FROM: MR. DAIGER'S OFFICE

TO: Mr. Eccles

The matters covered in the attached memoranda are, as you will see, of much more urgent importance than the matter which you had in mind taking up with Mr. James Roosevelt at luncheon tomorrow.

You will also see that I have had no opportunity yesterday or today to prepare a memorandum for you to use in discussing with Mr. James Roosevelt tomorrow the steps to be taken after enactment of the pending legislation.

Tomorrow morning I shall have to return to the committee room, and I shall in all probability be kept there until the bill is reported out. Will you please call me there when you have an opportunity?

These papers are coming to you "dictated but not read," and so I shall have to ask you to excuse any errors that you may find.

FEDERAL HOUSING ADMINISTRATION
WASHINGTON, D. C.

OFFICE OF THE
FINANCIAL ADVISER

December 19, 1937

TO: Mr. Eccles

FROM: J. M. Daiger

PERSONAL AND CONFIDENTIAL

The Senate subcommittee headed by Senator Bulkley completed its work on the housing bill this afternoon (Sunday) and will report an amended bill to the full committee, headed by Senator Wagner, at 10:30 o'clock tomorrow morning. Senator Wagner, Senator Bulkley, and Senator Barkley hope to get the bill reported out by the full committee some time tomorrow.

After the meeting today I had a talk with Senator Barkley, who has an engagement to see the President tomorrow. The procedure that Senator Barkley has in mind is (1) to move, as soon as the Senate convenes tomorrow, to lay the anti-lynching bill over until some early date in January, (2) to effect an understanding with Senator McNary to have the housing bill considered and passed by the Senate on Tuesday, (3) to have the conferees meet and reach an agreement on Wednesday in time to have the Senate and House pass the bill on Wednesday afternoon or Wednesday evening and then adjourn.

The bill that was passed by the House last evening conforms in all essential particulars with the program outlined by the President in his special message. Though various changes (not of a restrictive character) were made by the House committee before it reported the bill, only one of these changes introduced an entirely new feature--namely, the authorization to insure houses valued up to $2500 under Title I. One further change was made on the floor--namely, the authorization to insure farm mortgages as well as urban mortgages under the 90-per-cent-loan provisions of Title II.

Senator Barkley asked me this afternoon about the feasibility of this farm-mortgage amendment. I therefore told him substantially the same information that was contained in the memorandum that I prepared for you to send to James Roosevelt on the question that had previously been raised by Secretary Wallace in his recent letter to the President. Senator Barkley said that he would discuss the farm-mortgage amendment when he talked with the President tomorrow, and that if it seemed advisable he would undertake to have the amendment striken out in the conference and explain that an amendment to the emergency farm mortgage act of 1933 would be preferable.

The bill that will be reported to the Senate committee tomorrow by Senator Bulkley contains several changes that are of a very serious nature. They are hampering, restrictive, and

out of spirit with the main objectives of the President's program. In fact, the bill as introduced by Senator Wagner has had six days and two or three nights of very hard going in the hands of the subcommittee.

There are two principal reasons for this. In the first place, Senator Bulkley was insistent last Tuesday, when Senator Wagner had convened the full committee in executive session to act on the bill, upon having the bill referred to the standing Subcommittee on Home Loan Bank and Related Matters, of which Senator Bulkley is chairman. Senator Wagner and Senator Barkley urged that the full committee, which had held the hearings, proceed at once to consider the bill, but Senator Bulkley, Senator Glass, Senator Maloney, Senator Radcliffe, Senator Townsend, and some of the other members objected so vigorously that Senator Wagner was virtually forced to yield.

In the second place, Senator Maloney and Senator Radcliffe, who are members of the subcommittee, have exhibited throughout the executive sessions of the subcommittee (which I have attended at the request of Senator Bulkley and Senator Wagner) a hostile attitude toward nearly all the essential provisions of the Administration bill. Senator Radcliffe in particular has resisted and opposed the proposals urged by the President in his special message, and has tried to inject into the bill all the restrictive or nullifying amendments

put forward by Morton Bodfish in behalf of the United States Building and Loan League.

Taking their cue from Senator Radcliffe and Senator Maloney, Senator Steiwer and Senator Lodge, the Republican members of the subcommittee, have taken an attitude of being "willing to go along on any reasonable basis," but have in fact simply gone along with Senator Maloney and Senator Radcliffe. Furthermore, this group has almost invariably been joined by Senator Bulkley, with the result that these five men have really dictated the "compromises" that will form the basis of the bill to be reported tomorrow. Senator Wagner, Senator Barkley, Senator Brown, and Senator Hitchcock, who have supported the Administration's position on every important point, have constituted a minority group throughout the subcommittee meetings.

Senator Wagner, Senator Barkley, and Senator Hitchcock (Senator Brown was out of the city today) have asked me to give them a summary of the changes made in the bill by the subcommittee that would impede the operation of the program. In order to save time this evening, I am attaching hereto a copy of that memorandum instead of enumerating the same points in this memorandum to you.

A point not covered in the attached memorandum is that the bill to be reported by the subcommittee will eliminate the proposed revival of Title I.

NOTES ON SUBCOMMITTEE CHANGES IN HOUSING BILL

The essential purpose of the program outlined by the President is to stimulate the private construction and financing of housing "at prices, rates, and rents that the mass of our people can afford to pay." As the President pointed out in his message, an average of 600,000 to 800,000 dwelling units ought to be built annually over the next five years to overcome the accumulated shortage of housing and to meet the normal growth in number of families.

The principal means proposed to encourage building companies to organize for large-scale production is the insurance of 90 per cent mortgages on houses valued up to $6,000, thereby making the purchase of such houses possible under a single low-cost mortgage upon a down payment of 10 per cent.

In the bill as amended by the subcommittee, the insurance of these 90 per cent mortgages is authorized, but two restrictions are added that would seriously limit production and impede large-scale operation:

1. The builder or contractor would be required to go on the mortgage with the mortgagor until the loan was reduced from 90 per cent to 80 per cent, notwithstanding the fact that the Federal Housing Administrator is required to inquire into the credit standing of the

borrower and pass upon his reasonable ability to meet the periodic payments. To require the builder or contractor to go on the mortgage would quickly tie up his working capital, impair his credit, and deprive him of the basis of carrying on any further construction activity. Thus the authorization of 90 per cent mortgages in one clause of the subcommittee's bill would be nullified by the unworkable requirement imposed on the builder or contractor in another clause.

2. The authorization to insure small-house mortgages up to 90 per cent would be limited to July 1, 1941. This would mean that any building companies organized to engage in large-scale operations in the small-house field would have to raise capital and develop an organization for what would at best be a three-and-one-half-year market. Thus, even if the building company were not required to endorse the mortgage--a condition that would itself make the raising of capital impossible--the difficulty of getting the capital and organization together for a business that would have no market after two or three building seasons would be almost insuperable.

It may be said of these two amendments, therefore, that the authorization of 90 per cent mortgages would be not merely a meaningless gesture, but a misleading one. The expectation of a large volume of small-house construction could not be realized,

and the failure to realize it would react against the Administration.

Another amendment made by the subcommittee that would seriously impede the raising of funds for large-scale operations, both in the rental housing field and the small-house field, is the provision that mortgagees making loans on the large-scale operations insured under Section 207 of the Housing Act (what is usually spoken of as the limited-dividend section) would receive debentures for only 95 per cent of the unpaid balance of the mortgage in the event of default.

If this figure were fixed at 98 per cent, or even 97 per cent, the effect would probably not be hampering. The relatively small difference, however, between a penalty of 2 or 3 points and a penalty of 5 points might be just enough to represent the difference between a very large volume of construction and a comparatively small volume. Furthermore, that difference of 2 or 3 points in the amount recoverable on large-scale loans would have a prejudicial effect on the bonds issued by National Mortgage Associations making such loans. The bonds would therefore have to bear a somewhat higher rate of interest than would be the case otherwise. This would mean, of course, a correspondingly higher rate of interest than would otherwise be required on large-scale loans.

Thus there are three amendments made by the subcommittee which, though ostensibly designed to "protect the government,"

are actually aimed at defeating the President's program and preventing a widespread recovery of housing construction and financing by private means. They really kill the bill.

There is a fourth amendment, ostensibly designed to "safeguard" the National Mortgage Associations, that is actually calculated to discourage private capital from organizing any of these associations. It is the amendment limiting to 15 to 1 the ratio of bonds to capital. The only justification offered for this amendment is the amendment previously referred to that would have a prejudicial effect on the bonds of associations making large-scale loans insured under Section 207. In other words, these two amendments hang together; the 5 point penalty in the one is offered as the reason for keeping down the volume of large-scale construction that might be financed under the other.

It is perfectly true that the formation of a National Mortgage Association with $50,000,000 of RFC funds would make possible the raising of $750,000,000 through the sale of bonds if the ratio were placed at 15 to 1 instead of 20 to 1. But there is an enormous difference between $750,000,000 and $1,000,000,000 when measured in terms of construction activity and employment. What sensible reason can there be for letting $1 of governmental capital bring in $15 of private capital when it might just as easily bring in $20?

The President's message looks toward the formation of National Mortgage Associations by private capital, and several

of the provisions in the Administration bill as introduced by Senator Wagner had that purpose especially in view. One of the most important of these provisions was that authorizing the 20 to 1 ratio of bonds to capital. Since the associations can issue bonds only against FHA-insured mortgages, government obligations, government-guaranteed obligations, and cash, investors in the bonds are assured an extraordinarily high degree of prdection.

The proposed increase in the ratio of bonds to capital is necessary as a practical matter because a national mortgage association would have to sell its bonds at a very narrow spread. The association ought therefore be permitted to have a reasonably large turnover of its capital in order to cover expenses and make a fair profit. If the ratio of bonds to capital is not made large enough to assure reasonable earnings, then manifestly no associations will be formed by private capital. Thus another of the ostensible "safeguards" written into the bill by the subcommittee would have only a delusive meaning and an obstructive result.