

FEDERAL HOUSING ADMINISTRATION
WASHINGTON, D. C.

J. M. DAIGER
ASSISTANT TO THE ADMINISTRATOR

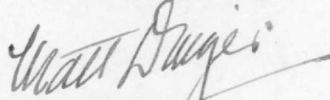
May 3, 1939

Dear Marriner:

I am enclosing herewith a copy of a letter that I have written today to Leon Henderson at his suggestion.

I wish that you would call me after you have read the letter.

Yours sincerely,



J. M. Daiger
Assistant to the Administrator

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

May 3, 1939

Dear Leon:

Here is a matter that I think you and Lube ought to know about, especially in view of the housing studies you and he are directing for the TNEC. It relates directly to the problem of stimulating rental-housing construction, stressed by Mr. Stone, who came to see me yesterday to discuss the committee's plans for hearings on the construction industry.

The House and Senate, as you know, have recently passed the FHA amendments, but with some differences that have now to be adjusted in conference. We are greatly concerned about a provision that the House put into the bill, by amendment from the floor on the motion of Congressman Cochran of Missouri. This provision, if retained, would constitute a serious obstacle to further activity in the very field where construction is most urgently needed but most difficult to induce.

You and Lube will recall that one of the main purposes of the housing legislation proposed by the President in his special message of November 29, 1937, and included in the amendments that became law on February 3, 1938, was to encourage and facilitate private construction of relatively low-rent housing. The effectiveness of the amendments in this respect is attested by the fact that we have issued insurance or commitments for \$100,000,000 of rental-housing mortgages during the past 15 months, and have projects involving an additional \$45,000,000 of insurance under examination, whereas the total rental-housing insurance for the three years prior to the 1938 amendments was only \$15,000,000.

The 1938 amendments put a limit of 80 per cent on rental-housing mortgages, but provided that the insurance should be based on "the amount which the Administrator estimates will be the value of the property or project when the proposed improvements are completed." This is in accordance with the appraisal practice regularly followed by financial institutions in making loans and by the courts in valuation and condemnation cases.

The provision inserted by the House cuts across this with a restriction that "in estimating the value of the property or project . . . the Administrator shall determine the value of

the property as of the date of the application for insurance, and in no case shall he estimate the value . . . to be in excess of the value of the property at such time plus the value of the proposed improvements thereon."

You will see, of course, that the effect of such a restriction would be to put the appraisal, the capital structure, and the mortgage on a basis that does not recognize the rental-housing enterprise as a going concern, but simply as raw land, materials, labor, etc., costing thus-and-so-many dollars. You will also see that the formula is easy for the owner of high-priced land who wishes to use it for a relatively high-rent project, but discouraging and difficult in the case of an operator resourceful enough to assemble a large tract of low-priced land, the value of which will be enhanced even by the building of relatively low-rent housing.

Congressman Cochran's purpose is to prevent the "write-up" of land values--that is, the recognition of any enhancement in property values resulting from the carrying out of rental-housing projects. If the resourceful operator is to be denied that recognition, however, then he must find a way to raise more equity cash, tie up more working capital for 25 years or longer, and, for an equal period, be content with a lower current return on his investment.

The bill as passed by the Senate replaces the Cochran amendment with a provision that would effectively prevent or offset excessive valuation of land, but without penalizing initiative and ingenuity in developing the garden type of rental projects--e. g., Colonial Village and Buckingham--in low-cost land areas. This provision was sponsored by a special sub-committee composed of Senator Radcliffe, Senator Brown, and Senator Taft.


To the 80 per cent limitation, the Senate amendment adds the further restriction that the mortgage "shall not in any event exceed the amount which the Administrator estimates will be the cost of the completed physical improvements on the property or project, exclusive of public utilities and streets, organization expenses and miscellaneous charges, during or incidental to construction." This is altogether sound, reasonable, and practicable; the Cochran amendment is not.

The effect of the alternative proposals is reviewed fully in the enclosed letter from Miles Colean to Congressman

Cochran, written at the latter's request. The Congressman, however, remains unconvinced and is insistent upon the retention of the House provision by the conferees.

I shall appreciate any suggestion or assistance that you and Lube can give in the matter, for if the Cochran amendment is retained the rental-housing program, which is just getting fairly under way, is going to have a bad setback between now and the time the TNEC begins its hearings on the construction problem.

Yours sincerely,



J. M. Daiger

Assistant to the Administrator

N.B.: On the advice of our General Counsel, we are holding some \$25,000,000 of rental housing commitments in abeyance pending a settlement of the appraisal question raised by the Cochran amendment. This means a delay or loss in 1939 building contracts and employment, and necessarily a postponement until next year of projects that cannot be completed in time to meet the fall rental market.

Mr. Leon Henderson, Executive Secretary
Temporary National Economic Committee
Washington, D. C.

JMD/eld