JOHNS-MANVILLE CORPORATION
TWENTY-TWO EAST FORTIETH STREET
NEW YORK, N. Y.

LEWIS H. BROWN
PRESIDENT

October 5, 1943

PERSONAL

Mr. Marriner S. Eccles
Chairman
Federal Reserve System
Federal Reserve Building
Washington, D. C.

Dear Marriner:

Attached is a formal letter on a subject that I think deserves your attention, as you will know best how to approach the matter.

In the days when we wrote the F. H. A. act and got it passed through Congress, we discussed among ourselves the danger to the new mortgage system in times of another depression and also the danger in time of a period of inflation, or something that might develop into another Florida land boom.

What is developing now to threaten the basic integrity of the F. H. A. mortgage insurance system is the latter.

I remember when we were both in New Orleans in November, 1935, where we both spoke before the American Bankers Association, Mr. Giannini of California said that their banks came through the depression primarily because in the twenties when they began to make mortgage loans on California farms, they established the policy of appraisal and determined on a long-term basis the most the farm could reasonably produce in physical quantities, and what it could therefore be worth. They decided then not to loan on any other basis, and would not follow inflationary land values, which is what had gotten the banks in Iowa and other places in such a mess after the last war.

We are now being confronted with a similar situation in F. H. A. mortgage insured properties. War workers with money in their pockets are willing to pay almost any price for a place to live. The values are being inflated. A mortgage that originally covered a $4000 house is now coming up on resale with the house being sold for $5000 or more, and the F. H. A. is being asked to start over again on the inflationary value, and in some instances with the period of payment extended over the full limit of the act.

For several years I have sat on a Real Estate Committee of a large insurance company, and was instrumental in getting this company to change its policy and buy F. H. A. mortgages. I have now advised them not to take on mortgages that are following the inflationary sales prices at a time like this.

While I recognize we may be going through a period in which our money is being de-valued and we may end in the postwar period with an entirely new set of values, it seems to me it is a mistake at this time when the government is doing everything it possibly can to keep down inflation, to contribute to this trend.

It seems to me if a purchaser, who is probably a war worker with plenty of cash, wants to pay $6000 for a $4000 house, he ought to pay the difference of the inflationary price in cash. If a mortgage has been paid down for five years, it seems to me instead of starting out again with a long-term mortgage, he should, at least, start where the other payments left off, as far as time is concerned.

I have not written on this subject to anyone else, as I thought you might be able to start the corrective measures to the best advantage from inside Washington, if you agree with my viewpoint; or if you do not, please give me the benefit of your advice.

With kindest personal regards,

Sincerely,

Lew

h

JOHNS-MANVILLE CORPORATION
TWENTY-TWO EAST FORTIETH STREET
NEW YORK, N. Y.

LEWIS H. BROWN
PRESIDENT

October 5, 1943

Mr. Marriner S. Eccles, Chairman
Federal Reserve System
Federal Reserve Building
Washington, D. C.

Dear Mr. Eccles:

I have been recently informed that the appraisal of residences for F. H. A. insurance is currently paying particular regard to present market value, replacement value and rental capitalization value. Present market values are, of course, quite variable; in many cases they reflect the distress of inadequate housing facilities. Replacement value, under present circumstances, seems a rather theoretical quantity, but it probably cannot fail to be placed at a high level compared with prewar costs. Rental is subject to the same observation made to present market value.

It seems reasonable to conclude that an appraisal based on these considerations would overstate residential value considerably as compared with prewar levels. Opinion regarding the postwar level of construction costs may well differ, but I question whether household financing should proceed upon the assumption that the extraordinary conditions of war employment will continue to determine both construction costs and demand for space.

I realize that my information may be incorrect, and I hope that it is. For fear that it may be correct, however, I want to suggest to you that it would indicate a very dangerous tendency since it amounts to encouragement by the Government to assume long-time commitments at inflated values. I suppose no great harm is done if inflated values are bought for cash with inflated wages. I am sure, however, that great harm will be done if people buy inflated values with deflated postwar wages and I do not like to think of what will be said by people who are encouraged by Government to do this.

I feel at liberty to bring this matter earnestly to your attention, because I know how deep your concern is with matters of this sort.

Sincerely,

Lewis H Brown

October 26, 1943

Mr. Lewis H. Brown, President
John-Manville Corporation
22 East Fortieth Street
New York, New York

Dear Lew:

The questions which you raise in your letter of October 5 give me some concern. I agree with you that there is danger in any tendency of mortgagees to base valuations of residential properties, for lending purposes, on market prices which are increasing mainly because of wartime demands for housing and wartime restrictions on new building.

Officers of the Federal Housing Administration have, on several occasions recently, expressed confidence in the ability of FHA, by following its established valuation procedures, to minimize the tendencies to inflationary rises in residential real estate prices. Regard for the success of the whole program of mortgage insurance, which depends in large measure on sound appraisals, dictates that FHA, in insuring mortgages, should not sanction inflationary valuations. On the other hand, a desire on the part of local insuring offices to maintain the level of operations might result in closer following of the market than is desirable.

Mr. Ferguson has written insurance offices three times since August 1941 instructing them that no increases above the last stabilized prices in each market are to be recognized. In spite of this, however, the statistics of operations show that the average valuation of existing properties insured in 1942 under Title II was ten per cent higher than in 1939. The average mortgage principal was about fifteen per cent higher than in 1939 and continued to increase during the first nine months of 1943. Factors other than recognition of rising market prices might, of course, account for these statistics, but it is interesting that, until 1940, valuations and mortgage principal were, on the whole, declining.

I think it would be a good idea for you to call to Mr. Ferguson's attention any information you have obtained on this subject and to point out the effects of such developments on the market for FHA mortgages. At the first favorable opportunity, I shall also raise the question since, as you know, I am very much interested in the success of the FHA program as well as in the improvement of credit conditions generally.

During the last few months, I have given some attention to another aspect of FHA operations, namely Title VI, which contains some of the dangers which you see in the regular program. Thinking you may be interested, I am enclosing copies of memoranda, prepared by members of our staff, which discuss some of the implications of the privately-financed war housing program. These memoranda should be regarded as strictly confidential.

Sincerely,

M. S. Eccles,
Chairman.

FW:dme