

FROM: MR. DAIGER'S OFFICE

TO: Mr. Eccles

8/16/37

Here is a set of three papers that I had mimeographed on Saturday, at Hancock's request, and mailed under his frank to all the members of the House Banking and Currency Committee.

I revised considerably, for purposes that will be evident to you, the 2-page explanatory memorandum, which is the top item. I would particularly suggest that you read this in its revised form.

You will notice that a new amendment has been added at the top of page 2 of the item headed "Amendments Proposed by Mr. Hancock of North Carolina." This makes clear as a matter of law what has been true all along as a matter of practice--namely, the limitation of mortgage insurance on limited-dividend projects to 80%.

Attachments-3

Original to Shoreham Hotel

Copy to Office

Memorandum Explaining Why Inclusion in Wagner-Steagall Bill
of Amendments to National Housing Act is Needed
to Stimulate Private Financing and Construction of Rental Housing

In view of the importance of encouraging the private financing and construction of rental housing for families of moderate income, simultaneously with the program of public housing contemplated in the Wagner-Steagall bill, it is suggested that the attached amendments to the National Housing Act be included in the bill.

The first amendments are to Sections 201 and 203 respectively and extend the principle of mutual mortgage insurance to the very familiar and important type of small walk-up apartment properties. Except for dwellings accommodating not more than four families, and covered by mortgages not in excess of \$16,000, these properties are now excluded from mutual mortgage insurance under Section 203. On the other hand, they are not practicable for insurance under Section 207, the limited-dividend housing section, because of its restrictive provisions. A great impetus to sound residential construction all over the country would be given by the adoption of these amendments.

An equally great impetus to sound rental projects would be given by the other amendments. These relate to the financing by private capital of mortgages insured under Section 207 on limited-dividend housing projects, such as the Colonial Village, Buckingham, and Falkland developments in the suburbs of Washington. Operations under this section of the National Housing Act have been seriously delayed and impeded by the unsatisfactory language of this section and Sections 301 and 302.

The language of Section 207 as it now stands has met legal objections and led to a divergence of opinion among counsel of lending institutions. In the first place, the question has been raised whether separate units of a limited-dividend project can be sold off without voiding that part of the mortgage insurance applicable to the remainder. Likewise, the term "persons of low income" as used in this section has been found difficult of interpretation, because it is not susceptible of exact definition.

The third of the proposed amendments removes any doubt that separate units of limited-dividend housing projects may be sold off without impairing the mortgage insurance on the remainder. It also eliminates the disputed term "persons of low income" and substitutes

for it a precise limitation of \$1,300 per room, including both land and improvements, on the amount of any mortgage that may be insured under this section. Another change made by the third amendment makes it clear that mortgages on limited-dividend housing projects may not be insured in an amount in excess of 80% of their estimated value.

The fourth and fifth of the proposed amendments, which are to Sections 301 and 302, are intended to facilitate the financing of these limited-dividend projects, which involve mortgages that have thus far ranged from approximately \$250,000 to \$1,750,000. The amendment to Section 301 permits the national mortgage associations provided for in the Act to make loans on limited-dividend projects, if the loans are secured by mortgages insured under Section 207. As the associations would have no authority to make any other type of mortgage loan, they would not, in making these large loans on limited-dividend projects under Section 207, be competing with building and loan associations, banks, etc., in the making of loans on single-family dwellings or multi-family dwellings insured under Section 203.

The amendment to Section 302 increases the ratio of debentures which a national mortgage association may issue from 12 times its capital stock to 20 times. This amendment is necessary because of the small spread between the interest paid and income received on which a national mortgage association must operate. In no instance to date has an insured mortgage loan on a limited-dividend project carried an interest rate in excess of $4\frac{1}{2}$ per cent. The associations that would hold a large amount of these mortgages in their portfolios will have to sell their debentures at a very narrow spread and it is therefore necessary to allow them a reasonably large turnover of business if they are to be permitted to cover their expenses and make a fair profit. As the associations can issue debentures only against insured mortgages, Government securities, and cash, the increase in the ratio of debentures to capital which is provided for in the amendment is neither excessive nor unsound. On the contrary, the quality of these three limited classes of assets behind the debentures, in addition to the capital of the associations, assures investors in the debentures all the protection that is required.

No additional State enabling legislation, nor Federal legislation applicable to national banks, is now required to permit the national mortgage associations to enjoy a wide market for their debentures among commercial and savings banks, trust companies, building and loan associations, life insurance companies, and other financial institutions. The debentures also furnish a desirable investment for individual investors, endowment funds, and individual trusts. Without these associations the principal outlet for large loans on limited-dividend projects is the large insurance companies, which necessarily limits the market for them. With one or more of these associations in active operation, however, the debentures would be readily salable to all types of investors and a larger supply of moderate-priced rental housing thereby assured.

AMENDMENTS PROPOSED BY MR. HANCOCK OF NORTH CAROLINA

Section 201 (a) of Title II of the National Housing Act is amended by striking out the words "not more than four" and inserting in lieu thereof the words "one or more".

Section 203 (b) subsection (2) of Title II of the National Housing Act is amended by striking out the word "executed" and the period at the end of said subsection and inserting in lieu thereof the following: "insured, or cover a multi-family dwelling and involve a principal obligation in excess of \$16,000 but not in excess of \$200,000 and not to exceed 80 per centum of the appraised value of the property as of the date the mortgage is insured: Provided, that such part thereof as may be attributable to dwelling use shall not exceed \$1,000 per room; and provided further, that the application for insurance in respect of such mortgage shall be submitted prior to the beginning of the construction of such multi-family dwelling."

The first sentence of Section 207 of Title II of the National Housing Act is amended by striking out the words "persons of low income" and inserting in lieu thereof the words "rent or sale", and by inserting after the word "rents," the words "conditions of sale,". The second sentence of said section is amended by striking out the period after the figures "203" and inserting in lieu thereof a comma and adding the following: "and such part thereof as may be attributable to dwelling use shall not exceed \$1,300 per room." The third sentence of said section is amended by striking out the period at the end of said sentence and inserting in lieu thereof a colon and

adding the following: "and provided further, that the principal obligation of a mortgage made by a private limited dividend corporation shall not exceed 80 per centum of the amount which the Administrator estimates will be the fair value of the property or project when completed."

Section 301 (a) of Title III of the National Housing Act is amended by striking out the semicolon after the word "purchased" in said section and inserting in lieu thereof a comma and adding the following: "and to make loans and advances upon real estate secured by mortgages and other first liens which are insured under section 207 of this Act and to purchase and sell such mortgages or partial interests therein;".

Section 302 of Title III of the National Housing Act as amended, is further amended by striking out the word "twelve" in the first sentence of said section and inserting in lieu thereof the word "twenty".

Language Stricken Out and New Language
of Sections of National Housing Act
as Modified by Proposed Amendments

Section 201 (a), Subsection 2 of Section 203 (b), and Section 207 of Title II, and Sections 301 (a) and 302 of Title III of the National Housing Act will read as follows after being amended in accordance with proposed amendments:

(the amendments are shown by lining out language stricken from the present Act and underscoring new language)

Section 201. As used in this title--

(a) The term "mortgage" means a first mortgage on real estate in fee simple or on a leasehold (1) under a lease for not less than ninety-nine years which is renewable, or (2) under a lease having a period of not less than fifty years to run from the date the mortgage was executed, upon which there is located a dwelling for ~~not more than four~~ one or more families which is used in whole or in part for residential purposes, irrespective of whether such dwelling has a party wall or is otherwise physically connected with another dwelling; and the term "first mortgage" means such classes of first liens as are commonly given to secure advances on, or the unpaid purchase price of, real estate under the laws of the State in which the real estate is located, together with the credit instruments, if any, secured thereby.

Section 203 (b) (2) Involve a principal obligation (including such initial service charges and appraisal and other fees as the Administrator shall approve) in an amount not to exceed \$16,000, and not to

exceed 80 per centum of the appraised value of the property as of the date the mortgage is ~~executed~~ insured; or cover a multi-family dwelling and involve a principal obligation in excess of \$16,000 but not in excess of \$200,000 and not to exceed 80 per centum of the appraised value of the property as of the date the mortgage is insured: Provided, that such part thereof as may be attributable to dwelling use shall not exceed \$1,000 per room; and provided further, that the application for insurance in respect of such mortgage shall be submitted prior to the beginning of the construction of such multi-family dwelling.

Section 207. The Administrator may also insure first mortgages, other than mortgages defined in section 201 (a) of this title, covering property held by Federal or State instrumentalities, private limited dividend corporations, or municipal corporate instrumentalities of one or more States, formed for the purpose of providing housing for ~~persons~~ ef-low-ineeme rent or sale which are regulated or restricted by law or by the Administrator as to rents, charges, capital structure, rate of return, or methods of operation, to such extent and in such manner as the Administrator shall determine. Such mortgages shall contain terms, conditions, and provisions satisfactory to the Administrator but need not conform to the eligibility requirements of section 203, and such part thereof as may be attributable to dwelling use shall not exceed \$1,300 per room. Subject to the right of the Administrator to impose a premium charge in excess of, or less than, the amount specified for mortgages defined in section 201 (a), the provisions of sections 204 and 205 shall be applicable to mortgages insured under this section: Provided, That the insurance with respect to any low-cost housing property

or project shall not exceed \$10,000,000; and provided further, that the principal obligation of a mortgage made by a private limited dividend corporation shall not exceed 80 per centum of the amount which the Administrator estimates will be the fair value of the property or project when completed.

Section 301 (a) The Administrator is further authorized and empowered to provide for the establishment of national mortgage associations as hereinafter provided, which shall be authorized, subject to rules and regulations to be prescribed by the Administrator, (1) to purchase and sell first mortgages and such other first liens as are commonly given to secure advances on real estate held in fee simple or under a lease for not less than ninety-nine years, under the laws of the State in which the real estate is located, together with the credit instruments, if any, secured thereby, such mortgages not to exceed 80 per centum of the appraised value of the property as of the date the mortgage is purchased; and to make loans and advances upon real estate secured by mortgages and other first liens which are insured under section 207 of this Act and to purchase and sell such mortgages or partial interests therein; and (2) to borrow money for such purposes through the issuance of notes, bonds, debentures, or other such obligations as hereinafter provided.

Section 302. Each national mortgage association is authorized to issue and have outstanding at any time notes, bonds, debentures, or other such obligations in an aggregate amount not to exceed (1) ~~twelve~~ twenty times the aggregate par value of its outstanding capital stock, and in no event to exceed (2) the current face value of mortgages held by it

and insured under the provisions of title II of this Act, plus the amount of its cash on hand and on deposit and the amount of its investments in bonds or obligations of, or guaranteed as to principal and interest by, the United States. No national mortgage association shall borrow money except through the issuance of such notes, bonds, debentures, or other obligations, except with the approval of the Administrator and under such rules and regulations as he shall prescribe.