



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 26, 1937

(COPY FOR MR. ECCLES)

TO: Mr. McReynolds

FROM: J. M. Daiger

SUBJECT: WAGNER HOUSING BILL—S. 1685

This is in response to your request for a memorandum outlining the alternative suggestion that I made at the meeting in your office this morning when commenting on your suggestion that the aggregate subsidy which the proposed United States Housing Authority might grant in any one year be limited to the total of principal and interest payments received in that year on account of loans made by the Authority. You asked me to assume for the purpose of discussion that the funds for such loans would be obtained directly from the Treasury and would aggregate \$1,000,000,000 over the next four fiscal years as contemplated in the Wagner bill.

Apropos of your suggestion, as I pointed out this morning, there would not be in operating practice a direct relationship between annual subsidies granted on the one hand and principal and interest payments received on the other. This is the same comment that I made at a previous meeting in your office with regard to the manner in which the Wagner bill puts the subsidy in terms of a percentage (estimated at 3½ per cent per annum) of the original capital cost of a housing project.

To illustrate my point: The bill authorizes the Authority to make loans to limited-profit housing agencies, but not to grant annual subsidies to such agencies. Suppose that some of these agencies default. Or suppose the Authority to have granted an annual subsidy to a certain public housing agency for one or two projects. It might then be unwilling to grant an annual subsidy for another project in the same community, and yet be quite willing to make a loan in order that the local agency could itself carry through the project. In still another community, the

Authority might have occasion to grant an annual subsidy to a project on which it had made no loan at all, or on which the bulk of the capital cost had been obtained from other sources.

Hence, while the contracts entered into by the Authority to pay annual subsidies might reasonably be expected, over a period of years, to call for no more money than the receipts on account of principal and interest on loans, the performance of the subsidy contracts each year would have to be specifically provided for in the bill and not left contingent on collections.

The accounting purpose that you have in mind—namely, to have the receipts of principal and interest used for the payment of annual subsidies—would in all probability be accomplished for the operations as a whole if the provision for annual subsidies were expressed in terms of an upper limit on the amount which the Authority might expend for subsidies in any one year. If I am correct in my understanding of your suggestion this morning, the annual receipts of principal and interest on \$1,000,000,000 of loans would be \$52,375,000 on a 60-year amortization basis. The practical procedure, then, as I see it, is to state that sum (or whatever other sum may be determined) as the upper limit of annual subsidies to be reached on the completion of the four-year program.

This would mean, of course, that if the accumulated receipts of principal and interest fell short at any time of meeting the current subsidies, the difference would have to be provided by the Treasury; but in the long run the items would probably offset each other, or at any rate come near enough to doing so to make the essence of your suggestion quite feasible. It is only that part of the suggestion which would call for a matching of the items within any given year that I think is not feasible.

My alternative suggestion proceeded, then, from the proposition that the sum to be made available for annual subsidies under the four-year program should be specifically stated—say, for example, \$6,000,000 in the first year, \$13,500,000 in the second, \$21,000,000 in the third, \$30,000,000 in the fourth and each year thereafter, not to exceed 60 years in the case of any grant. My further suggestion was that the loans and grants be designed in such a manner as to accomplish three purposes that the President expressed last year in some conferences on housing matters. These purposes are as follows:

1. To encourage early legislative action in States and municipalities where legislation is lacking for cooperation with a Federal housing authority.

2. To assure State or local participation and responsibility in the financing of subsidized projects.
3. To bring the rentals of subsidized projects definitely within reach of families of low income in the communities where such projects are undertaken.

With regard to the first of these points, and also partly in regard to the second and third, my suggestion is that the Federal contribution be 90 per cent of the required annual subsidy on projects for which commitments are made during the first two years; that it be 75 per cent on projects for which commitments are made in the third year; and 66 $\frac{2}{3}$ per cent on projects for which commitments are made in the fourth year. If some such participation is required of the State or local government, provision might of course be made in the bill that this participation could be "in the form of partial financing, annual contributions, land in whole or in part, community facilities or services, or partial or complete remission of taxes."

As to the second point, my further suggestion is that the security to be required for loans to public housing agencies should be the general obligation of States or municipalities and not simply the obligation of the State or local housing agencies. I would point out in this connection (a) that the bill authorizes loans up to 100 per cent of the capital cost of a project in the case of public housing agencies, and (b) that as a matter of practical policy the Federal Government cannot take a first mortgage on property owned by a State or municipality.

As to the third point, my suggestion is that the annual subsidy to be granted in any instance be expressed, not in terms of a percentage of the capital cost, but in terms of the estimated operating deficit to be incurred in order to put a project within reach of families of low income. Let us say that the estimated annual deficit on a given project were determined by the Authority to be \$100,000. Then, if the project were approved in the first or second year, the Federal commitment would be for \$90,000 a year up to 60 years; if approved in the third year, \$75,000; if approved in the fourth year, \$66,667.

To state the subsidy in terms of the capital cost seems to me to tend to validate high capital costs and to put at a disadvantage agencies that might be able to do the job inexpensively and yet have difficulty in getting the rentals within reach of the families most in need of a housing subsidy. In any event, the practical way to handle the subsidy, as I see it, is to give the Authority ample leeway to join with

the State or local government in making the subsidy large enough on any given project to accomplish the low-rental purpose.

There are two other points on which I would comment briefly. One is that I learned last year, in the course of many difficult conferences in which I was asked to participate, that the most ardent supporters of the 1936 Wagner bill held out tenaciously for the continuance of direct Federal construction of so-called demonstration projects. I am quite certain that the strong feeling in this matter remains unchanged. You expressed the view this morning that provision for demonstration projects should be eliminated from the present bill; but I would suggest that you have in mind the alternative on which I finally obtained an accord last year—namely, that such projects were to be undertaken only with the approval of the President.

The other point is that I think you might find Senator Wagner willing to modify the provision for \$1,000,000,000 of loans to be made over the next four years, and to make some proportionate modification of the total subsidy to be authorized. My own opinion is that the bill probably overshoots the mark of practical operation. If this is the case, then I think it would be better policy, not only from a fiscal standpoint, but also from a broad political standpoint, not to hold out the promise of more subsidized housing than the State and local agencies are actually able to carry through.

A handwritten signature in dark ink, appearing to be "J. M. G.", written over a horizontal line.