Proposed Federal Legislation to Aid Home-Building

THAT President Roosevelt's proposed program to encourage private capital in the construction of new homes recognizes current needs which have for months been stressed by the National Association of Real Estate Boards is the view of many Association officials and others closely associated with the housing problem.

The President's proposals closely follow the housing program approved by the National Association at its Pittsburgh convention. In general, they reflect the recommendations of National Association officials in their many conferences at Washington with the Government's housing authorities. This acceptance of the National Association program is particularly interesting because it indicates clearly that the Government recognizes the importance of Realtors in reviving large-scale home-building activities and the close alliance that necessarily exists between financing and new construction.

President Paul E. Stark, of the National Association, Edward A. MacDougall, chairman of the Association's committee on real estate finance, and Herbert U. Nelson, executive vice-president, were among those who appeared before the Senate Committee on Banking and Currency on December 3 in support of the proposed amendments.

Briefly stated, the contemplated changes in FHA, if enacted, will (1) permit insurance of 90% loans on homes of $6,000 or less; (2) reduce interest rate by about 1%; (3) encourage large scale operation by raising the limitation on insurable mortgages from $16,000 to $200,000; (4) liberalize the provisions for mortgage associations so as to make them workable and set up a working model with $50,000,000 capital with the right to issue bonds up to $1,000,000,000. It is pointed out by the National Association that this latter provision is, in effect, the mortgage bank for which the Association has long been asking.

In speaking before the Senate committee, President Stark displayed a thorough grasp of the national housing problem and the Senators questioned him for almost an hour. When asked if he advocated still lower interest rates, President Stark replied that he saw no reason why the United States could not do as well as Great Britain and give the home owner mortgage loans at 4½%.

Edward A. MacDougall urged that in the larger cities and on large scale projects the insurance limitation of $1,200 per room be raised to $1,600 where fireproof or semi-fireproof construction is a necessity. Mr. Nelson, at the request of the Senate committee, described how, through lower interest rates, lower taxes and cooperation of government and industry, several European nations have started broad housing programs which have resulted in sound economic advance.

Analysis of President Roosevelt's message to Congress indicates recognition of many of the National Association's recommendations. Among the points particularly stressed by President Stark in an address before the Southeast regional convention at Jacksonville, Florida, were:

1. Need of reducing the carrying cost to the home buyer on his mortgage indebtedness. "The five and one-quarter per cent (5¼%) interest rate contemplated to be made available at least for some types of new home construc-

tion, if the President's recommendations are put into effect, will bring the cost of home mortgage money more nearly in line with the rate of interest at which capital is available for other business activity," Mr. Stark said.

2. Need of meeting the amount of down payment which the average home buyer can at present pay by increase of the percentage of value borrowable on an insured mortgage from 80% to 90% on homes costing $6,000 or less.

3. Desirability of encouraging large-scale building operation for residential construction, with a view of reducing the cost of shelter.

OTHER proposals in President Roosevelt's message which the Association holds of great importance:

1. Central mortgage banking, in the form of mortgage associations to be financed initially with government funds up to $50,000,000.

This recommendation is recognition of the need for a type of agency which the Association has long advocated to stabilize mortgage money flow.

2. Reenactment of the provision for insurance loans for modernization and repair, which expired last April.

If Congress acts to put the President's proposals into effect, Mr. Stark said, substantial help for home building should result.

In building a long-range national housing policy that shall open the possibility of home ownership to the greatest possible number of families, encourage production of needed decent housing for all income groups, and bring the building industry into normal production, he brought out, this must be recognized; aside from the factor of outlook for general business, which means the outlook for security of family income, the principal determining factor is the monthly carrying cost of home ownership and of rental housing. This is made up primarily of interest, amortization charges and tax cost.

Basing the premium charge for insured mortgages on the diminishing balance, as the mortgage is paid off, is a change in the National Housing Act advocated by the National Association of Real Estate Boards since the original introduction of the Act.

"As to the lower equity requirement proposed for insured mortgages on small houses," Mr. Stark said, "it is very generally estimated by Realtors and builders that the average family buying a small home today is able to pay no more than 10% down on the purchase. It must be held in mind that the small home projects having a 10-20% equity to which it is proposed to extend mortgage insurance must have such general conditions (in respect to neighborhood factors, soundness of plan and construction, responsibility of borrower) as to meet FHA requirements."

(The new Wagner bill and its parallel, the Steagall Bill, H.R. 8520, introduced November 29 to implement the President's suggestions, limit insurance of loans having a 10-20% equity to properties approved prior to beginning of construction on the dwelling.)

The new bills, set up as amendments to the National Housing Act, would attempt to encourage large-scale operation by setting up mortgage insurance for two types of residential projects:

1. Single family dwellings in a group of not less than 25, and multi-family dwellings, one or more, produced under the ordinary conditions of private initiative.

However, the principal obligation, according to the bill as it was introduced, must not exceed $200,000, and such part as may be attributable to dwelling use is not to exceed $1,000 per room. The property must be approved for insurance prior to beginning of construction.

2. Housing, either for sale or rent, produced by public agencies or by private housing corporations, agencies or trusts under such regulation as may meet FHA's requirements. The regulation may be as to the rents they may charge, their sales, rate of return, methods of operation, etc. Projects here may involve a principal obligation of up to $5,000,000, but not to exceed $1,200 per room.

For the formation of national mortgage associations the bills now before Congress would keep the present requirement for a capital stock of $2,000,000 par value, but they call for only one-fourth of this to be paid in before the association could function, and this could be in first mortgages, properly valued. No legislation would be needed for the proposed $50,000,000 for their capital purposes which the President asks for RFC to make available out of funds allocated the RFC Mortgage Company.

Mortgage associations would be authorized to purchase, service and sell first liens on real estate, and specifically to purchase, service and sell mortgages on partial interests therein upon such large-scale developments as may get mortgage insurance, and to draw capital for such purposes through the issuance of notes, bonds, debentures, or other such obligations. However, they could issue no obligations until their capital subscription is paid in full.

Mortgage insurance for loans made to recondition properties is limited, in the bills as introduced, to loans of not more than $10,000. Revival of mortgage insurance for reconditioning properties, officers of the Association feel, may prove fully as important in the rehabilitation of blighted areas as the provisions recommended which apply only to new construction.

IN view of the widespread discussion of certain phases of President Roosevelt's proposals, the analysis of housing by President Stark (page 13 of this issue) and the cross-section of the opinions of Realtor-builders and mortgage lenders (page 30) are particularly pertinent. They present, in effect, a representative summary of the principal points for and against the proposed amendments and serve to forecast the division of opinion which may reasonably be anticipated on President Roosevelt's contemplated amendments.

Although preliminary reports indicate that business interests, trade associations, and the press are favorable to President Roosevelt's housing proposals, there is evidence of opposition from building and loan representatives and others concerned with finance. Opposition has also developed in some of the local real estate boards, which take exception to some of the proposals, notably the 90% financing and the mortgage bank provisions. Accurate appraisal of the ultimate effect of such opposition is not yet possible. Meanwhile, in general, the proposed legislation is widely heralded as being possibly the long-awaited move that will give industry and commerce the impetus that nothing but a substantial, nation-wide revival of home building on a large scale can supply.