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December 17, 1947

Honorable Edith Nourse Rogers,  
House of Representatives,  
Washington 25, D. C.

Dear Mrs. Rogers:

This is in reply to your letter of December 4, 1947, asking for our comments and recommendations regarding H. R. 4488, a bill to amend the Servicemen's Readjustment Act of 1944, as amended.

The bill would authorize the Administrator of Veterans' Affairs to provide for the incorporation and supervision of "veterans' homestead associations", which would be organized by veterans and would operate on a nonprofit basis to purchase and construct housing for veterans and make loans to veterans to purchase housing.

Working capital for the associations would be provided initially by the Administrator, who would lend money to them at one-half of one per cent per annum. For this purpose the bill would authorize, in addition to such sums as may be necessary for his administrative functions, an appropriation of \$100,000,000 which would constitute a revolving fund.

The Federal Works Administrator would be authorized to make grants covering one-half of the cost of streets, water works, sewers, schools and other facilities in connection with housing under the bill, for which purpose an appropriation of \$200,000,000 would be authorized.

The associations would be authorized to issue bonds, in an amount equal to \$10,000 for each unit of housing constructed, acquired or financed by them, to the aggregate extent of \$2,000,000,000. Such bonds would be guaranteed as to principal and interest by the United States, and the interest would be exempt from Federal taxation. In addition, the net earnings of any association would be exempt from Federal, State and local taxation.

The Administrator of Veterans' Affairs as fiscal agent for the associations would handle all matters connected with the issuance and sale of bonds.

While we feel that the encouragement of associations financed in a sound manner might be of real help in achieving improved housing conditions, the Board believes that this bill should not be enacted in the present situation. One of the most inflationary factors at this time is excessively easy mortgage credit for housing. More than half of the current unprecedented volume of mortgage lendings is sponsored by the Federal Government

under legislation enacted by Congress and this bill would add to the already generous provisions for mortgage credit. The Government must therefore assume much of the responsibility for any adverse effects of this type of lending under which sellers and builders of houses are enabled to make exorbitant profits, and families of moderate and low income are encouraged to assume mortgage debt beyond their ability to pay when the present inflationary period is over. In this connection, your attention is invited to my statement on housing finance before the Joint Committee on the Economic Report on November 25, 1947, of which a copy is attached.

While it seems unnecessary to enter extensively upon a discussion of other aspects of the bill, we feel that, aside from the substantial additional appropriation of Government funds proposed for housing purposes without reimbursement, it provides for a loan rate for working capital purposes which is substantially below the cost of money to the Government, and for tax exemption which is not in harmony with governmental policy, particularly as expressed in the Act of February 19, 1941, of withdrawing tax exemption from all obligations issued after March 28, 1942, by the United States or any agency or instrumentality thereof. Moreover, it is not consistent with the heavy responsibilities of the Treasury for the management of the existing large public debt to place elsewhere in the Government the issuance and sale of the bonds which would be authorized by this bill.

Sincerely yours,

(Signed) M. S. Eccles

M. S. Eccles,  
Chairman.

Enclosure