

December 11, 1937

To: Mr. James Roosevelt

From: Chairman Eccles

This is in response to your memorandum of December 7 asking my opinion with reference to the suggestions made to the President by Secretary Wallace in his letter of December 2.

There is undoubtedly a very large need for improving farm dwelling conditions, both through the repair and modernization of existing dwellings and through the construction of new dwellings. The increased income of farmers in recent years has been used first, to reduce their indebtedness; second, to buy machinery and equipment, including automobiles; third, to repair or rebuild barns, other out-buildings, fences, etc. Largely as a matter of pecuniary necessity, therefore, expenditures for the improvement or construction of farm dwellings have thus far during the recovery period been relatively small.

It seems to me that, as a practical matter, much more can be expected from a well-organized effort to encourage and facilitate the repair and modernization of farm dwellings than from an effort to stimulate the construction of new farm dwellings. At the present stage of farm recovery, the latter might rouse false hopes and have only a disappointing result; the former, on the other hand, has real possibilities that the federal, state, and county agencies concerned with farm matters might now be urged to develop.

The mechanism in the proposed revival of Title I of the National Housing Act is well adapted to the financing of repair and modernization loans, both urban and rural. Furthermore, it is not limited to repair and modernization of dwellings, but is applicable to the repair and modernization of any type of structure, whether urban or rural.

The case with the mortgage-insurance mechanism provided in Title II of the Housing Act, however, is altogether different. It was devised to effect some much-needed improvements, and to eliminate some serious excesses and abuses, in the methods of urban mortgage financing. Not only is this legislation and the agency administering it not adapted to the problems of farm mortgage financing, but even with the modifications proposed by the President in his recent message the FHA mechanism will still offer relatively less favorable terms to the urban-mortgage borrower than the FCA mechanism offers to the farm-mortgage borrower.

If the pending housing bills were so amended as to require the Federal Housing Administration to insure farm mortgages as a means of financing the construction of farm dwellings, the FHA would be obliged to duplicate both personnel and information already available in the Farm Credit Administration and its subsidiary organizations. The reason for this is that the financing of farm homes involves processes and techniques that are entirely different from those involved in the financing of urban homes.

The farm dwelling is essentially a part of the plant and equipment of the farmer. Detached from the farm as a production unit, the farm dwelling and its site have virtually no value as security for a loan.

It is my understanding that, under the FCA mechanisms, a farmer may borrow up to \$7,500 on improved farm land appraised at \$10,000, at an interest rate of $3\frac{1}{2}$ or 4 per cent on the first \$5,000, and 5 per cent on the remaining \$2,500, and that such a loan may be amortized over a term of 40 years.

Even with the proposed changes in the FHA mechanism, on the other hand, the cost to the borrower on a 90 per cent loan will be $5\frac{1}{2}$ per cent, the maximum 90 per cent loan obtainable will be \$5,400, and provision must be made for full amortization within 20 years.

For these various reasons, I would suggest that no effort be made to have the Federal Housing Administration insure farm mortgages. As a means of encouraging and facilitating the construction of new farm houses, however, I would suggest that the Emergency Farm Mortgage Act of 1933 be amended to provide for financing up to 90 per cent in cases where the purpose of the loan is to finance the construction of a new farm dwelling.

An amendment to this effect might well be added to the pending bills before they are reported out by Senator Wagner and Congressman Steagall.