

Miss Benton

January 29, 1945.

Members of the Board

Chairman Eccles

The attached letter originates from a suggestion by Senator Taft. He had wanted me to appear at hearings of his Subcommittee on Postwar Housing. I felt for various reasons that it was inadvisable to do so and did not have adequate time to prepare, in any case.

When I communicated this to him, he suggested that I might write a letter for the record to register dissent to some of the proposals presented to the committee by the Home Loan Bank people. The letter is in effect a reaffirmation of opposition previously recorded to these proposals.

Before sending it to Senator Taft, however, I wanted the Board to know about it and approve it. As it has already been considerably delayed, I would appreciate having it acted upon as promptly as possible.

Attachment

ET:b

Approved by
Board Members
& letter delivered
by messenger 5/2/45-

February 2, 1945.

Honorable Robert A. Taft,
United States Senate,
Washington 25, D. C.

Dear Senator Taft:

At the hearings on January 10 of the Subcommittee on Housing and Urban Redevelopment of the Special Committee on Postwar Economic Policy and Planning, Mr. Fahey, Commissioner of the Federal Home Loan Bank Administration, with the support of Mr. Blandford, Administrator of the National Housing Agency, urged the passage of the bills H.R. 595 and H.R. 594 (which have also been introduced in the Senate as S. 179 and S. 180). These bills (except for the omission of one point) are the same as S. 756 and S. 757, respectively, which were before the 78th Congress and on which hearings were held in May 1944. In a letter dated May 24, 1944 to Senator Wagner, the Board of Governors of the Federal Reserve System expressed its opposition to passage of these bills. Mr. Fahey and others disagreed with the position we took, and in a letter dated December 16, 1944 to Senator Radcliffe, the Board discussed the bills in some detail, pointed out the specific aspects of the bills to which the Board objected, and suggested changes which would make certain provisions of the bills acceptable.

As far as I am aware, no objection has been made to this second letter. I am therefore enclosing a copy of it, and I shall here set forth some of its more important points. It may be noted that Mr. Fahey, in the testimony referred to above, did not mention any counterpart of what was S. 1034 in the 78th Congress.

In H.R. 594 (corresponding to S. 757 in the 78th Congress), we have no objection to the authorization of Federal savings and loan associations to lend on (1) the security of notes alone, if the associations are insured against loss under Title I of the National Housing Act, and (2) home mortgages insured under Title II of the National Housing Act which have maturities up to 25 years. We have no objection to the parallel provisions of section 1 of H.R. 595 (corresponding to S. 756 in the 78th Congress) which would permit the Federal Home Loan Banks to make advances secured by such loans.

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We do not believe that the remaining provisions of H.R. 594 and of section 1 of H.R. 595 should be enacted. The predominant investments of savings and loan associations should be home mortgages, and the powers of associations to invest in mortgages on apartment houses and other business properties should not be extended beyond their present scope.

Section 2 of H.R. 595 makes an appreciable change in the basis on which the Federal Home Loan Bank System may issue debentures to the public. At present, the amount of debentures outstanding may not exceed the amount of advances from the Banks to their members which are secured by mortgages of a type defined by Congress. The proposed change would permit debentures to be issued for a much larger amount and for much broader purposes by including in the debenture base all Government obligations owned by the Banks, whether held as part of their reserves or not, as well as advances to members secured in any way whatever. The provisions of the present law give the Federal Home Loan Bank System adequate access to investment funds to permit it to perform the functions which it was established by Congress to perform. We feel, therefore, that section 2 of H.R. 595 should not be enacted.

Section 3 of H.R. 595 authorizes the Secretary of the Treasury to purchase obligations of the Federal Home Loan Bank System and of the Federal Savings and Loan Insurance Corporation with certain limitations on amount. We have no objection to the stated purpose of this section, but we do object to the broad terms in which the proposed legislation is couched. We have therefore suggested that the purpose of the section and the conditions under which it may be used be clearly defined by Congress.

The broad problems at which this proposed legislation is aimed are important, and the Board has no desire to see them ignored. We do not believe, however, that the legislation offered is desirable for the reasons set forth in some detail in our letter of December 16.

Your subcommittee is holding hearings with the purpose of developing a Federal housing policy and program for the postwar period. To my mind, the basic task of a housing policy or a housing program should be to bring our housing supply up to decent standards for the middle and lower income groups, and to make possible a continuous bettering of the housing available for all income groups at the lowest possible cost. If, after the transition period, when men and materials are available, we are to establish really good housing standards in a reasonably short time, and if residential building is to contribute its share to full employment after the war, then all the activities associated with residential building will need to be at levels far above

any we have known before, and will have to be sustained at these high levels without the wide fluctuations to which building has been subject in the past.

Strictly from the point of view of the provision of housing, fluctuations in residential building are bad for two reasons: first, they mean that we are operating at less than capacity, and thus are obtaining less housing than we could have; and second, irregular operations give rise to costs which could be avoided if operations were continuous. If we are to obtain the volume of building which Mr. Blandford has testified we need (and I should agree that our need is at least as great as he has shown) at costs which people can bear, we must eliminate the wide fluctuations in residential building.

How to obtain continuous building of houses at the high level required is a question which will require a great deal of study, and measures will have to be adopted by the Federal Government as well as by State and local authorities and by private individuals and groups. I should like to emphasize that the question must be faced as a question of providing housing. Programs designed to raise national income, prevent unemployment, and maintain a sound credit structure will make it easier for us to obtain the quality of housing which we can have; but the problems in the housing field are sufficiently difficult and individual to require special attention. At the same time, the measures adopted to stimulate the provision of housing must be compatible with the smooth functioning of the economy generally.

The bills sponsored by the Federal Home Loan Bank Administration are aimed at some of the problems of financing housing. The main fault I have to find with those provisions of the bills objected to by the Board of Governors is that, in the field of housing finance, they look, basically, to making institutions developed to meet one kind of need meet quite a different kind; and in the field of credit generally, they would weaken the controls of credit policy which the Nation has built up over the years.

The bills, if enacted, would permit Federal savings and loan associations to participate much more in the mortgage financing of rental housing. I believe any comprehensive housing program must give greater emphasis to rental housing than has been given in the past, but I do not feel at all confident that rental housing can be provided soundly if it has to rely on financing techniques which have been developed for owner-occupied housing. Rather than try to make it possible for institutions such as savings and loan associations and

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commercial banks to provide more mortgage financing for large rental projects, I think we should try to work out new financing devices more closely adapted to the needs of rental housing. One of these needs seems to be much more equity capital than there has been in the past. This may mean that different kinds of institutions, enterprises, and techniques such as limited dividend corporations, and yield insurance should be encouraged, although I am not prepared now to make recommendations for legislation on these subjects.

The bearing of these bills on control of credit policy is not remote. Investment in housing is long-term investment, and individuals should not be induced to engage in it under the impression that their investment is liquid. Liquidity cannot be obtained for investments in institutions such as savings and loan associations unless either the institutions themselves follow a policy of investing a large portion of their assets in short-term loans, or the Government or central bank gives a commitment to rediscount or buy any mortgage loan offered to it. Savings and loan associations cannot follow a policy of liquid investment and still perform their function. A sound credit and fiscal policy cannot be carried out if there is a Government or central bank commitment to turn mortgages into cash, but H.R. 595 is a step in the direction of such a commitment.

Because a housing policy and program must be framed in response to the special problems of housing and, at the same time, the measures adopted to meet these problems must be integrated as closely as possible with the operations of other parts of the economy, I should like to see the National Housing Agency established as a permanent Federal agency, but with somewhat different and more extensive duties than it has had during the war. It should be responsible for correlating the activities of the Federal agencies which have already been developed, but it should do much more than this. It should be responsible for studying housing problems, with the assistance of all interested parties, particularly State and local authorities, and for developing solutions which can be put into effect by existing agencies, or can be proposed to the appropriate legislative bodies. Both in formulating programs for the consideration of Congress and in carrying out programs agreed upon, the agency should work closely with other agencies of Government to assure that measures taken for the improvement of housing conditions are consistent with measures which must be taken in other parts of the economy. In saying this, I do not suggest that other agencies, such as the Federal Reserve System, the Treasury, and the Social Security Board should fashion or veto housing programs. I do mean to say that if we are to do the job of bringing our housing up to what it should be, measures will be needed which will impinge at

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many points on areas for which many different agencies have responsibilities to Congress and to the Nation. A National Housing Agency with the duties I have sketched very briefly could do much to avoid conflicts, not only among housing agencies themselves, but also between the housing agencies and other Executive Agencies.

Sincerely yours,

M. S. Eccles,
Chairman.

Enclosure

RW:ET:b