

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

MAR - 2 1948

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

Dear Mrs. Rogers:

This refers to your letter of February 20, 1948, asking for the Board's comments and recommendations regarding H. R. 5120, a bill to amend the Servicemen's Readjustment Act of 1944, as amended.

In general, the bill would provide certain loans, grants, Government guaranties, and tax exemptions in connection with veterans' housing. As indicated below, these would be made available chiefly through State agencies or subdivisions.

To finance veterans' housing State agencies or subdivisions would be authorized to issue bonds which would be fully guaranteed as to principal and interest by the United States, and the interest on such guaranteed bonds would be exempt from all Federal taxation. Such guaranteed bonds could be issued in an aggregate amount of \$2,000,000,000.

The Administrator of Veterans Affairs would be authorized to advance working capital and "interim financing" to State agencies and subdivisions in connection with veterans' housing at an interest rate of one-half of 1 per cent per annum, and \$100,000,000 would be authorized to be appropriated for this purpose.

The Federal Works Administrator would be authorized to make grants to State agencies and subdivisions covering one-half the cost of public facilities in connection with housing under the bill. An appropriation of \$200,000,000 would be authorized for this purpose.

The interest and principal paid by any veteran who acquired a home under the bill could be deducted by the veteran for the purpose of computing Federal income tax if the total cost of the home did not exceed \$15,000.

Whatever merit some such bill might have in other circumstances, 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

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of the current unprecedented mortgage lending is sponsored by the Federal Government under legislation enacted by the 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 home financing 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, the Board feels 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 and "interim financing" which is substantially below the cost of money to the Government, for a highly questionable tax exemption on payments on home mortgages, and for a tax exemption on bonds which is not in harmony with Government 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 the issuance and sale of Government guaranteed bonds which would be authorized by this bill.

Sincerely yours,

(SIGNED) M. S. ECCLES

M. S. Eccles,  
Chairman Pro Tem.

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