Form F. R. 131

Housing

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date November 22, 1937.

To Chairman Eccles

Subject: Message on Housing

From Lauchlin Currie

LBC

This is my last draft, revised after reading Daiger's draft and talking with Lubin, who worked up the figures on Page 8. Lubin has put a draft together out of Daiger's and mine and would like to attend our meeting or have an opportunity of presenting his suggestions.

November 22, 1937.

A MESSAGE ON HOUSING

In my message to the Congress on November 15th I said that I would address you shortly in regard to proposals to encourage private capital to enter the field of new housing on a large scale. I do so now.

I single this field out for immediate attention for the reason that greatly increased building expenditures would serve the double purpose of stimulating general business activity while at the same time constituting a major contribution to the rise in the standard of living of the bulk of the American people.

The extent to which we have failed to provide new and better housing accommodation in the past seven years is perhaps not generally appreciated. From 1930 to 1937, inclusive, the average annual number of new dwelling units was 180,000 as contrasted with an average annual number of 800,000 in the previous seven years. Considering the extent, on the one hand, by which population has grown and, on the other, demolition and depreciation of existing houses has gone on, it is perfectly clear that in terms of adequate housing per family unit we are far less well off than in 1930.

Those who have studied the housing situation in this country are agreed that over the next five years we should build some 4,000,000 housing units, or an average of 800,000 a year, to make up for the accumulated shortage, to offset demolitions, and to meet the anticipated growth in families. In other words, we could build 4 million housing units in the next five years, which, at an average cost of $4,500 per unit, would amount to an aggregate total of expenditures of $18 billion, without creating a surplus of housing accommodation. In addition, expenditures for repairs and alterations should amount to some $5 billion in this period.

This latent demand, if released, would give continuous employment to all the workers at present in the building field and to hundreds of thousands more; it would keep the materials and equipment producers, with their hundreds of thousands of employees, busy the year round; it would spell increased traffic for the railroads. It would, in short, ensure the continuance of recovery and sustained prosperity.

The demand for more and better housing accommodation will materialize only if the cost of acquiring a new home is reduced and the profitability of building homes to rent is increased. Building costs and carrying costs must be lowered so that it becomes profitable to build.

Houses will not be built if costs are too high relative to rents, even if business activity in general is increasing. This is borne out by our experience this year when, despite increasing incomes and advancing rents, building activity turned downward in the spring coincident with sharp advances in construction costs.

On the other hand, experience indicates that houses will be built if the relationship of costs to rents is favorable, even when business activity is declining. It was building activity that formed the basis of England's recovery and it was increasing building activity that initiated the revival from the business recessions of 1921 and 1924 in this country.

The problem of reducing costs to a point where larger volume and higher returns are possible is a problem that must be solved in major part by the building industry itself. The Government, however, can take the initiative in bringing about a reduction in financing costs, in making it easier for families in low income brackets to acquire houses and, in general, providing mechanisms that will make it practicable for private enterprise to provide housing on a large scale at prices and rents within the reach of the mass of the people.

In order, therefore, that the stage may be set for a building revival of large dimensions in the approaching building season I urge that the Congress adopt at this time measures to facilitate the financing of every type of new dwelling, whether built for ownership or for rent, and ranging from the very smallest of individual properties to the very largest of multiple limited-dividend housing developments. In addition to measures to stimulate the building of new houses, provision should be made for an extensive program of repairs and modernization of existing homes.

At the present time, institutions making loans under the general provisions of Title II of the National Housing Act are permitted by regulation to make an interest charge up to 5 per cent and a service charge of $\frac{1}{2}$ of 1 per cent, or a total of $5\frac{1}{2}$ per cent. It is proposed to reduce this to 5 per cent net by amending the administrative regulations.

As a means of reducing further the cost to the borrower I would ask the Congress to authorize the Federal Housing Administrator to fix the mortgage insurance premium as low as $\frac{1}{2}$ of 1 per cent on the outstanding balance of an insured mortgage instead of on the original face amount as now required by the act. Even lower premium rates should prevail when the initial ratio of loans to property value is less than 80 per cent. Further, as a means of giving special encouragement to the construction of houses for sale or rent to families of moderate income, I would ask the Congress to authorize the Federal Housing Administrator to fix the mortgage insurance premium as low as $\frac{1}{4}$ of 1 per cent on the diminishing balance of an insured mortgage in cases where the estimated value of the property to be built does not exceed $6,000 and where the mortgage is insured prior to July 1, 1939.

Another change that I would ask the Congress to make in the existing legislation is to raise the insurable limit from 80 per cent of the appraised value of the property to 90 per cent in cases where the estimated value of the property to be built does not exceed $6,000. I regard this change as of the utmost importance in stimulating the construction of houses within reach of the mass of wage and salaried workers. I should like to offer the possibility of new home ownership to families who can afford only from $250 to $500 as an initial down payment.

In order to meet the requirements of that large portion of city dwellers who need low-rent apartment houses, I suggest that the benefits of insurance be extended to mortgages on apartments up to $200,000 but not exceeding $1,000 per room. On the same basis, the insurance privilege should be extended to blanket mortgages up to $200,000 covering newly constructed groups of houses built to rent.

For large multiple dwelling units with a moderate scale of rentals the character and success of the properties already constructed and in operation make it evident that the limited dividend mechanism provided in the Federal Housing Act is susceptible of much more extensive development.

The chief retarding element up to now in the limited dividend housing program has been the difficulty of arranging for the large individual mortgages required. To meet this difficulty I urge that the Federal Housing Administration be empowered to organize a national mortgage association, with a capital of $25 million subscribed by the R. F. C., and with authority to issue up to $500 million of debentures to the public. This association, together with others that may be organized with private capital or otherwise, should be authorized to make loans directly to limited dividend companies. Through this channel private funds will be enabled to flow into private construction. Because of the very large individual mortgages necessary in this type of development, financing through national mortgage associations would not compete with banks, building and loan associations, and individuals but would, rather, afford these latter groups a safe outlet for idle funds.

Finally, I urge that a financial mechanism be provided for a large-scale repair and modernization program. Expenditures for repairs, alterations, and permanent fixtures are estimated to equal over half the amount expended on new houses in 1937.

The terms of financing I am proposing would be the most favorable ever made generally available in this country for housing purposes. On 20-year amortized mortgages for 90 per cent of the value of houses up to $6,000, the maximum rate would be 5¼ per cent, including the cost of insurance. On 20-year amortized mortgages for 80 per cent of the value of houses up to $20,000, and multi-family properties up to $200,000, the maximum rate would be 5½ per cent, including the cost of insurance. On larger projects, experience thus far has indicated that the rate will not exceed 5 per cent, including the cost of insurance. These costs are half, or less than half, the costs of loans of comparable proportions under the system of first, second, and third mortgage financing that was widely prevalent in the 1920's.

The combination of the reduction in financing costs and in the down payment for low-cost houses will work out as the equivalent of a reduction in actual construction costs of nearly 10 per cent. I earnestly hope, and I know I speak for the whole community, that the building industry will attempt to match this reduction.

The profits of the building industry and the income of building labor have suffered because of low volume. For example, the average remuneration of building labor in 1936, according to the Department of Commerce, barely exceeded $1,000 for the year. All elements in the industry will profit by an increase in the volume of new building which can be obtained by a reduction in building costs.

Reduction in unit costs will lead not to a decrease but to an increase in the income of building labor. Reduction in the costs of building materials and equipment will add materially to the volume of business and the net profits of the steel, lumber, cement, plumbing and other industries that supply building materials and equipment. Reduction in the costs of financing will supply increased outlets for the idle funds of financial institutions.

Let me give a few illustrations of what larger volume will mean to the industry. If, as a result of reductions in financing and actual construction costs, we build 300,000 more dwelling units next year than we would otherwise have built, it is estimated that our consumption of lumber will rise by 3.6 billion board feet; of brick by 4.5 billion; of cement by 16.5 million barrels; of steel by 1.5 million tons; and of paint by 13¼ million gallons, to mention but a few items. Three hundred thousand additional units will mean a year's work for 375,000 building workers and for 600,000 workers in building materials industries. An additional outlet of over a billion dollars of mortgage money would be provided for financial institutions.

I propose that the Government lead the way in developing this market in the various ways I have suggested. The success of the whole program, however, will depend in very large measure on the willingness of contractors, building material and equipment producers, and labor to work together in producing housing at costs that are within the means of consumers.

I trust that these groups will approach their common problem in an atmosphere of mutual frankness and cooperation to the end that not only they may profit, not only that greater activity may be created for industry as a whole, but also that adequate housing may be provided for all our people. I shall do all in my power to foster such an atmosphere.