United States Senate

COMMITTEE ON FINANCE

June 2, 1937

Mr. Marriner S. Eccles
Federal Reserve Board
Washington, D.C.

Dear Mr. Eccles:

I am enclosing a copy of a brief which outlines the main features of a housing plan which has been brought to my attention. I would appreciate it if you could have someone of your research staff check it over and give me a report as to its feasibility particularly in regard to the financial guarantee involved.

Sincerely yours,

Robert M. La Follette Jr.

RML:nc

June 5, 1937.

My dear Senator:

I have your letter of June 2d enclosing the copy of the brief outlining the main features of the housing plan, and I have turned it over to our economic staff so that I may have prepared promptly an analysis and study which will enable me to arrive at some competent judgment about it. As soon as they are able to prepare this analysis, I will furnish you with a memorandum and give you the report which you request.

I appreciate your sending this to me. As you know, I have been greatly interested in the whole housing problem ever since I came to Washington and took part during my stay in the Treasury in the preparation of legislation.

Sincerely yours,

M. S. Eccles,
Chairman.

Honorable Robert M. LaFollette, Jr.,
United States Senate,
Washington, D. C.

T H E   E Q U I T Y   P L A N

Washington, D.C.
May 25, 1937

LIST OF APPENDICES

THE EQUITY PLAN

INSURED HOME OWNERSHIP FOR MODERATE INCOMES

SUMMARY

Append.

The Equity Plan creates a new market for those families who are at present renting without hope of ever acquiring a home. It will also facilitate rehousing on a large scale by allowing "trade-in" values on existing houses.

Type Houses:

House with garden plot, as an integral part of a small neighborhood unit, sold less than $5,000.

Market:

Present best estimate: Disregarding the great metropolises, towns under 5,000 inhabitants and reaching, in time, incomes as low as $1,500, the plan could serve 6,000,000 and upward.

Urban population can be roughly classified in three groups:

20% - Taken care of by present mortgage system. I.

50% - Served by this plan.

30% - Needing, at present, subsidy for decent homes.

1. Insured Investment substituted for old European mortgage instrument. Home purchasing liberalized in typical American way.

2. Long-Range Continuous Program possible by:

   (a) Widening considerably the market for houses through requiring only small or no down payment and allowing for transfer of equity.

   (b) Helping write off and wreck a substantial proportion of the existing one and two-family houses at the end of their useful life.

3. Cost Reduction allowed by long-range continuous program through:

   Stimulating the creation of privately well organized building companies (a combination architect and builder).

   Having labor gradually put on a yearly basis rather than hourly rates.

   Long-term contracts for materials.

   Advance land acquisition to avoid speculation.

4. A $4,000 House, part of a small neighborhood, can be purchased with no down payment, over 19 years, for $42.00 monthly, including taxes, structural repairs, neighborhood management. Cost of the house and relatively monthly payment will naturally vary from region to region.

5. Small Homogeneous Neighborhoods would allow for:

   (a) Protection of the value of the house.

   (b) Services - through cooperative group organization - impossible to provide for isolated individuals - such as medical care, home economics, recreation, gardens and other activities.

   (c) Economies in family budgets.

   (d) Possibilities for self-expression leading to a higher degree of civilization.

6. Home Purchaser is buying without getting into mortgage debt:

   His built-up equity is:

   (a) Insured against loss.

   (b) Transferable to any other vacant house under the plan.

   (c) Liquid to cover monthly payments during loss of income periods.

   The purchaser can increase his monthly payments without risk of foreclosure loss. His incentive is further increased by a substantial bonus.

A family is gradually led to home ownership with the maximum security, being able, if necessary, to make the average three or four changes of houses during a 19-year period without ceasing to accumulate towards home ownership.

7. Existing Houses: The best half of existing houses in a given community could also be purchased under the plan allowing for "trading-in" equities and for the protection of values upset by an extensive program. This is possible at a monthly payment close to rentals through help from grants included in the monthly payments on new houses.

The above will help slum clearance; at present new house building only takes care of new families, keeping slums and tenements always occupied generation after generation.

This plan is not intended to displace the present mortgage system or FHA's insured mortgages which should financially assist only those families able to afford, without secondary loans, a sound equity for the building of a custom made house on a lot of their choice.

EXHIBIT I.

INVESTMENT INSURANCE RISKS

Risks incurred by insuring $4,000 the total sale price of a house bought through a purchase contract.

Risks limited by:

Houses sold around or under $5,000.
Title not guaranteed at fixed date.
New houses in protected neighborhood.
Purchasers have vote in Management Corp.
Equity redemption in cash limited if necessary.
Proportion of existing houses insured in the fund kept low.

Risk from House	New Houses	Existing Houses
1. Fire, tornado, etc.	Taken care of by existing companies.	Taken care of by existing companies.
2. Structural repairs.	$40 yearly.	$80 yearly.
3. Writing-off (Obsolescence & Depreciation). The house could be wrecked physically at the end of - - - -	33 years.	25 years.
Risk from Purchaser		
4. Delinquencies (the purchaser stops his monthly payments or pays only partially.	The purchaser can draw on his equity account for long periods.	The purchaser can draw on his equity account for long periods.
5. Vacancy (the purchaser moves out)	5%	7.5%

I.
INVESTMENT INSURANCE RISKS

Append.

For a $4,000 new house all major risk factors add as follows in the monthly payments:

1.	Fire Insurance, Tornado, etc.	.50
2.	Structural Repairs	3.50
3.	Writing-Off	6.00
	Help to Existing Dwellings	4.00
4.	Delinquencies	- --
5.	Vacancy	2.00
		$16.00

This $16 paid monthly covers all risks and therefore the investment of $4,000 can be insured 100%.

The past decades have clearly shown that the buying of a home by modest incomes under the mortgage system is impractical and often disastrous. In the past four years one home out of five has been either foreclosed or menaced by foreclosure; and the amount of "equities" in homes wiped out is around two billion dollars. II.

Federal insured investment is suggested as a practical solution. No one in particular "holds the bag" any more than in a large insurance company. III.

1. Fire, tornado, etc. are old riskswell taken care of by existing companies.
2. Structural repairs will be pooled and taken care of on a group basis, reducing the cost not only by group work but by careful checking at regular intervals. Other repairs are borne by the purchaser.

3. Writing off is explained in Charts Vand VII.

   Help to Existing Dwellings: A long-range <u>continuous</u> program would be impossible without helping to write off a substantial proportion of the existing 1 and 2-family dwellings. The sum indicated has been calculated to take care of the better half of one and 2-family dwellings at the rate of $4 monthly. This $4 monthly contribution is the very thing that enables the purchaser to buy a house instead of renting old quarters. IV.

4. Delinquencies are avoided for the most part by allowing the purchaser to draw upon his equity account to cover his monthly payments. Periods as long as a year could be taken care of. (See Chart VI)

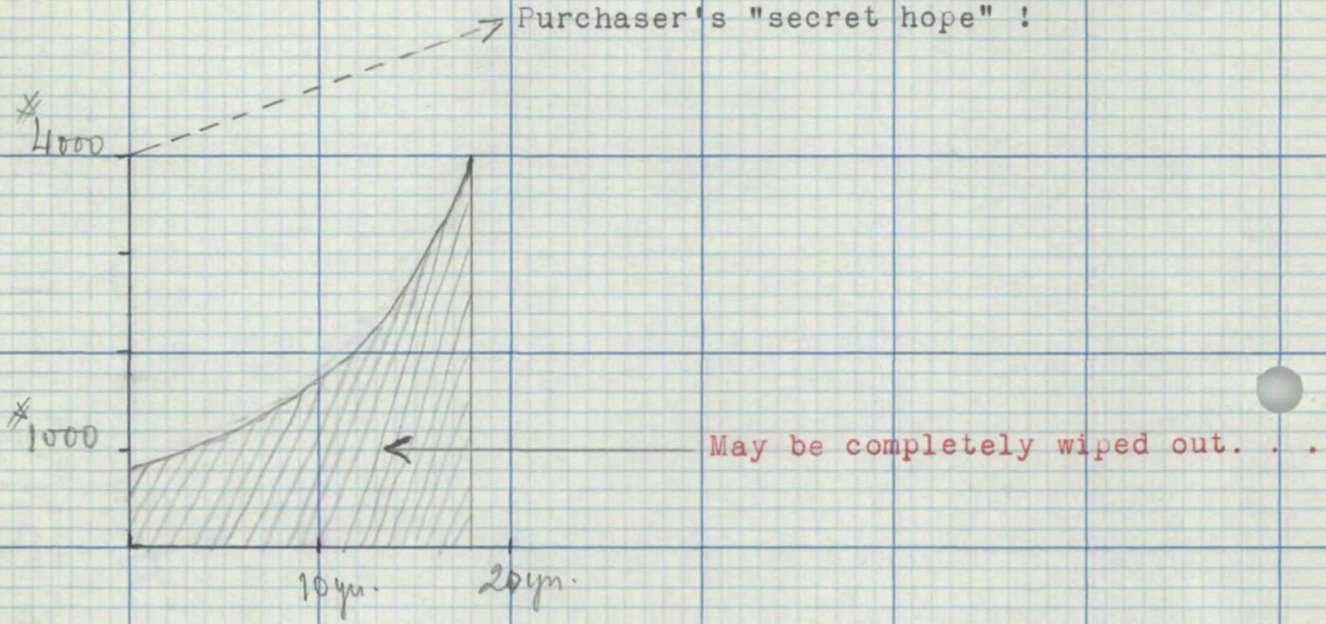
5. Vacancy: This vacancy rate is high to take care also of areas affected by shifting population. If the average vacancy rate turns out to be only 3%, this would allow out of every 100 houses, 15 years under the plan, 6 houses in depopulated areas to be written off twice as fast. V.

Operating expenses should be a small monthly item, the Insuring Agency dealing only with millions of dollars through the Trustee Companies.

EXHIBIT II B

COMPARISON EQUITY PLAN WITH FHA (the most liberal existing plan)

FHA Down payment: $800 & about $200 initial service charge, taxes, etc
Monthly payment: $29



E. P. Down payment: $1,000 (Initial service charge, taxes, etc. includ in sale price)
Monthly payment: $30 (Plus $7 for repairs and management not included in FHA payments)

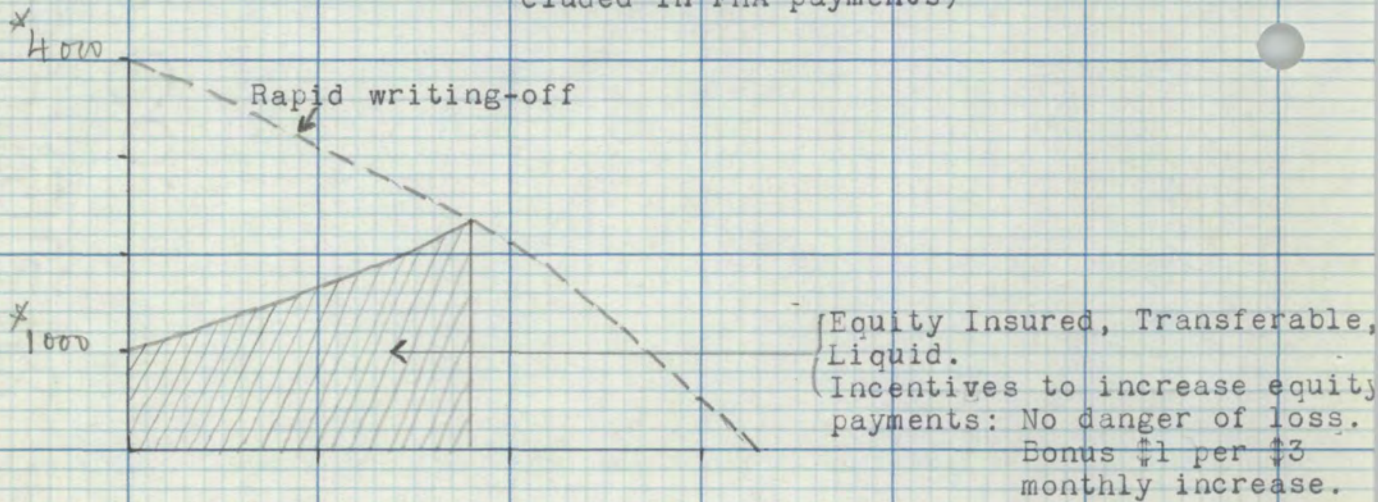


EXHIBIT II.

MONTHLY PAYMENT

(New House in Protected Neighborhood)

A 30-year purchase contract on a $4,000 house. If $42 is paid every month, title goes to the purchaser after 19 years at "book-value" $2,100.

Principal Avg. 30 years	$11	(Avg. 19 years $9)
Interest @4% Avg. 30 years	8	(Avg. 19 years 10)
Depreciation (compounded in fund at 3% interest)	6	
Contribution to depreciation of existing homes	4	
Vacancy Insurance (based on 5% vacancies)	2	
Taxes & Fire Insurance (Taxes in outlying districts assumed at $10 per 1,000 sale value)	4	

AS COMPARED TO PRESENT FHA INSURED MORTGAGE $35.00

Monthly Repair Reserve:
This payment is not included in FHA insured mortgage; thus has to be in the family budget. If repairs are ignored, heavier bills will ensue; far wiser to have this a fixed supervised charge. 3.50

Management:
Supervises house repairs and neighborhood maintenance essential to keep values stable and secure. Helps in setting up and running at cost all forms of cooperative effort leading to:

(a) Savings in family budget.
(b) Recreation direction and health service.
(c) Interest in garden and general care of the community.
(d) All forms of individual and collective expression that promote and enlarge and cultural life.
(e) Providing all those pleasures, comforts, and conveniences that cannot be afforded by those living unrelatedly. 3.50

TOTAL MONTHLY PAYMENT $42.00

II.
MONTHLY PAYMENT
(New House in Protected Neighborhood)

As an illustration a $4,000 house cubing 10,000 ft. part of a protected neighborhood, including a large plot for gardening and share of community features, such as: shopping center, 4-room school, auditorium, etc.

The "book-value" is kept, as far as possible, under the market value. It is determined from time to time on the basis of local rental surveys averaged over a period.

A sale price under $5,000 could be obtained in nearly any part of the United States; it is preferable to start with a good product at a higher price and gradually reduce costs through large-scale continuous operations, than to attempt, as at present, to reduce cost at the expense of quality in order to fit the mortgage system. VI.

In time, as far as can be forecast today, the $1500 income group will be reached allowing for a rehousing of possibly half the urban population, depending on raise of incomes to the 1929 level. Quotas would be set for cities and regions in order not to upset the real-estate market.

The purchaser is not buying under a mortgage debt but through a purchase contract. This purchase contract is over 30 years in order to give 11 years leeway. At completion of payments he receives a deed with community restrictions and the obligation to keep paying $11 covering taxes, fire insurance, repairs and management. VII.

The debt service $31 could follow the purchasing power of the dollar in order to protect the investors against inflation and the purchaser against deflation. VIII.

Community Unit: The purchaser not only buys a house but a share in an organized and protected neighborhood. The unit of construction is no longer the house but a community of about 250 families.In general, the physical aspect might correspond to Radburn,N.J.or Greenbelt,Md.

A 250 family community will give optimum savings in construction; is a manageable unit;provides for introducing every form of cooperative endeavor, for gardens and interest in general appearance, for savings in family budgets, for health and medical care, for recreation for grown-ups and play for children and for all those individual and collective expressions that cannot be afforded by those living unrelatedly. IX.

The manager will not only take care of the physical property but afford guidance in cooperative activities. He must have real understanding and adaptability.

Each community is a unit in a great chain of units which as their relationship grows more and more intimate will steadily enlarge the nature and variety of cooperative efforts.

Slum Clearance: When costs are substantially reduced, the purchase contract could be extended to the millions of slum dwellers through a rental subsidy at about one-half the cost of an outright grant. X.

EXHIBIT III.
MECHANISM AND ORGANIZATION

TRUSTEE CO.

Management Co.	Management Co.	Management Co.

THE TRUSTEE CO.	(Revolving fund $100,000 upward. (Sells insured bonds at 3.5%, redeem- (able in 30 years maximum. (Receives service charge of .5%. (Appoints manager. (Buys and controls land. (Links management of different com- (munity units. (Long-term policies.
THE MANAGEMENT CO.	(Holds title. (A body composed of the home purchasers, (presided over by the manager who con- (trols votes until all titles acquired. (Community unit run at cost. (Routine duties: collection monthly pay- (ments, repairs and maintenance, super- (vision of community features. (Guidance to purchasers for cooperative (endeavors.

III.
MECHANISM AND ORGANIZATION

Append.

The Trustee Company's officers are outstanding personalities - business men with a long-range social mind, also in other fields men of great repute. It invests in Management Corporation, each owning a community unit, and controls its majority vote through theappointed manager.

The Trustee Company holds large tracts of land for protection and future developments; in time it may be, if necessary, empowered with the right of eminent domain.

The Trustee Company receives 1% of the cost of each new community and a yearly service charge of .5% from each existing community until completely paid for. This service charge is not paid on vacant dwellings.

The Manager can receive $5,000 yearly; he must be a man with background, taking his position as a mission; training of younger men would be necessary.

The monthly payment is collected by the Manager who keeps the management fee, the repair fee and the taxes, sends the balance to the Trustee Company who keeps the principal and XI. interest and service charge; the balance, or premium is then sent to the Federal agency in charge of the investment insurance.

The Federal agency in charge of insurance:

Collects premiums.

Pays out on vacant dwellings.

Guarantees on insured bonds the paying back of principal in 30 years maximum,also the stated interest.

Makes rental surveys periodically to determine the "book-value" which averaged over a period will be kept below the values calculated from these rental surveys.

Keeps up-to-date files for the transfer of equities.

A National Federation of Trustee Companies , a semi-public body, could do part of the above functions, also sell all insured bonds. This Federation would be supported by a fixed contribution from all Trustee Companies.

EXHIBIT IV.
MONTHLY PAYMENT
(Selected Existing 1 & 2-Family Dwellings - Values about $3,000 to $8,000)

A 20-year purchase contract on a $4,000 appraised house. If $51 are paid every month, title to the purchaser after 14 years at "book-value" $2,200.

Principal	Avg. 20-years	$17	(Avg. 14 years $13)
Interest @6%	Avg. 20-years	12	(Avg. 14 years 16)
Premium @2%	Appraisal Value	7	
AS COMPARED TO A 14 YEAR B&L CONTRACT			$36.00
Taxes & Fire Insurance (Taxes in cities assumed at $20 per thousand sale value)			8.00
Monthly Repair Reserve (Assumed twice as high as on a new house).			7.00
This payment is not included in a B&L contract, thus has to be in the family budget. If repairs are ignored, heavier bills will ensue. Far wiser to have this a fixed supervised charge			
TOTAL MONTHLY PAYMENT			$51,00

IV.
MONTHLY PAYMENT
(Selected Existing 1 - 2-Family Dwellings - Values about $3,000 to $8,000)

Append.

No sound business enterprise would install new equipment without writing off the old. Viewing as a whole, the better half of the existing one and two-family dwellings this same principle applies.

Existing dwellings will only be insured after the intense building of new communities beginsto upset values and when customers for new houses cannot dispose readily of their old house. Insurance of existing houses will give prospective customers of new XII.
houses a "trade-in" value through transfer of their equity. Absentee ownership will also be protected by allowing the owner to sell under an insured contract with a limited loss.

At the beginning of an intense building program an existing dwelling was salable at $5,000 but two or three years after $3,000 could only be obtained; theinsurance fund meets the loss half-way by appraising at $4,000. The rent in such a home will generally be only a few dollars less than the monthly payment charged on the purchase contract.

The monthly payment is higher than for the same financing on a new house because title is given in 14 years and interest, taxes and repairs are much higher.

If the writing-off in 25 years and the 7.5% vacancy rate was charged directly without aid from the monthly $4 of the new houses, the premium would be $16 increasing the monthly payment to $60; this would be prohibitive to families paying less than $50 rent.

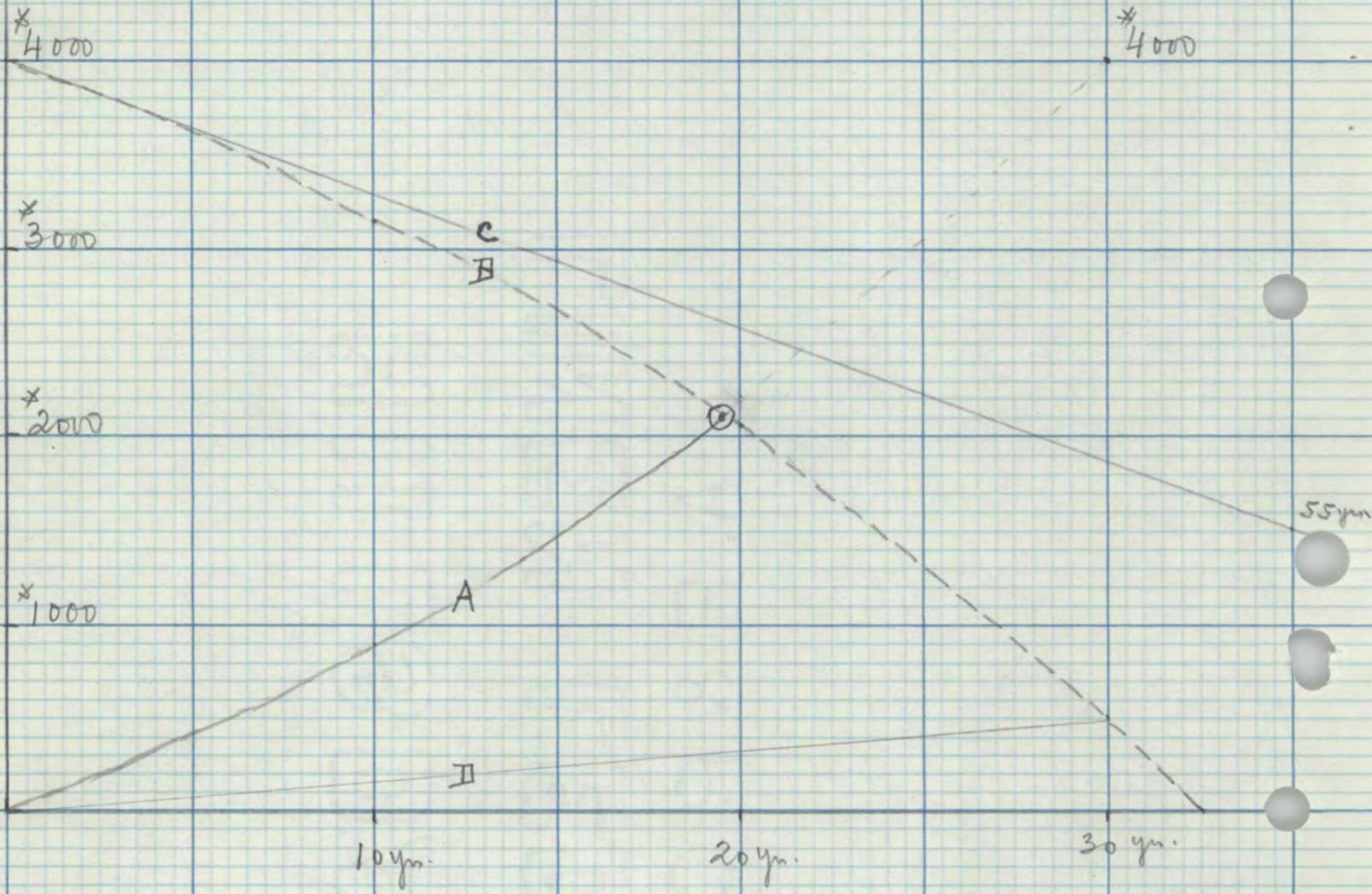
Every new house yields yearly $48 to help write off existing equities and mortgages. This $48 is paid in any case aggrating in 19 years $912. For instance if a purchaser is able to pay off in the 15th year he will have to add $190 to the outstanding balance.

For every 3 new houses built one existing dwelling can be insured with only 2% premium. Any acceptable house could be insured beyond this proportion for a premium of about 6%.

If the purchaser pays off in 14 years, his average yearly insured equity is $13. He, therefore, pays only $38 for shelter in a house well kept up in repairs. This in most cases would be less than the current rental.

The writing off can be accelerated by increasing the $4 from the new houses either through subsidy in times of depression to XIII.
increase the home building without further upsetting values; or by keeping the monthly payment constant and applying economies in cost to increase the $4.

WRITING OFF HOUSE AND BUILDING UP EQUITY CHART V.



Curve A: Cumulative accrued ownership or amountof $4,000 paid off at any given time.i.e the 10th year the accrued ownership or amount paid off is $888.

Curve B: "Book@value" of the house on the basis of average 3% yearly depreciation. The book-value" the 10th year is $3,160, the outstanding balance at that time would be $3,160- $888 = $2,272

Curve C: "Book-value" for a straight monthly depreciation with no compound interest. This is at the rate of 1,8% yearly.

Curve D: A straight line accumulating enough to pay off the "book-value"at the end of 30 years or $500. The purchaser cannot draw below this line.

V.

WRITING-OFF HOUSE AND BUILDING-UP EQUITY

Append.

The rhythm of writing-off the house and building-up the equity contrasts with the present frozen values of speculative expectancies and the psychology of debt and foreclosure. Year after year the position of the purchaser becomes more secure by having his house gradually written off and his equity substantially built-up.

Depreciation Fund:

$6.00 per month compounded at 3% interest. Complete depreciation in 33 years.
Straight depreciation without compounded interest in 55 years.

If new 30-year contracts are made in depression periods at the book-value at that time, the Trustee Company is paid the amount of the depreciation on the house, the depreciation curve will then fall somewhere between Curves B and C.

Title:

The time at which Curves A and B meet is about 19 years and the book value of the house is then $2,100. The Trustee Company will receive from the Depreciation Fund the complement to $4,000 or to the book-value of the last renewal.

The exact time at which the purchaser will have title is not guaranteed in the contract: this is an added security for the insurance fund as the exact depreciation and the number of adjustments are difficult to estimate, but with a large enough number and diversification of neighborhoods the chances are the purchaser will have title in 19 years or before if the status of the vacancy and repair funds allow it.

It is also possible that through rapid technological improvements and general rise in incomes the monthly payment could after a while be kept constant and not only existing homes but those built under the plan, becoming old also after 10 or 15 years, would be more rapidly depreciated (increasing the $6 for depreciation to $7 or $8), then the first purchasers of houses under the plan would get title several years before 19 years.

Average Total Equity: Over 19 years: $2,100 ÷ 19 x 12 = $9.10 XIV.
Over 30 years: 4,000 ÷ 30 x 12 = 11.10

Permanent Equity:

The book value of the house at the end of 30 years is $500. The monthly permanent equity is then 500 ÷ 360 = $1.40 - This cannot be drawn upon. It is the minimum rate of redemption of the insured stock.

Average Liquid Equity: Over 19 years: $9.10 - $1.40 = $7.70
Over 30 years: 11.10 - $1.40 = $9.70

The average liquid equity will most probably vary from $6 to $8 depending on the time at which the title is acquired; this amount can be drawn upon to cover monthly payments in case of emergency.

CHART VI c.

INSURANCE AFTER PRINCIPAL PAID-OFF

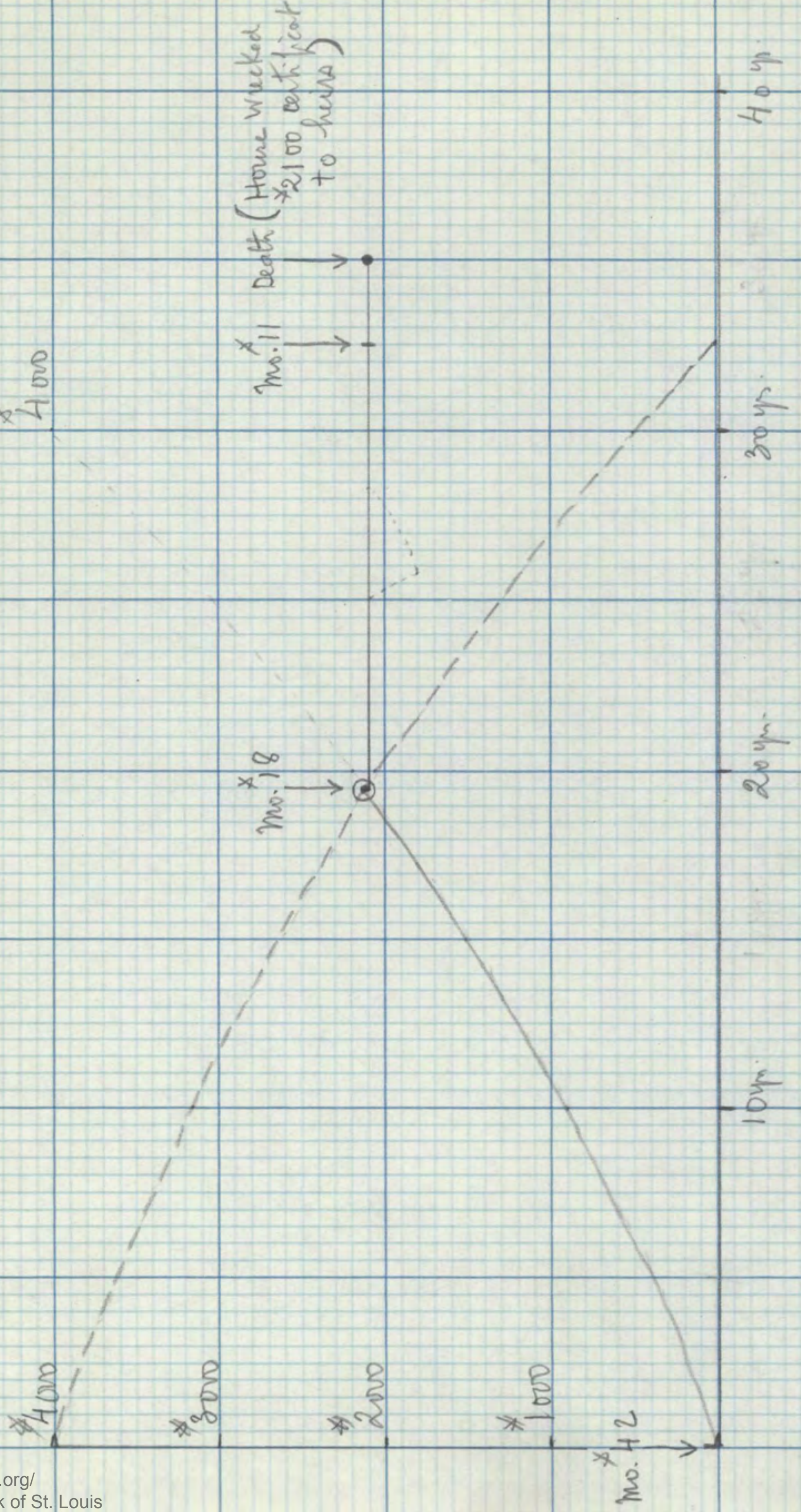
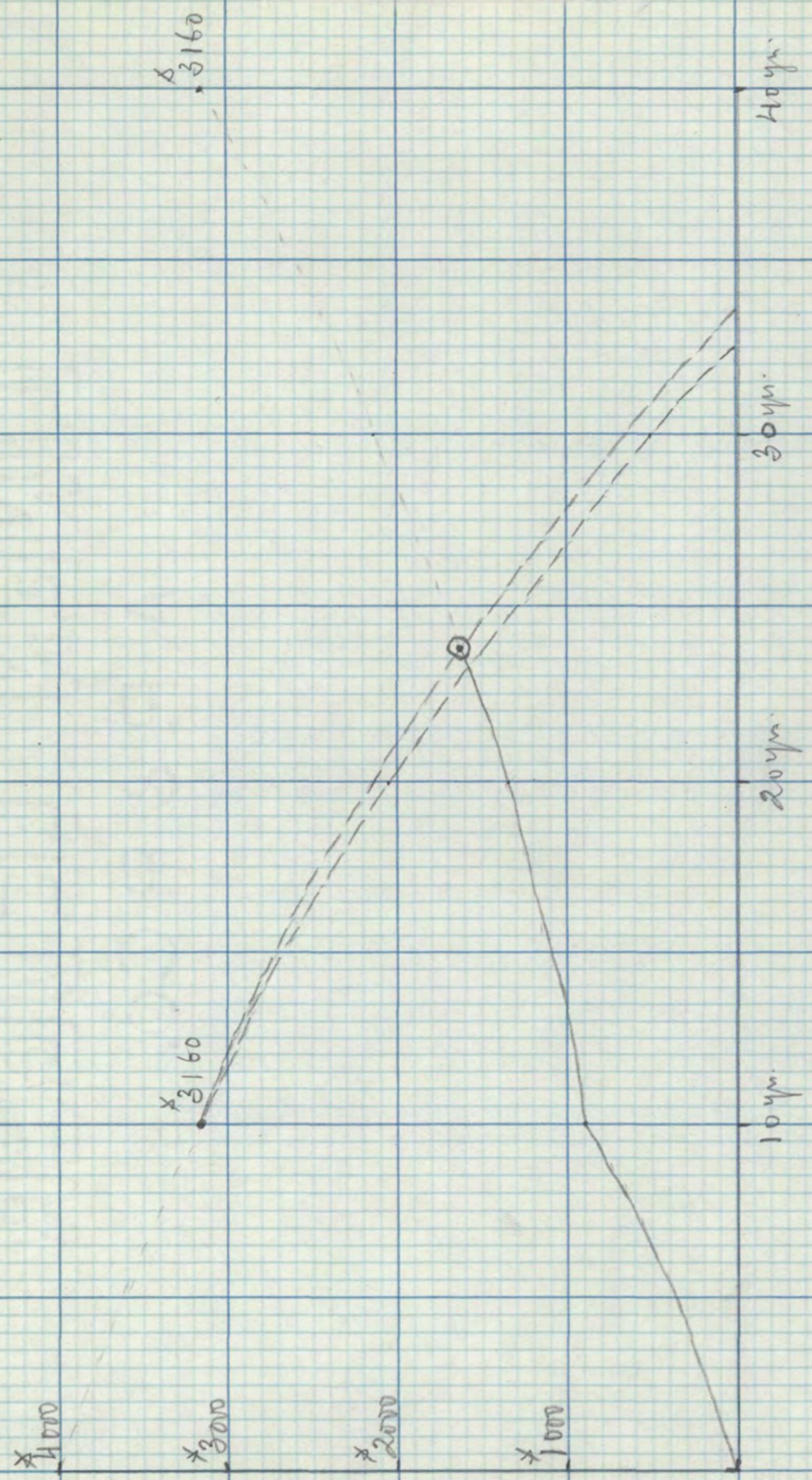
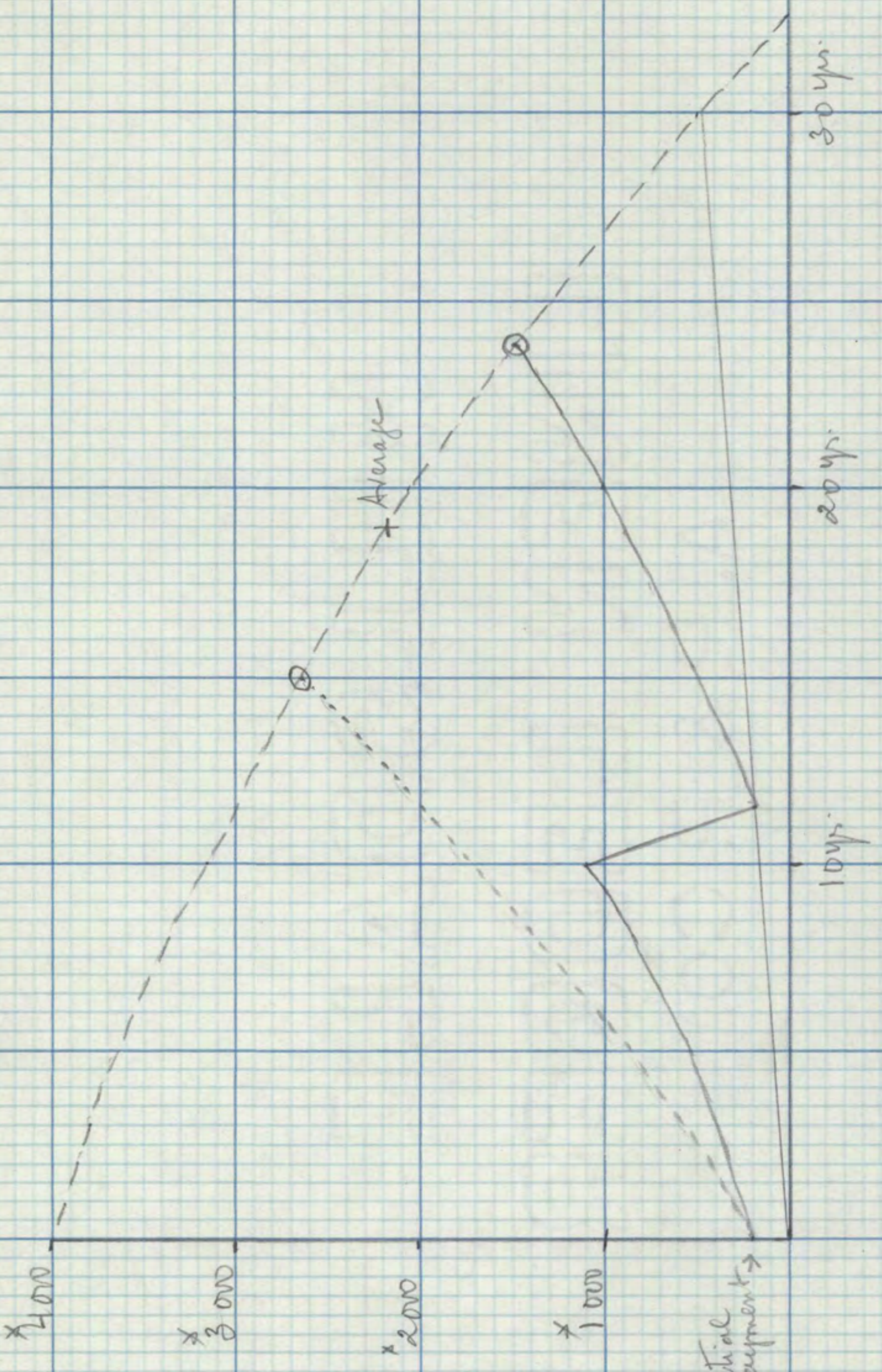


CHART VI b

EQUITY BUILDING
(Renewals)



EQUITY BUILDING
(Liquidity and Transfer)



VI.
EQUITY BUILDING
(Liquidity, Transfer & Renewals)

Append.

Down Payment: A down payment of $200 will be required from those who can afford it. This down payment will immediately create a reserve. If the savings of the purchasers are not sufficient then the first year payment (interest and principal) will be devoted to this initial reserve or $229.

The first years interest or $160 will be added to the $4,000 and the purchaser willpay $43 instead of $42.

At the end of thesecond year in case of extreme emergency the purchaser could be carried for 7 months.

Increased Monthly Payment: By paying more monthly (the purchaser has no risk by doing so for he is insured) the purchaser can obtain title several years before the 19 years. Title in 15 years would cost him $7 more monthly. A bonus of $1 per $3 increase monthly could be diverted from the depreciation and vacancy funds. XV.

Temporary Loss of Income: During the periods of unemployment or sickness, the purchaser can draw on his liquid equity. For instance, the 10th year he can draw as much as $950 or enough to carry him along for 22 months. If at the end of this period he continues his monthly payments regularly he can still have title the 24th year. The bulk of the delinquent cases should be taken care of by the above.

The principle collected monthly from non-delinquent purchasers would cover about 20% delinquent accounts. In extreme depressions more bonds could be issued against the insured value of the houses, bonds bought by the Federal Reserve if there is no market. XVI.

For prolonged depressions certain families having used up the liquid equities could be carried for a period, making up by paying one, two years more.

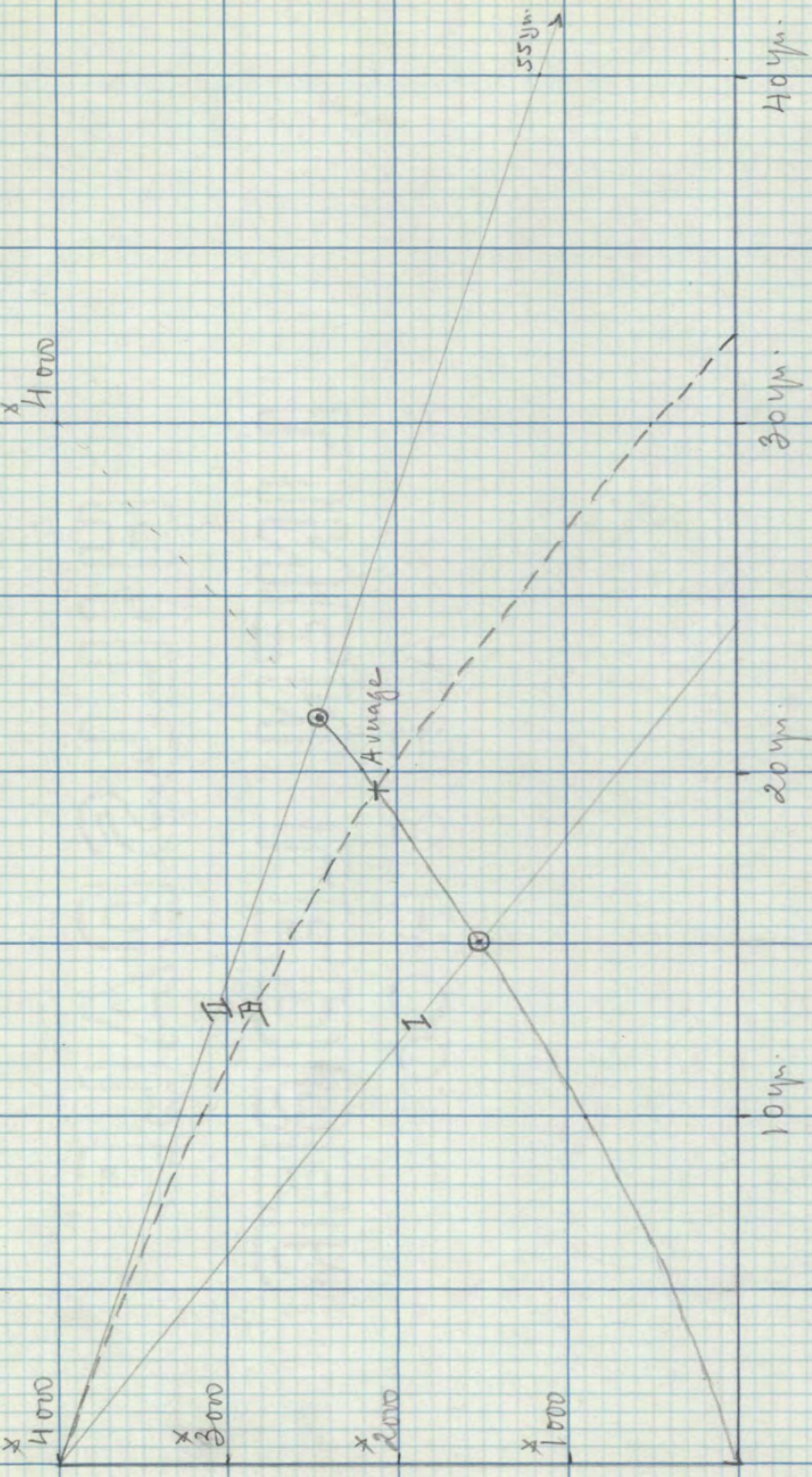
Equity Transfer: At any given time his total equity has a definite value. This value can be transferred to any other house under the same plan minus whatever interior repairs are needed to put the house back in shape.

It will enable the American family, who changes its home on the average every 5 years, to go through life always accumulating towards home ownership with the greatest possible security. XVII.

Renewal 30-year Contract: In period of depression a renewal can be made, i.e. after 10 years a new 30-year contract could be made for the book-value of $3,160, lowering the monthly payments from $42 to $34 and giving title in 24 years instead of 19 years. XVIII. The Trustee Company would then receive $840 which could immediately be used to further home building at a time when it is most needed, or partly be used to redeem insured stock.

CHART VII.

WRITING-OFF
(Depreciation & Obsolescence)



VII.
WRITING-OFF
(Depreciation and Obsolescence)

Append

The variation of values in different neighborhoods and regions will be pooled on the basis of rental returns and not sale values at any given time. It is assumed that with a sufficient number of houses andvariety of neighborhoods curve B will be well under the actual values. There will be in any case a forced depreciation however stable the neighborhoods.

Once insured a house is never sold it is held until completely paid for or completely written off. The holding, after a time, of a substantial proportion of one and two-family dwellings will do much to avoid periodic real estate collapses. XIX..

Studies of long trend depreciation are lacking, but the present study of FHA of the rentals of some 800 apartment houses should be a guide and pave the way for a study of one and two-family dwellings. First brief analysis of this study shows a surprising stability over 20 or 30 years if the rentals are averaged.

Neighborhood I.

There is a shifting of population, values are coming down, purchasers will have title in 15 years - book-value $1,500.

An excess of neighborhoods of this sort would upset the reserves and the vacancy fund would have to be drawn upon. If this is not sufficient, the purchase contracts would have to be paid in general over a longer period of time. XX

Neighborhood II.

There is an increase in population. Values are very stable. The house is written off at the minimum rate of, let's say, 55 years - the purchaser will have title in 22 years, book-value $2,500.

EXHIBIT VIII.
ADJUSTMENT OF MONTHLY PAYMENT

	$42				
Renewal (after 10 years)		$34			
Index adjustment (1932 level)			$23		
Equity (10th year) drawn upon for 4 or 5 years				$10	
Federal subsidy on losses for carrying families a year or two.					0

THE EQUITY PLAN

WHAT IT DOES:

Append.

FOR THE INVESTOR: Insures his investment and interest against losses. Protects his investment against variations, over a 30-year period, of the purchasing power of the dollar. Protects present investments.

FOR LABOR: Through a long-range program permanent reemployment of millions of unemployed, servicing directly and indirectly the building trades.

Stabilization and increase of yearly incomes of building trade workers.

Stabilization will bring back into building trades those presently employed in industry. Technological improvements would allow for training new men in simple tasks. XXI..

FOR THE NATION: Gives the National Government great power through insurance, to guide the re-building of the United States towards a new level.

Protects the real-estate market against undue fluctuations by:

(a) Holding the new insured houses until paid for or ready to wreck. XXII .

(b) Gradually insuring a substantial proportion of the existing dwellings and holding them as above.

In financial depressions:

(a) Renewals will provide funds for building of new houses.

(b) Purchasers once their monthly payment scaled down by the purchasing power index can have it further substantially scaled down through renewals and can draw on their equity account for long periods.

(c) The National Government, without setting up a new costly machinery, can subsidize:

1. The writing off of more existing dwellings, thus allowing for more new construction without further upsetting the market.

2. The probable losses on extensions of contracts for purchasers having nearly exhausted their equity account.

Append.

WAYS AND MEANS: Demonstrations of planned community units in selected regions could be launched immediately under the Large Scale Housing Division of FHA.

The plan can be enacted in simple legal form as an amendment to some existing housing law. XXIII.

Financing could be started by the RFC, then taken over by private capital and may be in time by Federal credit at handling costs.

SUPPORT:

By Industry: It will gradually help its decentralization.

For increased profits: For every $4,000 house, material manufacturers will get about $2,000.

For increased efficiency: Men happily housed have increased efficiency. Increased leisure of employes spent in tending gardens and enjoying community features instead of subversive discussions and over drinking.

By majority of urban population.