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August 11, 1948.

To: Board of Governors   Subject: The New Housing Act

From: G. Howland Chase and Ramsay Wood

The housing bill, signed by the President yesterday, (H.R. 6959) contains many of the provisions of the Taft-Ellender-Wagner bill. The major difference between the Act, as passed, and the T-E-W bill is that the provisions for the continuation of the public low-rent housing program and the proposed new provision for aid in slum clearance are omitted.

The Act liberalizes the provisions for insurance of (1) mortgages on rental properties, (2) mortgages on one-to four-family houses, (3) loans for repair and modernization. It also adds a new program of insurance of yield on investment in rental properties. The Act authorizes the Housing and Home Finance Agency to engage in research on building codes and materials, and permits an increase in the interest rate on GI mortgage loans from 4 to 4 1/2 per cent, and liberalizes the Act of August 1, 1948 which reconstituted the Federal National Mortgage Association.

Mortgages for Rental Housing

The authority to insure mortgages for the construction of rental housing under Title VI of the National Housing Act is extended to March 31, 1949, and $800,000,000 of insurance authorization is added. Mortgages under this provision may not exceed 90 per cent of FHA's estimate of construction cost as of December 31, 1947. The provision formerly was that the mortgage could not exceed 90 per cent of "necessary current cost." The mortgage may not exceed $8,100 per unit, compared with $1,800 per room formerly. The mortgagors under this extension must agree not to discriminate against families with children.

The Act liberalizes the rental housing provisions of Title II in various ways:

(a) It authorizes the insurance of rental housing mortgages of up to $50,000,000 if the mortgagor is a state or local government or a corporation supervised by a state banking or insurance department. The maximum mortgage insurable to other types of mortgagor remains $5,000,000.

(b) It permits utilities and other site improvements, which were formerly excluded, to be included in the valuation base.

(c) It changes the maximum mortgage limit from $1,350 per room to $8,100 per unit, except that in some cases the maximum limit may be $1,800 per room.

(d) It permits mortgages for 90 per cent of the value of the completed project in the case of dwellings built for "families of lower income" or, in the case of projects built by cooperative associations consisting primarily of veterans, for 95 per cent of construction cost as of December 31, 1947. These mortgages may run for 40 years and bear interest of not more than 4 per cent.

(e) It authorizes the Federal National Mortgage Association to purchase FHA-insured mortgages on any rental project.

Mortgages on 1-to 4-Family Houses

The insurance of mortgages for the construction of houses under the emergency provision of Title VI is discontinued. However, the Act liberalizes the terms on which mortgages on houses built under Title II may be insured, so that to some extent Title II takes over the kind of financing formerly encouraged under Title VI. Under the new Title II provisions --

(a) Any mortgage for the construction of a new house (up to the maximum, $16,000) may run for 25 years. (The maximum term was formerly 20 years for houses valued at more than $6,000.)

(b) Any mortgage to construct a house valued at not more than $7,000 (formerly $6,000) may be for 90 per cent of the value, and for houses valued at not more than $11,000 (formerly $10,000) mortgages may be for $6,300 plus 80 per cent of the value between $7,000 and $11,000. (The percentage figures are not changed.)

(c) A mortgage given by a builder to finance the construction of houses may be insured if it does not exceed $6,000 or 85 per cent of the value. A purchaser may obtain a 95 per cent mortgage on a new house valued at not more than $6,316. These mortgages may run for 30 years and may bear interest at not more than 4 per cent, or in the discretion of the Administrator not more than 5 per cent.

The Act also amends Title I so that

(d) Mortgages for the construction of small houses (which are not subject to inspection by FHA) may be insured up to $4,500 (the limit was $3,000) and an additional $35,000,000 of insurance authorization is made available under Title I, thus making possible an additional $350,000,000 of insured lending beyond the present authorization.

Yield Insurance

The Act institutes a program of yield insurance (adding a new Title VII to the National Housing Act). FHA may undertake to pay the investor not exceeding 2 3/4 per cent, plus amortization of 2 per cent per annum on rental housing for "families of moderate income" if this amount is not earned. (Since the payment is thus limited, a large operating loss may reduce the net return to zero or less). Rent schedules must be approved by the Administrator. The Administrator is authorized to take over any project on which he has paid a total of 15 per cent of the original investment, and the investor is permitted to require the Administrator to take over any project which has shown a loss of 5 per cent of the original investment. When the project is turned over, the investor receives debentures bearing not more than 2 3/4 per cent interest, which are exempt from State taxes.

Miscellaneous

The Act liberalizes provisions for insurance of loans to house prefabricators and manufacturers by providing for the insurance of discounts of short-term credit extended by prefabricators to their customers.

The Act seeks to encourage "large-scale modernized site construction" by providing for the insurance of mortgages not exceeding 80 per cent of the total value or $6,000 for each single-family dwelling in the project, to be amortized during such term as the Administrator shall prescribe. Preference in occupancy is given to veterans.

The Act also adds authority for the insurance of loans up to $10,000 with maturities up to 7 years, for the repair, modernization or conversion of houses to accommodate two or more families.

The Act amends the Act of August 1 reconstituting the Federal National Mortgage Association by permitting the Association to purchase not more than 50 per cent of the FHA and GI loans made by a lender after April 30, 1948 (the figure was 25 per cent).