

X-9786

January 11, 1937.

Dear Mr. McDonald:

Because I regard the continuance of the guaranty in Title II of the Housing Act as one of the most important measures toward averting the dangers of an acute housing shortage and consequent real-estate inflation within the next few years, I am writing to urge you to take whatever steps you appropriately can to obtain early action by Congress that would relieve mortgage-lending institutions of their present uncertainty as to whether the guaranty will be continued.

My reasons for attaching great importance to the continuance of the guaranty and the further encouragement of insured-mortgage financing under the provisions of the Housing Act are, briefly, as follows:

1. However ample the insurance reserves of the Mutual Mortgage Insurance Fund may prove to be at some later date, the Act has been in operation for far too short a time for the guaranty to be dispensed with as early as July 1 next, which is the limitation now prescribed in the statute.
2. The Housing Act and the State enabling acts supplementary thereto constitute the only means by which all the important groups of mortgage-lending institutions can make loans up to 80 per cent of the property value and with an amortization period up to 20 years.
3. The great bulk of institutional funds now on hand and legally available for mortgage lending are those held by the savings departments of commercial banks and trust companies, the mutual savings banks, and the life insurance companies. The volume of such funds now held by the first-named of these three groups is alone greater, I believe, than that held by all other institutional groups combined.
4. Except as to loans insured under the Housing Act, the only institutions which in general are authorized by State or Federal law to make long-term real-estate loans for a relatively high percentage of the property value are the building and loan associations. This group holds, however, only a very small percentage of the institutional funds now legally available for mortgage lending. Furthermore, the syphoning into the building-and-loan group of any considerable proportion of the funds now held by other groups could be accomplished only by a bidding-up of rates paid for accounts, the natural result of which would be a general increase in mortgage interest rates.
5. In the absence of lending powers that depend solely on the Housing Act and related State laws, the limitations on the three groups holding the great bulk of institutional funds now legally available for mortgage lending would invite a return to practices that the Housing Act

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was especially designed to eliminate--namely, the making of a 50 or 60 per cent short-term first mortgage (the misnamed "renewal" mortgage), followed by a second mortgage and frequently by still further liens. This unrealistic and hazardous method of financing involves, in the long run, enormous costs that at the outset are usually concealed in an unduly high price paid for the mortgaged property.

6. The uniformity of lending powers under the Housing Act, and the safeguards afforded all institutions exercising those powers, puts the several important groups of mortgage-lending institutions on an equal basis that does not otherwise exist, increases their effectiveness in dealing with the housing emergency, and at the same time protects borrowers against exorbitant and hidden charges for mortgage loans.

My own interest in this whole question of mortgage financing is twofold. In the first place, as the Treasury representative on the President's Committee on Housing in 1934, I had an active part in developing the mortgage-financing provisions of the Housing Act. In the second place, the very nature of my present position requires me to be concerned with mortgage credit no less than with other forms of credit, and with any situation that threatens, as an acute housing shortage would, serious repercussions and dislocations throughout the social and economic structure.

It is my considered judgment that, until a sufficient volume of housing has been constructed to meet the existing shortage and the additional demand resulting from population growth and business recovery--that is, until the threat of an acute shortage within the next few years has been removed--the guaranty now provided in Title II of the Housing Act should be retained as a matter of prudent and practical governmental policy.

I think it would also be helpful to the housing situation at this time if the service charge of $1/2$ of 1 per cent per annum, which lending institutions are permitted to make on Title II loans in addition to the 5 per cent interest charge, were eliminated. The interest rate of 5 per cent, as a maximum, seems to me to be fair to borrower and lender alike for this type of loan; but in view of the substantial progress which you have made under Title II during the past year, as well as in view of the rates currently prevailing on investments generally and on mortgages which do not have the protection afforded by the Housing Act, I believe that an ample supply of funds would now be forthcoming for Title II loans without the additional inducement of the service charge.

With kindest regards, I am

Sincerely yours,

(signed) M. S. Eccles,
Chairman.

Honorable Stewart McDonald, Administrator,
Federal Housing Administration,
Washington, D. C.