752, 356
April	1, 880	7, 926, 354	3, 628	15, 678, 710
May	2, 612	11, 109, 683	6, 240	26, 788, 393
June	3, 048	12, 264, 001	9, 288	39, 052, 394
July	4, 112	16, 872, 481	13, 400	55, 924, 875
August	5, 010	20, 671, 898	18, 410	76, 596, 773
September	5, 300	21, 285, 398	23, 710	97, 882, 171
October	6, 673	26, 163, 901	30, 383	124, 046, 072
November	6, 197	24, 515, 145	36, 580	148, 561, 217
December	5, 567	22, 033, 647	42, 147	170, 594, 864
1936				
January	5, 472	21, 531, 888	47, 619	192, 126, 752
February	4, 700	19, 182, 530	52, 319	211, 309, 282
March	5, 595	22, 026, 845	57, 914	233, 336, 127
April	7, 672	31, 243, 666	65, 586	264, 579, 793
Total reported through May 23			72, 862	293, 490, 861
Balance home mortgages in process				36, 456, 179
Rejections				83, 825, 435
Total home mortgages selected for appraisal				413, 772, 475

Volume of mortgages accepted for insurance through April 1936

State	Total		New construction only	
	Number	Amount	Number	Amount
Alabama	1, 051	$3, 268, 799	279	$1, 059, 009
Arizona	502	1, 626, 244	143	614, 452
Arkansas	1, 164	2, 873, 720	259	856, 840
California	8, 070	34, 582, 434	2, 844	14, 024, 002
Colorado	441	1, 335, 474	87	354, 180
Connecticut	570	2, 927, 970	263	1, 400, 635
Delaware	214	1, 055, 600	53	270, 000
District of Columbia	1, 133	7, 337, 790	264	1, 985, 200

Volume of mortgages accepted for insurance through April 1936—Continued

State	Total		New construction only	
	Number	Amount	Number	Amount
Florida	1, 092	$4, 346, 837	635	$2, 764, 502
Georgia	1, 041	3, 898, 494	382	1, 545, 994
Idaho	352	1, 059, 860	147	534, 000
Illinois	2, 611	11, 404, 080	553	3, 296, 285
Indiana	2, 059	7, 027, 341	305	1, 505, 298
Iowa	757	2, 526, 879	125	559, 295
Kansas	1, 818	4, 833, 507	372	1, 334, 670
Kentucky	717	3. 129, 160	148	799, 494
Louisiana	575	2, 255, 960	156	639, 355
Maine	217	661, 780	28	124, 400
Maryland	923	3, 568, 790	117	652, 750
Massachusetts	1, 062	5, 422, 918	113	729, 360
Michigan	2, 911	12, 613, 630	913	5, 273, 410
Minnesota	1, 028	3, 393, 094	246	955, 778
Mississippi	1, 201	3, 366, 222	454	1, 503, 858
Missouri	2, 932	12, 611, 665	537	2, 957, 440
Montana	158	477, 261	30	123, 491
Nebraska	406	1, 344, 520	66	294, 450
Nevada	183	653, 905	40	167, 175
New Hampshire	407	1, 449, 751	30	124, 015
New Jersey	4, 608	23, 524, 445	1, 657	9, 154, 834
New Mexico	271	895, 675	96	384, 700
New York	3, 046	14, 654, 615	1, 672	8, 335, 430
North Carolina	779	3, 006, 584	302	1, 357, 960
North Dakota	289	785, 705	65	233, 450
Ohio	4, 962	21, 261, 805	957	5, 662, 829
Oklahoma	918	3, 105, 477	199	1, 019, 380
Oregon	331	845, 525	71	227, 750
Pennsylvania	4, 134	16, 810, 065	659	3, 664, 406
Rhode Island	312	1, 352, 680	59	260, 630
South Carolina	232	855, 908	80	320, 939
South Dakota	315	820, 480	56	206, 300
Tennessee	1, 258	4, 671, 345	225	967, 225
Texas	2, 855	10, 313, 325	1, 157	4, 792, 898
Utah	875	2, 698, 735	159	579, 900
Vermont	348	1, 189, 165	38	189, 450
Virginia	1, 458	5, 776, 911	452	2, 004, 380
Washington	1, 081	3, 108, 255	276	998, 970
West Virginia	307	1, 283, 785	91	482, 450
Wisconsin	1, 010	4, 981, 931	485	2, 646, 736
Wyoming	492	1, 189, 397	68	226, 112
Alaska	39	119, 060	6	16, 800
Hawaii	71	275, 235	57	221, 215
Total	65, 586	264, 579, 793	18, 476	90, 404, 282

The application of the Mutual mortgage insurance plan to large-scale housing projects is a most promising phase of the program, for the financing of apartments and other rental quarters often has been of an unsound character. There has been a reluctance of responsible lenders to make high-percentage loans, particularly for large projects where the amounts tied up are considerable; most of the largest rental projects in the past were for families of high incomes, and many of them were financed through misleading appeals to small investors. Through its power to insure mortgages on large-scale housing developments for persons of small income where the owner is a limited dividend corporation, the Federal Housing Administration is encouraging private capital to enter the field. Particular emphasis is given to the matter of sound planning and financing, and to responsible, efficient management.

To date 21 projects involving a total cost of nearly $42,000,000 and mortgages amounting to $33,000,000 have been approved and commitments to insure mortgages have been issued. In addition, proposals are under consideration for insurance of underlying mortgages amounting to $104,000,000 on 52 projects, all of which have undergone preliminary examination. They range in amount from mortgages of around $100,000 up to $10,000,000, the limit allowed by the law, with the average around $2,000,000. Additional applications indicate the possibility of construction running into several hundred million dollars per year.

ENDORSEMENTS OF PROGRAM

The activities of the Federal Housing Administration have received the most whole-hearted endorsement from groups having widely varying interests. For example, a report approved by the Chamber of Commerce of the United States at its latest annual meeting stated:

"The elimination of the second mortgage by the mutual insurance of first mortgages up to 80 percent of the value of the property is an experiment which is worthy of further trial. Accompanied as it is with the assumption of a contingent liability on the part of the Government, there are reasons to believe that this experiment will become an increasingly important factor in the next 2 years in the recovery of small-house construction. The plan definitely reduces the costs of home ownership to the consumer or purchaser who is not in a position to make a down payment of more than 20 percent; that is, to the buyer who ordinarily would need a second mortgage in order to acquire a home. Since second-mortgage financing facilities are not at present generally available, the plan provides an immediate means of obtaining such funds as a part of a single mortgage."

Again, the president of the American Bankers' Association, Mr. Robert V. Fleming, stated to a group of bankers:

"I desire to call your attention to first-mortgage amortized loans on real estate which can be made under the provisions of title II of the National Housing Act. This type of loan is particularly desirable, as there is no industry which can do more to stimulate employment and help in the stability of the country than the construction of homes. Furthermore, title II loans assist in making unimproved real estate liquid, thus supplying an additional purchasing power. I believe the campaign of education which is being carried on in connection with the provisions of the National Housing Act as to the principles of amortization and standardization of appraisals will be most helpful."

A prominent building and loan association official stated:

"The Federal Housing Administration loan is really the 1935 model of the building and loan mortgage. * * * Our association is well satisfied with the reception of the Federal Housing Administration insured mortgage plan by the prospective borrowers. We intend to take just as many loans on this plan as our funds will permit. Our association is quite willing to make loans on the 20-year plan backed up by the Federal insurance giving further protection to the investments of its savings shareholders."

Mr. William Green, president of the American Federation of Labor, in a message addressed "to the men and women of labor", has stated:

"The American Federation of Labor, ever anxious to provide employment for the workers and to improve the conditions under which they and their dependents live and labor, unequivocally endorsed the program of the Federal Housing Administration in its recent convention in San Francisco.

"The Federal Housing Administration has now made effective those provisions of the National Housing Act under which loans for new construction and the purchase of existing homes may be insured, thereby making possible the freeing of billions of money so long withheld from the building industry on terms fair to the borrower and safe to the lender, and opening the door of employment to millions long idle.

"In conformity with the action of the San Francisco convention, I now urge all of our people to get squarely behind the Federal Housing Administration and the building trades in their efforts to revive building and to provide better and healthier housing under these provisions of the National Housing Act.

"The ramifications of the better-housing program are almost infinite. Directly the millions employed in building and in the production and transportation of building materials will benefit. Indirectly those normally engaged in the production and sale of all types of goods and services will benefit.

"The building dollar is a busy dollar. It is not 'hidden in a bush' or buried in a vault. From the pay envelope it speedily finds its way into the purchase of clothing, of food, of the thousand and one things and services we all require or wish in our daily lives. In turn it makes it possible for those producing, transporting, and selling these goods and services to satisfy their own wants and needs and give employment to others."

Such comments have their parallel in many hundreds of commentatory editorials coming from practically all sections of the daily and periodical press.

CONCLUSION

The rise in residential building which has been so marked during the past 12 months could not have proceeded as it has without the constructive help of the mutual-mortgage-insurance plan. There was an increase of 172 percent in the dollar amount of residential building permits in 1935 over 1934, and a further increase of 142 percent during the first 4 months of 1936 over the same months in 1935.

Reports of shortages in skilled building-trades labor have been received from many points in different regions of the country. In one city after another housing has come out of reverse and once again is moving forward toward better living standards.

In concrete terms, hundreds of thousands of families are buying or building homes this year, or are refinancing their present homes at lower cost, because they can obtain credit safely and on more reasonable terms than ever before. They are achieving their aspirations for better homes in which to live and to raise their children, and they are able to do it because of the insured mortgage system.

The resulting home building is furnishing a powerful stimulus to recovery in business and employment, and is rightly regarded as holding unique possibilities as a force for continued prosperity in the future. The good work must be pressed vigorously on. The present housing deficit means that there is lost ground to be made up, and demands for new housing, including rental projects, will crowd in faster than we realize with each further step in the recovery of employment. There must be no let-up, no relaxation of effort in the movement to establish home financing and the financing of large-scale rental projects on a thoroughly sound basis. It is unthinkable that the Nation should fall behind when the ground work for advance has been laid so ably through the far-seeing action of Congress in creating the Federal Housing Administration.