FEDERAL HOUSING ADMINISTRATION
WASHINGTON, D. C.

OFFICE OF THE
FINANCIAL ADVISER

December 23, 1937

Dear Marriner:

I mailed to you last night copies of a letter and a memorandum to James Roosevelt, together with copies of enclosures referred to in the memorandum. You will see from these the position that I think we ought to take regarding the principal points of difference between the House and Senate provisions of the housing bill.

The letter to Mr. Roosevelt and the accompanying material went over to the White House by messenger early this morning. I sent copies to Stewart McDonald by mail to New York last night. Abner Ferguson went over the letter and memorandum today, and he concurs in all my recommendations.

Lubin and I had a talk about the prevailing-wage amendment yesterday morning. He took the matter up at length with Miss Perkins and the Solicitor of the Department of Labor yesterday afternoon, and then called me last evening to let me know the outcome of their discussion.

From what Lubin told me last evening, I am satisfied that the matter can be satisfactorily handled. As I told you on Tuesday afternoon, however, after the prevailing-wage amendment was adopted, I think that the job is one that only the President can handle. Miss Perkins and Lubin evidently hold this same view.

As you perhaps know, I am very much run down from the over-concentration and the long and irregular hours of the past two months. For the past ten days I have been under a physician's care because of some very unfavorable symptoms resulting from the manner in which I have been working. I was advised to stop last week, but of course I did not want to drop everything midway in the executive sessions of the Senate committee. Today, however, I am

leaving, but I hope to return in reasonably fit condition upon the reconvening of Congress. I also hope by then to do some fresh thinking on the subject of the program to be followed by the President after the pending legislation is enacted.

Meanwhile, I have asked Abner Ferguson if he will not undertake to follow through for me any matters that may currently arise in anticipation of a meeting of the House and Senate conferees on the housing bill. He is as familiar with the questions involved as I am, and in any event he will be representing Stewart McDonald during the next two weeks in the regular agency meetings with James Roosevelt. Stewart will be away until January 10.

It may be important for you to have in mind that Abner sat continuously in the executive sessions of the House committee, and that I sat continuously in the executive sessions of the Senate committee and subcommittee. When the time comes, after January 3, for any informal conversations with the Administration members of the joint conference, therefore, some arrangement ought to be made for Abner and myself to be present. I wish that you would speak to James Roosevelt about this.

With best wishes for Christmas and the New Year, I am

Yours sincerely,

Matt Daiger

J. M. Daiger

Honorable Marriner S. Eccles
Board of Governors of the Federal Reserve System
Washington, D.C.

December 22, 1937

Dear Mr. Roosevelt:

The memorandum that you asked me to prepare on the principal points of difference between the housing bill as passed by the House and the same bill as amended and passed by the Senate is enclosed with this letter. The numbers in the following paragraphs refer to the numbered items in the memorandum.

If the recommendations made in the memorandum were taken as the basis of the Administration position, the conferees would reject the Senate amendments with respect to (1) the prevailing wage, (4) the limitation to July 1, 1942, of the authority of the FHA to insure 90 per cent loans, (6) the limitation of 15 to 1 on the ratio of bonds to capital of national mortgage associations, and (8) the insurance of 90 per cent loans up to a term of 25 years.

On the other hand, the conferees would accept the Senate amendments with respect to (2) insurance of farm mortgages, (3) housing for cooperative societies, and (9) mortgage-insurance premiums applicable to mortgages insured by the FHA prior to enactment of the pending legislation.

The conferees would modify both the House and the Senate provisions with respect to (5) the payment of claims for losses on large-scale mortgages, (7) the authority of national mortgage associations to originate loans, and (10) the volume of mortgage insurance which the FHA may have outstanding at any given time. In the case of these three items, however, the House conferees would be yielding largely to the policies reflected in the Senate amendments.

There are points of difference between House and Senate provisions with respect to other matters, but as to these I should say that the House conferees might tend to yield in the main, provided that on the ten important points of difference an agreement could be reached substantially in accordance with that outlined in the enclosed memorandum to you.

Yours sincerely,

J. M. Daiger

Honorable James Roosevelt
Secretary to the President
The White House

December 22, 1937

To: Mr. James Roosevelt

From: J. M. Daiger

SUGGESTED ADMINISTRATION POSITION ON H.R. 8750

Pursuant to your request of Monday evening, I am sending to you this memorandum regarding the matters that we then discussed and the related matters that resulted yesterday from the Senate amendments to the bill adopted by the House on December 18. My suggestions as to the principal agreements to be sought in conference are subject to a further exchange of views with Mr. Eccles, Mr. McDonald, and Mr. Ferguson.

1. PREVAILING WAGE: The Senate amendment requires the so-called prevailing wage for construction of properties on which mortgages are insured by the FHA. The House bill makes no such requirement.

RECOMMENDATION: That the Senate amendment (by Senator Lodge) be rejected. This matter is dealt with in the attached copy of a memorandum ~~of December 17 to Mr. Eccles.~~

2. FARM DWELLINGS: Both the House bill and the Senate amendment make provision for rural as well as urban mortgages to have the benefits of FHA insurance.

RECOMMENDATION: That the Senate amendment (by Senator La Follette) be retained instead of the provision in the House bill. This matter is dealt with in the attached copy of a memorandum ~~which I drafted for Mr. Eccles and which I believe was sent to you on December 11.~~

3. HOUSING FOR COOPERATIVE SOCIETIES: The Senate amendment provides for the insurance of mortgages on large-scale projects held by cooperative societies as legal agents of owner occupants. The House bill contains no such provision.

RECOMMENDATION: That the Senate amendment (by Senator Shipstead) be retained.

4. AUTHORITY TO INSURE 90 PER CENT LOANS: The Senate amendment limits to July 1, 1942, the authority of the FHA to insure 90 per cent loans. The House bill contains no such limitation.

RECOMMENDATION: That the Senate amendment be rejected. ALTERNATIVE: Extension of authority to December 31, 1943, in order to cover five-year program on basis of housing requirements related in the President's message. Reasons for avoiding any limitation are summarized in the paragraph numbered 2 on page 2 of my memorandum of December 19, which is attached hereto under the heading "Notes on Subcommittee Changes in Housing Bill."

5. INSURANCE OF LARGE-SCALE LOANS: The Senate amendment provides that, in the event of default on mortgages covering large-scale housing projects, FHA debentures shall be issued for 95 per cent of the unpaid principal and a certificate of claim be given for the remainder. The House bill provides for the issuance of FHA debentures in the full amount of the unpaid principal.

RECOMMENDATION: That the House provision be rejected and the Senate amendment be revised to provide for the issuance of debentures for 98 per cent of the unpaid principal, together with a certificate of claim for the remainder, and that the mortgagee be given the option of (a) accepting such debentures and certificate or (b) foreclosing the mortgage, paying the costs of foreclosure, and receiving FHA debentures and a certificate of claim in the manner provided in the existing law. Query: Would the inclusion of option (b) in the conference report be subject to a point of order that would preclude adoption of the report? ALTERNATIVE: That the figure in the Senate amendment be revised from 95 to 98, and the House provision be rejected. Reasons for the proposed revision are summarized in the two paragraphs on page 3 of the attached "Notes on Subcommittee Changes in Housing Bill."

6. BONDS OF NATIONAL MORTGAGE ASSOCIATIONS: The Senate amendment provides that these associations may issue bonds against FHA insured mortgages to the extent of 15 times their capital and surplus. The corresponding figure in the House bill is 20.

RECOMMENDATION: That the Senate amendment be rejected and the provision in the House bill be retained. Note: Senator Bulkley has been the chief contender for the figure in the Senate bill. Reasons for retaining the House provisions are summarized on pages 4 and 5 of the attached "Notes on Subcommittee Changes in Housing Bill."

7. LOANS BY NATIONAL MORTGAGE ASSOCIATIONS: The Senate amendment authorizes these associations to originate loans on any mortgages insured under the National Housing Act. The House bill authorizes the associations to originate only the large-scale loans under Section 207.

O.K.

RECOMMENDATION: That both the Senate amendment and the House bill be revised to provide that the associations may originate loans under Section 207 and Section 210, which cover the large-scale and middle-size loans respectively. There is no lack of direct-lending facilities for mortgages up to $16,000, which are covered by Section 203.

yes.

8. TERM OF 90 PER CENT LOANS: The Senate amendment provides that 90 per cent loans (but not 80 per cent loans) may be amortized over 25 years. The term in the House bill is 20 years, as in the existing law governing 80 per cent loans.

RECOMMENDATION: That the Senate amendment be rejected. Acceptance of the amendment would (a) create a sharp and incongruous disparity between the term of 90 per cent loans and the term of 80 per cent loans and (b) cause a greater resistance than would otherwise be encountered in obtaining acceptance of the 90 per cent mortgage on the part of lending institutions.

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9. MORTGAGE-INSURANCE PREMIUMS: The Senate amendment makes the reduced basis of FHA premiums applicable to mortgages insured prior to the enactment of the pending legislation as well as to mortgages subsequently insured.

yes

RECOMMENDATION: That the Senate amendment be accepted.

10. VOLUME OF MORTGAGES INSURABLE: The Senate amendment empowers the President to increase from $2,000,000,000 to $3,000,000,000 the amount of mortgage insurance which the FHA is authorized to have outstanding at any given time. The House bill places no limitation on the extent to which the President may authorize such an increase.

Senate Amdt.

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RECOMMENDATION: That the Senate amendment be revised to increase from $1,000,000,000 to $3,000,000,000 the amount by which the President may extend the authority of the FHA to issue mortgage insurance, and that the House provision be rejected. ALTERNATIVE: That the $2,000,000,000 figure in both the House bill and the Senate amendment be changed to $3,000,000,000, and the respective clauses empowering the President to authorize an increase be eliminated.

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 protection.

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.

12/19/37