

November 18, 1937

To: Mr. Eccles  
From: J. M. Daiger

Subject: TAX EXEMPTION

The particular point that Mr. McDonald makes in raising the question of tax exemption for debentures of national mortgage associations is in relation to the President's recent comments on an overall cost of 5 per cent to borrowers under Title II.

Mr. McDonald points out, quite accurately, that an exact comparison cannot be made between the cost to borrowers under the FHA on the one hand and, on the other hand, under the HOLC, the FCA, and the USHA. The three latter agencies have the advantage of raising funds in the open market on tax-exempt securities.

Hence it is not reasonable to argue that, because the HOLC rate is 5 per cent and the FCA and USHA rate less than 5 per cent, an overall rate of 5 per cent, including mortgage insurance, ought to be possible through the FHA.

Mr. McDonald's contention, which I think is quite reasonable, is that a rate of 5 per cent, exclusive of the insurance premium, is an altogether reasonable rate in comparison

with the others mentioned, and that, if the President wishes to get it still lower, the logical means would be to extend the tax exemption to national mortgage association debentures.