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January 15, 1938

Honorable Robert F. Wagner
United States Senate
Washington, D. C.

Dear Senator Wagner:

I have been advised that the so-called Lodge amendment to H.R. 8730 may be taken up by the conferees on this measure in the next day or two, and that in connection therewith you wish to have an expression of my views as to the effect of the amendment on the operations of the Federal Housing Administration.

It is my considered judgment, as a result of careful study of this amendment, that its retention would largely nullify both the existing provisions of the National Housing Act and the enlarged provisions contained in the pending legislation. Such a result would seem to me to be inevitable from the very nature of the contract by which mortgages are insured under the National Housing Act.

This contract, which may run for as long as 25 years, is made between the Federal Housing Administrator and the lending institution. The builder, contractor, or subcontractor is in no way a party to it. The Lodge amendment, on the other hand, would impose on the lending institution the penalty for failure on the part of a builder, contractor, or subcontractor to comply with the conditions of the amendment.

In other words, non-compliance on the part of a builder, contractor, or subcontractor at the time a property was built would deprive the lending institution of the right to collect the insurance if at any time thereafter the owner of the property should default on the mortgage.

The successful operation of the Federal Housing Administration depends on the voluntary cooperation of private lending institutions. It seems to me to be self-evident that these institutions would not be interested in making loans under the National Housing Act if the validity of the mortgage-

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insurance contract were made contingent upon conditions over which the institutions have no control. The effect of the amendment, then, would be to prevent the stimulation of construction and the increase of employment for which the housing program is designed.

Entirely apart from the foregoing, it occurs to me that the Lodge amendment, which would require the Department of Labor to determine the prevailing wage in every community, would result, in the majority of cases, in the establishment of a wage which would be less than the union scale. This would involve the Federal Housing Administration in a question that in all other cases of private lending, private building, and private home-ownership is left to negotiation between builders or contractors and their employees.

Sincerely yours,

Stewart McDonald
Administrator

JED/a