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January 14, 1937

Mr. Ernest J. Draper,
Assistant Secretary,
Department of Commerce
Washington, D. C.

Dear Mr. Draper:

Acting on Administrator McDonald's statement that there is plenty of money available in the small line insurance companies with which to finance large-scale apartment construction, I contacted several such companies, the names of which he gave me, as being among those able and willing to finance projects like Henderson Gardens. (You will recall that he admitted in a former conference that the large line insurance companies, and savings' banks would not cooperate.)

I called on the officers of the National Life of Vermont, the Atlantic Life, and the Virginian, and they refused outright to consider an application for a loan on Henderson Gardens. The Pilot and Jefferson-Standard permitted me to make an application, but rejected same upon due consideration. Briefly, the conditions actuating this refusal are those advanced by all the other companies which I contacted. They are as follows:

1. The small line insurance companies are not financially able to finance large-scale projects, except on a participation basis. (They agree with me that large projects can only be financed by the large line companies or on a bond issue basis.)

2. They are adverse to the idea of participating on large loans for two principal reasons: (a) In case of default the companies, or company, having the largest interest in the loan are forced to assume the burden of reorganization and liquidation by the smaller interests. (b) The smaller interests feel that because of the smallness of their share in the loan that they have no voice in its control, and for that reason they do not like to join in on a participation basis.

In conclusion, I do not know the source of Mr. McDonald's information, but I have talked with the outstanding men in this group and they all assure me that he is mistaken in his assumption that they are able to bear the burden of financing the large scale housing program of the F.H.A. Therefore, if this work is to be placed on a going basis other sources of financing must be found. Two possible avenues

are (a) Mortgage banks set up under the terms of the Federal Housing Act, and (b) Bond issues underwritten by commercial and industrial bankers. The former is a long drawn out possibility involving the necessity of additional legislation which means months of delay with the question of its working satisfactorily after enactment.

Therefore, bond issues seem to be the logical method immediately available. Hundreds of millions of dollars are available at once on this basis, and the only objections which I have heard raised against this method are negative banker arguments, rather than production arguments. Imaginary fears about a market for the bonds, and the details connected therewith seems to be the problems which worry Mr. McDonald in this respect.

Thanking you for your consideration of the above which is vital to our economic and industrial progress, I remain,

Very truly yours,

Robert Aldrich Rodger,
Brown, Wheelock, Harris, Stevens, Inc.

I. INSURANCE COMPANIES REASONS FOR NOT LENDING TO FHA INSURED PROJECTS.

- (1) Interest rate too low to be attractive. A low rate interferes with earnings and established procedure.
- (2) Rents below their fair market value -- too competitive.
- (3) Government Standard of appraisals unsatisfactory.

FHA REASONS FOR NOT ACCEPTING PROFFERED LOANS OF COMMERCIAL AND INDUSTRIAL BANKERS WHO ARE PREPARED TO UNDERWRITE LOANS ON A BOND ISSUE BASIS FOR PUBLIC SUBSCRIPTION.

- (1) No scarcity of mortgage money. Plenty available in third line mortgage companies.
- (2) Securities Exchange obstacle -- a too close scrutiny of projects permitting no concealment of pertinent data.
- (3) Possible challenge by a bond-holder on constitutionality of the Administration's approval of specific projects.
- (4) Inability to sustain a market for the bonds due to small volume of insurance.
- (5) Inadvisability of raising any new issues, or opposition, until after law is amended in coming session from "low cost" to "large scale" basis.
- (6) Interference with Treasury financing operations.

II. General Conclusions:

- (1) None of the reasons accounting for each succeeding failure are valid. A strong, competent, experienced Administrator should either circumvent or ride rough-shod over all of them.
- (2) The favorite alibi for failure of performance is the "need of new legislation." This excuse for failure was the main reason advanced for the creation of the RFC, FMA and FHA housing authorities. It is the principal reason being urged for the creation of the United States Housing Authority (Wagner Bill).
- (3) The revival of the building industry is essential to a continuance of the favorable advance in general business conditions, which for the greater part is based among many factors on the frail and inflationary support of (a) Government deficit financing, (b) foreign gold, and (c) the emergence of hoarded and surplus money. The revival of the building industry would place a solid foundation under the market and ward off wild inflation now a possibility.

- (4) The "key log" in the housing jam is its inadequate and archaic financing. For example,
- (a) The industry is forcibly financed at a pegged rate of interest, whereas other industries can borrow long term capital in a free money market at a price dictated by the law of supply and demand.
 - (b) Its financing on any basis whatever, is largely dependent upon the will to lend of the larger insurance companies, which more or less determine the policy of the small lending institutions.
- (5) It is clear that the only way to revive the building industry, on a wider and more stable basis, is to release it from the stranglehold of what has become a virtual mortgage monopoly, or dictatorship, on the part of a few large lending institutions. This can be accomplished by encouraging new, competitive money to come into the construction industry. This can be had in unlimited amounts from commercial and industrial bankers, on a bond issue basis, at current money rates.
- (6) Beyond question, the lid is still down on financing for new construction. The bankers' abdication of their functions in this respect presents a golden opportunity for the Administration to free the industry from their clutches and thus place all industry and employment on a wider and more stable basis. This also is the only way possible to provide financing for low cost housing on a "large scale" production basis.