

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date October 27, 1947

To Chairman Eccles

Subject: F.H.A. Loans on Existing Property

From Mr. Vest

You asked me to get the facts regarding the insurance of loans by the Federal Housing Administrator on existing property. Under the law it appears that he can insure loans on existing property in the following instances:

(1) Under Title II, where the loans do not exceed 80 per cent of the value of the mortgaged residences. If they do exceed 80 per cent they can be insured only if the mortgages are on new structures.

(2) Under Title VI in connection with the sale by the Government of war housing. (This authority, which was given by a law enacted a few months ago, was intended to eliminate the necessity for the Government's taking back purchase money mortgages.)

(3) Under Title I, loans for alterations, repairs and improvement of new or existing structures.

The authority to insure Title II mortgages on existing structures would have terminated July 1, 1946, but Congress amended the law to continue this authority indefinitely, saying in a committee report that "the continued authority of the Federal Housing Administration to insure mortgages on old or existing houses * * * is important."

While the law does not expressly authorize the Federal Housing Administrator to discontinue the insuring of loans on existing structures, he must approve the granting of insurance in each individual case under Title II or Title VI and he is authorized to prescribe the terms and conditions under which Title I loans may be insured. It appears, therefore that the Administrator could, if he desires to do so as a matter of policy, discontinue granting insurance under Titles II, VI or I except upon loans on new structures. The Administrator might be disinclined to take such action in view of the specific authority of the law for insurance on existing structures and he might consider that he could not withhold insurance on existing property in all cases without possibly having his power to do so tested in the courts. The probabilities are that a policy of this kind by the Administrator would be upheld in the courts, although the matter is perhaps open to some question.

GBV