

FEDERAL HOUSING ADMINISTRATION
WASHINGTON

STEWART McDONALD
ADMINISTRATOR

May 5, 1939

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

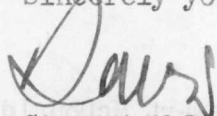
Dear Marriner:

I attach hereto Wall Street Journal of today.
I hope you will have time to read the editorial marked.

I believe too you will be interested in reading the marked article commenting upon Under Secretary of the Treasury John W. Hanes' speech, which also touches upon the subject of "Venture Capital".

There is also an article in the New York Times this morning which I enclose.

Sincerely yours,



Stewart McDonald
Administrator

The following articles are protected by copyright and have been removed.

The citations for the original articles are:

Wall Street Journal, "Review and Outlook: Restricting Venture Capital," May 5, 1939.

Cooper, Lee. "Rental-Housing Program at a Standstill Due to Uncertainty Over FHA Amendments." *New York Times*, May 5, 1939.

Wall Street Journal, "Expansion in Profits Essential to Full Recovery, Says Hanes: Tells Indiana Bankers Removal of Obstacles Blocking Employment of Capital Would Help," May 5, 1939.

May 9, 1939.

Dear Stewart:

This is to acknowledge receipt of your letter of May 5 and the enclosures from the Wall Street Journal and New York Times.

You will, of course, have to deal with that amendment in conference, and it seems to me that the case is so strong against it that you ought to be able to knock it out.

Sincerely yours,

M. S. Eccles,
Chairman.

Honorable Stewart McDonald, Administrator,
Federal Housing Administration,
Washington, D. C.

ET:b

Received in
Chairman's Office
MAY 6 - 1939
Board of Governors
of the
Federal Reserve System

As most of you know, the FHA also encourages large scale rental housing construction. We hear a lot about the lack of prosperity today. Though interest rates are at the lowest level in history, money apparently is a drug on the market. And while it is true that small home building under the FHA has advanced to the 1929 level, yet large apartment house building, which is a vital part of the normal construction program, has lagged far behind. And still there is a crying need for new rental quarters because half of our people will always be renters for one reason or another.

The FHA has developed in the last five years an entirely new type of apartment house, streamlined to fit the times. The units are smaller because the families are smaller, and the new design usually embodies two or three-story walk-ups. The outstanding feature, however, is the small lot coverage. Projects built with FHA insurance have a 22 percent lot coverage against 70 or 80 percent for the old type. This gives wide scope for playgrounds, landscaping, gardening, etc. In the rental projects already built under the FHA program, of which there are some one hundred and fifty scattered throughout the country, it is notable that families with small children seek them out in order to avoid automobile hazards and other dangers in densely populated places.

To build these large developments calls for "venture" capital. Our greatest problem has been to attract responsible venture capital and at the same time to put this capital into a strait-jacket in order to minimize the government's risk. To do this, and still give a spur to the builder, has been a big problem, and yet I feel that we have done it.

We all agree, I think, that venture capital needs encouragement to take risk. The other day Robert M. Hanes, First Vice President of the American Bankers Association, said that recovery waits upon venture capital risking investment in enterprise. Construction and other durable goods industries, he said, are the major sources of unemployment. And these are the industries that depend on the willingness of investors to risk investment. "This they will not do except in an environment of encouragement conducive to profit," he said. "This environment can be provided only by government."

Despite our success in providing capital with an incentive and at the same time keeping the government's risk at a minimum, a great many people do not seem to understand what we have been trying to do. There has been an argument recently in Congress as to whether or not we should permit land valuations high enough to give an incentive to builders who are going to risk several hundreds of thousands of dollars in cash and land and services as equity money for these large rental developments.

I insist very strongly that we should permit them a fair chance to make an ultimate profit. For this is the kind of building which is going to provide low-rent living quarters, as well as employment for thousands of men. And though we have insured mortgages on one hundred million dollars worth of these buildings, there has never been five cents lost by the FHA in this part of its program. Yet, because of a mistaken attitude on the part of few people who misunderstand our policies, we now have forty-five million dollars worth of work held up, work which would be giving employment to probably seventy-five thousand people.
