

September 28, 1933

MORTGAGE SITUATION.

The mortgage situation requires careful formulation of policy from many points of view.

I. There is the necessity of providing for a market for new mortgage money in order that the expansion in construction activities may help to pull us out of the depression. At the present time, there are relatively few communities in this country in which new mortgage money is readily available. Our object should be to create conditions under which a natural and free market for mortgage money will spring up and to consider the use of Government funds in this connection only in the sense of helping to provide an example which the private market might follow. I think we should consider the drafting of a Federal mortgage company incorporation law which would permit private capital to incorporate in model Federally examined mortgage companies which would be subject to conditions of examination and operation designed to prevent those flagrant financial abuses which have demoralized the mortgage market in the past.

II. An equally important angle of the mortgage situation relates to existing mortgages. We must cooperate to bring some sort of order out of the present financial chaos resulting from defaulted and overdue mortgages. Banks and insurance companies

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are seriously embarrassed, because they hold mortgages on which the borrower has ceased to pay interest and amortization. Individuals who have invested their funds in mortgages likewise are seriously embarrassed because they cannot sell these mortgages at any price and thereby secure a degree of mobility for their funds. Finally, borrowers on mortgages are threatened with foreclosure and loss of their homes.

There have been many attempts to deal with this situation piecemeal, without great success. In an attempt to handle the problem on a broader basis the last Congress provided for the organization and expansion of the Home Loan Bank and Federal land bank systems. A relatively large amount of government funds has been made available to these institutions, but it is inadequate to take care of the billions of frozen mortgages that are in the picture. I think we should try to formulate a policy with regard to the whole situation, deciding in what way we will use the Federal aid so provided, and what additional steps will also be necessary. We should decide just where the Federal aid already provided for should be applied, whether it should be used to ease credit in frozen banks, insurance companies, etc., whether it should be used to relieve distress among borrowers, and, finally and most important of all, to what extent the policy adopted by these institutions should be directed primarily towards the creation of model mortgage institutions, which would give an example to the market of how the mortgage business should be conducted.

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Formulation of a policy along these lines will carry with it the formulation of a policy regarding the making of a market for the bonds of these institutions.

If our primary object is to unfreeze frozen credit positions, it would probably be wisest to go through with a straight policy of exchanging bonds for existing mortgages on a strict valuation basis for existing properties. If the primary policy, on the other hand, is to relieve social distress and mortgages are to be exchanged on a relatively liberal basis of property valuation, it would be better to refrain from selling the bonds of the Federal Land Banks and the Home Loan Banks in the market and to provide for their absorption directly by the Treasury.

III. There is also a social and political angle to the mortgage situation which should be taken into account before the convening of the next Congress. The greatest pressure for social relief which Congress faces arises in general from three situations: first, the necessity for unemployment relief; second, the reaction of farmers against foreclosure on their mortgages; and third, the reaction of urban home owners against foreclosure and loss of their homes.

From a purely social and political point of view, we ought to have a policy formulated for presentation to Congress to deal adequately with these three situations. We had hoped that the operations of the Federal Land Banks and the Home Loan Banks would be sufficient to relieve pressure arising from mortgage foreclosure, but it is now becoming fairly clear that they will not be able to

operate on a wide enough scale to relieve the situation before Winter.

In view of the fact that Congress will insist on a further substantial measure of mortgage relief in any case, it would be wise to prepare an Administration plan of comprehensive mortgage relief for submission to Congress when it convenes.

Mr. Riefler.

October 2, 1933

THE MORTGAGE SITUATION.Scope of Problem.

Although the mortgage market is one of the largest, if not the largest single money market in this country, it is also one of the least organized markets. Broadly speaking, it may be estimated that there are outstanding about 44 billions of real estate mortgages in this country, of which 9 billions are farm mortgages, 20 billions are urban mortgages on small individual residential units and 15 billions are urban mortgages upon apartment houses, office buildings, hotels, etc. The majority of these funds are tied up in first liens, either in the form of single blanket mortgages, or in the form of mortgage bonds, but the volume of second mortgages, or other forms of subsidiary liens is considerable and leads to extraordinary complications and conflicting creditor claims when the property is in difficulty. Of the 44 billions of total mortgages outstanding, about 29 billions are held by creditor institutions, as follows: 5 billions by commercial banks, 6 billions by savings banks, 9 billions by insurance companies, and 9 billions by building and loan associations. The remainder, constituting about 15 billions, is held by mortgage companies and in trust funds, endowments, and among the direct investments of individuals. The large proportion of mortgages held by socially important creditor institutions, such as banks and insurance companies, makes the problem of mortgage debtor relief peculiarly difficult, since relief to the hard pressed but

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worthy farm debtor or urban home owner is also likely to mean devastating losses to equally worthy and hard pressed bank depositors and holders of insurance policies. The ramifications of losses resulting from distressed mortgages are even wider than these details would imply since many distress mortgages have been guaranteed by mortgage guaranty companies which in turn are sometimes tied up or affiliated in some way with banks, surety companies, and other financial institutions.

Nature of Difficulties.

A majority of outstanding mortgages are probably in difficulty of some kind at the present time, either on account of arrears in interest and amortization, or inability to secure refunding at maturity. As a consequence, the whole mortgage market is demoralized; debtors are fearful of losing their property, creditors find their investments frozen, and usually cannot realize on their holdings to meet emergencies, even at ruinous discounts. The uncertainties of the situation have been made somewhat more precarious at the present time by the expectation of inflation which has acted to retard somewhat the interest of investors in new mortgage loans, and has given creditors a strong incentive to foreclose now instead of arranging to compromise with debtors on delinquent liens.

The origin of the present mortgage situation is two-fold. There is, first, the deplorable economic situation which has reduced the income of debtors so that they are frequently unable to pay taxes and service on their mortgages. Farmers, who are not as a

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class heavily over-mortgaged on a normal basis of operations, have been caught by the drop in farm prices which has reduced their current income to a point where it is literally impossible in most cases to pay any interest or amortization on their loans. Urban properties, which are probably more subject to the charge of being overindebted in relation to value than farms, have also been hard hit by the depression. Unemployment has led to doubling up of families, increased vacancies, lower rentals, and a sharp general reduction in income available for the service of mortgages. All of these difficulties are economic in origin and are inevitable in a depression of the character and magnitude of the present crisis. They will be alleviated, however, by any progress made in emergence from the crisis.

Equally important in the mortgage crisis are a series of factors which are not primarily due to economic conditions. The mortgage money market in this country has never been organized along sound lines calculated to stand up under economic pressure. Very few mortgages are made on an amortization basis by which the debtor is required to retire a fixed proportion of the principal annually out of the income on the property, and the mortgage is outstanding until it is fully paid. Instead, most American mortgages are drawn for 3 or 5 years without provisions for amortization or curtailment of principal. This means, first, that there is no provision for automatically extinguishing mortgage indebtedness out of the income on mortgaged properties, and, secondly, that a huge volume of mortgages becomes legally due each year which cannot possibly be paid off except by refunding. If they become due in

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a period of uncertainty, such as that which has prevailed since 1930, when new mortgage money is scarce, they cannot be refunded, the mortgage market becomes utterly demoralized, and debtors over a wide area of the market find themselves subject to immediate foreclosure and a prey to unscrupulous financial tactics.

The present state of the mortgage market, especially the urban mortgage market, is also in part a natural consequence of one of the most reckless periods of mortgage financing in the history of the United States. In the period from 1921 to 1929 this country experienced an unparalleled real estate and construction boom which was accompanied and made possible in part by utterly unsound financial practices. As a result, urban mortgage indebtedness increased three-fold, from about 9 billions to about 27 billions, the volume of urban mortgage debt per capita of urban population increased from 160 dollars to 412 dollars, and the ratio between the total value of urban property and urban mortgage indebtedness decreased from 7.6 to 3.7. Since 1929, the drop in urban values has greatly increased the burden of carrying overindebted properties.

Present Points of Active Pressure.

The incidence of this whole situation on economic conditions at present is concentrated at three points, as follows:

1. Debtor Relief:

There is a debtor revolt in the situation which contains the possibility of entailing far-reaching social consequences. Debtors on a large proportion of these mortgages consist of occupant farmers and home-owners, frequently referred to as the "backbone of the nation". Certainly, widespread foreclosure among these classes would constitute a social disaster. It was hoped in the

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Spring that legislation passed liberalizing the Farm Land Banks and the Home Loan Banks would relieve this pressure but it is now becoming fairly clear that the task of debtor relief is beyond the resources of these institutions and also that they are too cumbersome to be in a position to afford widespread relief in time. We should explore the possibility of preparing new legislation to present to the coming Congress.

2. Creditor Relief.

Unless the Government frankly foots the bill and takes over existing delinquent mortgages at face value, debtor relief only accentuates the difficulties of socially important financial institutions, such as banks and insurance companies, whose present difficulties are already in large part due to the mortgage situation. Under these circumstances, it is necessary to define definitely the policy to be pursued, delineating carefully that part of the policy which is expected to take care of debtor situations, that part which is expected to care for creditor situations, and that part of the cost of both programs which will be assessed on the Federal Government. If we fail to define our policy clearly in this regard, we may embark on schemes which will wreck government finances without affording adequate relief to either debtor or creditor situations.

3. Unemployment Relief.

The third and most important point of pressure relates to the unemployment problem. At present, unemployment is con-

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concentrated much more heavily in the construction industry than in any other industry, and it is becoming clearer each day that the key to industrial recovery is the key which releases a normal volume of work for the heavy industries, among which the most important is the construction industry. This industry cannot move, however, without adequate financing and is now impeded in those places where construction might be under way by the complete absence of a mortgage market. It is essential, therefore, that we plan for a resumption of mortgage financing.

Tentative Program for Procedure.

The following program envisages a possible procedure for handling these difficulties step by step.

1. As soon as Congress convenes, enact legislation which, by prohibition, taxation of obstructionists, or otherwise, has the effect of requiring every creditor on existing ^{urban} mortgages on which there are no arrears in interest, to exchange his mortgage for a model instrument carrying (a) the same principal, (b) the same or a lower rate of interest, (c) a moderate rate of amortization, say, a 15-year rate, and (d) a maturity consistent with this amortization rate. This legislation would take care of the problem of refunding mortgages which are otherwise in good standing and are in difficulty simply because a refunding market has disappeared. The plan is drastic and would invoke hardship in individual cases, but it has the merit (a) that it would relieve that part of the situation which is least complicated by additional economic and financial breakdowns, (b) it would offer immediate relief

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without the necessity of creating cumbersome machinery, and (c) it would substitute model mortgage instruments drawn in accordance with the most advanced financial practices for the imperfect financial instruments that have contributed to our difficulties.

2. Tempt the investor back into the mortgage field by offering new mortgages of unquestioned soundness and safety from the investment standpoint. To do this adopt a policy for the Federal Land Banks and the Home Loan Banks designed to make these two organizations model institutions of mortgage financing. This means that they should be administered on most conservative lines; their mortgages should be based upon strict valuation of properties, and such changes should be made in the law as are necessary to carry out these functions. The administration and practice of these institutions should be such that their bonds would find a market irrespective of the Federal guarantee of interest. If this is done, they will become pioneers of sound mortgage practice in the future and will provide a model for the resumption of private mortgage financing. It will not be their function to act primarily as relief institutions and there will be many social situations in which they are frankly powerless to act, but they will be able to furnish relief both to debtors and creditors in a great many situations. Banks and insurance companies, which are willing to take a loss on delinquent mortgages, for example, if

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they can immediately realize on what their lien is really worth, will be able to make use of these institutions. Debtors, likewise, whose mortgages are well serviced, will be able to refund through these institutions and thus obtain a lower rate on their borrowing.

3. Enact a Federal incorporation law which provides for the incorporation of Federally examined new mortgage finance companies with power to lend on apartments, hotels, office buildings, and other large undertakings as well as small homes. These companies would be able to finance new construction as well as refinance existing structures. Existing first mortgages are too large in relation to the current value of property to find a sale in the market at any price, but there is no reason why part of these existing liens could not be liquidated through refunding by these new corporations. This would enable the present holder of a first mortgage to obtain some mobility for his investment even though he was required to retain part of his claim in the form of a second lien of doubtful value. These mortgage loans should be long term mortgages with amortization provisions well within the expected income prospects of the property. The liens held by these institutions should be pooled and debentures sold to the public secured by all the assets of the corporation. Borrowers from the corporation should be able to retire their obligation in whole or in part by purchasing debentures in the market. If the Federal government is called upon to provide new mortgage money to stimulate construction, it should

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provide it by buying these debentures. This would provide new construction money and at the same time leave an incentive for the fullest possible public participation in new mortgage financing. It would also enable the government to resell the debentures on the market when it chose.

4. To provide a wider market for these bonds and debentures amend the Federal Farm Loan Act to provide that farmers may repay their principal at any time by tendering farm bonds purchased in the market, and also consider the possibility of organizing a bureau in the Treasury to buy small lots of Federal Land Bank Bonds, Home Loan Bank Bonds, and debentures of the new mortgage corporations for the purpose of selling participations in these securities to debtors for the discharge of amortization payments. This would enable the market for the outstanding bonds and debentures to be directly supported at all times by the amortization charges.

5. To protect farm debtors, where the situation is complicated by the fact that good farmers on moderately mortgaged farms find it difficult to maintain interest at current levels of agricultural prices, it might be advisable to bring pressure on commercial banks, insurance companies, and Federal Land Banks to compromise existing liens along the lines discussed in the attached memorandum outlining a specific form of crop payment mortgage.

6. When these measures have been put into effect, bring every pressure possible through bank and insurance supervisory authorities and others for a clean-up of existing mortgages in default,

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thus laying the way for a functioning mortgage market by making both debtors and creditors take their losses. Such a clean-up would have to be along straight foreclosure lines, because the claims of different debtors and creditors are so intermingled that it is almost impossible to clean up most cases without foreclosure proceedings. The hardship involved in this procedure would be lessened by the fact that such value as remained in these mortgages could be liquidated by the refinancing suggested in points 1-4, with the consequence that the area of losses would be limited to indebtedness which is really unsound from any point of view.

Summary.

This program would take care of all deserving farm debtor situations, and those urban debtor situations where the owner has still a substantial equity in the property. It would not protect the urban debtor who is hopelessly sunk in debt, and might, therefore, be subject to some criticism on this score. It would also bring order into the mortgage market and provide a basis for a resumption of mortgage financing. The clean-up suggested under 6 would require a write-down of assets on the books of our financial institutions, but the assets that remained would be really solvent and liquid, while losses which are now indeterminate in volume and spread over the entire mortgage portfolio would be segregated. Commercial banks will be in a position to make this write-down without difficulty as soon as present plans for dealing with the banking

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situation are completed. Should this write-down seriously embarrass savings banks and other creditor institutions, it would be better policy to arrange special relief for these institutions where special relief is necessary, than to continue to carry depreciated assets at fictitious values on their books.

October 9, 1933

To: Mr. Walker
From: Mr. Riefler

Subject: Effect of Recovery
on Mortgage Fore-
closures.

The almost complete breakdown in the mortgage market during the past three years has created a situation in which business recovery may be accompanied by an increase in foreclosures rather than a diminution in pressure on delinquent debtors.

There are at present outstanding about \$43,000,000,000 of mortgages, of which \$20,000,000,000 are urban home mortgages, \$15,000,000,000 urban mortgages on office buildings, hotels, apartments, etc., and somewhat over \$8,000,000,000 are mortgages on farms. It is impossible to state the exact volume of these mortgages which are in difficulty but such evidence as is available indicates that delinquency probably averages around 50 per cent and that creditors consequently could foreclose if they chose on an enormous volume of this indebtedness.

The complete absence of a market for new mortgage money has enormously complicated the debtor problem in recent years. With the exception of mortgages issued by the Federal Land Banks and the Building and Loan Associations, amounting to around \$10,000,000,000 in all, most mortgages in this country are written on a three or five-year basis, and have, therefore, either matured already during the depression or are due for maturity during the coming year. Part of these mortgages in good standing have been

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renewed by the creditors, but part have simply been extended temporarily pending the revival of a mortgage market. Under these circumstances, creditors now have the option of foreclosing not only on mortgages on which the debtor has failed to pay interest, but also on a considerable volume of mortgages which are in good standing as to interest but which have matured during the depression and are being carried on an indeterminate or demand basis.

Up to the present, economic conditions have been such as to discourage creditors from exercising this option to foreclose. The facts, where they are available, show, [for example,] that although foreclosures have been high, they have constituted only a small proportion of delinquencies, and that the greater part by far of delinquent mortgages have not been foreclosed. Property values and rents have been falling, and tenants have been difficult to get, with the result that it has usually paid creditors to cooperate with delinquent debtors rather than to proceed to costly dispossession and foreclosure measures.

Business recovery will tend to change this situation in that rising real estate values and rising rents will provide a market for properties and make it more profitable for creditors to foreclose on delinquent debtors than to continue the degree of cooperation they have practised up to the present. If recovery is accompanied by a revival in mortgage financing, debtors will be able to protect themselves by refinancing their loans through

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competing lenders, but if the market for mortgage money remains inactive, recovery of real estate values may well be accompanied by an increase in foreclosures. Active steps toward the revival of mortgage financing are required, therefore, for the protection of existing debtors as well as for the stimulation of new construction.

Under conditions of rapid inflation, the forces set in motion to increase foreclosures would be accelerated since, on the one hand, there would be even less incentive than at present for investors to lend on fixed interest securities, such as mortgages, while, on the other hand, a rapid rise in property values and rents would make it extremely profitable for creditors to foreclose and take equity ownership in real estate, wherever they had the right to exercise the option of foreclosure.

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November 24, 1933

To: Mr. Watson
 From: Mr. Riefler

The following will answer in a rough way the first three of your questions of November 10 concerning the volume of mortgages outstanding and the volume of foreclosures. Such data as are available concerning industrial bonded indebtedness will be forwarded to you presently.

(1) Volume of mortgages outstanding, by types of property.

The accompanying tables, prepared last spring by Mr. Mertske, Economist of the Federal Home Loan Bank Board, show his estimates of mortgage indebtedness, by types of property and by lending agencies. The figures shown for building and loan associations and insurance companies are for December 31, 1931, while other data are as of December 31, 1932.

The total real estate mortgage indebtedness Mr. Mertske estimates as follows:

Urban home mortgages.....	\$21,450,500,000
Other urban mortgages....	14,844,500,000
Farm mortgages.....	<u>8,500,000,000</u>
Total.....	\$44,895,000,000

"Homes" are defined as houses with accommodations for three families or less.

These totals include very rough estimates of the volume of real estate bonds outstanding and holdings of mortgages by mortgage companies and by individuals, foundations, etc.

Mr. Mertzke's estimates of urban mortgages outstanding by lending agencies are shown below:

Estimated volume of urban mortgages
in the United States in 1932 ^{1/}

Institution	Total urban mortgages	Urban mortgages, other than home mortgages	Home mortgages
Total.....	\$36,295,000,000	\$14,844,500,000	\$21,450,500,000
Federal Reserve member banks.....	2,500,000,000	1,050,000,000	1,450,000,000
Mutual savings banks.....	5,850,000,000	2,457,000,000	3,393,000,000
All other banks....	1,800,000,000	756,000,000	1,044,000,000
Building and loan associations.....	7,205,000,000	720,500,000	6,484,500,000
Insurance companies	5,940,000,000	3,861,000,000	2,079,000,000
Mortgage companies.	3,000,000,000	---	3,000,000,000
Real estate mortgage bonds.....	5,000,000,000	5,000,000,000	---
Individuals.....	5,000,000,000	1,000,000,000	4,000,000,000

^{1/} See attached pages from Congressional Record for explanation of estimates.

These data are described in the Congressional Record for April 27, 1933, pages 2518-2520, which are enclosed. Some par-

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tial details by states are also shown in these tables. Comparative data for earlier dates by types of urban property are not available.

The farm mortgage figure is based on Department of Agriculture reports which are comprehensive and detailed. These data appear in "The Farm Debt Problem", "Farm Mortgage Indebtedness", and the latest issues of "Agricultural Situation", copies of which are enclosed; these publications are loaned by the Library of the Federal Reserve Board.

(2) Volume of mortgage indebtedness, by lending agencies.

Mr. George Terbergh, of the Brookings Institution, has prepared confidential estimates of the volume of mortgages and mortgage bonds outstanding in each year from 1910-1931 for the most important lending institutions; these figures, it may be noted, do not include estimates for holdings of mortgage companies, individuals, trusts, foundations or endowments.

Mr. Terbergh's estimates of holdings of urban mortgages by important institutions are shown below:

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**Urban Mortgage Holdings of Banks, Life
Insurance Companies and Building and
Loan Associations; and Real Estate
Bonds Outstanding.**

(in millions of dollars)

Mortgage holdings of three groups, plus mort- gage bonds	Mortgage Holdings of				Mortgage bonds	
	Three groups	Life insurance companies	Building and loan associations	Banks		
		1/	2/	3/		
Dec. 31						
1910		4,099	850	839	2,380	
1911		4,471	903	928	2,640	
1912		4,825	941	1,024	2,860	
1913		5,093	979	1,124	2,990	
1914		5,340	1,018	1,222	3,100	
1915		5,642	1,056	1,336	3,250	
1916		6,030	1,091	1,439	3,500	
1917		6,469	1,077	1,592	3,800	
1918		6,897	1,089	1,708	4,100	
1919	7,604	7,404	1,091	1,913	4,400	200
1920	8,551	8,301	1,233	2,268	4,800	250
1921	9,477	9,177	1,375	2,602	5,200	300
1922	10,855	10,355	1,547	3,008	5,800	500
1923	12,598	11,798	1,849	3,549	6,400	800
1924	14,810	13,610	2,221	4,289	7,100	1,200
1925	17,616	15,516	2,758	4,958	7,800	2,100
1926	20,569	17,669	3,468	5,701	8,500	2,900
1927	23,433	19,733	4,072	6,461	9,200	3,700
1928	26,234	21,734	4,720	7,214	9,800	4,500
1929	28,423	23,423	5,298	7,825	10,300	5,000
1930	29,379	24,379	5,733	7,946	10,700	5,000
1931	28,649	23,849	5,774	7,575	10,500	4,800

1/ Life insurance companies. Actual data are available on the urban mortgage holdings of companies in the American Association for the years 1911, 1916, 1917, and 1919-1931. Estimates were interpolated for unreported years, and the level for all years was raised by 10 per cent to allow for the holdings

(Cont.)

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of companies outside the association.

2/ Building and loan associations. Annual data on assets of all building and loan associations are available for the entire period covered. These data were uniformly reduced by 10 per cent to allow for non-mortgage assets.

3/ Banks.

1910-1915. From 1909 to 1915 the Comptroller obtained direct reports from practically all State banks, on a schedule prescribed by him. This schedule segregated real estate loans. For 1914 and 1915 the returns further segregated farm mortgage loans from the others. I have estimated urban real estate loans for 1910-1913 on the assumption that they formed the same proportion of the total as they did in 1914 and 1915.

1916-1921. An estimate was made for 1921 and estimates for the years between 1915 and 1921 were derived by interpolation. The 1921 estimate was reached by two different methods the results of which checked satisfactorily. Method 1. Data for mutual savings banks in the 1921 Comptroller's report show a virtually complete segregation of urban real estate loans. For other State institutions the segregation is incomplete. I estimated total holdings of these institutions on the assumption that urban real estate loans were the same proportion of all loans in non-segregating states as in segregating states. Adding these estimated holdings to the practically complete data for mutual savings banks and national banks, and raising to allow for increase between June 30 and December 31, I obtained the completed estimate. Method 2. Riefler has estimated urban mortgage holdings of member banks on June 30, 1921, at \$875,000,000. Of this roughly \$800,000,000 represents holdings of State member banks. Assuming the same ratio between the holdings of member State banks and nonmember State banks (other than mutual) as obtained in later years for which estimates are available, adding the Comptroller's figure for mutual savings bank, and adjusting the estimated total for member and nonmember banks to allow for growth from June 30 to December 31, I got a result closely similar to that reached by Method 1.

1922-1927. For the year 1927 we have actual figures or estimates for the urban real estate loans of national banks, State member banks (estimate by Riefler), and mutual savings banks (data of the National Association of Mutual Savings Banks). I have estimated the holdings of nonmember State banks other than mutuals and have adjusted all data for growth from June 30 to December 31. The resulting estimate for all banks, and the estimate for 1921, previously described, served as basing points for estimates by interpolation covering the years 1922-1926.

1928-1931. For these years we have actual figures for the urban real estate loans of all member banks. For mutual savings banks we have approximately complete data for 1927 and 1931, making possible a close guess for intervening years. The holdings of nonmember State banks other than mutuals, I have estimated.

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(3) The attached enclosed release from the Federal Home Loan Bank Board shows monthly foreclosure totals in 1,037 identical counties for 1932 and 1933 and cumulative total for the first 9 months of 1936, 1932 and 1933.

Somewhat different estimates of mortgage indebtedness in the years 1913, 1921, 1929, 1930 and 1931 are shown in "The Internal Debts of the United States", edited by Evans Clark and published last spring.

Mr. Riefler

January 2, 1934

MORTGAGE PROGRAM

Any effort to break the present jam in the mortgage market in order to stimulate a renewed flow of funds into mortgages through private investment channels must undertake to correct the outstanding evils which have contributed to the present collapse of the market. Chief among these are two: first, the custom of making mortgages for short periods, three to five years, without provision for amortization; and, secondly, the high cost of mortgage money which has reflected among other things the fact that the investment market for mortgages has been restricted in the main to those large financial institutions which are in a position to investigate personally the worthiness of the security offered.

In the future, for the protection of both the borrower and the lender, and also in order to avoid complete collapse in the refunding machinery, all mortgages should include regular amortisation provisions and should be made for long enough periods to permit this amortization to retire the principal of the loan. This will remove the problem of refundings from the market and will also avoid recurrent costs for renewals. These mortgages should be issued through mortgage companies, subject to public examination and supervision, which would obtain their funds by offering their own debentures to the public. These debentures could then be made liquid by having them listed in the organized securities markets. If this course

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were followed, the cost of mortgage money should be materially reduced since the mortgage market would be broadened to include the individual investor, as well as the savings banks, insurance companies and other specialized financial institutions.

As a means toward achieving the condition outlined above rapidly with the greatest possible use of existing institutions, I would like to make the following suggestion. Let us work out the changes in State and Federal laws which would be necessary to permit, say, the ten largest insurance companies and the five largest mutual savings banks to form mortgage subsidiaries under public supervision. These subsidiaries would take over the existing mortgage personnel of these institutions and also the complete existing mortgage portfolio of these institutions. In return, the new mortgage companies would issue to their parent companies, (1) common stock equivalent to that proportion of the book reserve of these institutions which is attributable to their mortgage portfolio, (2) prior-lien bonds up to, say, 50 per cent of the book value of the mortgage portfolio taken over, and (3) income debentures for the remaining value of the assumed mortgage portfolio.

Under a set-up such as this, the insurance companies and savings banks which participated in the plan would hold mortgage assets of exactly the same value as those which they now hold. The form of these assets would be changed, however, into prior-lien bonds, income debentures and common stock in a thoroughly solvent mortgage company. As a result, the liquidity of the parent companies would

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be considerably improved in that they could endeavor to develop a market for the prior-lien bonds of the subsidiary institutions. From the public point of view, these new mortgage subsidiaries would be full-fledged going organizations, capable of functioning in the mortgage field, both by refunding existing mortgages in their portfolios and by making new mortgage loans, which could be financed by the sale of their bonds to the general public. It should be required that all of the mortgages made by such companies be on an amortization basis such as that outlined above.

January 8, 1934

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MORTGAGE CONFERENCE

I. Importance of Mortgage Financing to Employment.

Breakdown in construction activities of all kinds accounted directly and indirectly for around one-half of unemployment in 1933. In 1934, the public works program aided by increased construction activities of a miscellaneous character will go far toward providing reemployment for those parts of the construction industry not dependent upon mortgage financing. The interests of a balanced recovery program require corresponding activity in the mortgage field in order that recovery will not be hampered by lack of financing.

II. Character of Mortgage Financing Needed.

A. Refunding -- Reports indicate a considerable volume of demand for mortgage money for refunding or renewing existing mortgage indebtedness. This type of demand does not lead directly to increased employment in the construction industry, except rehabilitation or modernization is undertaken, as part of the requirements of refinancing. The refunding problem is of prime importance, nevertheless, since the mortgage market cannot be expected to operate efficiently or to attract investment funds of low rates, so long as it has a large volume of distress financing to absorb.

B. New Mortgage Money.

1. Residential -- The current demand for new mortgage money for new construction is scattered at present, consisting

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largely of needs for small amounts to finance modernization and rehabilitation of existing dwellings, and a scattered demand for financing 1 and 2 family dwellings, largely in suburban areas. Demands for money to finance new residential construction on a fairly wide scale cannot be expected before the latter part of 1934 at the earliest, since recovery from the deepest part of the depression is still too recent to permit much undoubling of families or to reveal the exact areas in which additional housing demands will be felt.

2. Commercial — Demands for mortgage money to finance commercial construction will probably not materialize in volume until the end of 1934, even on the assumption of a fairly rapid progress in the recovery movement.

III. Amount of Mortgage Financing Needed.

Mortgage financing is needed to clear up all of the distress mortgages now overhanging the market and, in addition, to provide financial accommodation at reasonable rates and under reasonable terms to all sound private construction operations which would go forward provided mortgage funds were available. As indicated above, these demands will probably be mostly for rehabilitation and scattered single dwellings during the next six months. Thereafter demands for new residential financing may be expected to become more evident.

The total amount of new financing needed is not large in terms of the amount of funds already invested in mortgages. There are

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now about \$43,000,000,000 of mortgages outstanding in this country of which about one-half or \$21,000,000,000 are mortgages on homes. Assuming that no effort were made to increase this total volume, but merely that repayments of principal on outstanding mortgages were made available for new mortgage financing, the amount of funds becoming available annually for new mortgage financing would be ample to provide for the construction needs of the country on the basis of present costs. In the home mortgage field, for example, annual repayments on \$21,000,000,000 of dollars on a 15-year amortization basis would average around \$1,400,000,000 a year. This would probably be more than the country could use during the coming year but would be fairly close to the amount needed, thereafter, at present costs. From 1926 to 1928 about \$3,000,000,000 annually was loaned on new residential construction, but this construction was frankly excessive, both in volume and in cost.

IV. Specific Problems.

A. Sources of Mortgage Money.

The real source of all mortgage money is, of course, the public. Because of the difficulties of direct investment, however, public investment in mortgages is made predominantly through financial institutions. The relative importance of these different types of institutions as sources of mortgage money in the past can be estimated from the holdings of urban mortgages in 1932, as

shown on the following table:

	: Total mortgages :	: Home mortgages :	: Other urban mortgages :
Building and loan associations.....	\$7,200,000,000	\$6,500,000,000	\$ 700,000,000
Insurance companies.....	5,900,000,000	2,000,000,000	3,900,000,000
Mutual savings banks.....	5,900,000,000	3,400,000,000	2,500,000,000
Commercial banks.....	4,300,000,000	2,500,000,000	1,800,000,000
All other.....	<u>13,000,000,000</u>	<u>7,000,000,000</u>	<u>6,000,000,000</u>
Total.....	\$36,300,000,000	\$21,400,000,000	\$14,900,000,000

Of these sources, the first three, namely, the building and loan associations, the savings banks and the insurance companies, will probably remain definitely in the mortgage field, while commercial banks are inclined at present to curtail their activities in the field. Whether these institutions or the public again regains confidence in the mortgage as a financial instrument depends on the adoption of a carefully conceived and well thought out program which envisages the reconstruction of the entire mortgage financing field on sound lines so as to preclude the possibility of another collapse in the field such as the present one. This reconstruction should be thought out so as to utilize to the full existing institutions.

January 10, 1934

MORTGAGE QUESTIONS

As a result of Monday's conference, the representatives of each of the groups represented, namely,

The Insurance Companies
The Savings Banks
The Commercial Banks, and
The Building and Loan Associations

agreed to try to ascertain the facts upon the following questions:

- I. First mortgage money, up to 60 or 66 per cent of present appraised value.
 - A. Is there a demand for conservative mortgage financing of this character? If so, in what localities and in what amounts?
 1. For refinancing existing properties.
 2. For financing new home construction.
 - B. To what extent is this demand being met by existing financial institutions? This might be shown by some tables summarising the number and amount of applications received by some of the institutions which wish to cooperate, the number and amount of applications rejected, and the reasons for rejection. To make these figures really helpful it would be well if the companies reporting indicated also the amount of mortgage loans of this character they made in 1928 and 1929, and whether their funds available for investment were growing or declining, i. e., whether their combined holdings of cash, deposits, and U. S. Government securities, are larger or smaller than they were, say, on June 30, 1933.

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II. Availability of second mortgage money.

- A. Is second mortgage money in demand to supply additional financing up to 75 or 80 per cent of the current appraised value of new construction? If so, in what amounts?**
1. By the individual who has saved the down payment and wishes to build a home.
 2. By the speculative builder who can raise the customary equity and wishes to finance new construction operations.
- B. To what extent are these demands for second mortgage financing being supplied in various localities.**
1. By regular financial institutions.
 2. By building supply and construction people, themselves.
 3. By others (specify).

III. Funds for maintenance, remodeling, renovization, etc.

- A. On houses now un-mortgaged.**
1. Number and amount of applications made for financing of maintenance, remodeling, renovization, etc. Please specify locality, type of structure, etc.
 2. Number and amount of loans of this kind made, rates, terms, and commissions on these loans.
 3. Number and amount of these loans rejected. Reasons for rejection.
- B. On houses carrying first mortgages up to but not exceeding 50 per cent of current appraised value.**
1. Number and amount of applications made for financing of maintenance, remodeling, renovization, etc. Please specify locality, type of structure, etc.

III. Funds for maintenance, etc. (Continued)

- B. On houses carrying first mortgages up to but not exceeding 50 per cent of current appraised value. (Continued)**
2. Number and amount of loans of this kind made, rates, terms, and commissions on these loans.
 3. Number and amount of these loans rejected. Reasons for rejection.
- C. On homes carrying first mortgages above 50 but below 75 per cent of current appraised value.**
1. Number and amount of applications made for financing of maintenance, remodeling, renovization, etc. Please specify locality, type of structure, etc.
 2. Number and amount of loans of this kind made, rates, terms, and commissions on these loans.
 3. Number and amount of these loans rejected. Reasons for rejection.
- D. On homes carrying first mortgages above 75 per cent of current appraised value.**
1. Number and amount of applications made for financing of maintenance, remodeling, renovization, etc. Please specify locality, type of structure, etc.
 2. Number and amount of loans of this kind made, rates, terms, and commissions on these loans.
 3. Number and amount of these loans rejected. Reasons for rejection.

- IV. To what extent does the absence of demands for mortgage money, in those cases and localities where applications are small, reflect the common conviction that financial institutions are not interested in mortgage loans at present? To what extent is this popular conviction justified? Where it is not, what steps have been taken to acquaint the market that specific institutions are looking for suitable mortgage investments?**

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- V. To what extent have rehabilitation loans been overlooked? What institutions have considered loans of this character, and have departments prepared to make them? At what rates, and under what terms?
- VI. Since the real estate market is highly decentralized and diversified, the answers to these questions will vary greatly from locality to locality, also by neighborhoods and types of structure. Every effort should be made to take this factor into account in looking into the situation and to specify differences in conditions found.

Mr. Hiefler

January 18, 1934

**PROGRAM TO STIMULATE NEW HOME MORTGAGE
FINANCING.**

- I. Create a Federal Mutual Mortgage Insurance Fund in the Home Loan Bank System.

- II. Let this Fund stand ready to insure that part of the principal and interest of a mortgage which is more than 50 per cent of but less than 80 per cent of the appraised value of the property, provided that it meets the following conditions.
 1. That the appraisal is confirmed by the appraisers of the Home Loan System.
 2. That the mortgage is to finance new construction, either new building or remodeling.
 3. That the mortgage presented for insurance is owned by an accredited mortgage financing agency, such as a savings bank, insurance company or building and loan association.
 4. That the mortgage is a first lien on the property, without maturity until fully amortized, and with amortization provisions sufficient to repay the entire loan in not more than 20 years.
 5. That the mortgage carries an annual rate of not more than 6 per cent.

- III. Let the borrower pay to the Home Loan Bank System a premium of,

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say, 2 per cent on the principal of the loan for this insurance.

- IV. Let the Home Loan Bank System pay these premiums into a special fund, out of which it will meet all insurance liabilities incurred and also operating expenses. At the end of each year, 10 per cent of the amount left in the fund will be appropriated to a general reserve and the remaining 90 per cent will be carried forward into the fund for the following year. When (and if) the amount in the fund so carried forward from year to year reaches a figure sufficient to extinguish the remaining contingent insured liability of the Federal Mutual Mortgage Insurance Fund on these mortgages, the proceeds will be paid to the companies holding the mortgages to curtail the remaining obligation of the debtor to 50 per cent of the original appraisal.

Comments.

1. This device is designed to meet the need for second mortgage financing by providing for mutual insurance of the second mortgage risk.
2. All of the financing of mortgages both first and second risks will come out of the existing agencies.
3. The Federal Government does not advance money under the plan but receives money in a continuing trust fund. It, therefore, helps the financing problem of the Treasury during the immediate future.

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4. The borrower does not pay exorbitant rates of interest to attract second mortgage money. Instead, he pays a modest premium to cover the risk involved in second mortgage financing, and receives a rebate in the form of curtailment of his loan for that part of the premium not actually used to make good on the insurance.

Note: It would probably be desirable not to handle this in one general fund, but to segregate insured mortgages into classes according to year of maturity and possibly according to location and type of building, so that the borrower would get a return on the mutual feature equivalent to the type of risk assumed. These details can be worked out.

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ing are still large enough in volume to prevent a spontaneous rapid increase in demand for private speculative building of new structures.

The plans to deal with these conditions fall into two general categories: (A) emergency measures designed either to stimulate private construction immediately, or else to liquify frozen mortgage situations; and (B) long-term plans looking toward better housing conditions, improved financial practices, and more orderly urban real estate development, as follows:

A. Measures designed to deal with the existing emergency.

I. Plans involving use of the Home Loan Bank Board:

- (a) To permit loans for remodelling on houses, where the Home Owners Loan Corporation is taking over the existing mortgage. At present, the law permits the Home Owners Loan Corporation to advance funds for repairs, such as painting, roof mending, etc., but they cannot advance funds to remodel a property substantially, such as converting an obsolete single dwelling into apartments.
- (b) To permit the U. S. Government to subscribe more than 50 per cent of the capital stock to new savings and loan associations, now being

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organized under the Home Loan System. This plan would make it possible to put some Federal funds into new construction financing in localities where mortgage financing institutions are largely non-existent.

- (c) To have the R. F. C. subscribe preferred stock to building and loan associations on condition that those associations reloaned the funds for rehabilitation and new construction. This would put the Federal funds involved as directly into new construction as direct mortgage loans by the government. As the asset of the government would consist of preferred stock in the building and loan associations, however, instead of a mortgage on the property financed, the transaction would tend to bolster the security of depositors in building and loan associations. In cases where the existing portfolios of these associations are subject to heavy losses, the government would stand to lose part or all of its advances under this head.

II. Direct Stimulation of Rehabilitation.

- (a) To organize a national drive for rehabilitation such as was conducted rather successfully

in Philadelphia last year. Under this scheme volunteer workers would cover the country soliciting pledges from property owners promising to undertake some rehabilitation. To be really successful, such a plan would require the organization of credit facilities on a widely decentralized scale to finance the work. It has been suggested that the commercial credit agencies furnish this credit through their existing private facilities at interest rates lower than are usually charged for this type of loan, with government aid only to the extent of payment of a commission on each transaction sufficient to cover all or part of the overhead expenses of those private credit agencies which participated.

III. Reorganization of Mortgage Market.

- (a) To clean up the present stagnation in the urban mortgage market by (1) organizing mortgage loan companies which will take over the mortgages of savings banks, insurance companies, etc., exchanging for them their own long-term bonds, income debentures, preferred and common stock, etc., and (b) by setting up a mortgage insurance fund in the Treasury, R. F. C. or Home Loan banks which will restore liquidity to the mortgage

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market by insuring mortgages on a mutual basis
on payment of adequate premiums.

B. Measures designed to control the long-term development of
real estate.

I. Long-term regional planning.

To create national and regional planning groups
and to cooperate with such local groups where
established.

II. To lower long-term construction costs.

- (a) By research through the Bureau of Standards and
elsewhere in improved methods of construction.
- (b) By experimenting with the possibility of waste
elimination through large scale contracts with
the supply industries.

III. To reorganize the mortgage market along sound lines.

- (a) Largely by fostering and supervising sounder
methods of mortgage financing.

IV. Elimination of slum areas.

- (a) Largely by developing work along the lines of
the Federal Housing Corporation.

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credit agencies quickly throughout the country. In order to prevent these agencies from loading their interest charges, which are high of necessity for small loans, I would suggest that the Federal government make an offer to help carry the administrative cost of these small loans by offering to pay a commission to the lender of, say, \$5 for loans of \$100 or less, \$7.50 for loans of \$100 to \$200, \$8.25 for loans of \$200 to \$300, etc., provided that the lender will not charge the borrower a rate in excess of 1 per cent per month on the unpaid balance of the loan. These rates would then work out at about the actual cost of making small loans, and the total cost borne by the Treasury would be relatively small in terms of the amount of private construction financed. An expenditure by the Treasury of \$30,000,000 in commissions ought to finance about a billion dollars in rehabilitation work on this basis.

- B. The organization of mortgage corporations to pool the mortgages of existing financial institutions and exchange for them bonds, debentures, stock, etc. This mechanism could be made immensely valuable in liquifying the mortgage market and would not cost the government any money. To be feasible at all, however, it would have to be worked out in thorough cooperation with the existing financial institutions. If they do not desire to cooperate, it had better be dropped.

C. Mortgage Insurance.

The idea of urban mortgage insurance under government supervision on a mutual basis has enormous possibilities both for stimulating new construction and also for liquifying the existing mortgage market. Under this plan, existing mortgage lenders, such as insurance companies and savings banks which have loanable funds but hesitate to risk them at present in new mortgage loans, would make such loans on a long-time amortization basis up to, say, 80 per cent of the present appraised value of the property, thus eliminating the need for second mortgage financing. They would then submit this single mortgage instrument to the government for insurance. The government, after checking the appraisal, would then insure the lender against delinquency on the instrument, both as to interest and amortization down to, say, 40 per cent of its appraised value, charging the borrower a sufficient premium to cover the risk assumed. After the regular amortization had reduced these loans to the amount insured, the insurance fund would be divided pro rata among the mortgages covered and used to curtail further the loan.

If this mechanism were set up, the second mortgage would be eliminated since the first mortgage could cover all of the risk now carried by the second instrument. The bor-

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rower, furthermore, could pay a fairly high premium to cover the insurance and still be obligated for smaller annual payments than at present when he is forced to pay exorbitant interest rates on second mortgage financing.

From the national point of view the plan has several outstanding advantages: (1) It provides long-term amortization mortgages; (2) It provides a mortgage which would be liquid because of the government insurance feature; (3) It uses the existing mortgage machinery to the utmost; (4) It requires no funds from the Federal Treasury; and (5) It would not require a large administrative organization.

The main difficulties with the plan are that in some states it would be necessary to secure a change in legislation to permit existing financial institutions to make this kind of long-term loan up to 80 per cent of appraised value. I feel this legislation could be secured quickly if the Federal government really got behind the plan.

If this plan is sufficiently promising to warrant investigation, an expert insurance man and an expert mortgage man should be put on the job immediately to work out the technical details.

February 6, 1934

To: Mr. Walker Subject: The Housing Situation
From: Mr. Eiefler

Mr. Fahey would like to have a general discussion of the housing situation placed on the Agenda for the meeting of the National Emergency Council this afternoon. Several Departments are directly interested in this situation both from the point of view of the recovery program as a whole and also from the point of view of their specific responsibilities.

In terms of the recovery program, private construction, especially residential construction, is the largest single sector in our national economic life where unemployment is extremely heavy, and where a return of activity would contribute heavily to indirect employment in the supply industries.

In the financial field, the stagnant state of the mortgage market is at one and the same time a contributing factor to the low level of current building activity and also to the semi-frozen condition of many financial institutions.

The Federal Agencies most directly interested in the problem are the following:

1. Department of the Treasury
2. Department of Labor
3. Department of Agriculture
4. Department of the Interior
5. Federal Home Loan Bank Board
6. Farm Credit Administration
7. National Recovery Administration
8. Reconstruction Finance Corporation

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2. The mortgage problem. We have gone deeply into mortgage relief through the Farm Credit Administration and the Home Owners Loan Corporation. This relief has brought help to the most distressing situations both among debtors who have saved control of their property and among distressed creditor institutions, closed banks, etc., which have been able to improve their portfolios through the exchange of bonds. It has not as yet, however, put the mortgage market into motion; there is no active bidding for mortgages, debtors are lucky to get their existing mortgages renewed, prospective builders find first mortgage money scarce and second mortgage money almost unobtainable, and holders of mortgages are unable to dispose of their obligations in a market to obtain cash when they desire. This completely stagnant situation in the mortgage market is basic to the whole construction impasse and must be dealt with realistically and upon a broad basis if we are to get results. Fundamentally, it reflects much more than the depression, severe as that has been. Our mortgage market has never been organized along modern lines such as have been tried out successfully both in Europe and South America. It has never afforded the borrower the low rates that can be achieved through proper organization of the market nor has it offered the lender a high-grade, safe, and liquid investment instrument. These ends can be attained without government sub-

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aid if we wish, but the task would require a broad attack on the whole mortgage problem from the financial side.

3. The planning-slum clearance problem. Third, there are the planning slum clearance problems; the problem of providing low cost housing, the problem of guiding the growth of our cities, the problem of restraining wild cat real estate developments.

These problems are not in the emergency category and we can only make a start on them this year. They must be undertaken from a long-range point of view with an eye to future rather than immediate results.

Recommendations.

To meet these three phases of the residential construction problem, I would recommend:

1. That a centralized administration be established, to exercise general guidance and coordination over all of the activities of the government in all three phases of the field and to plan to fill out the missing gaps. The number of present Federal undertakings that would come under this heading is amazing.
2. To meet the emergency phase of providing employment in the building trades, I would organize a National Rehabilitation Drive under Federal auspices, with volunteer workers combing the whole community, requesting all owners to pledge themselves to undertake rehabilitation work, either repairing or remodeling, in a similar fashion to the Liberty Loan drives and the Community Chest drives.

February 14, 1934

A conference on housing was held in the Conference Room of the Commerce Building at 8:30 PM on February 12, 1934. There were present:

Mr. Frank C. Walker, Director, National Emergency Council
Mr. John H. Fahey, Home Loan Bank Board
Mr. W. W. Riefler, Central Statistical Board
Mr. W. L. Thorp, Bureau of Foreign and Domestic Commerce
Mr. Charles F. Eliot, 2d, Public Works Administration
Mr. M. A. Wilson, Subsistence Homesteads, Department of Interior
Mr. Jacob Baker, Federal Surplus Relief Corporation and Civil Works Administration
Mr. Henry A. Wallace, Secretary of Agriculture
Mr. F. Stuart Fitzpatrick, United States Chamber of Commerce
Mr. C. E. Pynchon, Public Works Administration
Mr. A. S. Goss, Land Bank Commissioner, Farm Credit Administration
Mr. Tom Smith, Department of the Treasury
Mr. Robert D. Kohn, Housing Department, Public Works Administration
Mr. O. E. Loomis, Federal Home Loan Bank Board
Mr. Isador Labin, Bureau of Labor Statistics
Mr. Mordecai Ezekiel, Economic Adviser to the Secretary of Agriculture
Mr. A. D. Whiteside, National Recovery Administration
Mr. Turner W. Battle, Department of Labor
Mr. F. H. Taber, Reconstruction Finance Corporation
Mr. Newman, Reconstruction Finance Corporation
Dr. Alexander Sachs, Lehman Corporation

Mr. Frank Walker acted as Chairman of the meeting, Mr. Riefler as secretary. Mr. Fahey took charge of the discussion, in which everyone expressed his opinion.

It was moved by Mr. Battle and seconded by Mr. Goss that the Chairman be authorized to appoint a committee to draft a report on all of the plans presented and to submit the report back to the conference. The motion was carried.

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February 21, 1934

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I. Federal Mutual Mortgage Insurance Corporation.

Title I of the proposed law provides for the introduction of Federal Mutual Mortgage Insurance.

In order to provide a renewed flow of mortgage money at low rates, available (1) for the financing of new construction, both new private construction and slum clearance projects, (2) the return of confidence to the mortgage market, and (3) the unfreezing of existing mortgage holdings in good standing, the Committee proposes to establish a mortgage insurance fund under Federal auspices, which upon payment of adequate premiums will insure lending institutions a return of at least 3 per cent on their mortgages and a full return of their principal. At the same time, the proposed insurance fund is organized upon a mutual basis so that home owners and other eligible mortgage borrowers will benefit through a reduction in their loans in proportion to the actual experience of the fund. That is, the premiums paid for insurance, after allowance for expenses and reserves, will be redistributed to the borrowers in amortization of their loans to the extent that they are not actually absorbed by insured losses. A test case of the plan proposed by the Committee demonstrates that the fund would be solvent and would return a substantial dividend to borrowers even when (1) mortgages were insured to 80 per cent of their appraised value (thus eliminating the need for second mortgage financing), (2) the fund was obliged to make good its insured liability on as many as one out of four of these

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mortgages, and (3) the average realization of the fund on such mortgages was only 50 per cent of the original appraised value of the property. With this margin of solvency, adequate management will assure that the operation of the fund will bring no loss to the Treasury.

As conditions attached to this fund, the Committee proposes (1) that insured loans be limited to first liens up to a maximum of 80 per cent of the current appraised value of the property, (2) that insured properties have an annual amortization requirement sufficient to retire the mortgage in at least 20 years, (3) that the net interest return to the lender be not more than 5 per cent, and (4) that the insurance premium be at an annual rate equal to 1 per cent of the original face value of the mortgage. This means that a home owner, who borrows up to 80 per cent of the appraised value of his property, may carry interest and insurance premiums on the mortgage, and, in addition, provide for the complete retirement of the principal in not more than 20 years by making an annual payment of not more than 9 per cent on its original amount. If the experience of the fund is satisfactory, the mortgage will be cancelled and these payments will cease in less than 20 years. Mortgage lending institutions which cooperate under the plan will be limited to a maximum interest return on their outstanding loans of 5 per cent, but in case of default will be assured of at least 3 per cent and the full return of their principal. It is the belief of the Committee that

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this plan, by the introduction of the insurance principle, provides home borrowers with cheaper mortgage financing than has ever been generally available in this country, and, also, offers lenders security more than sufficient to merit these lower rates.

In addition, the proposal has the advantage

- (1) That it utilizes the existing mortgage institutions of the country to the fullest extent. Our existing reputable first mortgage lending institutions will have an inducement to proceed immediately to make new mortgage loans under this plan without being impeded by scarcity of second mortgage funds or apprehension as to the future solvency of their investments. There are cases where such institutions will be temporarily prevented from using these facilities to the full by reason of state laws which limit mortgages held by these institutions to a lower percentage of appraised value than is contemplated for insured mortgages under this plan. It is the opinion of the Committee that the States will cooperate in revising these statutes rapidly insofar as they would affect insured mortgages.
- (2) That it eliminates the necessity for second mortgage financing and substitutes a single instrument covering the full amount of the borrower's loan. The second mortgage instrument, because of its dual liens, has permitted the development of unscrupulous financial tactics. It has also exacted exorbitantly high rates from the borrower (usually in a concealed form to escape the usury laws) and has constituted a major factor of instability

in the mortgage market.

- (3) That it further extends the introduction of the self-liquidating amortized mortgage and further diminishes the field covered by the renewal mortgage drawn for a period of three to five years. These instruments have also been a major cause of instability in the mortgage market. The fact that they have been easily renewed in periods of prosperity without great curtailment of principal has stimulated over-indebtedness, while, in periods of depression, consumer incomes have been further diminished by sudden pressure on the part of lenders for heavy curtailment of outstanding liens.
- (4) That it provides a means by which liquidity can be restored to existing mortgages in good standing. At the present time, mortgage funds are scarce, in part because even good mortgages are frozen and lenders are unable to realize upon them in time of need. By providing a system whereby these loans can qualify for Federal insurance, liquidity will be restored to a large sector of the mortgage market.

II. Federal Mortgage Associations.

To lower further the cost of mortgage financing, Title II of the Act provides for the incorporation of Federal Mortgage Associations, with a minimum capital of \$5,000,000, under the supervision and examination of the Home Loan Bank Board. These Associations would have power to go directly into the mortgage lending field and to raise funds for this purpose by direct sale to the public of their own

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bonds, provided these bonds were matched, dollar for dollar, by mortgages in their portfolios which had qualified for insurance under the Federal Mutual Mortgage Insurance Corporation.

Similar mortgage institutions, without the insurance feature, have a long record of successful operation abroad, where they have greatly lowered the cost of mortgage financing. In this country, mortgages have not appealed to the general individual investor because they have been secured by a single property and he had no easily available means of appraising the value of the lien. As a consequence, they have not been suitable for trading in the security markets, and the investor has had no assurance that they would not become frozen on his hands. These impediments have been overcome abroad by the development of general mortgage associations, in which funds are raised directly from the public by the sale of bonds, which are secured by a pool of all of the mortgages held by the associations and which are readily traded in the organized security markets.

It is the expectation of the Committee that the mortgage associations authorized under Title II of this Act will fill a similar role in the American market. Being under Federal jurisdiction and control, and having their outstanding bonds virtually guaranteed by the requirement that they be covered by Federally insured mortgages, the bonds of these institutions will constitute investment instruments of the highest grade, and should furnish a mechanism for a continuing supply of mortgage funds at extremely favorable rates.

DRAFT

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February 17, 1934

There is hereby created a Federal Mutual Mortgage Insurance Administration, the Trustees of which shall be appointed by the President of the United States. These trustees shall have power to establish mortgage insurance and reinsurance funds, on the following conditions.

I. Eligible. All mortgages on real urban residential property in the United States that is acceptable to the trustees of the fund and are presented for insurance by established and reputable lenders in the mortgage field.

II. Duties of Trustees.

- A. The trustees shall have power to establish mortgage insurance and reinsurance funds. All receipts and disbursements of funds in connection with insured mortgages shall be charged or credited on the books to that insurance fund to which the risk assumed is most nearly applicable. Such risk may be determined (a) by year of maturity of the mortgage, (b) by extent of appraised value covered by the mortgage, (c) by type of property on which lien is secured, and (d) by geographical location of such property.
- B. The Trustees shall be responsible for careful prudent appraisal of the properties securing mortgages submitted for in-

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insurance and for careful prudent management of such properties as are turned over to the funds in the course of liquidation of the insurance liabilities assumed by the funds. These properties may be managed, rented, rehabilitated, modernized or sold in order to improve their marketability and assure a maximum financial return to the fund.

III. Terms.

- A. Insured mortgages must not exceed 80 per cent of current appraised value of property, appraisal to be checked by Home Owners Loan Corporation or other agency to satisfaction of trustees for the fund.
- B. Mortgages to carry an annual charge to the borrower of \$9.00 per annum for each \$100 of the face value thereof, at time of insurance. This sum shall be paid by the borrower to the lender. In addition, the borrower undertakes all of the customary debtor obligations with respect to repairs, taxes, insurance, etc.
- C. Of the nine-dollar-per-one-hundred-dollar annual payment received from the borrower, the lender shall pay \$1.00 to the Federal Mutual Mortgage Insurance Fund, and, of the remainder, shall appropriate to himself as current interest an amount sufficient to equal 5 per cent of the cur-

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rent outstanding unamortized value of the obligation, the remainder being used to amortize the face value of the mortgage. This would amortize the instrument in full in something under seventeen years. In case there is any default on the part of the borrower in meeting his contractual obligations, the lender has the choice (1) of carrying the borrower as at present, (2) of foreclosing and reselling the property as at present, or (3) of foreclosing and turning the property in to the Insurance Fund. Such property turned in must be in good repair with taxes paid.

D. In return for the \$1.00 annual premium paid by lenders on mortgages in good standing, the Federal Mutual Mortgage Insurance Fund shall agree to deliver to any lender, with respect to any mortgage insured with the Fund, on conveyance to the Fund of title free from all encumbrances, arrears of taxes, etc., on the property covered by such mortgage, a United States Treasury bond bearing interest at 3 per centum per annum, with face value equal to the unamortized value of such mortgage on the date of delivery as determined for that date by the original mortgage contract insured with the Fund, the maturity of such bond being twenty years from the date of registration of the mortgage for insurance with the fund.

E. Dividends.

Out of the premiums, interest and other monies received, the trustees shall pay currently their expenses of operation.

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They shall also pay to the Treasury an amount sufficient to cover the interest on all bonds issued in lieu of real property delivered to the fund on its insurance. The remainder shall be invested in special securities of the United States Treasury which the United States Treasury is hereby empowered to issue. These securities shall pay interest at an annual rate of $3\text{-}1/4$ per cent. Whenever the total amount in any fund shall reach 110 per cent of the sum of (1) the unamortized principal of the mortgages in good standing insured in such fund, and (2) the face value of the United States bonds issued to insured lenders in liquidation of claims arising out of mortgages originally insured in such fund, the Trustees shall terminate the fund (1) by paying to the lenders on mortgages in good standing insured in the fund a sum sufficient to liquidate such mortgages in full, such liquidation to be for the benefit and account of the borrower, (2) by paying to the Treasury an amount sufficient to cover the face value of the bonds enumerated under E (2) above, and (3) by transferring the remainder to the general reinsurance fund established in accordance with II A above.

- Y. All liabilities hereby assumed on account of insured mortgages shall be full and unconditional liabilities of the United States Treasury. They shall be met first out of the specific insurance fund to which the insured mortgages are

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assigned. If that is insufficient to meet the liabilities involved, they shall be met out of the general reinsurance fund established under II, and only when these funds are exhausted out of the general revenues and monies of the Treasury.

4E

February 19, 1931.

REPORT OF THE COMMITTEE ON STIMULATION
OF CONSTRUCTION

Sir:

The Committee on Stimulation of Construction appointed by the Executive Council has examined the construction situation and presents herewith proposals for a program of action by the Federal Government. These proposals have been formulated with the purpose, first, of meeting the emergency presented by the current absence of employment in the private construction industries, and, second, of developing long-term national policies designed not only to eliminate a similar over expansion and subsequent breakdown of employment in these industries in the future, but also to provide for the mass of the American people, both in cities and on farms, housing facilities more adequate to the minimum requirements of health and comfort. Because of the magnitude of this task, these ends cannot be achieved by the Federal Government alone, but require the full and hearty cooperation, both of local and state governments, and also, and more important, of the private industries and financial institutions which are affected by the fortunes of the construction industry. The plans presented, therefore, look toward development of a partnership among these agencies in the work of reconstruction in this field. The important features of the recommendations proposed may be summarized as follows:

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First, a national repair and rehabilitation campaign to be organized immediately with the participation of labor, the building industries, and financial institutions.

Secondly, a fundamental rehabilitation of the mortgage market looking toward the immediate resumption of private mortgage financing and also toward the elimination of unsound mortgage financial practices; and

Thirdly, the creation of a single Federal agency charged with the governmental responsibility for the problem of housing as a whole, to develop continuous national policies designed both to minimize those excesses in the field of construction which contributed to the present plight of the industry and also to provide more adequate housing facilities throughout the nation. This agency, consequently, would be charged with responsibility for developing policies with respect to slum clearance, zoning, urban and regional planning, and improvements in construction technique, and would work in close cooperation with regional and local and private bodies.

The prime importance of the construction industry as a whole is indicated by the fact that in 1930, around 10 per cent of the 38,000,000 persons gainfully occupied were actively engaged in the construction industry or in making, transporting and selling construction materials. This probably does not allow adequately for the large number of itinerant workers who regard building operations of one sort or another as their chief source of livelihood, nor the people who worked at pro-

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ducing raw materials for construction, such as iron ore, semi-finished steel, etc. In the aggregate, those dependent on the industry directly or indirectly may have numbered nearer 5,000,000 than 3,500,000 - 4,000,000.

The basic nature of the industry is also suggested by the magnitude of its financial operations. In all, the total estimated mortgage debt of the country amounts to around \$45,000,000,000. About \$37,000,000,000 or $1/5$ of this represents urban mortgage indebtedness of all kinds and \$21,000,000,000, or nearly $1/2$, indebtedness on homes. Urban mortgage debt is the largest single block of debt outstanding exclusive of public debt, and approaches in size the total volume of the latter, including Federal, State, county and municipal indebtedness. It is nearly twice as large as the total railroad debt, and $2\ 1/2$ times larger than the total public utility debt. Banks, insurance companies and building and loan associations hold about \$25,000,000,000 mortgages in 1932, and comprising an important part of the assets in particular of savings banks, life insurance companies, building and loan associations of which the bulk of the adult population are creditors.

Large as it is in terms of the absolute number of persons attached to the industry and also in terms of its financial obligations outstanding, the construction industry assumes a place of critical importance in terms of fluctuations in employment. Unlike clothing, food and service industries, whose output is quickly consumed, the construction industry is engaged in the fabrication of durable goods

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which last for years. It is an industry peculiarly subject, therefore, to long alternations between prosperity and depression, since demands for its output can be deferred when the outlook is dark without great change in the amount of shelter available for the rest of the population. Typically, great booms of depressions have occurred in construction about once in a generation--in the early 90's, again in the 20's. Between 1929 and 1932, the total volume of factory employment in the light industries, i. e., in the textile, leather and miscellaneous industries, fell off _____ per cent, in factories producing durable goods, such as automobiles, locomotives, machinery, and building supplies, employment fell off _____ per cent, but in residential housing construction,, employment fell off over 80 per cent. In terms of fluctuations in employment, therefore, the construction industry has contributed more largely to unemployment than any other single industry.

Nature of the Construction Industry

The organization of the construction industry is perhaps the most chaotic of all American industries, partly because of its size, partly because of its decentralized character, but largely because of accidental historical and social circumstances. It is among the least efficient in meeting its social responsibilities for providing decent, sanitary shelter to the mass of the population of a quality consistent with other important features of the American standard of living or in providing steady employment to the workers attached to the industry. The haphazard nature of the industry, so far as pro-

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viding employment is concerned, is illustrated by the fact that even in good years when total construction is excessive in volume, employment is highly irregular. The inability of the industry to provide decent modern shelter to the mass of the population is shown by the fact that a large per cent of the population, both city and country has never been able to afford either to rent or to buy new unsubsidized construction. The residential construction industry in this country in fact is organized to provide new shelter to meet the needs of only the upper _____ per cent of the population with the result that the great mass of the people must be content with and adapt themselves to the cast-off obsolete housing of a higher income class. This inability to market unsubsidized housing directly to at least 50 per cent of the population reflects a variety of factors that enter into the final cost of construction:

- (1) The technical methods in use in the industry are still predominantly methods in use for hundreds of years and reflect to a lesser degree those modern improvements in efficiency of production which have created our modern standards of living products of other industries;
- (2) Because of its decentralized, local nature, the cost of manufacture and distribution of building materials is higher than necessary and less susceptible to decrease through the adoption of more efficient methods;
- (3) Because of the rapid growth of the country, land speculation has always been especially active in American life, making land costs excessive in building operations;

- (4) American taxation, state and local, is based to a disproportionate extent on real estate and thus increases the necessary rental cost of new construction.
- (5) Finance costs have been excessively high, reflecting both the unorganized character of the mortgage market and the instability of urban development, in which rapid shifts of standards and tastes have left decaying areas in the heart of our largest cities. In consequence of these factors, real estate ownership is especially speculative in nature.

Plan of Construction in the Recovery Program

In terms of the emergency situation, stimulation of private employment among building workers attached to the residential section of the construction industry occupies a key position in the development of the Administration's Recovery Program at the present time. The Agricultural relief program is now well under way and has already accomplished or is in position to bring about shortly the major gains that can be expected from measures for the control of production and marketing practices. Further increases in the standard of agricultural living, consequently, depend more upon the achievement of balanced activity in the economic life of the country as a whole than upon specific measures of agricultural relief. The development of working agreements looking toward shorter hours and higher wage rates under the codes has also progressed to the point where further major improvement in private employment conditions depends more on the stimulation of activity in other sections of our economy than upon specific developments under code control. The most

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promising field for current stimulations, therefore, is that wide sector of American economic life embraced by the heavy industries, among which the construction industry bulks especially large.

Even in the heavy industries, there are active signs of recuperation outside the field of residential construction, commercial and factory construction. The market for heavy consumers goods such as automobiles and electric refrigerators is already active and expanding at a rapid rate. The market for machine tools, factory equipment is also opening under the impetus of the revival of general activity and will probably show increasing strength as needs for replacement of worn-out and obsolete equipment develop. During the coming year, the public works program will restore public building, state and local, to a rate equal to or above the normal volume of public construction to which this country was adjusted before the depression. Demands from our transportation system for heavy equipment and for construction are also reappearing and are making themselves effective in the demand for material and labor partly by means of financial aid from the public works administration.

New private residential construction, on the other hand, remains negligible in volume as do also projects for new commercial and factory building. In part, the absence of activity in these fields reflects the depth of the depression and the fact that it is even now less than a year since the mounting toll of unemployment and decreasing business volume began to be checked. In view of the

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general oversupply of residential, commercial and factory facilities in 1929 when the depression first developed and the apparent temporary increase in this oversupply brought about by the depression itself which decreased business volumes and caused a considerable amount of residential "doubling up" and also, of movement of population from urban areas back to rural homesteads, it could not be expected that there would be any widespread demand for new private construction in any of these fields until after a considerable interval of emergence from the depression. In the residential field five years of under building have undoubtedly created a vacuum for new residential construction after levels of full activity in our general economic life have been resumed. New private residential construction is necessarily tied to a particular site, however, and under present conditions it is impossible to tell at which sites this general demand will develop. There will have to be a considerable volume of reemployment for some interval, before workers will again be able to afford separate housing, and also before existing vacancies are absorbed contractors and builders will know on what sites, in what areas, and in propinquity to what employment opportunities a genuine need for new residential construction exists. According to the logic of this analysis, a general revival of demand for new commercial buildings and factories, etc., will naturally lag residential building by a considerable interval.

While factors such as these are sufficient to account for a low level of construction activity in these fields at the present time,

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they do not account for the almost complete absence of building activity in the last two years. In spite of decreased general demand, due to depression, unemployment, etc., there is always a considerable basic volume of demand for building which would proceed even under conditions similar to those of recent years, provided financing facilities were available. The breakdown in the mortgage financing field, therefore, assumes key importance both from the point of view of permitting present small demands for new construction to proceed and also from the point of view of facilitating new private building when demands for this construction reassert themselves.

Proposals of the Committee

The specific proposals recommended by the Committee have been formulated with this background in mind and are directed both toward the emergency problem of stimulating employment and activity in the construction industry this year and also toward providing a Federal mechanism which will be responsible for guidance of the construction industry in its future development along lines that are more in keeping with its social responsibilities.

Rehabilitation.

To meet the immediate problem of reviving construction activity during the current year, it is the view of the Committee that the Federal Government can achieve the greatest volume of reemployment by concentrating upon and heavily promoting the rehabilitation and modernization of existing housing facilities, which have been permitted to deteriorate to an abnormal extent during recent years.

In addition, a considerable amount of supplementary employment this year and a growing volume in some years are provided for by the further proposals of the Committee for opening up the mortgage market and for continued Federal aid toward slum elimination and low-cost housing.

To provide for a real increase in employment this year through rehabilitation and modernization of existing dwellings on a large scale, the Committee proposes that the President sponsor a National

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Rehabilitation Drive pushed by a volunteer organization similar to that used by the Community Chests and in the Liberty Loan campaigns. The National Emergency Council would be called upon to furnish a skeleton organization for the drive, and this organization, together with its volunteer local groups would comb the country requesting each owner to sign a pledge to undertake repairing, rehabilitation, or modernization. All repairing and rehabilitation work carried on between May and December 31 would be counted as coming within the quotas established for the drive. To back the drive up, the Home Owners Loan Corporation would be permitted to extend loans for modernization of homes on which they held first mortgages. The President would also request private industry to help as follows:

- a. Suppliers of building materials would be brought into the organization and requested to furnish special discounts, say 20 per cent or 30 per cent, on materials going to those who pledged themselves to undertake rehabilitation during the drive. These companies can now be reached quickly through the Codes.
- b. Railroads would be asked to furnish cut-rate transportation rates on building materials shipped to owners undertaking work under the drive.
- c. The building unions in cooperation with the Reemployment Offices and the CWA would be requested to agree to special wage rates on work undertaken in accordance with these pledges.
- d. The banks and installment credit companies would be charged with furnishing credit at cheap terms and easy repayments to finance

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such part of the work as properly called for financing.

- e. The Government would undertake to contribute to some of the overhead of furnishing credit. For example, small loans of \$100, \$200, and \$300 such as would be called for under this plan, usually carry very high interest rates not so much because of risk but because they are expensive to handle. It costs as much to investigate and make small monthly collections on a \$100 loan as on a \$2000 loan. In order to make the charges on these loans really low, the Government should help carry this overhead expense by offering to pay a commission to the lender of, say \$5.00 for every \$100 loan used to finance work under the drive, \$7.50 for every \$200 loan, \$10.00 for every \$300 loan, etc., provided the private lenders passed this saving on by offering the borrower low rates and easy terms. Under this plan, the Government would not be underwriting the risk, and at the same time would make it possible for an expenditure of \$50,000,000 to stimulate private financing of around \$2000,000,000.

February 26, 1934

COMMITTEE ON STIMULATION OF
RESIDENTIAL CONSTRUCTION

Subcommittee Assignments

1. Subcommittee on Financing of Small Rehabilitation Loans.

Personnel: Mr. Walker, Mr. Eccles, Mr. Hopkins, Mr. Douglas, and such representatives of private financial institutions as the Chairman in consultation with the subcommittee shall appoint.

Terms of Reference: To draw up plans and make arrangements with accredited financial institutions for installment credit financing of rehabilitation work ranging from \$100 to \$1000 undertaken between May 1 and December 31, 1934, in accordance with the national rehabilitation drive, such plans to include determination of commissions, if any, to be paid by the Federal Government to stimulate such credit financing.

2. Subcommittee on Reduction of Rehabilitation Costs.

Personnel: Miss Perkins, Mr. Averill Harriman, Mr. Eastman, and such representatives of labor, construction industries, and transportation as the Chairman in consultation with the subcommittee shall appoint.

Terms of Reference: To arrange for a reduction of at least 20 per cent in cost of residential construction and rehabilitation work carried on between May 1 and December 31, 1934.

3. Subcommittee on Conduct of Rehabilitation Drive.

Personnel: General Johnson, Mr. Walker, Mr. Roper and such others as the Chairman in consultation with the subcommittee shall appoint.

Terms of Reference: To draw up plan of organization for national rehabilitation drive, including both paid personnel on the staff of the Emergency Council and national, state, and local volunteer groups.

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4. Subcommittee on Mortgage Legislation.

Personnel: Mr. Walker, Mr. Fahy, Mr. Cummings, Mr. Jones,
Mr. Watson.

Terms of Reference: To work out details of Home Mortgage
Financing Plan together with legislation for
the execution thereof.

5. Subcommittee on Creation of a Federal Unified Housing Agency.

Personnel: Mr. Ickes, Mr. Walker, Mr. H. L. Harrison.

Presented at
Executive Council
meeting - Feb 27, 1934

FILE

REPORT OF THE COMMITTEE ON
STIMULATION OF RESIDENTIAL CONSTRUCTION

February 26, 1934

February 26, 1934

REPORT OF THE COMMITTEE ON
STIMULATION OF RESIDENTIAL CONSTRUCTION

A program of reemployment in the field of private residential construction occupies a key position in the further development of the recovery program, both because of the large number of workers dependent directly and indirectly upon this industry, and also because of the abnormally heavy volume of unemployment in the building trades during the last three years. (Exhibit A) The current absence of large-scale market demand for new residential construction reflects both the over-expansion of housing facilities at high prices which developed from 1922 to 1929 and the subsequent decrease in the demand for housing as a result of poverty and doubling up during the depression. These factors do not account, however, for the extremely low level to which residential building has fallen. In addition to more or less normal depression factors, the virtual cessation of new private residential construction during the last two years reflects above all the stagnant condition of the mortgage market where funds for second mortgage financing are practically nonexistent, and holders of first mortgages are reluctant to increase their mortgage investments because of the frozen condition of their current portfolios.

In view of these conditions, it is the conclusion of the Committee that a program directed toward the rehabilitation and moderni-

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sation of existing residential housing facilities offers more promise of providing employment on a large scale during the coming summer and autumn than one directed exclusively toward the stimulation of new construction. For this program to be effective in providing a genuine and permanent revival of employment in construction, however, it must be supported by measures designed to unlock the jam in the mortgage market and provide for a renewed flow of funds for residential financing. Finally, in order to prevent this program from reproducing the same chaotic conditions with respect to residential building and mortgage financing that are responsible for the present deplorable situation, the Committee proposes that these efforts toward immediate stimulation of construction be supplemented by long-term measures designed to stabilize the construction industry and to improve the housing conditions of the mass of the American people.

Several agencies of the Federal Government are already actively engaged in this field. The Public Works Administration is pushing slum clearance operations in several sections of the country through its Housing Division (Exhibit B) and is also carrying on a wide variety of experiments in decentralization through its Division of Subsistence Homesteads (Exhibit C). The Reconstruction Finance Corporation, in addition to its work of extending general support to financial institutions, large numbers of which are heavily involved in the mortgage field, is prepared to finance both modernization and new non-speculative construction of small homes through mortgage com-

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panies organized specifically for the purpose (Exhibit D). Finally, the Farm Credit Administration and the Home Owners Loan Corporation are directly refinancing the most pressing cases of rural and urban mortgage indebtedness. The Home Owners Loan Corporation is now seeking an amendment to its law permitting direct loans for modernization on homes which it has refinanced.

The Committee recommends that these current activities be supplemented by adoption of a broad, far-reaching program along the following lines:

- (A) Inauguration of a national rehabilitation and construction drive under the leadership of the President to extend from May 1 to December 31. The drive would be conducted through an organization created under the National Emergency Council, using the state offices of the Emergency Council as a nucleus for the field organization. The actual work of interviewing home owners and obtaining pledges to undertake renovating work would be carried out by volunteer local organizations and volunteer local workers. To implement the campaign, building supply manufacturers would be requested to offer a ~~20 per cent~~ reduction in prices on all supplies used, railroads a ~~20 per cent~~ reduction in rates on all building supplies moved, and labor a ~~20 per cent~~ cut in wage rates. To provide credit, local credit committees would be formed from among the financial institutions in each locality to finance work undertaken in accordance with the drive on an installment basis at favorable rates.

To implement this part of the campaign and really assure that credit is available, the Committee proposes that the Government be prepared to pay a small commission on all work of less than \$1,000, actually financed by these institutions. This commission would be paid in advance according to the size of the loan, both actually and proportionately, and would cover that part of the overhead and that part of the risk on these loans that was resitted by the lenders in fixing low rates. A full description of the proposed organization of this drive is given in Appendix I.

(B) Mortgage Programs.

The Committee recommends the enactment of mortgage legislation along the lines of the draft ^{which is now being prepared.} ~~submitted in Appendix II.~~

I. Federal Mutual Mortgage Insurance Corporation.

Title I of the proposed law provides for the introduction of Federal Mutual Mortgage Insurance.

In order to provide a renewed flow of mortgage money at low rates, available (1) for the financing of new construction, both new private construction and slum clearance projects, (2) the return of confidence to the mortgage market, and (3) the unfreezing of existing mortgage holdings in good standing, the Committee proposes to establish a mortgage insurance fund under Federal auspices, which, upon payment of adequate premiums, will insure lending institutions a return of at least 3 per

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cent on their mortgages and a full return of their principal. At the same time, the proposed insurance fund is organized upon a mutual basis so that home owners and other eligible mortgage borrowers will benefit through a reduction in their loans in proportion to the actual experience of the fund. That is, the premiums paid for insurance, after allowance for expenses and reserves, will be redistributed to the borrowers in amortization of their loans to the extent that they are not actually absorbed by insured losses. A test case of the plan proposed by the Committee demonstrates that the fund would be solvent and would return a dividend to borrowers even when (1) mortgages were insured to 80 per cent of their appraised value (thus eliminating the need for second mortgage financing), (2) the fund was obliged to make good its insured liability on as many as one out of four of these mortgages, and (3) the average realization of the fund on such mortgages was only 50 per cent of the original appraised value of the property. With this margin of solvency, adequate management will assure that the operation of the fund will bring no loss to the Treasury.

As conditions attached to this fund, the Committee proposes (1) that insured loans be limited to first liens up to a maximum of 80 per cent of the current appraised value of the property, (2) that insured properties have an annual amortization requirement sufficient to retire the mortgage in at least 20

years, (3) that the net interest return to the lender be not more than 5 per cent, and (4) that the insurance premium be at an annual rate equal to 1 per cent of the original face value of the mortgage. This means that a home owner, who borrows up to 80 per cent of the appraised value of his property, may carry interest and insurance premiums on the mortgage, and, in addition, provide for the complete retirement of the principal in not more than 20 years by making an annual total payment of not more than 9 per cent on its original amount. If the experience of the fund is satisfactory, the mortgage will be cancelled and these payments will cease in less than 20 years. Mortgage lending institutions which cooperate under the plan will be limited to a maximum interest return on their outstanding loans of 5 per cent, but in case of default will be assured of at least 3 per cent and the full return of their principal. It is the belief of the Committee that this plan, by the introduction of the insurance principle, provides home borrowers with cheaper mortgage financing than has ever been generally available in this country, and, also, offers lenders security more than sufficient to merit these lower rates.

In addition, the proposal has the advantage *that*:

- (1) That it utilizes the existing mortgage institutions of the country to the fullest extent. Our existing reputable first mortgage lending institutions will have an induce-

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ment to proceed immediately to make new mortgage loans under this plan without being impeded by scarcity of second mortgage funds or apprehension as to the future solvency of their investments. There are cases where such institutions will be temporarily prevented from using these facilities to the full by reason of state laws which limit mortgages held by these institutions to a lower percentage of appraised value than is contemplated for insured mortgages under this plan. It is the opinion of the Committee that the States will cooperate in revising these statutes rapidly insofar as they would affect insured mortgages.

- (2) ~~That~~ it eliminates the necessity for second mortgage financing and substitutes a single instrument covering the full amount of the borrower's loan. The second mortgage instrument, because of its dual liens, has permitted the development of unscrupulous financial tactics. It has also exacted exorbitantly high rates from the borrower (usually in a concealed form to escape the usury laws) and has constituted a major factor of instability in the mortgage market.
- (3) ~~That~~ it further extends the introduction of the self-liquidating amortized mortgage and further diminishes the field covered by the renewal mortgage drawn for a period of three to five years. These instruments have also been a major cause of

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instability in the mortgage market. The fact that they have been easily renewed in periods of prosperity without great curtailment of principal has stimulated over-indebtedness, while, in periods of depression, consumer incomes have been subject to sudden pressure on the part of lenders for heavy curtailment of outstanding liens.

- (4) That it provides a means by which liquidity can be restored to existing mortgages in good standing. At the present time, mortgage funds are scarce, in part because even good mortgages are frozen and lenders are unable to realize upon them in time of need. By providing a system whereby these loans can qualify for Federal insurance, liquidity will be restored to a large sector of the mortgage market.

II. Federal Mortgage Associations.

To lever further the cost of mortgage financing, Title II of the Act provides for the incorporation of Federal Mortgage Associations, with a minimum capital of \$5,000,000, under the supervision and examination of the Home Loan Bank Board. These Associations would have power to go directly into the mortgage lending field and to raise funds for this purpose by direct sale to the public of their own bonds, provided these bonds were matched, dollar for dollar, by mortgages in their portfolios which had qualified for insurance under the Federal Mutual

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Mortgage Insurance Corporation.

Similar mortgage institutions, without the insurance feature, have a long record of successful operation abroad, where they have greatly lowered the cost of mortgage financing. In this country, mortgages have not appealed to the general individual investor because they have been secured by a single property and he had no easily available means of appraising the value of the lien. As a consequence, they have not been suitable for trading in the security markets, and the investor has had no assurance that they would not become frozen on his hands. These impediments have been overcome abroad by the development of general mortgage associations, in which funds are raised directly from the public by the sale of bonds, which are secured by a pool of all of the mortgages held by the associations and which are readily traded in the organized security markets.

It is the expectation of the Committee that the mortgage associations authorized under Title II of this Act will fill a similar role in the American market. Being under Federal jurisdiction and control, and having their outstanding bonds virtually guaranteed by the requirement that they be covered by Federally insured mortgages, the bonds of these institutions will constitute investment instruments of the highest grade, and should furnish a mechanism for a continuing supply of mortgage funds at extremely favorable rates.

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(C) To stabilize the construction industry and encourage the development of better housing standards for the American people, the Committee is preparing recommendations looking toward the coordination and amplification of present Federal activities in this field on a comprehensive program. Specific recommendations along these lines are now being considered by the Committee and will be presented in a subsequent report.

EXHIBIT A

The importance of the construction industry as a whole is indicated by the fact that in 1930 around 10 per cent of the 38,000,000 persons gainfully occupied were actively engaged in the construction industry or in making, transporting and selling construction materials. This probably does not allow adequately for the large number of itinerant workers who regard building operations of one sort or another as their chief source of livelihood, nor the people who worked at producing raw materials for construction, such as iron ore, semi-finished steel, etc. In the aggregate, those dependent on the industry directly or indirectly may have numbered nearer 5,000,000 than 3,500,000-4,000,000.

The basic nature of the industry is also suggested by the magnitude of its financial operations. In all, the total estimated mortgage debt of the country amounts to around \$45,000,000,000. About \$37,000,000,000 or $\frac{4}{5}$ ths of this represents urban mortgage indebtedness of all kinds and \$21,000,000,000, or nearly $\frac{1}{2}$, indebtedness on houses. Urban mortgage debt is the largest single block of debt outstanding exclusive of public debt, and approaches in size the total volume of the latter, including Federal, State, county and municipal indebtedness. It is nearly twice as large as the total railroad debt, and $2\frac{1}{2}$ times larger than the total public utility debt. Banks, insurance companies and building and loan associations held about \$25,000,000,000 of mortgages in 1932, and mortgages comprised an important part of the assets of savings banks, life insurance companies, and building and loan associations.

Large as it is in terms of the absolute number of persons attached to the industry and also in terms of its financial obligations outstanding, the construction industry assumes a place of critical importance in terms of fluctuations in employment. Unlike the clothing, food and service industries, whose output is quickly consumed, the construction industry is engaged in the fabrication of durable goods which last for years. It is an industry peculiarly subject, therefore, to long alternations between prosperity and depression, since demands for its output can be deferred when the outlook is dark without great change in the amount of shelter available for

-2-

the use of the population. Typically, great booms and depressions have occurred in construction about once in a generation—in the early 90's, again in the 20's. Since 1929, the total volume of employment in residential housing construction has fallen by over 80 per cent. In terms of fluctuations in employment, therefore, the construction industry has contributed more largely to unemployment than any other single industry.

Place of Construction in the Recovery Program

In terms of the emergency situation, stimulation of private employment among building workers attached to the residential section of the construction industry occupies a key position in the development of the Administration's Recovery Program at the present time. The agricultural relief program is now well under way and has already accomplished or is in position to bring about shortly the major gains that can be expected from measures for the control of production and marketing practices. Further increases in the standard of agricultural living, consequently, depend more upon the achievement of balanced activity in the economic life of the country as a whole than upon specific measures of agricultural relief. The development of working agreements looking toward shorter hours and higher wage rates under the codes has also progressed to the point where further major improvement in private employment conditions depends more on the stimulation of activity in other sections of our economy than upon specific developments under code control. The most promising field for current stimulation, therefore, is that wide sector of American economic life embraced by the heavy industries, among which the construction industry ranks especially large.

Even in the heavy industries, there are active signs of recuperation outside the field of residential construction and commercial and factory construction. The market for heavy consumer goods, such as automobiles and electric refrigerators, is already active and expanding at a rapid rate. The market for machine tools and other types of factory equipment is also becoming somewhat more active under the impetus of the revival of general activity and will probably show increasing strength as needs for replacement of worn-out and obsolete equipment develop. During the coming year, furthermore, the public works program will restore public building, state and local, to a

-3-

rate equal to or above the normal volume of public construction to which this country was adjusted before the depression. Demands from our transportation system for heavy equipment and for construction are also reappearing to a certain extent and are making themselves effective in part by means of financial aid from the Public Works Administration.

New private residential construction, on the other hand, remains negligible in volume as do also projects for new commercial and factory building. In part, the absence of activity in these fields reflects the depth of the depression and the fact that it is even now less than a year since the mounting toll of unemployment and decreasing business volume began to be checked. In view of the general oversupply of residential, commercial and factory facilities in 1929 when the depression first developed and the apparent temporary increase in this oversupply brought about by the depression itself which decreased business volumes and, in the residential field, caused not only a considerable amount of residential "doubling up" but also a movement of population from urban areas back to rural homesteads, it could not be expected that there would be any widespread demand for new private construction until after a considerable interval of emergence from the depression. In the residential field five years of under-building have undoubtedly created a shortage which will make itself felt upon a resumption of fuller activity in our general economic life. New private residential construction is necessarily tied to a particular site, however, and under present conditions it is impossible to tell at which sites this general demand may be expected to develop. There will have to be a considerable volume of reemployment for some interval, therefore, before workers will again be able to afford separate housing and also before existing vacancies are absorbed, and, consequently, before contractors and builders will know on what sites, in what areas, and in proximity to what employment opportunities a genuine need for new residential construction exists. Under these circumstances, the most promising field for immediate stimulation is the modernization and repair of existing dwellings, backed up by a fundamental program directed toward the unfreezing of the mortgage situation.

EXHIBIT A

REPORT OF PROGRESS IN PUBLIC WORKS HOUSING

The total of all low-cost housing projects which can be carried out by the Housing Division of the Public Works Administration this year under present appropriations is approximately \$153,000,000.

Of the twenty limited dividend housing projects, for which money has been allocated, eight projects, totalling about \$15,000,000, are now either under construction or about to be contracted for. About \$23,000,000 was originally allocated for other Limited Dividend Corporations projects which have not been able to qualify. Projects for which \$15,000,000 was allocated have been transferred in one form or another to the Housing Corporation. Including the \$100,000,000 allocated to the Public Works Emergency Housing Corporation, there is now a total of approximately \$138,000,000 available for loans to Municipalities, Housing Authorities, or for direct Federal construction. These "Municipal" projects will all be urban projects, in general the rebuilding of slum areas or their replacement.

Applications have been received for "Municipal" housing which greatly exceed the amount available. In other words, much more than is available could be spent on such "Municipal" housing within the next year on the basis of the applications already tentatively made.

EXHIBIT C

SUBSISTENCE HOMESTEADS DIVISION OF THE DEPARTMENT OF THE INTERIOR

The Subsistence Homesteads Division of the Department of the Interior has the responsibility for administration of a fund of \$25,000,000 and is engaged in setting up projects to serve the purpose of test and demonstration as far as possible because it becomes immediately apparent that this sum is insufficient for financing any wholesale movement.

The projects are so selected that each can contribute something definite to both test and demonstration and in showing the possibilities of a rural-urban life to many peoples who have been either completely dependent upon industry or upon agriculture and who could attain greater security by a distribution of their dependence on both.

The homestead projects fall into three general types both as to those which have already been approved and those under consideration.

1. Garden homes adjacent to industrial centers on tracts of land sufficiently large to provide the opportunity for a good garden and a poultry run, with areas ranging from three-quarters of an acre up to nearly two acres. The Division is varying the acreages within each development and between developments so as to obtain some information regarding the relative desirability of various sized tracts.

2. Decentralization of industry where the homesteads for workers will be clustered around small plants which are developed in rural or semi-rural environments. This looks towards the possibilities of a combination of agricultural production for home use with cash wages from seasonal as well as full time industries.

3. Developing homes and opportunities for resettlement for families living on submarginal lands, including cut-over lands and worn out and eroded soils. This type is aimed at giving better community and economic opportunities on a demonstrational basis to the large class of people who, despite their own capacities, are unable to carry on efficient agricultural operations and whose ranks contribute heavily to the

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migration to congested centers. In other words, this part of the program involves helping people to stay on the land.

This program involves housing, and by far the major cost of establishing a homestead will go into the construction of the domicile and what outbuildings may be necessary, such as poultry houses and, in some cases, barns.

While the program is not undertaken primarily as relief, it has a definite relationship for the reason that the residents of homesteads will be chosen as far as possible from those groups financially incapable of undertaking a program of this sort without financial assistance.

The resident will have an average of twenty years in which to pay for the home and so, therefore, the construction has to be of a permanent character. Likewise, however, the cost must be kept at a figure which will not over-extend the prospective resident for the reason that the sum available is intended to form a revolving fund and the interest of the Government in the ultimate return of this fund must be safeguarded.

The Subsistence Homesteads Division has received more than 2,000 proposed projects calling for an aggregate outlay in excess of \$4,500,000,000. In addition it has received up to, and in some cases above, 1,000 letters in a day from persons who desire information regarding the manner in which they might acquire a homestead.

Looking at the program from the broad point of view, Dr. Wilson, the Director of the Division, is convinced that at least 10,000,000 persons in the country could live on subsistence homesteads, gaining thereby a better standard of living, greater security and contributing to a more rational distribution of our population as well as better use of our land resources. Undertaken on a larger scale, the program should involve very careful regional planning.

Dr. Wilson also feels that this program offers outstanding possibilities of making more nearly self-sufficient, first, the family; second, the community, and third, the region. Complete self-sufficiency is neither possible nor desirable, but a tending towards a greater self-sufficiency can contribute greatly to the security of the low income groups and can assist in stabilizing their purchasing power and in providing something of a cushion during periods of below normal business activity.

EXHIBIT D

**RECONSTRUCTION FINANCE CORPORATION
MORTGAGE LOANS**

Pending the development of a definite governmental program with respect to loans for the construction or repair of low priced homes, the Reconstruction Finance Corporation will consider applications filed by applicants eligible to borrow under Section 5 of the Reconstruction Finance Corporation Act (banks, trust companies and mortgage loan companies) in cases where the proceeds of such loans are intended to be re-loaned to finance the construction or repair of low priced homes, under the following conditions:

- (1) **New Home Construction:** Small homes so financed must be built for the personal occupancy of, and upon land already owned by, the prospective owner. The amount of the loan to be re-lent to any one owner shall not ordinarily exceed (a) 85% of the cost of labor and material, (b) 60% of the total appraised value of the completed house and lot, or (c) \$6,000. The security should be a first mortgage bearing amortisation terms providing for repayment of at least one-third of the principal within five years, at the end of which time the unamortized portion of the obligation from the home owner to the eligible borrower shall come due. In addition, it will be required that a real need be established for the construction of any such homes, so that the existing housing facilities of the community will not be unnecessarily duplicated. Such loans will be made for the benefit of individual prospective home owners, and not to finance real estate development projects.

- (2) **Home Improvement, Repair and/or Modernization:** Improvement, repair and/or modernization so financed shall be for low priced homes personally occupied by the owners. The amount of the loan to be re-lent to any one owner shall not ordinarily exceed (a) 85% of the cost of labor and material, (b) 50% of the appraised value of the completed home plus improvements, or (c) \$2,500. The security should be a first mortgage. With respect to maturities of the obligations of the home owners to the eligible borrowers, a distinction may be drawn between loans to finance repairs and minor improvements, and those to finance modernization and major improvements involving structural changes. Loans of the former class should generally be completely amortized within a five-year period.

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The rate of amortization of loans of the latter class may vary with special circumstances, but in any event, at least one-third of the principal should be amortized within five years.

The maximum maturity for all such loans from Reconstruction Finance Corporation to the eligible borrower is three years, which is the maximum permitted by Section 5 of the Reconstruction Finance Corporation Act. The interest rate charged by Reconstruction Finance Corporation at the present time with respect to such loans is 4%, with the proviso that the borrower from Reconstruction Finance Corporation may not charge to the home owners in excess of 6% on unpaid balances.

It is expected that applications for such loans would ordinarily be filed by mortgage loan companies. Such loans will generally be made up to five times the sound value of the capital of the mortgage loan company. The Corporation does not propose to make such loans to mortgage loan companies which shall expect the home owners to use a portion of the proceeds of the loan to subscribe for stock of the mortgage loan company in order that the latter shall have sufficient capital in relation to the amount of loans requested. The mortgage loan company must accordingly have adequate independent capital out of which it must finance the work of construction or repair until completion, as the Corporation will not undertake to supervise the construction work, and will disburse any such loan only when the construction work is entirely completed in accordance with plans and specifications previously submitted.

APPENDIX I

MEMORANDUM OUTLINING PROPOSED ORGANIZATION FOR A

NATIONAL MODERNIZATION CAMPAIGN

By Dr. Frank Parker

National Modernization Campaign Will Accelerate Business Revival.

A National Modernization Campaign contemplates an intensive national effort to promote the repair, modernization and improvement of homes and business buildings in every community in the United States. This campaign would tie in directly with the Public Works program as a means of speeding activity in the capital goods and capital equipment industries, particularly construction. In addition, with preliminary organization work started immediately, the campaign could be inaugurated on or about May 1, 1934, thus taking the baton from the hands of the CWA in this relay race of progress and giving that continuity of action so indispensable in any program seeking effectively to energize business. On three counts the National Modernization Campaign will occupy a strategic position in the current federal program: It can be started at a time appropriate to take up the slack in CWA; it requires no large governmental appropriation for its successful inauguration and completion; and it permits a short, incisive campaign compressed into a brief period at the end of which the administrative and operating expenses would automatically terminate without any further obligation on the part of the Federal Government.

The basically business-like nature of a National Modernization Campaign cannot be overemphasized. A Modernization Campaign is simply designed to furnish a direct stimulus to mass buying by the business-like development and expansion of the concept that it is to every property owner's intelligent self-interest to spend money for the purpose of correcting the dilapidation and obsolescence of his property when by doing so today he will save, through concessions granted to him for materials and labor, a considerable sum of money. Essentially, such a campaign is a gigantic, collective sales movement capitalizing the enlightened self-interest which motivates every property owner.

In a word, a National Modernization Campaign would be a business-like attempt to develop on a national scale organized community programs to accelerate the revival of business. It would furnish direct relief to the distressing unemployment prevailing in the construction industry, would stimulate business activity and quicken business confidence, and at the same time would make for the stabilization of rents and real estate values.

Based on the experience of large and small urban communities scattered throughout United States which during the past three years have successfully developed and carried out their own local renovation programs, there is every reason to believe that a National Modernization Program sponsored by the Federal Government would draw out of the pockets and bank accounts of property owners and shunt into the regular channels of trade, an additional billion dollars or more that otherwise at this time would remain out of circulation

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Studies made by the U. S. Department of Commerce of the results of Modernization Campaigns that have hitherto been conducted in numerous communities in United States indicate that it is reasonable to expect an expenditure of \$15 per capita for remodeling, renovation and improvements to homes and business properties, exclusive of new construction work and deferred maintenance and replacements. Making a reasonable allowance in dollars for the additional sums that, induced by a National Modernization Campaign, new construction and deferred maintenance and replacements would add to the per capita expenditures for repairs and remodeling, the expected aggregate expenditure of a billion dollars or more appears quite reasonable, especially if additional credit facilities are provided and made available to property owners desiring to borrow funds with which to complete their modernization program.

Federal Government Should Sponsor Campaign.

In this connection, however, it is important to remember that the nation-wide acceptance and development of the modernization idea is dependent upon its sponsorship by the Federal Government. The general purpose and scope of such a campaign would be similar to the Liberty and Victory Loan Campaigns during the World War, for both campaigns constitute integral parts of programs designed to meet a national emergency. Experience with almost fifty cities located in the Third Federal Reserve District shows unmistakably that tremendous drive and impetus would be added to local Modernization Campaigns by the realization that they were part and parcel of a national movement designed to relieve unemployment and stimulate business. Inevitably, there is a dead weight of inertia to be overcome before smaller urban communities can be induced to undertake a Modernization Program, and the promise of administrative aid from the Federal Government together with the collective enthusiasm which a nation-wide Modernization Campaign would engender, would go a long way toward securing rapid acceptance of and action on the Modernization idea.

Apart from the funds necessary to administer this campaign on a national scale it is doubtful whether the Federal Government would have to establish a policy of providing funds for local communities to defray the expenses of their own campaigns. Any difficulties that have heretofore been experienced by local communities in raising from their progressive business and civic leaders enough funds to meet the operating expenses of the local campaign, have been largely due to the lack of contagious enthusiasm and confidence which the Federal sponsorship of a National Campaign would undoubtedly impart. The operating budget of three cents per capita (based on the experience of local Modernization Campaigns hitherto conducted) involves such a small sum for the smaller communities that local civic pride would probably preclude any appeal for Federal help. Similarly, civic pride could be depended upon to take care of the budget of the larger metropolitan areas especially in view of the spotlight of public opinion that would be focused upon the wealthier and more prominent business and civic leaders in the metropolitan cities if the campaign were sponsored by the Federal Government.

Form of National Organization to Carry Out the Campaign.

The administrative organization required to carry out a National Modernization Campaign would consist of (1) National Headquarters and an adequate staff located at Washington, D. C., under the aegis of the National Emergency Council; (2) forty-eight State Directors of the National Emergency

Council each of whom would assume general administrative responsibility for the initiation and successful development of the Modernization Campaign within his state; (3) a sufficient number of field managers in each state who would be directly charged with the active administration of the Modernization Campaign within the state and whose specific function it would be to galvanize into action local communities and assist such communities in the development of their campaigns.

The National Headquarters Staff under the immediate supervision and control of the Director of the National Modernization Campaign would care for the following specific divisions of the work on a national scale, supervised by thoroughly qualified individuals: (1) Finance, (2) Publicity, (3) Residences, (4) Business Buildings, (5) Speakers, (6) Architecture and Engineering, and (7) Women's Organizations. While the general scope of activities of the foregoing divisions is indicated by the different titles, at this juncture a summary statement of their specific functions is pertinent.

Finance Division: This division would be responsible for collecting, collating and disseminating information on (1) the method of raising funds to meet the budgets of local Modernization Campaigns, (2) the proper allocation of funds for various purposes in carrying out local campaigns, and (3) additional methods of financing property owners by resort to local banking and credit institutions.

Publicity Division: This division would be responsible for (1) the initiation and development of a complete national publicity program consisting of posters, billboard advertisements, newspaper advertisements, street car cards, envelop stuffers, truck posters, flags, etc., (2) the development of a comprehensive national radio publicity program, (3) the preparation and distribution of standard forms of posters, billboard advertisements, etc., to be adapted to the different local Modernization Campaigns, and (4) the preparation and placement of appropriate news items and stories in all newspapers, periodicals and magazines designed to enhance public interest in the campaign.

Residence Division: This division would be responsible for (1) the printing and dissemination of check lists of items serving as suggestions to home owners of things to be done in the repair and renovation of their homes, and (2) the development of a standard procedure for organizing groups of canvassers or solicitors to make personal contacts with home owners in carrying out the local Modernization Campaign.

Business Buildings Division: The functions of this division would be identical with that of the Residence Division, except that the check lists and procedure would be adapted to business properties.

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Speakers Divisions: This division would be charged with the responsibility of obtaining (1) the services of men and women of national repute to carry the Modernization message to large public meetings and over the radio; (2) the preparation and distribution of suggestions for 5, 10 and 15 minute speeches to be used in local campaigns.

Architecture and Engineering Division: This division would establish standard methods of procedure to be adopted by a local campaign committee of the same title for the purpose of (1) giving preliminary architectural and engineering advice to property owners; (2) assembling exhibits to assist property owners to visualize modern buildings methods, and (3) giving advice on estimates and the letting of contracts thereunder. This architectural, engineering, and construction advice and counsel definitely would be of a preliminary nature designed only for the purpose of enabling the property owner to reach a decision to proceed with the Modernization work; it would not include plans, working drawings and specifications, and therefore would not interfere with the regular services of the architect, engineer and builder.

Women's Organizations Division: This division would be charged with the task of (1) enlisting the support of women of national renown in the national phases of the campaign, and (2) devising practical means, consistent with the national significance of the movement, for enlisting women as active volunteer workers in the local campaigns.

In order that the National Campaign may possess adequate coherence and coordination, the staff of the National Headquarters should be directly responsible for selecting the various State Managers and such subordinate administrative officers under each as may be deemed necessary, as well as the State Modernization Committees. Of course, it is assumed that before any such selections are made, careful consideration will be given to the recommendations of the present State Directors of the National Emergency Council and other business and civic leaders in the various commonwealths.

It is fundamentally important that the direction and administration of a National Modernization Campaign should be centered in the hands of a single individual, rather than a Committee or Board, operating under the supervision of the Executive Director of the National Economic Council. This concentration of authority is desirable not only because it would focus responsibility, but also because it would provide for the speedy formulation of the administrative policy, the rapid selection of a competent personnel, and at the same time would emphasize character and capacity rather than political affiliations as the sine qua non of a position in the National Headquarters Staff or the Field Managers Offices.

Form of State Organization of the National Modernization Campaign.

To save time and to secure the maximum coordination between the national, state and local phases of the campaign, it is suggested that geographic United States be divided into forty-eight units following state lines. In each

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state the general administrative direction of the campaign would be in the hands of the present State Director of the National Economic Council.

In view of the fact that this State Director is now charged with the administration of the compliance functions of the NRA and also has assumed executive charge of the information service within the state concerning all phases of the Federal Government's program, and in view of the further fact that the adequate development and consummation of local Modernization Campaigns will demand an enormous amount of field work, there should be appointed for each state one or more State Managers of the National Modernization Campaign. These managers would possess plenary authority to carry out all of the detailed administrative phases of the campaign, consulting and advising of course, with the State Director of the National Economic Council on matters of general policy.

As indicated in a subsequent section of this memorandum dealing with the budget, the number of State Managers would vary from state to state depending on such factors as the density of population, the number of individual homes, the territorial expanse of the state, as well as the stage of development of industry and commerce. Wherever it was necessary to have more than one State Manager, one Manager should be definitely given full administrative responsibility. Preferably the State Managers should be men familiar with commercial and banking principles and practices and at the same time be qualified to pass administrative judgment on the soundness of publicity work, for unquestionably finance and publicity are the most significant phases of the campaign.

To overcome the natural inertia of local communities, particularly the urban areas with population of less than 50,000 it would be necessary to have National Modernization Campaign Managers in each state for the primary purpose of galvanizing local communities into action. While a soundly conceived and carefully executed plan of national publicity would do much to make the nation Modernization conscious, publicity in itself would not be sufficient to induce local communities quickly and efficiently to organize their own campaigns. Experience shows clearly that some initial impetus and guidance from an outside organization is necessary to crystallize and develop coherence in a local Modernization Campaign.

The work of the State Managers would be (1) to explain the purpose of the campaign and to outline generally the procedure to be adopted in the development thereof to the local civic and business leaders; (2) to educate through meetings with various civic, educational, religious and trade groups, local business and professional leaders concerning the economic and social benefits accruing from such campaign, and (3) to select from the business and civic leaders in the various communities the most likely candidates to serve as chairmen of the various working committees in the local campaign.

It is clear that men of sufficient calibre to perform this work satisfactorily can be attracted only by the offer of adequate salaries. Inasmuch as the initial contact of local communities with the National Modernization Campaign will be through these State Managers, great care must be exercised in their selection to be certain that they have the character and personal qualifications to do the job tactfully and effectively. In this connection, a professional promoter or a professional trade association executive will hardly meet the specifications, although it is desirable that the State

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Managers have experience both in the field of selling and publicity.

It goes without saying that all State Managers should, if possible, be called to Washington for several days and thoroughly instructed in administrative procedure and promotional methods in persuading local communities to undertake local Modernization Campaigns. It might be feasible, however, to select certain key men from each of the six districts of the United States corresponding to the districts now adopted by the Red Cross, and having put them through an adequate course of instruction at Washington, make them responsible for training State Managers in the other states of their respective districts. It should be clearly recognized that the success of the National Modernization Campaign in relieving unemployment and energizing the construction industry depends almost solely on the competence and diplomacy of the field managers. To make the Modernization Campaign within any state more than sheer ballyhoo will require a state-wide consciousness of the modernization movement, evoking an irresistible wave of favorable public opinion for its success.

To capitalize on state pride and to assure the campaign of state-wide interest, there should be set up in each state a State Modernization Committee appointed by the Governor thereof subject to the approval of the National Modernization Headquarters. The membership of this committee should be widely representative of the business, commercial, industrial and professional life of the entire state, and should be scattered geographically as well. Great care and attention should be given to the proper selection of the personnel of the State Modernization Committees. It is not enough simply to have the commercial, business and social leaders heading up the picture. In this connection brass hats are of little use. It would appear advisable to have the committee membership selected from the driving, forceful, business and professional leaders who can be counted upon personally to discharge the responsibilities assigned to them in publicizing and developing the campaign.

Local Campaign Procedure.

While the procedure necessary to effectuate a soundly organized local Modernization Campaign will necessarily vary from community to community to meet changing local conditions, a standard organization structure and well-defined principles of operate are quintessential to the success of the local campaign.

To be effective the local campaign must have the undivided support of all business, professional, trade, religious, educational and civic groups active in the community. In a word, to be assured of success the local Modernization Campaign must be community-wide in its scope and function. It is especially important that the various local labor groups in the construction industry be approached early in the organization stages of the local campaign in order that they may be given full opportunity to cooperate by doing the work turned up by the campaign at wage rates that take cognizance of the terrific depression existing in the construction industry. Moreover, owing to the rise in prices for various building materials and supplies during the past twelve months, building material and supply dealers as a group should be asked as a

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matter of self-interest to make concessions in prices during the period of the National Modernisation Campaign.

In order to stimulate vital interest in the campaign and at the same time provide the most effective working organization for its development, the members of all local campaign committees should be chosen with an eye to their business and professional affiliations in order that the Modernisation message may be given the maximum diversity of appeal. The committee setup should be bifurcated: first, a general committee serving as sponsor for the campaign comprising the reputable and active professional, business, and banking leaders of the community; and second, the operating committees corresponding to the seven main divisions of campaign work, such as Finance, publicity, etc., heretofore defined in the section dealing with National Headquarters. The general committee is the liaison committee between the local administrative officers of the campaign and the property-owning public. The men and women whose names appear on this committee should be chosen with an eye to geographic and business diversification, and at the same time should be sufficiently well known to command the attention and respect of the average property owner, but this respect must be grounded upon their professional and business achievements rather than upon their social standing.

The crux of the local campaign is the competent and business-like solicitation of home and business property owners, as well as the banks and financial institutions that have a direct financial stake in such properties. No successful Modernisation Campaign can be conducted on publicity alone. The property owner must be contacted personally by volunteer solicitors (volunteer, in order to reduce operating expense) selected from the community's various civic, trade, religious and educational organizations. Once the volunteer solicitors are recruited, the entire municipal district should be subdivided into smaller districts to which the technically trained groups of volunteer solicitors under the guidance of competent captains and lieutenants would be assigned for a house-to-house, business property-to-business property canvass. At the time the original contact is made, the solicitor would ask the property owner or mortgagee to indicate on a signed card the amount of money which he reasonably believed he could see his way clear to spend in renovating or modernizing his home or business property. Hence the expressions of intent concerning work to be done and money to be spent therefor will be made for specific items and in specific amounts.

The property owner or mortgagee would be accorded the privilege of having the work done as he sees fit, employing such labor and materials as he desires. However, to aid in the solution of his particular modernization problem which may require the technical services of the engineer, architect and contractor, easy resort of the property owner to the various divisions of the campaign work would be provided.

To be certain that the owners of homes and business properties have fulfilled their original Modernisation pledges as indicated on the signed card, a comprehensive system of follow-up procedure over a two-months period would be provided. This follow-up program would be entrusted to technically capable men, such as temporarily unemployed engineers and architects, adequately supervised,

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whose knowledge of building construction would enable them to check expeditiously whether or not the work originally pledged to be done, had been performed. In addition, the follow-up campaign would serve as a means of contacting property owners who were previously missed.

It is understood that the administrative and operating expenses necessary to complete successfully each local Modernization Campaign would be raised by voluntary contributions from various commercial, banking, public utility and construction interests in the community. A Modernization Campaign being essentially a campaign of self-help, the Federal Government would not have to assume any financial responsibility in meeting the expenditures necessary to conduct local campaigns.

Operating Budget for National Modernization Campaign.

The following budget relates only to the expenditures which would have to be met by the Federal Government in its capacity as promotional agent of the National Modernization Campaign. The national budget would have to take care of the following class of expenditures: (1) All expenses of National Headquarters, including (a) Administrative salaries, stenographic and clerical expense, (b) Publicity, (c) Printing and stationery, (d) Telegraph and telephone expense, (e) Traveling expense, (f) Express and postage, (g) Equipment, (h) Miscellaneous; (2) Expenses of the State Managers' Offices following the preceding classification above detailed for National Headquarters.

The budget for the National Headquarter's Staff has been calculated on an eight-months basis beginning March 4, 1934. The budget for the State Managers provides for one State Manager to be employed full time for a period of eight months in each state beginning April 1, 1934, while the remaining State Managers will be employed only for a period of four months beginning April 1, 1934. It is assumed that it will be necessary to organize and set up National Headquarters immediately and that as soon as feasible thereafter, the National Director and the various division chiefs working directly under him would be selected and set to work. Similarly, it is assumed that as soon as the National Director has been chosen, the State Managers will be selected. The remainder of the staff of the National Headquarters and of the State Managers' office consisting of administrative and technical assistants, stenographers and clerks, will be added or dismissed as the work requires it.

Attention is emphatically directed to the fact that the administrative salary scale both for National Headquarters and State offices has been set at a level deemed adequate to attract alert and driving business personalities into the Modernization Campaign. In estimating the salary scale for the State Managers, due recognition has been given to the fourfold classification of salaries now being paid to the State Directors of the National Emergency Council. It must not be forgotten that time is the essence of this campaign. Once initiated, the organization work of the campaign will have to be driven through at top speed undoubtedly necessitating a twelve-to-fourteen-hour working day for the staffs of National Headquarters and State offices.

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Working on the assumption that solicitation of property owners throughout United States would begin on or about May 1, 1934, this would mean that the National Headquarters and State Managers staffs would have approximately one and one-half to two months in which to organize completely the various phases of the National Campaign. It is believed that at least two and one-half months should be scheduled for the personal contact of home owners and business property owners to make their modernization pledges, thus carrying the organization and solicitation stages of the campaign up to July 15, 1934. This would allow four and one-half months up to November 30, 1934 to carry out the follow-up procedure designed to encourage the rapid fulfillment of the property owners' modernization pledges. While the National Director and his division chiefs, as well as State Managers have to give unlimited attention to the follow-up procedure beginning October 1, 1934, as well as to the predecessor stages of the campaign, it has been assumed that after November 1, 1934 there would be a marked decrease in the need for division chiefs, technical assistants, stenographers and clerks, both at National Headquarters and at the State Managers' office.

For the remaining items of National and State budgets as indicated in the first paragraph of this section, only a rationalized guess can be made at this time. Certainly the largest item in the national budget would be printing and publicity. The National Headquarters should design and pay for posters, placards, leaflets, newspaper advertisements, radio programs, window posters, envelope stuffers, modernization exhibits, flags, etc. with which to develop a comprehensive National Campaign of publicity, for without such a publicity program it will be impossible to generate enthusiasm for the modernization program in local communities. It is believed that at least \$350,000 will have to be provided for publicity. Comparison with the total expenditure for publicity and printing in the First Liberty Loan floated in 1917 amounting to \$650,000 shows that the publicity item for the National Modernization Campaign is not excessive.

Making due allowance for the other items that will necessarily be involved in the National and State budgets, would probably run the total budget for the entire campaign somewhere between \$850,000 and \$900,000. The estimated administrative budget for National Headquarters and the forty-eight State Managers' offices is set forth in the following table.

TABLE SHOWING SALARIES FOR ADMINISTRATIVE STAFF OF NATIONAL HEADQUARTERS AND STATE OFFICES

National Headquarters Staff

National Director.....	\$ 8,000
Financial Division Manager.....	5,000
Publicity Division Manager.....	6,000
Residence Division Manager.....	4,000
Business Buildings Division Manager.....	4,000
Speakers Division Manager.....	4,000
Architecture and Engineering Division Manager.....	5,000
Women's Organization Division Manager.....	4,000
	<u>\$40,000</u>

State	No. of Managers	Salary Per Manager	<u>State Managers</u>				
			Total	State	Total		
Ala.	2	4,000	6,000	Neb.	2	3,500	5,250
Aris.	1	3,000	3,000	Nev.	1	3,000	3,000
Ark.	2	4,000	6,000	N.H.	2	3,000	4,500
Cal.	3	4,700	9,400	N.J.	2	4,000	6,000
Col.	2	3,500	5,250	N. Mex.	1	3,000	3,000
Conn.	2	4,000	6,000	N.Y.	5	4,700	14,100
Del.	1	3,000	3,000	N. Car.	2	4,000	6,000
Fla.	2	3,500	5,250	N. Dak.	1	3,000	3,000
Ga.	2	4,000	6,000	Ohio	3	4,700	9,400
Idaho	1	3,000	3,000	Okla.	2	4,000	6,000
Ill.	3	4,700	9,400	Ore.	2	3,500	5,250
Ind.	2	4,000	6,000	Pa.	3	4,700	9,400
Iowa	2	4,000	6,000	R.I.	1	3,500	3,500
Kan.	2	4,000	6,000	S. Car.	2	3,500	5,250
Ky.	2	4,000	6,000	S. Dak.	1	3,000	3,000
La.	2	4,000	6,000	Tenn.	2	4,000	6,000
Maine	2	3,000	4,500	Texas	4	4,700	11,750
Md.	2	4,000	6,000	Utah	1	3,000	3,000
Mass.	3	4,700	9,400	Vt.	1	3,000	3,000
Mich.	3	4,700	9,400	Vir.	2	4,000	6,000
Minn.	2	4,000	6,000	Wash.	2	4,000	6,000
Miss.	2	4,000	6,000	W. Vir.	2	4,000	6,000
Mo.	2	4,000	6,000	Wis.	2	4,000	6,000
Montana	1	3,000	3,000	Wyo.	1	3,000	3,000

All Salaries Net

Total All States.....\$280,000
National Headquarters 40,000

Grand Total.....\$320,000

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PROPOSAL
FOR
FEDERAL MUTUAL MORTGAGE INSURANCE

March 1, 1934

EXPLANATION OF PROPOSED MORTGAGE LEGISLATION

I. Federal Mutual Mortgage Insurance Corporation.

Title I of the proposed law provides for the introduction of Federal Mutual Mortgage Insurance.

In order to provide a renewed flow of mortgage money at low rates, available (1) for the financing of new construction, both new private construction and slum clearance projects, (2) the return of confidence to the mortgage market, and (3) the unfreezing of existing mortgage holdings in good standing, the Committee proposes to establish a mortgage insurance fund under Federal auspices, which, upon payment of adequate premiums, will insure lending institutions a return of at least 3 per cent on their mortgages and a full return of their principal. At the same time, the proposed insurance fund is organized upon a mutual basis so that home owners and other eligible mortgage borrowers will benefit through a reduction in their loans in proportion to the actual experience of the fund. That is, the premiums paid for insurance, after allowance for expenses and reserves, will be redistributed to the borrowers in amortization of their loans to the extent that they are not actually absorbed by insured losses. A test case of the plan proposed by the Committee demonstrates that the fund would be solvent and would return a dividend to

borrowers even when (1) mortgages were insured to 80 per cent of their appraised value (thus eliminating the need for second mortgage financing), (2) the fund was obliged to make good its insured liability on as many as one out of four of these mortgages, and (3) the average realization of the fund on such mortgages was only 50 per cent of the original appraised value of the property.

With this margin of solvency, adequate management will assure that the operation of the fund will bring no loss to the Treasury.

As conditions attached to this fund, the Committee proposes (1) that insured loans be limited to first liens up to a maximum of 80 per cent of the current appraised value of the property, (2) that insured properties have an annual amortization requirement sufficient to retire the mortgage in at least 20 years, (3) that the net interest return to the lender be not more than 5 per cent, and (4) that the insurance premium be at an annual rate equal to 1 per cent of the original face value of the mortgage. This means that a home owner, who borrows up to 80 per cent of the appraised value of his property, may carry interest and insurance premiums on the mortgage, and, in addition, provide for the complete retirement of the principal in not more than 20 years by making an annual total payment of not more than 7 per cent on its original amount. If the experience of the fund is satisfactory, the mortgage will be cancelled and these payments will cease

in less than 20 years. Mortgage lending institutions which cooperate under the plan will be limited to a maximum interest return on their outstanding loans of 5 per cent, but in case of default will be assured of at least 3 per cent and the full return of their principal. It is the belief of the Committee that this plan, by the introduction of the insurance principle, provides home borrowers with cheaper mortgage financing than has ever been generally available in this country, and, also, offers lenders security more than sufficient to merit these lower rates.

In addition, the proposal has the advantage that:

- (1) It utilizes the existing mortgage institutions of the country to the fullest extent. Our existing reputable first mortgage lending institutions will have an inducement to proceed immediately to make new mortgage loans under this plan without being impeded by scarcity of second mortgage funds or apprehension as to the future solvency of their investments. There are cases where such institutions will be temporarily prevented from using these facilities to the full by reason of state laws which limit mortgages held by these institutions to a lower percentage of appraised value than is contemplated for insured mortgages under this plan. It is the opinion of the Committee that the States will cooperate in revising these statutes rapidly insofar as they would

affect insured mortgages.

- (2) It eliminates the necessity for second mortgage financing and substitutes a single instrument covering the full amount of the borrower's loan. The second mortgage instrument, because of its dual liens, has permitted the development of unscrupulous financial tactics. It has also exacted exorbitantly high rates from the borrower (usually in a concealed form to escape the usury laws) and has constituted a major factor of instability in the mortgage market.
- (3) It further extends the introduction of the self-liquidating amortized mortgage and further diminishes the field covered by the renewal mortgage drawn for a period of three to five years. These instruments have also been a major cause of instability in the mortgage market. The fact that they have been easily renewed in periods of prosperity without great curtailment of principal has stimulated over-indebtedness, while, in periods of depression, consumer incomes have been subject to sudden pressure on the part of lenders for heavy curtailment of outstanding liens.
- (4) It provides a means by which liquidity can be restored to existing mortgages in good standing. At the present time, mortgage funds are scarce, in part because even good mortgages are frozen and lenders are unable to realize upon them in time of need. By providing a system whereby these loans

can qualify for Federal insurance, liquidity will be restored to a large sector of the mortgage market.

II. Federal Mortgage Associations.

To lower further the cost of mortgage financing, Title II of the Act provides for the incorporation of Federal Mortgage Associations, with a minimum capital of \$5,000,000, under the supervision and examination of the Home Loan Bank Board. These Associations would have power to go directly into the mortgage lending field and to raise funds for this purpose by direct sale to the public of their own bonds, provided these bonds were matched, dollar for dollar, by mortgages in their portfolios which had qualified for insurance under the Federal Mutual Mortgage Insurance Corporation.

Similar mortgage institutions, without the insurance feature, have a long record of successful operation abroad, where they have greatly lowered the cost of mortgage financing. In this country, mortgages have not appealed to the general individual investor because they have been secured by a single property and he had no easily available means of appraising the value of the lien. As a consequence, they have not been suitable for trading in the security markets, and the investor has had no assurance that they would not become frozen on his hands. These impediments have been

overcome abroad by the development of general mortgage associations, in which funds are raised directly from the public by the sale of bonds, which are secured by a pool of all of the mortgages held by the associations and which are readily traded in the organized security markets.

It is the expectation of the Committee that the mortgage associations authorized under Title II of this Act will fill a similar role in the American market. Being under Federal jurisdiction and control, and having their outstanding bonds virtually guaranteed by the requirement that they be covered by Federally insured mortgages, the bonds of these institutions will constitute investment instruments of the highest grade, and should furnish a mechanism for a continuing supply of mortgage funds at extremely favorable rates.

AN ACT

To improve conditions with respect to home mortgage financing and to eliminate the necessity for second mortgage financing by creating a system of mutual mortgage insurance and by making provisions for the organization of institutions to handle home mortgage financing, and for other purposes.

TITLE I—FEDERAL MUTUAL MORTGAGE INSURANCE CORPORATION

Sec. 1. This title may be cited as the "Federal Mutual Mortgage Insurance Act".

Definitions

Sec. 2. As used in this title—

(a) The term "Board" means the Federal Home Loan Bank Board created under the Federal Home Loan Bank Act.

(b) The term "Corporation" means the Federal Mutual Mortgage Insurance Corporation created under section 3 of this Act.

(c) The term "home mortgage" means a first mortgage on real estate in fee simple or on a leasehold under a renewable lease for not less than ninety-nine years upon which there is located a dwelling for not more than four families, the land and the building being used principally for residential purposes; the term "first mortgage" includes such classes of first liens as are commonly given to secure advances on real estate under the laws of the state in which the real estate is located, together with the credit instruments, if any, secured thereby; and the term "dwelling for not more than four families" means a structure located on contiguous real estate held by a single owner irrespective of whether such dwelling has a party wall or is otherwise physically connected with another dwelling or other dwellings on real estate not so held.

(d) The term "mortgagee" means the person or institution lending upon security of the home mortgage and the term "mortgagor" means the person borrowing upon the security of such home mortgage.

Creation of Federal Mutual Mortgage Insurance Corporation

Sec. 3. (a) There is hereby created a body corporate to be known as the Federal Mutual Mortgage Insurance Corporation, which shall be an instrumentality of the United States, and which shall have authority to sue and to be sued in any court of competent jurisdiction, Federal or State. The Corporation shall be under the supervision of a board of directors which may prescribe by-laws, rules, and regulations for the accomplishment of the purposes and intent of this Act. The members of the Board shall constitute the board of directors of the Corporation and shall serve as such directors without additional compensation.

(b) The Corporation shall be a mutual insurance corporation for the purpose of insuring home mortgages as hereinafter provided.

(c) In order to provide funds out of which initial expenses of the Corporation may be paid, the Corporation shall have a capital stock of \$2,000,000 to be subscribed for by the Secretary of the Treasury on behalf of the United States. Payments on such subscription shall be subject to call in whole or in part at any time by the Board and shall be paid by the Secretary of the Treasury out of any funds in the Treasury not otherwise appropriated. Receipts for payment for or on account of such stock shall be deposited with the Treasurer of the United States and shall be evidence of the stock ownership of the United States. Such stock shall be entitled to dividends to be paid in the discretion of the Board out of the general reinsurance fund hereinafter described in section 5 of this title.

Mortgages Eligible for Insurance

Sec. 4. To be eligible for insurance by the Corporation, a home mortgage shall—

(a) have and be held by an established and reputable mortgagee approved by the Board;

(b) involve a principal obligation not in excess of 80% of the appraised value of the property given as security therefor;

(c) have a maturity satisfactory to the Board and not to exceed twenty years;

(d) contain complete amortization provisions so that by full compliance with its terms all obligations arising under it shall be completely discharged at maturity;

(e) carry an annual fixed charge to the borrower satisfactory to the Board and based upon the net amount originally advanced thereon, such net amount to include legitimate initial service charges and appraisal fees;

(f) bear interest at not to exceed 5% per annum on the principal obligation at any time outstanding;

(g) provide for application of the remainder of such annual charge, exclusive of an amount equal to the premium charge of the Corporation for insurance as hereinafter provided and exclusive of such amount as the Board shall determine may be applicable to an interest, premium charge and amortization reserve, to amortization of the principal;

(h) contain such other terms and provisions as shall be determined from time to time by the Board.

Insurance of Mortgages

Sec. 5. Home mortgages approved by the Board as complying with the provisions of section 4 of this Act may be insured by the Corporation. A premium charge equal to 1% per annum of the face value of the mortgage, payable annually by the mortgagee, shall be made for such insurance. If at any time the mortgagor under an insured mortgage shall be in default, and the mortgagee shall have foreclosed and taken possession of the mortgaged property, the mortgagee shall be entitled to turn the property over to the Corporation and assign to it all claims of the mortgagee against the mortgagor arising out of the mortgage transaction or the foreclosure proceedings. Upon such delivery and assignment, the obligation of the mortgagee to pay the 1% premium charge shall cease and all rights of the mortgagee or of the mortgagor to any benefits from such charges shall terminate. Thereupon the Corporation shall deliver to such mortgagee a debenture or debentures of the Corporation having a total face value equal to the value of such mortgage on the date of delivery of the property mortgaged, such value of the mortgage to be determined by deducting from the principal amount of the mortgage still outstanding on the date of such delivery, all charges including tax arrears and estimated repair expenses which would be necessary under its terms to bring the mortgage up to date and in good standing on such date. Such debentures shall bear interest at a rate to be determined by the Board and not to exceed (the rate of) 3% per annum payable annually, and have a maturity date three years from the date of maturity of the mortgage in satisfaction of the insurance of which the debentures were delivered. Such debentures

shall be fully guaranteed as to principal and interest by the United States but shall not be subject to any tax exceptions.

Sec. 6. The Board shall have full power to manage properties turned over to it in exchange for debentures as hereinbefore provided. Such properties may be rented, rehabilitated, modernized, sold or otherwise dealt with to assure a maximum financial return to the Corporation. The Board shall also have full power to pursue to final collection, by way of compromise or otherwise, all claims against mortgagors assigned by mortgagees to the Corporation as hereinbefore provided. Should the net amount realized on any such property and any such claims, after deducting all expenses incurred by the Corporation in handling and disposing of such property and collecting upon such claims, exceed the face amount of the debentures issued in exchange therefor plus the interest payable on such debentures, the Corporation shall pay over to the mortgagee so much of such excess as added to the principal and interest return to be received on the debentures will give to the mortgagee the same amount such mortgagee would have received had the mortgagor redeemed the property and paid off in full all obligations under the mortgage and arising out of the foreclosure proceedings at the time of delivery of the property to the Corporation and the mortgagee received interest on such payment at the rate of 3% per annum since such time. Any of such excess thereafter remaining shall be paid to the mortgagor. The right to such excess shall not be construed to give any mortgagee or mortgagor any right or interest in any property turned over to the Corporation or any right or interest

in any claim assigned to the Corporation, or to impose upon the Corporation any duty or duties with respect to the handling or disposal of such property or the collection of such claim. The determination by the Board as to the respective amounts of such excess, if any, to be paid to the mortgagee, or the mortgagor, shall be final and payment by the Corporation of the amounts so determined shall discharge the Corporation from all obligation to either the mortgagor or the mortgagee. The mortgagee may, at the time of turning over the property to the Corporation, make a statement of claim as to the amount to be due him out of such excess, and the Board shall, if it allows such claim, issue a certificate to such effect. Such certificate shall entitle the mortgagee to payment of the amount stated thereon out of the excess when and if available without further proof of claim.

Sec. 7. In order to prevent hasty foreclosure and dispossession of mortgaged home owners because of temporary inability of the mortgagor to meet his obligations under the mortgage, the Corporation shall assist the mortgagee in carrying the mortgagor along, as follows: If the mortgagee does not foreclose immediately on default but allows the mortgagor to remain in possession after default, then in case of later foreclosure as the result of continued default, when the mortgagee turns the property over to the Corporation in accordance with the provisions of section 5 of this title, the Corporation shall deliver to such mortgagee a certificate of claim for an amount equal to the difference between the face value of the debentures actually received by the mortgagee upon delivery of the property to the Corporation and the face value of the debentures such

mortgagee would have received had he foreclosed immediately on default and turned the property over at that time, such amount to be subject to the approval of the Board and not to exceed 10% of the face value of the mortgage. If the amount realized by the Corporation under the provisions of section 6 of this title is insufficient to pay the mortgagee the full amount to which he might be entitled under the terms of that section, then the Corporation shall pay to such mortgagee such portion of the amount stated in such certificate of claim plus an increment of 3% per annum of such amount as will enable the mortgagee to receive the same percentage of such amount plus increment as the Corporation receives to apply against the obligation of the debentures issued to such mortgagee.

Creation of Mutual Mortgage Funds

Sec. 6. (a) The Board shall from time to time open upon the books of the Corporation such several insurance funds as it may deem necessary to enable the carrying in separate accounts of mortgages involving substantially similar risks. Such risks may be determined (1) by year of maturity of the mortgage, (2) by extent of the appraised value covered by the mortgage, (3) by characteristics of the property covered by the mortgage, and (4) by geographical location of such property.

(b) Each mortgage accepted for insurance shall be assigned to the fund determined by the Board as including its class of risk characteristics. Premium charges received for the insurance of a particular mortgage shall be credited to the fund to which that mortgage is assigned. Interest and principal on debentures issued in satisfaction of mortgage insurance as provided in section 5 of this title shall be charged to the

fund to which the particular mortgage involved is assigned. Payments made against certificates of claim as provided in section 7 of this title shall be likewise charged. Expenses incurred in the handling of property and the collection of claims delivered and assigned to the Corporation under the provisions of section 5 of this title, and first receipts from such property and claims to satisfy such expenses and to offset the obligation of the debentures and certificates of claim shall be charged and credited in like manner.

(c) The Board shall also open upon the books of the Corporation a general re-insurance fund which shall be available to pay charges against any of the several funds heretofore described which may be inadequate to pay charges against them. The surplus in such reinsurance fund deemed by the Board to be in excess of the amount necessary for the proper reinsurance of the several funds and in excess of the amount necessary to cover other expenses of the Corporation shall be paid into the Treasury of the United States as dividends on the stock of the Corporation held by the United States.

(d) General expenses of operation of the Corporation may be allocated equitably by the Board among the several funds or charged to the general reinsurance fund.

(e) Whenever the total amount in any particular fund shall equal or exceed 110% of the sum of (1) the remaining unpaid principal of the then outstanding mortgages assigned to such fund and (2) the outstanding liability of the debentures charged to such fund, issued to mortgagees who have foreclosed and turned over property to the Corporation in accordance

with the provisions of section 5 of this title, the Board may terminate the fund (1) by paying to the mortgagees holding outstanding mortgages assigned to such fund a sum sufficient if such mortgages be in good standing to pay off such mortgages in full, such payment being for the benefit and account of the mortgagors, (2) by setting aside an amount sufficient to meet the payment of the debentures charged to such fund at maturity plus interest on them until maturity, and (3) by transferring the remainder to the general reinsurance fund hereinbefore provided.

(f) Whenever the total amount in any particular fund shall equal 115% of the sum of (1) the remaining unpaid principal of the then outstanding mortgages assigned to such fund and (2) the outstanding liability of the debentures charged to such fund, issued to mortgagees who have foreclosed and turned over property to the Corporation in accordance with the provisions of section 5 of this title, the Board shall terminate the fund (1) by paying to the mortgagees holding outstanding mortgages assigned to such fund a sum sufficient if such mortgages be in good standing to pay off such mortgages in full, such payment being for the benefit and account of the mortgagors, (2) by setting aside an amount sufficient to meet the payment of the debentures charged to such fund at maturity plus interest on them until maturity, and (3) by transferring the remainder to the general reinsurance fund hereinbefore provided.

(g) Should the amount in any particular fund fail to equal 115% of the sum of (1) the remaining unpaid principal of the then outstanding mortgages assigned to such fund and (2) the outstanding liability of

the debentures charged to such fund which have been issued to mortgagees who have foreclosed and turned over property to the Corporation in accordance with the provisions of section 5 of this title, and not be or have been terminated by the Board in accordance with subsection (e) of this section, until the final year prior to the maturity date of the mortgages assigned to such fund, the Board shall terminate the fund (1) by setting aside an amount sufficient to meet the payment of the debentures charged to such fund at maturity plus interest on them until maturity, (2) by transferring to the general reinsurance fund not less than 10% nor more than 15%, if available, of the amount to the credit of such fund and (3) by distributing the remainder, if any, proportionally to the mortgagees for the benefit and account of the mortgagors of the mortgages assigned to such fund.

(h) No mortgagor or mortgagee of any insured mortgage shall have any vested right in the credit balance in any particular fund and the determination of the Board as to the amount to be paid to any mortgagee for the benefit and account of any mortgagor shall be final and conclusive.

Sec. 9. Moneys of the Corporation not otherwise employed shall be deposited in the Treasury of the United States. The Treasurer of the United States is hereby directed to pay interest on the amount so deposited at the rate of $3\frac{1}{4}\%$ per annum payable semi-annually and figured on the average amount outstanding during any such semi-annual period. Interest so credited to the Corporation shall be allocated among the several funds described in section 5 of this title in proportion to the credit

balances in such funds. The Board may, if it shall deem it advisable, purchase in the market debentures issued by the Corporation under the provisions of section 5 of this title. Debentures so purchased shall be cancelled and not reissued and the several funds to which such debentures have been charged shall be charged with the amounts used in making such purchases.

Miscellaneous

Sec. 10. The Board shall, without regard to the provisions of Civil Service laws applicable to officers and employees of the United States, appoint such officers, employees, attorneys, appraisers and agents, as are necessary for the transaction of its business, fix their compensation, define their duties, require bonds of such of them as the Board may designate, and provide a system of organization to fix responsibility and promote efficiency. Any appointee of the Board may be removed in the discretion of the Board.

Sec. 11. (a) The Corporation may also insure mortgages which are not home mortgages within the meaning of that term as defined in section 2 (c) of this title but which are first liens either (1) on property held by corporations formed wholly for the purpose of providing housing for families of low income, or for the reconstruction of slum areas, which are regulated by State or municipal law as to rents, charges, capital structure, rate of return, and areas and methods of operation, or (2) on property on which is located a multiple family or apartment type dwelling having an appraised value per available family accommodation not in excess of a maximum to be set by the Board.

(b) Such mortgages shall contain terms, conditions and provisions satisfactory to the Board but need not conform to the standards set in section 4 of this title. Subject to the right of the Board to impose a premium charge in excess of, or less than, the amount specified for home mortgages, the provisions of sections 5, 6, 7 and 8 of this title shall be applicable to mortgages insured under this section.

Penalties

Sec. 12. (a) Whoever makes any statement, knowing it to be false, or whoever willfully overvalues any security, for the purpose of influencing in any way any action of the Board under this title shall be punished by a fine of not more than \$5,000, or by imprisonment for not more than two years, or both.

(b) Whoever (1) falsely makes, forges, or counterfeits any certificate of insurance, note, debenture, bond, or other obligation, in imitation of or purporting to be a certificate of insurance, note, debenture, bond, or other obligation of the Corporation; or (2) passes, utters, or publishes or attempts to pass, utter, or publish, any false, forged, or counterfeited certificate of insurance, note, debenture, bond or other obligation purporting to have been issued by the Corporation, knowing the same to be false, forged or counterfeited; or (3) falsely alters any certificate of insurance, note, debenture, bond, or other obligation issued or purporting to have been issued by the Corporation; or (4) passes, utters, or publishes, or attempts to pass, utter, or publish, as true any falsely altered or spurious certificate of insurance,

note, debenture, bond, or other obligation issued or purporting to have been issued by the Corporation, knowing the same to be falsely altered or spurious, shall be punished by a fine of not more than \$10,000, or by imprisonment for not more than five years, or both.

(c) Whoever, being connected in any capacity with the Board or the Corporation (1) embezzles, abstracts, purloins, or willfully misapplies any moneys, funds, securities, or other things of value, whether belonging to it or pledged or otherwise intrusted to it; or (2) with intent to defraud the Board of the Corporation, or any other body politic or corporate, or any individual, or to deceive any officer, auditor, or examiners of the Board or the Corporation, makes any false entry in any book, report, or statement of or to the Board of the Corporation, or, without being duly authorized, draws any order or issues, puts forth, or assigns any certificate of insurance, note, debenture, bond or other obligation, or draft, mortgage, judgment, or decree thereof, shall be punished by a fine of not more than \$10,000, or by imprisonment for not more than five years or both.

Separability and Amending Provisions

Sec. 13. The right to alter, amend, or repeal this title is hereby expressly reserved. If any clause, sentence, paragraph, or part of this title shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder of this title, but shall be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment shall have been rendered.

TITLE II—FEDERAL MORTGAGE ASSOCIATIONS

Sec. 201. Any number of natural persons, not less than five, may associate to establish a federal mortgage association for the purpose of (a) lending upon the security of mortgages or such other liens as are commonly given to secure advances on real estate under the laws of the State in which the real estate is located; (b) purchasing, selling, and otherwise dealing in credit instruments secured by such mortgages or liens; (c) borrowing money for any of the foregoing purposes by the issuance of bonds or debentures.

Sec. 202. Every federal mortgage association created under the provisions of this Act shall have power—

- (1) To have succession from the date of its organization until such time as it be dissolved by act of its shareholders or until its franchise becomes forfeited by order of the Federal Home Loan Bank Board as hereinafter provided, or until terminated by either a general or a special Act of Congress, or until its affairs be placed in the hands of a receiver and finally wound up by him.
- (2) To have a corporate seal, which may be altered at pleasure and to use the same by causing it or a facsimile thereof to be impressed or affixed or reproduced, or otherwise.
- (3) To sue and be sued, complain and defend in any court of law or equity, as fully as natural persons.
- (4) To hold, purchase and convey real and personal estate.

and to mortgage or lease any such real and personal estate when necessary or expedient to the proper conduct of its business.

- (5) To do all such things as are necessary or incidental to the proper management of its affairs and the proper conduct of its business.
- (6) To appoint such officers and agents as the business of the association shall require, and to allow them suitable compensation.
- (7) To establish in its Articles of Association or by by-laws not inconsistent with the Constitution or laws of the United States, the regulation and government of its affairs, the certification and transfer of its stock, and the number of its directors, who shall be charged with the control and management of its property and business.
- (8) To conduct its business in any state of the United States or in the District of Columbia and to have one or more offices in any such states or in the District of Columbia, one of which offices shall be designated as its principal office.

Sec. 203. Persons desiring to associate themselves together to establish a federal mortgage association shall, under their hands, prepare Articles of Association, which shall specifically state---

- (1) The name of the association, which shall be approved by the Federal Home Loan Bank Board.
- (2) The place where its principal office or place of business is to be located.
- (3) The amount of the capital stock; the classes of such stock to be issued; a statement of all or any of the designations and powers, preferences and rights, and the qualifications, limitations, or restrictions applicable to each class of stock; the number of shares and the par value of each of such shares of each class of stock to be issued, and the minimum amount of capital with which the association will commence business, which shall be not less than \$5,000,000.
- (4) Any provisions which the incorporators may choose to insert with reference to the management of the business and the conduct of the affairs of the association, and any provisions creating, defining, limiting and regulating the powers of the association, the directors and the stockholders, or any class of stockholders, such provisions to be subject to the approval of the Federal Home Loan Bank Board.
- (5) The fact that the Articles are prepared to enable such persons to avail themselves of the advantages of this title.

Sec. 204. The Articles of Association shall be signed and sealed by each of the incorporators and shall be acknowledged before a judge of any court of record, or a notary public; and shall be, together with the acknowledgment thereof authenticated by the seal of such court or notary, transmitted to the Federal Home Loan Bank Board, which shall record and carefully preserve the same.

Sec. 205. If the Federal Home Loan Bank Board shall be of the opinion that the incorporators transmitting to it Articles of Association as hereinbefore provided, are responsible persons and desire to create a federal mortgage association for the purpose of doing business as heretofore provided, said Board shall issue or cause to be issued a certificate of approval; and the association shall become, as from the date of issuance of such certificate, a body corporate by the name set forth in its Articles of Association.

Sec. 206. No association shall transact any business except such as is incidental and necessarily preliminary to its organization until it has been authorized by the Federal Home Loan Bank Board to do so. The Federal Home Loan Bank Board shall not grant such an authorization to commence business until it is satisfied that capital stock of a par value of \$5,000,000 has been subscribed for at not less than par and paid for in full in cash or Government securities, and until it is satisfied that all other conditions with respect to the organization of the association which it may impose have been met.

Sec. 207. Each such association, upon its being authorized to commence business, shall become automatically a member of the Federal Home

Loan Bank of the district in which its principal office is located. Such association shall qualify for such membership in the manner provided in the Federal Home Loan Bank Act with respect to other members.

Sec. 208. Each such association, upon its being authorized to commence business shall be considered an established and reputable and approved mortgagee within the meaning of clause (a) of section 4 of title one of this Act.

Sec. 209. The amount of bonds or debentures which any federal mortgage association may have outstanding at any time shall not be in excess of either (a) ten times the aggregate par value of its outstanding capital stock, or (b) the current value of mortgages held by it and insured in the Federal Mutual Mortgage Insurance Corporation created under title one of this Act, plus the face value of the debentures of such Federal Mutual Mortgage Insurance Corporation held by it, plus the amount of cash and its equivalent and bonds or obligations of the United States which it holds.

Bonds issued by any federal mortgage association shall be accepted by such association in payment of amortization or principal of any mortgages held by it.

Sec. 210. Funds of any federal mortgage association not invested in real estate mortgages shall be kept in cash or its equivalent or invested in bonds or other obligations of the United States or bonds or other obligations fully guaranteed as to principal and interest by the United States. Federal mortgage association shall keep such reserves

in cash or its equivalent as the Federal Home Loan Bank Board shall by regulation determine.

Sec. 211. Subject to such reasonable rules and regulations as the Federal Home Loan Bank Board shall from time to time declare, any federal mortgage association shall have full power to, and may, manage properties purchased or turned over to it as the result of foreclosure proceedings. Such properties may be temporarily rented, rehabilitated, modernized, sold or otherwise dealt in to assure a maximum financial return to the association.

Sec. 212. The Federal Home Loan Bank Board shall have full power to provide for the periodic examination of the affairs of every association organized under the provisions of this title and shall have full power to terminate the existence of any such association and order its liquidation and the winding up of its affairs in the event that such Board finds the association to be violating any of the provisions of this title or any of the rules and regulations promulgated by such Board under authority granted to it by this title, or in the event such Board finds the association to be conducting its business in an unsafe and unbusinesslike manner. The Federal Home Loan Bank Board shall terminate the existence of any association organized under the provisions of this title and order the liquidation and winding up of its affairs in the event that such Board finds upon examination of the affairs of such association that the value of its assets is less than one-twentieth in excess of its outstanding liabilities and the amount of such deficiency has not been made up within thirty days after the Board has notified the

association that such deficiency exists. Expenses of examination of any federal mortgage association shall be assessed upon and paid for by the association being examined.

Sec. 213. The Federal Home Loan Bank Board shall have full power to provide by rules and regulations for the liquidation, reorganization, consolidation or merger of federal mortgage associations, including the power to appoint a conservator or a receiver to take charge of the affairs of any such association, and to require an equitable readjustment of the capital structure of the same, and to release any such association from the control of a conservator or receiver appointed by it and to permit its further operation.

Sec. 214. The right to alter, amend, or repeal this title is hereby expressly reserved. If any clause, sentence, paragraph, or part of this title shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder of this title, but shall be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment shall have been rendered.

March 6, 1934

REPORT OF
COMMITTEE ON STIMULATION OF HOUSING

The Committee on Stimulation of Housing has continued to work along the lines discussed at last week's meeting of the Executive Council. During the past week, particular emphasis has been placed upon checking the plan for opening the mortgage market through a Federal Mutual Mortgage Insurance Corporation. A preliminary draft of a bill incorporating the main features of this plan has been submitted to various leaders in the mortgage field. In addition, Mr. Walker and Mr. Kiefler went to New York last Friday to discuss the plan with Mr. Henry Bruce, Mr. Charles Miller, Mr. James Perkins, and a representative group of the heads of leading mutual savings banks in New York State. This group promised to study the proposal and give a definite opinion on its merits at a second meeting to be held this week-end.

The Committee has also met with representatives of various other groups interested in real estate financing.

Plans for setting up an organization to conduct a national modernization drive are being developed. At the present time the greatest difficulty in connection with this part of the program is to find a method of financing small home loans on an installment basis without expense to the government.

As given at ~~7-1-34~~
Emergency Council

March 19, 1934
no

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A NATIONAL PROGRAM FOR MODERNIZED HOUSING.

The purpose of this program is to raise the standard of our human habitations to a level commensurate with our physical resources, our technical equipment, and our industrial efficiency.

During the post-war decade, the inventive skill of the country and its genius for mass production were used to remake almost every phase of our national life that lent itself to modernization--all, that is, except the most important phase of all, our human habitations. We developed the automobile and the radio to the point where they became part of the standard of living of the mass of the people; we covered the continent with a network of high-speed, hard-surfaced highways; we rebuilt our factory plant and equipment along the most scientific lines; we constructed office buildings, bank buildings, hotels, movie palaces, churches, and schools on a scale of affluence never witnessed before.

In the field of human habitations, however, though the physical volume of new construction was large, the quality in the main was shoddy, the cost out of reach of the mass of people, and the activity governed more by speculative considerations than by economic realities. There was but little improvement in the housing of the white-collar worker, the laborer, and the farmer. The result was that, even at the peak of industrial and commercial prosperity immediately prior to the depression, the great bulk of our people had become ac-

customed, almost as a matter of course, to sub-standard housing.

There is thus both a great human need and a great economic opportunity to be met by a national program for modernized housing. In a program of such magnitude as the need and the opportunity call for, however, experiments in slum clearance, decentralized housing, and rehabilitation scarcely scratch the surface of the problem, even though they all have some part in its solution.

To provide for the modernization of our human habitations, not here and there only, but in every community, will require a carefully conceived, well-rounded program, adequately planned in advance and carried out consistently over a period of years. It will require labor, resources, and skill on a scale hitherto unseen, even at the pre-depression height of our industrial modernization. To make the program successful, therefore, it will be necessary:

1. To ~~bring our~~ ^{restore} general industrial plant, ~~to the highest state of efficiency.~~
2. To provide for an integration of all of the processes in the construction industry for the maximum elimination of waste.
3. To devise new and cheaper methods of home construction.
4. To encourage coordinated plans for community development.
5. To effect a general revision of laws relating to construction, zoning, and financing.

As a first step in carrying out this program, it is recommended that all Federal activities bearing directly on the problem of modern-

ized housing be correlated in a single administration or agency. This unified authority will be responsible for coordinating these several activities to the large national end in view, and will also be expected to initiate new lines of attack on the problem.

The second step in carrying out the program lies in the financial field. If we are to modernize our human habitations, we must also modernize our system of real-estate financing. Specifically, we must devise a new mortgage instrument capable of sustaining the modernization program. The essential requirements of such an instrument are:

1. Low interest cost.
2. Safety of principal.
3. Liquidity of investment.

It is clear that none of these essential requirements can be met by mortgage financing as it has existed in the past. It is recommended, therefore, that Federal legislation be formulated to give an impetus and direction to mortgage financing in both the immediate and the longer future.

As a third step, the possibility and feasibility of really lifting the standard of our human habitations must be carried to the people. There is no field of American industry that has been more loosely organized, or more chaotic in character, than the construction industry. If we are to succeed in this new national effort, we must make clear to our people the far-reaching ends in view. They should be shown why the program as a whole is much larger than any of its parts. The basic objective is not confined to employment, though increased employment will be an important collateral result. Nor is the basic objective

increased orders for construction materials, though construction materials will be demanded in greater volume than ever before. The basic objective is far beyond these in its implications of human well-being. If we drive this fact home, the obstacles that in the past have made it almost impossible to work effectively in the improvement of living standards in this field can be overcome.

No period could be more propitious than the present for undertaking this program. It will provide a huge and continuing volume of employment in the residential building industry where unemployment is now most acute. In addition, it will call for large collateral supplies of building materials, where orders are now low. Finally, because housing accommodations are of necessity decentralized, a revival of activity in this industry will bring more widespread movement to industry, in general, than an equal amount of effort in any other field.

*As given at Emergency
3/20/34 Council*

RECOMMENDATIONS OF THE COMMITTEE ON HOUSING

A. It is recommended that a modernization campaign be undertaken on a national scale immediately. In this campaign we will seek by voluntary co-operation on the part of labor, industry and finance to concentrate our resources for the remainder of the current year on those parts of the program that can be undertaken now:

1. The modernization of houses that do not require demolition.
2. Immediate stimulation of new home construction, where such construction is economically justified.
3. Demolition of obsolete construction, residential, commercial and industrial.
4. Needed repairs and replacement of industrial and commercial properties that have been allowed to deteriorate during the depression.

B. It is further recommended that the program be set in motion by approval of this statement of objectives. The Committee presents to the Emergency Council without recommendation the following preliminary steps:

1. That the national and local field organization of the Emergency Council be made available for carrying out the modernization campaign.
2. That the sum of one million dollars be made available to the National Emergency Council from the Public Works Administration for the purpose of organizing a modernization campaign, commitments and disbursements from this fund being subject to the approval of a Finance Committee.

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C. To develop specific plans, the Committee recommends that the following standing committees be appointed by the Emergency Council to formulate specific recommendations for executing and expediting various phases of the problem, the Executive Director to have power to merge and corollate the Committee, from time to time, if he sees fit. Membership on these committees is not to be confined to the Emergency Council.

1. Committee on Unified Federal Housing Agency.

Assignment: To formulate draft of necessary legislation, (1) for corollating all present Federal activities having an important bearing on future housing developments in a single agency; (2) for coordinating with this agency other related Federal functions, and (3) for inauguration of new Federal activities not now covered in this field.

2. Committee on Mortgage Legislation.

Assignment: To develop plans and draft legislation for reorganization of mortgage market toward the end of securing (1) low-cost financing, (2) security of principal, and (3) liquidity of investment.

3. Committee on Conduct of Drive for Modernization and Repair.

Assignment: To draw up plans for the organization of a national modernization campaign, together with a budget therefor.

4. Finance Committee.

Assignment: To authorize commitments and disbursements from any funds made available to the National Emergency Council for carrying out the modernization program.

5. Committee on Reduction of Costs of Modernization and Repair

Assignment: To arrange for a substantial reduction of costs of modernization and repair work undertaken in connection with the National Modernization Campaign.

6. Committee on Financing of Modernization Loans.

Assignment: To draw up plans and make arrangements for credit financing of modernization work undertaken by bona fide responsible owners in accordance with the National Modernization Campaign.

7. Committee on Modernization of Industry.

Assignment: To get in touch with the Committees representing consumer industries and capital industries of the N. R. A., for the purpose of developing a common program of industrial rehabilitation as an integral component of the modernization campaign.

8. Committee on Architectural Service.

Assignment: To draw up plans for securing the cooperation of architects, engineers, and community development bodies in the modernization campaign.

March 26, 1934

HOUSING BILL

AGENCY

TITLE I.

An Act to provide for the creation of a Central Housing Coordination Board, members to be appointed by the President to represent each of the present Federal agencies now concerned directly or indirectly with housing activities.

1. Federal Home Loan Bank Board.
2. Farm Credit Administration.
3. Subsistence Homesteads.
4. Slum clearance.
5. F. F. C. Home Financing Section.
6. Planning Council - F. W. A.

- Functions:
1. To coordinate present activities in furtherance of a long-range housing program.
 2. To undertake studies looking toward a more rounded Federal Housing Program.
 3. To present to Congress at its next session a comprehensive program for improving the standard of human habitations and to make recommendations on legislation necessary therefor.

Appropriation: \$1,000,000.

TITLE II.

An Act to provide for the creation of a Federal Mutual Mortgage Insurance Corporation, the Board of Directors of such corporation to consist of the members of the Home Loan Bank Board.

- Functions:
1. To insure home mortgages up to 80 per cent of current appraised value made or held by any accredited financial institution for 100 per cent of their principal and up to 3 per cent annual interest, provided such mortgages meet requirements consonant with the public interest as to:
 - a. Location and desirability of property.
 - b. Responsibility of borrower.
 - c. Low interest.
 - d. Amortization of principal.
 2. To meet the costs of such insurance by collection of an annual premium paid by the borrower.

TITLE II (Continued)

3. To return to the borrower the excess of such premium collections not required to protect the government from loss on account of such insurance.
4. To provide similar insurance facilities for mortgages used to finance slum clearance activities, and other multiple housing developments designed to provide better housing at lower costs for the mass of the population.

Appropriation: \$2,000,000.

TITLE III.

An Act to provide for Federal charter, supervision, and examination of Federal Mortgage Associations by the Home Loan Bank Board.

Functions of these Associations:

1. To provide cheaper mortgage financing by raising funds for mortgage purposes through the sale of bonds in the open security markets, such bonds to be covered 100 per cent by mortgages insured with the Federal Mutual Mortgage Insurance Corporation.
2. To provide a means whereby existing mortgage portfolios of financial institutions can be converted into more liquid form.
3. To provide greater liquidity for the entire mortgage market.

TITLE IV.

An Act to amend the Home Loan Bank Act to provide adequate rediscount facilities at the Home Loan Banks for all types of mortgage instruments.

- Functions:**
1. To permit the Home Loan Banks, subject to the approval of the Home Loan Bank Board, to rediscount all approved types of mortgage instruments provided such rediscount for mortgages, other than Federally insured mortgages, is limited to a conservative proportion of the property. The Board would be empowered to fix different rates of rediscount and different percentages of property value for different types of mortgage instruments.

TITLE V.

An Act to provide for the creation of a Federal Housing Improvement Administration.

- Functions:**
1. To promote modernization of housing.
 2. To insure financial institutions against losses on modernization loans at low rates up to 10 per cent of the total amount of such loans made by such institutions.

Appropriation: \$5,000,000 for expenses and \$200,000,000 for insurance.

TITLE VI.

Amendments - Amendments to present legislation necessary to carry out the purposes of this program.

- 1. An amendment to the Home Loan Bank Act permitting the Home Loan Banks to lend 100 per cent on Federally insured mortgages and on Federally insured modernization loans.**
- 2. An amendment permitting member banks of the Federal Reserve System to make and to hold Federally insured mortgages.**

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PRELIMINARY DRAFT -- CONFIDENTIAL

NOTES FOR CONFERENCE OF TRUSTEE INSTITUTIONS--APRIL 12, 1934.

The Approach to the Mortgage Problem.

In approaching the whole problem represented by the stagnation in the market for residential property and the precipitate drop in private residential construction during the past five years, it is necessary to distinguish clearly between the factors that grow out of the depression itself, and hence are temporary, and those that are more deep-rooted in their origin and more far-reaching in their effects.

The temporary or depression factors include, notably:

1. Speculative over-building in urban areas prior to 1929.
2. Doubling-up of families and a temporary movement of population from urban to rural areas.
3. Loss of income on the part of home owners and the consequent forced foreclosure sales.
4. Reluctance on the part of prospective home owners to undertake new commitments during the period of uncertainty.

These temporary or depression factors, taken either together or singly, would in themselves be sufficient to explain the material decrease in new residential construction. They do not, however, explain the almost complete cessation of such construction.

On the contrary, the virtual disappearance of the market for residential property, and the decline of residential construction to but a negligible volume, is to be ascribed in the main, not to such temporary or depression factors as those just mentioned, but to the more deep-rooted and more far-reaching factors previously alluded to. It reflects, primarily--in an industry as widespread and decentralized as the housing industry--the collapse of the mortgage market in most localities to a point at which facilities for construction loans and second mortgage financing have disappeared, and at which new first mortgage money, even

on unquestioned security, is usually difficult and frequently impossible to obtain.

In other words, the institutions that hitherto have specialized in this type of financing, now finding their existing portfolios of mortgages frozen—mortgages on sound properties as well as mortgages in distress—are not in a position to increase their mortgage commitments. Instead, as is quite natural in the circumstances, they show a universal tendency to invest new funds almost exclusively in United States Government securities and other highly liquid instruments. But under these conditions, of course, financing facilities for either existing residences or new residential construction will still be difficult to obtain even after the temporary or depression factors have disappeared.

What is manifestly required, therefore, is a fresh attack on the problem of the mortgage market as a whole and the elimination of the unsound practices that have led to the present collapse of mortgage financing.

Purposes of the Present Proposals.

The proposals to be outlined here are designed to overcome the conditions now prevailing in the mortgage market and to remove the obstructions that now impede a free movement of mortgage funds. It is proposed—

1. To provide a new mortgage instrument that will (a) afford ample security to private lending institutions, (b) lower the cost of mortgage money to the borrower, and (3) eliminate the need for second mortgage financing.
2. To provide genuine liquidity for the new mortgage instruments that have these essential characteristics.

Recognition of the Principle of Insurance.

The first of the means by which these purposes are to be realized is the organization of an insurance company to be known as the Federal Mutual Mortgage Insurance Corporation. The Board of Directors of this Corporation, however, will be identical with the members of the Federal Home Loan Bank Board. This Board will be authorized to insure the full payment of principal of all eligible home mortgages, and to insure also a minimum interest return (in general 3 per cent) on insured mortgages that may default. Any mortgages, institutional or individual, acceptable to the Board may

insure mortgages under this plan.

It is naturally expected that the principal users of the plan will be the existing private lending agencies—namely, insurance companies, savings banks, commercial banks, building and loan associations, mortgage companies, etc. If this does come about as contemplated, agencies now deterred from lending by the uncertainties of the real estate market will be able to release mortgage money for new financing wherever it may be economically justified.

The financial soundness of the plan will rest primarily, of course, upon the appraisals on which the mortgage insurance is based. The Board of the Corporation will therefore be directed in the Act creating the Federal Mutual Mortgage Insurance Corporation to develop a national standardized system of appraisal practice. This system will be used by the Board and will also be available to guide the appraisal practice of private institutions. In addition, the Board will make occupancy surveys, develop construction standards, and carry on similar activities of a research or a statistical nature designed to conserve sound mortgage values.

Qualifications for Mortgage Insurance.

To be eligible for insurance under this plan, a mortgage must conform to the following recognized standards of sound mortgage practices:

1. The mortgage must be a first lien on a dwelling designed for occupancy by not more than four families (with certain exceptions, which will presently be referred to, in the case of slum-clearance and low-cost-housing projects).
2. The mortgage must be held by a mortgagee acceptable to the Board of the Corporation.
3. The mortgage must provide for regular amortization until the loan is completely retired. In general, this amortization period is established at not more than 20 years but provision is made for establishing an amortization period up to 30 years, in the discretion of the Board of the Corporation, on properties of exceptionally stable value.
4. The mortgage must be of such a nature that the insuring of it by the Corporation is beneficial to the mortgage market as a whole; and it must conform to such standards in respect of the character and income of the mortgagor as may be established by the Board of the Corporation.

5. The mortgage must be for an amount not in excess of 80 per cent of the appraised value of the property, and must conform to such other appraisal standards as may be established by the Board of the Corporation. It has been suggested that in general insured mortgages should not exceed 100 per cent of the value of improvements. Because of the security afforded by the insurance, and by the other standards to which the mortgage must conform, the entire first and second mortgage financing can be safely combined in a single instrument. This will eliminate both the need of second mortgage financing and the disturbing effects of such financing on banking and investment conditions in general.
6. The mortgage must carry a net interest return to the lender of not more than 5 per cent, except that the Board of the Corporation may, in exceptional or exigent circumstances, authorize a rate up to a maximum of 6 per cent in order to attract mortgage funds.

Realization on Mortgage Insurance.

Except with regard to the requirements just enumerated the customary relations between mortgagor and mortgagee are fully retained under the operation of the insurance plan. If the mortgage becomes delinquent, the mortgagee may still foreclose, or refrain from foreclosing, as at present, without interference on the part of the Board of the Corporation. Should the mortgagee elect to realize on his insurance, however, he must of course foreclose and give title to the property, free of taxes or other charges, to the Board of the Corporation, and at the same time give to the Board a statement of claim of his expenses incident to foreclosure. The statement of claim of expenses may include foreclosure costs, delinquent interest and amortization charges, taxes paid and repairs made by the mortgagee, etc. This statement is subject to approval by the Board.

Upon the election of the mortgagee to realize on his insurance, the Board will deliver to the mortgagee, a debenture or debentures guaranteed as to principal and interest by the United States Government, the amount of such debenture or debentures to equal the unpaid principal on the face of the mortgage as of the date on which title is transferred to the Board. These debentures will bear the rate of interest (not in excess of 3 per cent) agreed upon at the time the mortgage was insured; and the difference will mature 3 years after the mortgage would have been paid off if it had remained in good standing. The debentures will not be tax-exempt.

At the same time the Board will issue to the mortgagee a preferred certificate, up to a maximum of 10 per cent of the unpaid principal on the face of the mortgage as of the date on which title is transferred, covering expenses incurred because of delinquency and foreclosure. The Board will also issue a further certificate of claim for all such expenses allowed by the Board in excess of this 10 per cent. When the Board has fully realized on the property it will first reimburse itself for its debentures issued, and then honor these certificates of claim up to the full amount permitted by the realization on the property.

If the sum realized on the property exceeds both the amount of the debentures and the full amount of the certificates issued to the mortgagee, the Board will turn the remainder of the proceeds over to the mortgager. Should the sum finally realized, however, be insufficient to cover both the amount of the debentures and the amount of the preferred certificate of claim, the Board will reimburse the mortgagee on such preferred certificate of claim pro rata with the Board's own realization on the property.

Cost of the Mortgage Insurance.

The premium for mortgage insurance under the plan will be 1 per cent per annum of the original face value of the mortgage. This premium will be paid by the mortgager to the mortgagee in a lump sum in addition to the interest and amortization payments provided in the mortgage. The mortgagee will in turn remit this 1 per cent insurance premium to the Board of the Corporation.

The insurance principle involved is similar to mutual life insurance. This 1 per cent premium involves a liability in excess of the amount of risk ordinarily involved in mortgages of this type, and hence should eventually be returned in whole or in part to the mortgager. The premiums thus returned will be paid to the mortgagee to pay off the mortgage for the benefit of the mortgager. For example, if there were no loss at all, insured mortgages carrying amortization charges calculated to retire the principal in 20 years, would build up, at the end of about 15 years, an insurance reserve sufficient to retire at that time the remaining unpaid principal of the mortgages. In that event the insurance would be terminated and the reserve, after certain deductions for a general reinsurance fund, would be used to take up the mortgages for the benefit of the mortgagers.

The insurance premium therefore covers both insurance risk and additional, but unspecified, amortization. On a twenty-

year amortization contract yielding 5 per cent to the lender, the borrower would be required to pay an annual total charge for interest, amortization, and insurance—equal to 9 per cent of the original face value of the loan. This charge is of course much lower than the present equivalent combined cost of first and second mortgage money, and also lower than the equivalent cost even during favorable periods in the past.

By paying this total charge of but 9 per cent, including interest, amortization, and insurance, the borrower might retire his total mortgage in something over 15 years, and would in any event be guaranteed complete retirement in 20 years. The length of payment between 15 years and 20 years would of course depend on the extent of the general losses sustained by the insurance reserve.

Management of the Insurance Reserves.

The insured mortgages will be separated at the time of insurance into separate funds containing substantially similar risks; they will not be lumped in a single-risk fund. A lending institution, that is to say, could still benefit to the full by insuring its mortgages even if it desired to confine itself to stricter requirements than those prescribed in the mortgage-insurance law.

For example, an institution could confine itself to 60 per cent mortgages instead of making loans to the limit of the 80 per cent permitted, and know at the time of insurance that its mortgages were segregated with others of the same type. Such mortgages would naturally involve fewer realizations on the governmental guaranty, and therefore would not be required to share in the risk of mortgages made on a higher basis of appraisal. All premiums paid on mortgages of common characteristic as to risk would be kept separate in a single fund, and all costs and realizations incidental to realization on the insurance would be debited and credited to this fund.

At the termination of the fund—that is, whenever any one of these separate segregated funds became large enough to take up the debentures issued to make good the mortgages insured by the fund, and also to pay off the remaining indebtedness of borrowers in good standing in the fund—the Board of the Corporation will be required prior to the termination of the fund, to deduct from 10 to 15 per cent of the fund for a general reinsurance reserve. This reinsurance reserve would take care of losses in particular funds where the premiums proved insufficient to cover the insured losses of the funds. It would also furnish a mechanism whereby the exceptional losses of abnormal periods could be met out of reserves established in periods of smaller losses.

Solvency of the Insurance Fund.

From careful calculations made on an actuarial basis, the plan of mortgage insurance here outlined would involve no loss to the Treasury on its guaranty of principal and interest on the debentures issued to replace the defaulted mortgages. As was previously stated, the premium payments on a maximum twenty-year amortization mortgage, if no losses are incurred, would be sufficient to retire the principal of the mortgage commitments in about 15 years, the exact period depending on expenses of operation (which should be relatively low) and on percentage of the reinsurance deduction made by the Board of the Corporation.

In order to determine the extent to which this period of approximately 15 years might be extended by losses, the following loss-assumptions were made the basis of actuarial computations of risk:

1. That all mortgages in a single fund were insured at the maximum risk--that is at 80 per cent of appraised value.
2. That 25 per cent of the total face value of mortgages in a single fund defaulted.
3. That the ultimate realization of the fund on these properties in default was only 50 per cent of the original appraised value of the properties.
4. That all the defaults occurred during the earlier years and reached a peak in the fifth year when, owing to the lower extent of amortization, the insured risk was large.
5. That two years were required for the fund to dispose of the defaulted properties.
6. That reimbursement to the mortgagees was made out of the fund for maximum foreclosure expenses as allowed under the preferred claims.

On this set of assumptions, all of which are far more drastic than past experience would justify as an average calculation of the risk on home mortgages, the fund was still solvent, and would have been terminated some time in the nineteenth year, without drawing on the general reinsurance fund.

Insurance of Public or Semi-Public Projects.

The general provisions of the proposed act insuring mortgages on a mutual basis are written in terms of home mortgages and do not cover the problem of financing public or semi-public projects for the stimulation of low-cost housing and slum clearance. The Board is authorized, however, to establish separate insurance funds in which mortgages on property of this type can be insured under special conditions as to interest, amortization, and insurance to be determined by the Board. This should permit slum-clearance and low-cost-housing projects to obtain financing on a self-insurance basis at much lower rates than has been possible in the past.

Liquidity.

To create liquidity throughout the whole field covered by home mortgages, and also to assist in making new mortgage money available, it is proposed further:

1. To amend the federal banking laws to permit construction loans on projects of a type likely to be accepted as eligible for Federal Mutual Mortgage Insurance.
2. To amend the federal banking laws to permit members banks of the Federal Reserve System to hold mortgages (a) up to 80 per cent of the appraised value of the mortgaged property and (b) of a maturity longer than 5 years, provided these mortgages are insured under the Federal Mutual Mortgage Insurance Act.
3. To amend the Home Loan Bank Act:
 - (a) To remove the present restriction on amounts that can be loaned to any one institution.
 - (b) To permit the Home Loan Banks to rediscount mortgages insured under the mutual mortgage insurance act up to their full face value.
 - (c) To permit the Home Loan Banks, in exceptional and exigent circumstances, and under rigid supervision of the Board of the Insurance Corporation, to make advances, at a high rate of interest, on the notes of their members. The purpose of this amendment is to provide liquidity for mortgage agencies during a run.
4. To encourage amendments to state laws covering mortgage institutions to bring such laws into conformity with the provisions of the Federal Mutual Mortgage Insurance Act. As soon as the Federal legislation

outlined above is passed, it is planned to ask the President to request each State Governor to seek amendments liberalizing restrictions in the state laws insofar as mortgages insured under the Federal plan are concerned.

Incorporation of Federal Mortgage Associations.

As a final step in creating liquidity in the home-mortgage field, and also in tapping investment sources of new mortgage money, it is proposed that provision be made for the Federal incorporation of private mortgage-lending associations. These associations will be permitted to finance themselves directly by the sale of their own bonds in the investment markets. The associations will be subject to the following restrictions:

1. They will be chartered, supervised, and examined by the Federal Home Loan Bank Board.
2. Their minimum paid-in capital will be \$5,000,000.
3. The amount of bonds that they may issue will be limited to 15 times their capital.
4. All bonds outstanding will be covered by mortgages insured with the Federal Mutual Mortgage Insurance Corporation.

2 Under these restrictions the bonds of these Federal Mortgage Associations will be exceptionally secure instruments and should prove popular in the general investment market. Because they are covered by insured mortgages, they will have the equivalent of a Federal guarantee of principal and interest. They will also be attractive to trust companies and savings banks seeking mortgage investments outside their own local areas.

The new mortgage associations will provide home-mortgage borrowers generally with more direct access to trustee institutions in the large capital centers, where the volume of savings available for mortgage investment is frequently in excess of the local demand for home-mortgage money. In the existing situation, furthermore, the associations should provide an especially effective instrument in liquifying frozen or semi-frozen mortgage portfolios.

A PLAN TO PROVIDE "CONSUMER CREDIT" FOR HOME MODERNIZATION

Purpose - A movement is planned to raise the general level of housing standards, the first step in which is a Program of Home Modernization. For this purpose a unified national effort is being organized, which will utilize the existing concentrations of credit, now inactive, in the financing of needed improvements to real property, thus providing employment to large groups who have benefited the least from measures now operating.

A very necessary part of this effort is a plan to finance the consumer for the cost of immediate improvements, which will consist of repairs, alterations and renovations. By utilizing existing private sources of credit, the necessity for governmental lending agencies to provide the necessary funds and machinery will be avoided.

Principle - The most practicable way to organize for such financing is on the basis of "Consumer Credit", that is, periodic payments based entirely on the borrower's ability and willingness to pay, without involving the real estate as security. In essence, credit in suitable amounts will be made available to all holders of real estate or real estate equities whose current income and reputation for meeting obligations are satisfactory.

Requirements- The success of this effort will depend upon the volume of home modernizing that results, as reflected in re-employment and increased purchasing power. In order to induce large volume, it must comprehend, aside from its usefulness as a contribution to recovery, a degree of attractiveness not available today through existing channels. This involves low cost, extended time for repayment, and freedom from restrictions as to security. At the same time the borrower must be protected against the assumption of uneconomic debt.

Availability to home owners will be assured through the cooperation of three groups of private lending agencies, Commercial and Savings Banks, Finance or Acceptance Corporations, and Building and Loan Associations. This will provide adequate nation-wide machinery for handling all operating details.

As the existing system of consumer credit has been built to a large extent upon the use of repossessible chattels as security, this plan will provide insurance against loss in lieu of such security. This insurance protection should make available funds and credit of the three cooperating groups of financial agencies and avoid the necessity of using government funds for this purpose.

The costs of handling this type of financing are greater than the costs of handling ordinary savings or commercial bank loans, and such legitimate costs are provided for in the plan.

The Plan - The following plan is designed to meet the requirements hereinbefore set forth:

1. Central Insurance Agency.

A central insurance agency, funds for which will be provided by the Federal Government, will be organized with headquarters in Washington, D.C., to function as follows:

- (a) Insure cooperating lending agencies against loss on "modernizing receivables" as specified hereinafter.
- (b) Determine credit standards by which the soundness of insured loans may be judged.
- (c) Provide and furnish all literature and forms necessary to enable the plan to function on a uniform basis.

2. Local Organizations.

A committee, with a subcommittee of architects and others familiar with building problems and costs, and a credit subcommittee of those experienced in passing credits, will be organized in each town-center to function as follows:

- (a) Give full publicity to the program, plans, and procedure.
- (b) Pass upon the qualifications of contractors whose eligibility will be determined on a basis of reputation for workmanship and integrity.
- (c) Prepare a list of eligible cooperating lending agencies (banks, finance companies, building and loan associations) with whom contracts of insurance will be made by the central insurance agency.
- (d) Secure and furnish to home owners and contractors lists of materials, if any, with the names of dealers therein, on which price concessions have been secured.

- (e) Act as a clearing house, through the credit sub-committee, under instructions of the central insurance agency, to assure credits being properly extended on the one hand and that credit is not denied to those entitled thereto, on the other.

3. Details of Plan.

Flexibility will be provided by leaving to the cooperating lending agencies complete discretion in determining credits, designating terms, etc., within such credit limits as shall be determined from time to time by the central insurance agency.

In order to qualify for loss insurance through the central insurance agency, therefore, all "modernizing receivables" must fall within the following requirements.

- (a) All loans must measure up to such credit standards as may be determined by the central insurance agency from time to time.
- (b) Minimum principal amount of loan, \$200.
- (c) Maximum principal amount of loan, \$2,000.
- (d) Loans to be repaid in monthly or quarterly payments, except by those engaged in agriculture, in which case it will be permissible, in the discretion of the lending agency, to conform to crop income dates with a minimum of one annual payment.
- (e) Minimum monthly payment \$10.
- (f) Maximum term of obligation not to exceed 5 years.
- (g) Interest, added to the total cost of the modernizing job, may not exceed 5 per cent per annum on decreasing balances.
- (h) Total discount of lending agency in purchasing receivables from contractors may not exceed 5 per cent true interest, provided under (g), plus the following service charges. These charges are arrived at as follows:-

Credit Investigation and entry on books - \$2 per note.

Collection cost (average) - 50¢ per installment.

Supervision and Legal costs -1/2 of 1% per annum on amount loaned.

SERVICE CHARGES

Principal Amount of Job	One Year or less	One to Two Years	Two to Three Years	Three to Four Years	Four to Five Years
\$ 201 to \$ 300	\$ 9.50	\$17.--	-----	-----	-----
301 to 400	10.--	18.--	\$26.--	\$34.--	-----
401 to 500	10.50	19.--	27.50	36.--	\$44.50
501 to 600	11.--	20.--	29.--	38.--	47.--
601 to 700	11.50	21.--	30.50	40.--	49.50
701 to 800	12.--	22.--	32.--	42.--	52.--
801 to 900	12.50	23.--	33.50	44.--	54.50
901 to 1000	13.--	24.--	35.--	46.--	57.--
1001 to 1250	14.25	26.50	38.75	51.--	63.25
1251 to 1500	15.50	29.--	42.50	56.--	69.50
1501 to 1750	16.75	31.50	46.25	61.--	75.75
1751 to 2000	18.--	34.--	50.--	66.--	82.--

- (i) Maximum insurance coverage, 20 per cent of the total volume of "modernizing receivables" discounted by a lending agency.

4. Modus Operandi.

- (a) Home owners will secure from local architects subcommittee advice on all matters pertaining to the practicality of work desired, proper costs and qualification of contractors.
- (b) Contractor will contact home owner, either direct or through committee. He will estimate cash price of job, giving consideration to service fee (see h above) which he will be required to absorb.

He will have home owner sign an Application for Loan (form to be supplied by committee) detailing work to be done with bid prices, and giving pertinent credit information, including affidavit of ownership, assessed valuation, original purchase price and present status of mortgage (if any) as to maturity, amortization, interest, taxes, etc.

- (c) Contractor will ~~submit~~ application to a cooperating lending agency (from lists prepared by the committee).
- (d) Lending agency will check the credit of borrower and if satisfactory and the loan qualifies under insurance requirements will approve. Such approval will constitute it commitment.

- (c) Upon receipt of such commitments, owners or contractors will proceed with the job.
- (f) If loan is refused by the lending agency to whom submitted, credit sub-committee will make an independent investigation and if it determines that the loan meets standard credit requirements and that the borrower is entitled to credit, will endeavor to have loan accepted by some other lending agency.
- (g) Upon completion of a job the contractor will have work inspected by a representative of the architects sub-committee who will issue a certificate of completion. He then will secure home owner's note (on form provided by committee) which will be made out for the total price of job, plus true interest at 5% per annum on decreasing balances (from charts furnished by committee). Judgment notes will be used wherever State laws permit and will provide for 6% interest on any delinquent payments.
- (h) Contractor will discount note with the lending agency already committed to its purchase, after endorsing with or without recourse, in the discretion of lending agency. He will simultaneously execute a guarantee of workmanship and submit either receipts covering payments made for all labor and materials used on the job or release covering same. This will protect against the filing of mechanics liens.
- (i) Lending agency will discount the face of the note by an amount equal to the interest charge (5% true interest per annum), plus the service charge authorized.

NOTE - Where no contractor is involved but different parts of a job are let direct by the home owner to several artisans, the local committee will assist the home owner in completing application and will present it to a co-operating lending agency for approval. If approved, home owner will be authorized to proceed with the work.

Upon completion the committee will secure a note covering the entire job from the home owner, endorsed, without recourse, by all artisans involved, together with their guarantees of workmanship and will discount it with the lending agency, arranging for payments direct to the several artisans, respectively, for the cost of their work, less their proportion of the total service charge.

- (j) Lending agencies, will report monthly to the central insurance agency (on forms supplied by local committee)
 - (a) all commitments made, and
 - (b) all notes discounted, with name, address, term, amount of note and other pertinent data.

- (k) Upon receipt of such monthly reports central insurance agency will set up total commitments and total loans made by each lending agency, which it has contracted to insure. No check on qualification of loans under insurance requirements will be made at that time.
- (l) Upon default and after usual collection efforts have been exhausted, lending agency will reduce to judgment and make claim on central insurance agency (on form provided by local committee) for payment of loss under its insurance protection.
- (m) The central insurance agency will place the claim in the hands of local adjusters (through private agencies already qualified and available on a fee basis). Adjusters will contact both the lending agency, and the borrower if possible, and determine what further efforts are justified to salvage the account. Adjusters will at that time check back on the records of the lending agency to the original purchase and verify that the loan qualified for insurance in the first instance. If in order, claim will be approved.

Adjusters will determine by whom the item shall be handled thereafter in order to salvage as much as possible. In most cases it will be preferable to leave in the hands of the lending agency which originally purchased the paper. Adjusters will decide what line of action is to be followed. For example, a further extension, a reduction in amount of monthly payment, taking additional security, the endorsement of a third party, etc.

Advice as to the method of salvaging determined upon and the party chosen to handle the account for the central insurance agency, will be communicated to the central insurance agency together with the approval of claim.

- (n) Upon receipt of adjusters approval by the central insurance agency remittance will be made to the lending agency for the amount outstanding on the note, less unearned interest. Follow-up on salvaging efforts will thereafter be conducted by central insurance agency.

Rediscount Facilities - It is recognized that most lending agencies borrow their loanable funds on a short term basis and must be assured of ability to so borrow over the maximum term of receivables purchased by them. To assure such availability of funds, as well as a maximum rate on such funds, facilities will be provided through which "modernizing receivables" may be rediscounted at a maximum rate of 3% true interest per annum.

Costs and Profits - The service charges hereinbefore designated are based on actual experience in handling this type of receivable and should be adequate to cover average costs. As losses are insured, a margin will be available, through the difference between the 5% per annum paid by the borrower and the cost of money, which cannot exceed 3% per annum, to offset any variance in local costs with the average used in these calculations.

MEMORANDUM ON MORTGAGE FINANCING.

The Approach to the Mortgage Problem.

In approaching the whole problem represented by the stagnation in the market for residential property and the precipitate drop in private residential construction during the past five years, it is necessary to distinguish clearly between the factors that grow out of the depression itself, and hence are temporary, and those that are more deep-rooted in their origin and more far-reaching in their effects.

The temporary or depression factors include, notably:

1. Speculative over-building in urban areas prior to 1929.
2. Doubling-up of families and a temporary movement of population from urban to rural areas.
3. Loss of income on the part of home owners and the consequent forced foreclosure sales.
4. Reluctance on the part of prospective home owners to undertake new commitments during the period of uncertainty.

These temporary or depression factors, taken either together or singly, would in themselves be sufficient to explain the material decrease in new residential construction. They do not, however, explain the almost complete cessation of such construction.

On the contrary, the virtual disappearance of the market for residential property, and the decline of residential construction to but a negligible volume, is to be ascribed in the main, not to such temporary or depression factors as those just mentioned, but to the more deep-rooted and more far-reaching factors previously alluded to. It reflects, primarily--in an industry as widespread and as decentralized as the housing industry--the collapse of the mortgage market in most localities to a point at which facilities for construction loans and second mortgage financing have disappeared, and at which new first mortgage money, even

on unquestioned security, is usually difficult and frequently impossible to obtain.

In other words, the institutions that hitherto have specialized in this type of financing, now finding their existing portfolios of mortgages frozen--mortgages on sound properties as well as mortgages in distress--are not in a position to increase their mortgage commitments. Instead, as is quite natural in the circumstances, they show a universal tendency to invest new funds almost exclusively in United States Government securities and other highly liquid instruments. Under these conditions, financing facilities for either existing residences or new residential construction will still be difficult to obtain even after the temporary or depression factors have disappeared.

What is manifestly required, therefore, is a fresh attack on the problem of the mortgage market as a whole and the elimination of the unsound practices that have led to the present collapse of mortgage financing.

Purposes of the Present Proposals.

The proposals outlined in this memorandum are designed to overcome the conditions now prevailing in the mortgage market and to remove the obstructions that now impede a free movement of mortgage funds. It is proposed--

1. To provide a new mortgage instrument that will (a) afford ample security to private lending institutions, (b) lower the cost of mortgage money to the borrower, and (c) eliminate the need for second mortgage financing.
2. To provide genuine liquidity for the new mortgage instruments that have these essential characteristics.

Recognition of the Principle of Insurance.

The first of the means by which these purposes are to be realized is the organization of an insurance company to be known as the Federal Mutual Mortgage Insurance Corporation. The Board of Directors of this Corporation, however, will be identical with the membership of the Federal Home Loan Bank Board. This Board will be authorized to insure the full payment of principal of all eligible home mortgages, and to insure also a minimum interest return (in general 3 per cent) on insured mortgages that may default. Any mortgage, institutional or individual, acceptable to the Board, may

insure mortgages under this plan.

It is naturally expected that the principal users of the plan will be the existing private lending agencies--namely, savings banks, commercial banks, trust companies and other trustees, insurance companies, building and loan associations, mortgage companies, etc. If this does come about as contemplated, private agencies now deterred from lending by the uncertainties of the real estate market will be able to release mortgage money for new financing wherever it may be economically justified.

The financial soundness of the plan will rest primarily upon the appraisals on which the mortgage insurance is based. The Board of the Corporation will therefore be directed in the Act creating the Federal Mutual Mortgage Insurance Corporation to develop a national standardized system of appraisal practice. This system will be used by the Board and will also be available to guide the appraisal practice of private institutions. In addition, the Board will make occupancy surveys, develop construction standards, and carry on similar activities of a research or a statistical nature designed to conserve sound mortgage values.

Qualifications for Mortgage Insurance.

To be eligible for insurance under this plan, a mortgage must conform to the following recognized standards of sound mortgage practice:

1. The mortgage must be a first lien on a dwelling designed for occupancy by not more than four families (certain exceptions in the case of slum clearance and low-cost housing projects will be referred to later).
2. The mortgage must be held by a mortgagee acceptable to the Board of the Corporation.
3. The mortgage must provide for regular amortization until the loan is completely retired. In general, this amortization period is established at not more than 20 years. Provision is made, however, for establishing an amortization period up to 30 years, in the discretion of the Board of the Corporation, on properties of exceptionally stable value.
4. The mortgage must be of such a nature that the insuring of it by the Corporation is beneficial to the mortgage market as a whole; and it must conform to such standards in respect of the character and income of the mortgagor as may be established by the Board of the Corporation.

5. The mortgage must be for an amount not in excess of 80 per cent of the appraised value of the property, and must conform to such other appraisal standards as may be established by the Board of the Corporation. It has been suggested that in general insured mortgages should not exceed 100 per cent of the value of improvements. Because of the security afforded by the insurance, and by the other standards to which the mortgage must conform, the entire first and second mortgage financing can be safely combined in a single instrument. This will eliminate both the need of second mortgage financing and the disturbing effects of such financing on banking and investment conditions in general.
6. The net interest return to the lender must not be in excess of 5 per cent, except that the Board of the Corporation may, in exceptional or exigent circumstances, authorize a rate up to a maximum of 6 per cent in order to attract mortgage funds.

Realization on Mortgage Insurance.

Except with regard to the requirements just enumerated, the customary relations between mortgagor and mortgagee are fully retained under the operation of the insurance plan. If the mortgage becomes delinquent, the mortgagee may still foreclose, or refrain from foreclosing, as at present, without interference on the part of the Board of the Corporation. Should the mortgagee elect to realize on his insurance, however, he must foreclose and give title to the property, free of taxes or other charges, to the Board of the Corporation, and at the same time give to the Board a statement of claim of his expenses incident to foreclosure. The statement of claim of expenses may include foreclosure costs, delinquent interest and amortization charges, taxes paid and repairs made by the mortgagee, etc. This statement of claim is subject to approval by the Board.

Upon the election of the mortgagee to realize on his insurance, the Board will deliver to the mortgagee a debenture or debentures guaranteed as to principal and interest by the United States Government, the amount of such debenture or debentures to equal the unpaid principal on the face of the mortgage as of the date on which title is transferred to the Board. These debentures will bear the rate of interest (not in excess of 3 per cent) agreed upon at the time the mortgage was insured; and the debenture will mature 3 years after the mortgage would have been paid off if it had remained in good standing. The debentures will not be tax-exempt.

At the same time the Board will issue to the mortgagee a preferred certificate, up to a maximum of 10 per cent of the unpaid principal on the face of the mortgage as of the date on which title is transferred, covering expenses incurred because of delinquency and foreclosure. The Board will also issue a further certificate of claim for all such expenses allowed by the Board in excess of this 10 per cent. When the Board has fully realized on the property it will first reimburse itself for its debentures issued, and then honor these certificates of claim up to the full amount permitted by the realization on the property.

If the sum realized on the property exceeds both the amount of the debentures and the full amount of the certificates issued to the mortgagee, the Board will turn the remainder of the proceeds over to the mortgagor. Should the sum finally realized, however, be insufficient to cover both the amount of the debentures and the amount of the preferred certificate of claim, the Board will reimburse the mortgagee on such preferred certificate of claim pro rata with the Board's own realization on the property.

Cost of the Mortgage Insurance.

The premium for mortgage insurance under the plan will be 1 per cent per annum of the original face value of the mortgage. This premium will be paid by the mortgagor to the mortgagee in a lump sum in addition to the interest and amortization payments provided in the mortgage. The mortgagee will in turn remit this 1 per cent insurance premium to the Board of the Corporation.

The insurance principle involved is similar to mutual life insurance. This 1 per cent premium is considerably in excess of the amount of risk ordinarily involved in mortgages of this type, and hence should eventually be returned in whole or in part to the mortgagor. The premiums thus returned will be paid to the mortgagee to pay off the mortgage for the benefit of the mortgagor. For example, if there were no loss at all, insured mortgages carrying amortization charges calculated to retire the principal in 20 years, would build up, at the end of about 17 years, an insurance reserve sufficient to retire at that time the remaining unpaid principal of the mortgages. In that event the insurance would be terminated and the reserve, after certain deductions for a general reinsurance fund, would be used to take up the mortgages for the benefit of the mortgagors.

The insurance premium therefore covers both insurance risk and additional, but unspecified, amortization. On a twenty-

year amortization contract yielding 5 per cent to the lender, the borrower would be required to pay an annual total charge--for interest, amortization, and insurance--equal to 9 per cent of the original face value of the loan. This charge is much lower than the present equivalent combined cost of first and second mortgage money, and also lower than the equivalent cost even during favorable periods in the past.

By paying this total annual charge of 9 per cent, including interest, amortization, and insurance, the borrower might retire his total mortgage in something over 17 years, and would in any event be guaranteed complete retirement in 20 years. The length of payment between 17 years and 20 years would depend on the extent of the general losses sustained by the insurance reserve.

Management of the Insurance Reserves.

The insured mortgages will be segregated at the time of insurance into separate funds containing substantially similar risks; they will not be lumped in a single-risk fund. A lending institution, that is to say, could still benefit to the full by insuring its mortgages even if it desired to confine itself to stricter requirements than those prescribed in the mortgage-insurance law.

For example, an institution could confine itself to 60 per cent mortgages instead of making loans to the limit of the 80 per cent permitted, and know at the time of insurance that its mortgages were segregated with others of the same type. Such mortgages would naturally involve fewer realizations on the governmental guaranty, and therefore would not be required to share in the risk of mortgages made on a higher basis of appraisal. All premiums paid on mortgages of common characteristics as to risk would be kept separate in a single fund, and all costs and realizations incidental to realization on the insurance would be debited and credited to this fund.

At the termination of the fund--that is, whenever any one of these separate segregated funds became large enough to take up the debentures issued to make good the mortgages insured by the fund, and also to pay off the remaining indebtedness of borrowers in good standing in the fund--the Board of the Corporation will be required, prior to the termination of the fund, to deduct from 10 to 15 per cent of the fund for a general reinsurance reserve. This reinsurance reserve would take care of losses in particular funds where the premiums proved insufficient to cover the insured losses of the fund. It would also furnish a mechanism whereby the exceptional losses of abnormal periods could be met out of reserves established in periods of smaller losses.

Solvency of the Insurance Fund.

From careful calculations made on an actuarial basis, the plan of mortgage insurance here outlined would involve no loss to the Treasury on its guaranty of principal and interest on the debentures issued to replace the defaulted mortgages. As was previously stated, the premium payments on a maximum twenty-year amortization mortgage, if no losses are incurred, would be sufficient to retire the principal of the mortgage commitments in about 17 years, the exact period depending on expenses of operation (which should be relatively low) and on percentage of the reinsurance deduction made by the Board of the Corporation.

In order to determine the extent to which this period of approximately 17 years might be extended by losses, the following loss-assumptions were made the basis of actuarial computations of risk:

1. That all mortgages in a single fund were insured at the maximum risk--that is at 80 per cent of appraised value.
2. That 25 per cent of the total face value of mortgages in a single fund defaulted.
3. That the ultimate realization of the fund on these properties in default was only 50 per cent of the original appraised value of the properties.
4. That all the defaults occurred during the earlier years and reached a peak in the fifth year when, owing to the lower extent of amortization, the insured risk was large.
5. That two years were required for the fund to dispose of the defaulted properties.
6. That reimbursement to the mortgagees was made out of the fund for maximum foreclosure expenses as allowed under the preferred claims.

On this set of assumptions, all of which are far more drastic than past experience would justify as an average calculation of the risk on home mortgages, the fund was still solvent, and would have been terminated some time in the nineteenth year, without drawing on the general reinsurance fund.

Insurance of Public or Semi-Public Projects.

The general provisions of the proposed act insuring mortgages on a mutual basis are written in terms of home mortgages and do not cover the problem of financing public or semi-public projects for the stimulation of low-cost housing and slum clearance. The Board is authorized, however, to establish separate insurance funds in which mortgages on property of this type can be insured under special conditions as to interest, amortization, and insurance to be determined by the Board. This should permit slum-clearance and low-cost-housing projects to obtain financing on a self-insurance basis at much lower rates than has been possible in the past.

Liquidity.

To create liquidity throughout the whole field covered by home mortgages, and also to assist in making new mortgage money available, it is proposed further:

1. To amend the Federal banking laws to permit construction loans on projects of a type likely to be accepted as eligible for Federal Mutual Mortgage Insurance.
2. To amend the Federal banking laws to permit member banks of the Federal Reserve System to hold mortgages (a) up to 80 per cent of the appraised value of the mortgaged property and (b) of a maturity longer than 5 years, provided these mortgages are insured under the Federal Mutual Mortgage Insurance Act.
3. To amend the Home Loan Bank Act:
 - (a) To remove the present restriction on amounts that can be loaned to any one institution.
 - (b) To permit the Home Loan Banks to rediscount mortgages insured under the mutual mortgage insurance act up to their full face value.
 - (c) To permit the Home Loan Banks, in exceptional and exigent circumstances, and under rigid supervision of the Board of the Insurance Corporation, to make advances, at a high rate of interest, on the notes of their members. The purpose of this amendment is to provide liquidity for mortgage agencies during a run.
4. To encourage amendments to state laws covering mortgage institutions to bring such laws into conformity with the provisions of the Federal Mutual Mortgage Insurance Act. As soon as the Federal legislation

outlined above is passed, it is planned to ask the President to request each State Governor to seek amendments liberalizing restrictions in the state laws insofar as mortgages insured under the Federal plan are concerned.

Incorporation of Federal Mortgage Associations.

As a final step in creating liquidity in the home-mortgage field, and also in tapping investment sources of new mortgage money, it is proposed that provision be made for the Federal incorporation of private mortgage-lending associations. These associations will be permitted to finance themselves directly by the sale of their own bonds in the investment markets. The associations will be subject to the following restrictions:

1. They will be chartered, supervised, and examined by the Federal Home Loan Bank Board.
2. Their minimum paid-in capital will be \$5,000,000.
3. The amount of bonds that they may issue will be limited to 15 times their capital.
4. All bonds outstanding will be covered by mortgages insured with the Federal Mutual Mortgage Insurance Corporation.

Under these restrictions the bonds of these Federal Mortgage Associations will be exceptionally secure instruments and should prove popular in the general investment market. Because they are covered by insured mortgages, they will have the equivalent of a Federal guarantee of principal and interest. They will also be attractive to trust companies and savings banks seeking mortgage investments outside their own local areas.

The new mortgage associations will provide home-mortgage borrowers generally with more direct access to trustee institutions in the large capital centers, where the volume of savings available for mortgage investment is frequently in excess of the local demand for home-mortgage money. In the existing situation, furthermore, the associations should provide an especially effective instrument in liquifying frozen or semi-frozen mortgage portfolios.

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April 19, 1934.

National Emergency Council

HOUSING PROGRAM

The Problem.

The American industrial system finds today, in the field of housing, both its greatest problem and its greatest opportunity.

As a problem, the continued lack of activity in the industries ordinarily dependent on renovation, modernization, and new residential construction now accounts more than any other factor for the continuance of unemployment at its present volume. As an opportunity, the prompt resumption of the activity now suspended among these industries would accomplish a two fold purpose of vital social and economic consequence:

1. Return of the unemployed--more rapidly than by any other means--to the useful and gainful occupations for which their abilities are trained and to which their social habits are adjusted.
2. Continuous translation of the results of this widespread reemployment into the form of tangible wealth for which there is the greatest social as well as economic need.

There is no field in which the actual standard of living in this country is more deficient, in comparison with our available natural, industrial, and financial resources, than in the dwellings now occupied by the greater part of our population. Neither is there any field in which demand would revive more quickly, or in greater immediate volume, if practical means are provided to make the potential demand effective. Almost every element of our population needs and would absorb better housing accommodation, either in the improvement of existing dwellings, or in the purchase or rental of modern types of dwellings, provided that there was (a) reasonable certainty as to future employment and income, and (b) reduction of housing costs, including financing, to a capacity-to-pay basis.

Properly implemented, a mass demand for better housing can occupy the same position in providing an outlet for our enormous productive capacity that was occupied by the automobile during the past generation.

The Program.

To meet both the problem and the opportunity thus presented, three major proposals are herewith submitted as component parts of a single comprehensive program. The program contemplates governmental leadership and direction, but, in addition, the full application of private enterprise and resourcefulness to public ends. The three major proposals referred to are as follows:

- I. Renovation and Modernization.
- II. Long-term Mortgage Financing.
- III. Long-term Coordination of Federal Housing Activities.

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- II. Long-Term Mortgage Financing. — Concurrently with its renovation and modernization activities, the Federal government would deal with the problem of reorganizing the market for home mortgages. At the present time, funds for new residential construction are either scarce or completely unavailable in many sections of the country, even where the construction is needed and is economically justified. The market for existing mortgages, furthermore, is in a condition to require a serious consideration of national mortgage policy.

There is the question, for example, of the adequacy of the lending powers of the Home Owners' Loan Corporation. The continued increase in applications for loans by the Corporation foreshadows an exhaustion of its lending powers during the late summer of the present year and a consequent crisis among home owners whose mortgages are in distress. There is also the question of extending to the building and loan associations support of a general character similar to that already extended in the case of bank depositors. A competitive problem now confronts these institutions because of the recent insurance of bank deposits and the building and loan associations, which occupy an important position in the home mortgage field, are particularly insistent upon an extension of similar privileges to their situation.

Neither of these problems, however, namely the possible extension of the lending powers of the Home Owners' Loan Corporation, nor the inclusion of depositors and shareholders of building and loan associations in an insurance plan similar to the bank insurance plan, touches the roots of the difficulties which now beset the home mortgage market, or offers promise of dealing adequately and completely with the mortgage problem. To reorganize the home mortgage market along lines consistent with the problem confronting us and the opportunity for reemployment which exists, the following comprehensive plan is proposed:

- A. Inauguration by the Federal Home Loan Bank Board of a national system of appraisal practice. This system would be designed to standardize appraisals and to protect future home-financing from a recurrence of the abuses that have characterized the prevalent haphazard and disorganized methods of appraisal. The new coordinated system of appraisal would be used by the Home Loan Banks and their affiliated institutions, and would also be made available to all private lending agencies in furtherance of a uniformly sound procedure.

B. Creation of a Federal Mutual Mortgage Insurance Corporation. The facilities of this Corporation would be available to all accredited private lenders, institutional or individual, for the insurance of home mortgages that conform to the following standards:

- (1) Mortgages not in excess of 80 per cent of the current appraised value of the property.
- (2) Low interest in cost to the borrower---ordinarily 5 per cent, with the provision for 6 per cent under exceptional conditions.
- (3) Long-term amortization completely provided for.

In event of default on insured mortgages, the lenders would be guaranteed return of the full principal, and also a moderate return of interest, not in excess of 3 per cent.

Borrowers who gave mortgages under the insurance plan would be enabled to obtain their full home-purchase financing, including that portion usually covered by a second mortgage, or even additional mortgages, on a single instrument. This instrument would continue until the loan was retired without renewal, and without additional cost. It would also offer this financing at a lower cost and on easier terms than have ever been available heretofore. In consideration of these advantages, the borrowers would pay only a moderate premium, but one nevertheless sufficient both to absorb the cost of the insurance and, during the later years of the loan, to curtail the principal.

The Treasury would stand behind the insurance policy issued by the Corporation. The insurance is set up in such a manner, however, as to give the Treasury full protection against ultimate loss, even under extremely adverse circumstances. This measure would require no appreciable appropriation (about \$2,000,000 to be fully adequate).

C. Authorization for the charter of national mortgage associations by the Federal Home Loan Bank Board, as

described in the attached memorandum. These associations would constitute a new type of financial agency in the home-mortgage field. They would be subject to strict Federal supervision, and would be authorized to raise funds from the investing public only by the issuance of bonds or debentures fully covered by home mortgages insured under the above-described plan. Such associations would be effective in providing liquidity to the home-mortgage market. Furthermore, since they would be able to raise funds in the large financial centers, they would be effective in making low-cost funds for home-mortgage purposes available in remote areas.

- D. Revision of Federal banking laws and of other Federal statutes, in so far as such revision would be required to make the new mortgage instrument widely and immediately effective. In addition, revision of Federal banking laws to permit short-term construction loans, under adequate safeguards, pending insured-mortgage financing of the completed property.
- E. Slum Clearance Financing. -- The Public Works Emergency Housing Corporation is now proceeding with slum clearance under funds advanced by the Public Works Administration. The effectiveness of these funds, however, may be multiplied several times---possibly as many as five times---by a provision in the Federal Mutual Mortgage Insurance plan for the insurance of mortgages on slum-clearance and similar low-cost housing projects.

A more detailed discussion of these mortgage proposals is attached to this memorandum.

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- I. **Renovation and Modernization** -- To stimulate at once a large volume of employment and business activity in the repair, maintenance, and modernization of existing dwellings and also of industrial and commercial properties; and to continue this employment and activity on the widest possible scale through the remainder of 1934, or for such longer period as may be required to take up the arrears of work of this character. These purposes would be accomplished in the following manner:
- A. Provision of national guidance, support, and cooperation for modernization campaigns organized and managed locally in urban and rural communities throughout the country. These campaigns would be conducted by local volunteer groups in such a manner as to enlist the interest and participation of all elements in the community.
 - B. Protection of home owners against unwarranted cost-advances that might otherwise result from the sudden and widespread resumption of activity in the so-called heavy industries. To avert such cost-advances, the cooperation of industry, transportation, and labor will be sought in a general effort to establish prices that will offer a definite and compelling inducement to home owners and will also assure a well-sustained volume of employment and business activity for modernization purposes.
 - C. Creation of a new financial instrument to assure adequate financing, at low cost and on moderate terms of repayment, for renovation or modernization of existing dwellings. A plan to secure this end has been presented to responsible executive officers of financial agencies of all the types that would be called on to participate--commercial banks, savings banks, finance companies, building and loan associations, trust companies, etc. In almost every instance, and in any event with exceptions that are not important either individually or in the aggregate, the plan has received favorable endorsement and assurance of active support. In brief, adequate and low-cost financing is assured by a representative and responsible cross-section that is representative of existing private agencies.

The plan of financing looks to the setting up of homeowner credits by the various types of financial agen-

cies out of their own resources. Cooperating agencies whose advances of credit met standards and conditions that have been designed to protect both the homeowner and the lender would be insured against loss up to a total of 20 per cent of advances so made. The agencies would also be guaranteed a maximum rate of rediscount of 3 per cent on such advances during the term for which they were outstanding.

An appropriation of \$200,000,000 would be required for the governmental institution selected to insure these credits; and the institution might also require power to borrow additional sums in order to carry out the rediscount function just referred to. As to losses that might be incurred by the government under this plan of insured credits, it is estimated, with due allowance for all calculable risks, that these would not greatly exceed 5 per cent of the total advances, or a probable maximum of \$50,000,000 to \$100,000,000, according to the volume of renovation and modernization actually undertaken by homeowners on a credit basis.

For example, a potential cost to the government, running as high as \$50,000,000 would represent total credit advances of approximately \$1,000,000,000 by private agencies. Experience shows, however, that much of the work that would be induced by the proposed campaign will be done without credit, and that probably one-half to two-thirds of the total volume would represent industrial and commercial maintenance and improvement not eligible for the type of credit provided under the new plan of financing here contemplated. The probable percentage of governmental cost to total private expenditure for labor, materials, transportation, etc., under the credit plan, would therefore be around 2 per cent. A detailed discussion of this plan is attached to this memorandum.

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A PLAN TO PROVIDE "CONSUMER CREDIT" FOR HOME MODERNIZATION

Purpose - A movement is planned to raise the general level of housing standards, the first step in which is a program of Home Modernization. For this purpose a unified national effort is being organized, which will utilize the existing concentrations of credit, now inactive, in the financing of needed improvements to real property, thus providing employment to large groups who have benefited the least from measures now operating.

A very necessary part of this effort is a plan to finance the consumer for the cost of immediate improvements, which will consist of repairs, alterations and renovations. By utilizing existing private sources of credit, the necessity for governmental lending agencies to provide the necessary funds and machinery will be avoided.

Principle - The most practicable way to organize for such financing is on the basis of "Consumer Credit" that is, periodic payments based entirely on the borrower's ability and willingness to pay, without involving the real estate as security. In essence, credit in suitable amounts will be made available to all holders of real estate or real estate equities whose current income and reputation for meeting obligations are satisfactory.

Requirements - The success of this effort will depend upon the volume of home modernizing that results, as reflected in re-employment and increased purchasing power. In order to induce large volume, it must comprehend, aside from its usefulness as a contribution to recovery, a degree of attractiveness not available today through existing channels. This involves low cost, extended time for repayment, and freedom from restrictions as to security. At the same time the borrower must be protected against the assumption of uneconomic debt.

Availability to home owners will be assured through the cooperation of three groups of private lending agencies, Commercial and Savings Banks, Finance or Acceptance Corporations, and Building and Loan Associations. This will provide adequate nation-wide machinery for handling all operating details.

As the existing system of consumer credit has been built to a large extent upon the use of repossessible chattels as security, this plan will provide insurance against loss in lieu of such security. This insurance protection should make available funds and credit of the three cooperating groups of financial agencies and avoid the necessity of using government funds for this purpose.

The costs of handling this type of financing are greater than the costs of handling ordinary savings or commercial bank loans, and such legitimate costs are provided for in the plan.

The Plan - The following plan is designed to meet the requirements hereinbefore set forth:

1. Central Insurance Agency.

A central insurance agency, funds for which will be provided by the Federal Government, will be organized with headquarters in Washington, D.C., to function as follows:

- (a) Insure cooperating lending agencies against loss on "modernizing receivables" as specified hereinafter.
- (b) Determine credit standards by which the soundness of insured loans may be judged.
- (c) Provide and furnish all literature and forms necessary to enable the plan to function on a uniform basis.

2. Local Organizations.

A committee, with a subcommittee of architects and others familiar with building problems and costs, and a credit subcommittee of those experienced in passing credits, will be organized in each town-center to function as follows:

- (a) Give full publicity to the program, plans, and procedure
- (b) Pass upon the qualifications of contractors whose eligibility will be determined on a basis of reputation for workmanship and integrity.
- (c) Prepare a list of eligible cooperating lending agencies (banks, finance companies, building and loan associations) with whom contracts of insurance will be made by the central insurance agency.
- (d) Secure and furnish to home owners and contractors lists of materials, if any, with the names of dealers therein, on which price concessions have been secured.

- (e) Act as a clearing house, through the credit sub-committee, under instructions of the central insurance agency, to assure credits being properly extended on the one hand and that credit is not denied to those entitled thereto, on the other.

3. Details of Plan.

Flexibility will be provided by leaving to the cooperating lending agencies complete discretion in determining credits, designating terms, etc., within such credit limits as shall be determined from time to time by the central insurance agency.

In order to qualify for loss insurance through the central insurance agency, therefore, all "modernizing receivables" must fall within the following requirements.

- (a) All loans must measure up to such credit standards as may be determined by the central insurance agency from time to time.
- (b) Minimum principal amount of loan, \$200.
- (c) Maximum principal amount of loan, \$2,000.
- (d) Loans to be repaid in monthly or quarterly payments, except by those engaged in agriculture, in which case it will be permissible, in the discretion of the lending agency, to conform to crop income dates with a minimum of one annual payment.
- (e) Minimum monthly payment \$10.
- (f) Maximum term of obligation not to exceed 5 years.
- (g) Interest, added to the total cost of the modernizing job, may not exceed 5 per cent per annum on decreasing balances.
- (h) Total discount of lending agency in purchasing receivables from contractors may not exceed 5 per cent true interest, provided under (g), plus the following service charges. These charges are arrived at as follows:-

Credit Investigation and entry on books - \$2 per note.

Collection cost (average) - 50¢ per installment.

Supervision and Legal costs - 1/2 of 1% per annum on amount loaned.

SERVICE CHARGES

Principal Amount of Job	One Year or less	One to Two Years	Two to Three Years	Three to Four Years	Four to Five Years
\$ 201 to \$ 300	\$ 9.50	\$17.--	-----	-----	-----
301 to 400	10.--	18.--	\$26.--	\$34.--	-----
401 to 500	10.50	19.--	27.50	36.--	\$44.50
501 to 600	11.--	20.--	29.--	38.--	47.--
601 to 700	11.50	21 --	30.50	40.--	49.50
701 to 800	12.--	22.--	32.--	42.--	52.--
801 to 900	12.50	23.--	33.50	44.--	54.50
901 to 1000	13.--	24.--	35.--	46.--	57.--
1001 to 1250	14.25	26.50	38.75	51.--	63.25
1251 to 1500	15.50	29.--	42.50	56.--	69.50
1501 to 1750	16.75	31.50	46.25	61.--	75.75
1751 to 2000	18.--	34.--	50.--	66.--	82.--

- (i) Maximum insurance coverage, 20 per cent of the total volume of "modernizing receivables" discounted by a lending agency.

4. Modus Operandi.

- (a) Home owners will secure from local architects subcommittee advice on all matters pertaining to the practicality of work desired, proper costs and qualification of contractors.
- (b) Contractor will contact home owner, either direct or through committee. He will estimate cash price of job, giving consideration to service fee (see h above) which he will be required to absorb.

He will have home owner sign an Application for Loan (form to be supplied by committee) detailing work to be done with bid prices, and giving pertinent credit information, including affidavit of ownership, assessed valuation, original purchase price and present status of mortgage (if any) as to maturity, amortization, interest, taxes, etc.

- (c) Contractor will submit application to a cooperating lending agency (from lists prepared by the committee).
- (d) Lending agency will check the credit of borrower and if satisfactory and the loan qualifies under insurance requirements will approve. Such approval will constitute its commitment.

- (c) Upon receipt of such commitments, owners or contractors will proceed with the job.
- (f) If loan is refused by the lending agency to whom submitted, credit sub-committee will make an independent investigation and if it determines that the loan meets standard credit requirements and that the borrower is entitled to credit, will endeavor to have loan accepted by some other lending agency.
- (g) Upon completion of a job the contractor will have work inspected by a representative of the architects sub-committee who will issue a certificate of completion. He then will secure home owner's note (on form provided by committee) which will be made out for the total price of job, plus true interest at 5% per annum on decreasing balances (from charts furnished by committee). Judgment notes will be used wherever State laws permit and will provide for 6% interest on any delinquent payments.
- (h) Contractor will discount note with the lending agency already committed to its purchase, after endorsing with or without recourse, in the discretion of lending agency. He will simultaneously execute a guarantee of workmanship and submit either receipts covering payments made for all labor and materials used on the job or release covering same. This will protect against the filing of mechanics liens.
- (i) Lending agency will discount the face of the note by an amount equal to the interest charge (5% true interest per annum), plus the service charge authorized.

NOTE - Where no contractor is involved but different parts of a job are let direct by the home owner to several artisans, the local committee will assist the home owner in completing application and will present it to a co-operating lending agency for approval. If approved, home owner will be authorized to proceed with the work.

Upon completion the committee will secure a note covering the entire job from the home owner, endorsed, without recourse, by all artisans involved, together with their guarantees of workmanship and will discount it with the lending agency, arranging for payments direct to the several artisans, respectively, for the cost of their work, less their proportion of the total service charge.

- (j) Lending agencies will report monthly to the central insurance agency (on forms supplied by local committee)
 - (a) all commitments made, and
 - (b) all notes discounted, with name, address, term, amount of note and other pertinent data.

- (k) Upon receipt of such monthly reports central insurance agency will set up total commitments and total loans made by each lending agency, which it has contracted to insure. No check on qualification of loans under insurance requirements will be made at that time.
- (l) Upon default and after usual collection efforts have been exhausted, lending agency will reduce to judgment and make claim on central insurance agency (on form provided by local committee) for payment of loss under its insurance protection.
- (m) The central insurance agency will place the claim in the hands of local adjusters (through private agencies already qualified and available on a fee basis). Adjusters will contact both the lending agency, and the borrower if possible, and determine what further efforts are justified to salvage the account. Adjusters will at that time check back on the records of the lending agency to the original purchase and verify that the loan qualified for insurance in the first instance. If in order, claim will be approved.

Adjusters will determine by whom the item shall be handled thereafter in order to salvage as much as possible. In most cases it will be preferable to leave in the hands of the lending agency which originally purchased the paper. Adjusters will decide what line of action is to be followed. For example, a further extension, a reduction in amount of monthly payment, taking additional security, the endorsement of a third party, etc.

Advice as to the method of salvaging determined upon and the party chosen to handle the account for the central insurance agency, will be communicated to the central insurance agency together with the approval of claim.

- (n) Upon receipt of adjusters approval by the central insurance agency remittance will be made to the lending agency for the amount outstanding on the note, less unearned interest. Follow-up on salvaging efforts will thereafter be conducted by central insurance agency.

Rediscount
Facilities

- It is recognized that most lending agencies borrow their loanable funds on a short term basis and must be assured of ability to so borrow over the maximum term of receivables purchased by them. To assure such availability of funds, as well as a maximum rate on such funds, facilities will be provided through which "modernizing receivables" may be rediscounted at a maximum rate of 3% true interest per annum.

Costs and
Profits

- The service charges hereinbefore designated are based on actual experience in handling this type of receivable and should be adequate to cover average costs. As losses are insured, a margin will be available, through the difference between the 5% per annum paid by the borrower and the cost of money, which cannot exceed 3% per annum, to offset any variance in local costs with the average used in those calculations.

April 19, 1934.

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- II. Long-Term Mortgage Financing. -- Concurrently with its renovation and modernization activities, the Federal government would deal with the problem of reorganizing the market for home mortgages. At the present time, funds for new residential construction are either scarce or completely unavailable in many sections of the country, even where the construction is needed and is economically justified. The market for existing mortgages, furthermore, is in a condition to require a serious consideration of national mortgage policy.

There is the question, for example, of the adequacy of the lending powers of the Home Owners' Loan Corporation. The continued increase in applications for loans by the Corporation foreshadows an exhaustion of its lending powers during the late summer of the present year and a consequent crisis among home owners whose mortgages are in distress. There is also the question of extending to the building and loan associations support of a general character similar to that already extended in the case of bank depositors. A competitive problem now confronts these institutions because of the recent insurance of bank deposits and the building and loan associations, which occupy an important position in the home mortgage field, are particularly insistent upon an extension of similar privileges to their situation.

Neither of these problems, however, namely the possible extension of the lending powers of the Home Owners' Loan Corporation, nor the inclusion of depositors and shareholders of building and loan associations in an insurance plan similar to the bank insurance plan, touches the roots of the difficulties which now beset the home mortgage market, or offers promise of dealing adequately and completely with the mortgage problem. To reorganize the home mortgage market along lines consistent with the problem confronting us and the opportunity for reemployment which exists, the following comprehensive plan is proposed:

- A. Inauguration by the Federal Home Loan Bank Board of a national system of appraisal practice. This system would be designed to standardize appraisals and to protect future home-financing from a recurrence of the abuses that have characterized the prevalent haphazard and disorganized methods of appraisal. The new coordinated system of appraisal would be used by the Home Loan Banks and their affiliated institutions, and would also be made available to all private lending agencies in furtherance of a uniformly sound procedure.

- B. Creation of a Federal Mutual Mortgage Insurance Corporation. The facilities of this Corporation would be available to all accredited private lenders, institutional or individual, for the insurance of home mortgages that conform to the following standards:
- (1) Mortgages not in excess of 80 per cent of the current appraised value of the property.
 - (2) Low interest in cost to the borrower---ordinarily 5 per cent, with the provision for 6 per cent under exceptional conditions.
 - (3) Long-term amortization completely provided for.

In event of default on insured mortgages, the lenders would be guaranteed return of the full principal, and also a moderate return of interest, not in excess of 3 per cent.

Borrowers who gave mortgages under the insurance plan would be enabled to obtain their full home-purchase financing, including that portion usually covered by a second mortgage, or even additional mortgages, on a single instrument. This instrument would continue until the loan was retired without renewal, and without additional cost. It would also offer this financing at a lower cost and on easier terms than have ever been available heretofore. In consideration of these advantages, the borrowers would pay only a moderate premium, but one nevertheless sufficient both to absorb the cost of the insurance and, during the later years of the loan, to curtail the principal.

The Treasury would stand behind the insurance policy issued by the Corporation. The insurance is set up in such a manner, however, as to give the Treasury full protection against ultimate loss, even under extremely adverse circumstances. This measure would require no appreciable appropriation (about \$2,000,000 to be fully adequate).

- C. Authorization for the charter of national mortgage associations by the Federal Home Loan Bank Board, as

-3-

described in the attached memorandum. These associations would constitute a new type of financial agency in the home-mortgage field. They would be subject to strict Federal supervision, and would be authorized to raise funds from the investing public only by the issuance of bonds or debentures fully covered by home mortgages insured under the above-described plan. Such associations would be effective in providing liquidity to the home-mortgage market. Furthermore, since they would be able to raise funds in the large financial centers, they would be effective in making low-cost funds for home-mortgage purposes available in remote areas.

- D. Revision of Federal banking laws and of other Federal statutes, in so far as such revision would be required to make the new mortgage instrument widely and immediately effective. In addition, revision of Federal banking laws to permit short-term construction loans, under adequate safeguards, pending insured-mortgage financing of the completed property.
- E. Slum Clearance Financing. -- The Public Works Emergency Housing Corporation is now proceeding with slum clearance under funds advanced by the Public Works Administration. The effectiveness of these funds, however, may be multiplied several times--possibly as many as five times--by a provision in the Federal Mutual Mortgage Insurance plan for the insurance of mortgages on slum-clearance and similar low-cost housing projects.

A more detailed discussion of these mortgage proposals is attached to this memorandum.

Practical

January 12, 1934

Mr. Roland H. Sloan, Jr.
Corresponding Secretary
Alpha Delta Phi
Amherst, Massachusetts

Dear Brother Sloan:

Your letter of good wishes on behalf of the active members of the chapter came as a most pleasant surprise. It is my hope that we were equally gracious and thoughtful in my undergraduate days though I cannot recall with certainty that we were.

Please convey to the chapter my sincere gratitude for this token of their continuing interest, even in those of us who have been out of personal contact with Amherst far too long.

Fraternally yours,

Winfield W. Riefler
Chairman

ALPHA DELTA PHI FRATERNITY
AMHERST CHAPTER
AMHERST, MASSACHUSETTS

January 7, 1934

Mr Winfield W. Reifler
4413 17th Street N. W.
Washington, D. C

Dear Brother Reifler,

As corresponding secretary for the chapter it is with a great deal of pleasure that I extend to you the heartiest congratulations of the active members of the chapter for your attainment of a position of such importance and responsibility in the government of this country

The chapter has noticed your appointment as chairman of the general statistical board and as economist for the executive council with much pride and pleasure and wishes you the greatest success for the future.

Fraternally yours

Roland H. Sloan Jr
Corresp. Secy.



The Mayflower
Washington, D. C. 20.5.34

Dear Riefler,

You may be interested to see the enclosed from the Times of May 17 about a project (starts for from xatysid) for a national scheme to build working class houses to rent in England. It would be a grand thing if you could add something of this sort to your own scheme.

Was up at the Senate yesterday and did what little quiet propaganda I could for your brilliant bill, - especially with Senator Bulkeley with whom I had a good talk about it as when doubtly

I endeavored to dispr... I hope you'll have
good luck with it.

I am leaving Washington to-day after one
of the most crowded and fascinating experiences
of my life. I envy you all! - but
your real job will come ~~after~~ you have
achieved yours.

Yours sincerely,
JMKaynes

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“1,000,000 Houses at 10/- a Week.” The Times (London), May 17, 1934.