Confidential notes for January 10, 1938--JMD(2)
Meeting of House and Senate conferees

STATEMENT ON THE LODGE AMENDMENT

The practical problem presented by Senator Lodge's amendment is a very clear one that does not in any way relate to the merits of the prevailing wage. It is the problem of getting private lending institutions to assume the responsibility and risk involved in the kind of contract which the Lodge amendment would require the Federal Housing Administrator to make with those institutions. This would be a kind of contract for which there is no precedent either in labor legislation or in financial practice.

A contract for mortgage insurance bears no resemblance whatever to contracts under the Bacon-Davis law, the Walsh-Healy law, or similar State or local laws. It is a contract made between the Federal Housing Administrator and a building and loan association, a life insurance company, a savings bank, a commercial bank, a trust company, or some other similar agency engaged in making real-estate loans. The contract runs for 20 years or more and governs the conditions under which a mortgagee will be indemnified in event of the default of an insured mortgage.

The funds loaned by the mortgagees are private funds. The funds paid for mortgage-insurance premiums are private funds. The houses financed by the insured loans are privately built and

privately owned. The Federal government has only an ultimate contingent liability in the insurance operation, and this liability becomes effective only in the event that the insurance funds privately provided should prove insufficient to pay the insured claims.

Obviously, this is an entirely different situation from that in which contracts containing the prevailing-wage clause are made between the Federal government and builders or contractors engaged on public construction projects. In the latter case, the Federal government is dealing directly with builders or contractors and is disbursing its own funds for the construction of its own buildings.

If the Lodge amendment were to become part of the National Housing Act, the validity of the mortgage-insurance contract would depend upon a condition that is plainly beyond the function or the control of the mortgagee. Thus the very essence of the Act and of the pending amendments--namely, the inducement to private lending institutions to make high-percentage loans because of the insurance protection--would be nullified.

It is manifestly unreasonable to suppose that any private lending institution would assume the responsibility and risk which the Lodge amendment would impose. In fact, there is no more reason for imposing the prevailing-wage requirement upon one type of loans which private lending institutions are authorized

to make under Federal law than for imposing it upon all other types of loans which private lending institutions are authorized to make under Federal law.

The law under which the Federal Deposit Insurance Corporation operates, for example, does not contain a prevailing-wage provision applicable to loans made by institutions which that agency insures; nor does the law under which the Federal Savings and Loan Insurance Corporation operates contain such a provision applicable to loans made by its member associations. The laws governing real-estate lending by National banks and Federal savings and loan associations, and the laws governing advances by Federal Reserve banks and Federal Home Loan banks against the security of real-estate loans, contain no prevailing-wage provision.

Yet the Lodge amendment would single out the insurance function of the Federal Housing Administration and the real-estate loans made under the National Housing Act as special means of applying the prevailing-wage clause to private lending and private home-building. This is the unprecedented and incongruous nature of the amendment. The essential fact to be recognized with respect to it, however, is that private lending institutions simply would not make loans under the National Housing Act if the validity of the mortgage-insurance contract depended on the wage rates paid at the time the property securing the mortgage was built.

The proposition is too impractical for lending institutions to consider, even if it were not contrary to the whole conception of private building and private home-ownership. If the prevailing-wage principle is to be extended to private housing construction, it may conceivably be done by wages-and-hours legislation. It certainly cannot be done by imposing an unworkable and untenable condition on the banks, the building associations, the insurance companies, and others that are asked to lend the funds by which private housing construction is to be carried on.

Whatever the purpose Senator Lodge had in view, then, the real effect of his amendment would be to destroy any prospect of stimulating housing construction by the means provided in either the present or the pending legislation. Title II of the National Housing Act would become a dead letter, and Title III as well, and only the revived Title I would remain for actual operation. As for the building industry and the building-trades workers, they would of course be far better off if the pending legislation failed of enactment than if it were enacted with the Lodge amendment retained.