

**THE HOME OWNERS' LOAN CORPORATION:
A STUDY IN PUBLIC ADMINISTRATION.**

by

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requirements for the degree of Doctor of Philosophy
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PREFACE

Home ownership has been looked upon as constituting part of the "American way of life". The home owner has been considered a reliable, conscientious citizen who, by acquiring his home, has obtained a position of security and prominence.

Unfortunately, home ownership and the means employed to gain such ownership were considered to be of a local, individualistic nature. The mortgage instrument came into prominence as the credit device to facilitate purchasing. Government did not concern itself greatly with these matters. The few laws that were enacted were State and local regulations directed toward curbing the most obvious abuses that appeared.

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0 Under these ideal conditions the mortgage became a speculative medium and greatly aided the speculative spirit that gradually permeated land and home ownership. Homes were purchased through mortgages at fantastic prices. Little heed was paid to the fact that the mortgage, like any credit tool, constituted a debt that would eventually have to be paid in full.

Hard times for the mortgagor accompanied the

depression in the thirties. His straitened economic circumstances resulted in missed mortgage payments. This called for immediate payment of the entire mortgage from the mortgagee. Failure to do so meant foreclosure.

When foreclosures reached the 1,000-a-day mark during 1933 it became certain that Federal Government relief for the home owner was the only solution. Mortgage-financing institutions were incapable of correcting the situation and State moratory legislation served only as a rude dam against the wave of foreclosures.

The Home Owners' Loan Corporation was created on June 13, 1933 to furnish this relief. The Corporation was to refinance those mortgagors who were threatened by foreclosure and who could not secure relief from private sources. Because of its dramatic and far-reaching role the Corporation's success or failure helped to determine the success or failure of the other Federal housing activities that followed.

This study of the Corporation has been undertaken to ascertain how well it has achieved its purpose. The study has been arranged to present a comprehensive view of the Corporation: the need for it, its purpose, its activities and administration, and a general summarization of its record. Such a study also furnishes additional information in the

study of public administration - a field whose scope is constantly expanding.

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TABLE OF CONTENTS

<u>Chapter</u>		<u>Page</u>
I	THE NEED FOR THE HOME OWNERS' LOAN CORPORATION	1
	The Declining Position of the Home Owner	1
	Basic Defects in the Mortgage System	7
	Other Factors Hurting the Home Owner	13
	Lack of Information about the Housing Field	27
	Federal Housing Legislation Prior to the Home Owners' Loan Corporation	28
	Footnotes	34
II	CREATION OF THE HOME OWNERS' LOAN CORPORATION	38
	The Type of Agency Needed	39
	Congressional Opinion Concerning the Bill	40
	Purpose of the Act	41
	Statutory Provisions	42
	Footnotes	54
III	ACTIVITIES OF THE HOME OWNERS' LOAN CORPORATION	56
	The Organization in Outline	56
	Issuance of Bonds	57
	Lending Procedure	59

<u>Chapter</u>	<u>Page</u>
III	
Appraisal Activities	70
Property Reconditioning	75
Loan Servicing	82
Property Management	91
Liquidation Progress	95
Cooperation with other Government Agencies	103
Footnotes	106
IV	
ADMINISTRATION OF THE HOME OWNERS' LOAN CORPORATION	113
General Administrative Organization . . .	114
Administrative Departments	128
Legal Department	138
Financial Organization	143
Personnel	158
Organizational Reduction	167
The Federal Government's Housing Structure	169
Footnotes	177
V	
EFFECTS AND EVALUATION	184
The Corporation's Accomplishments	184
Attitude of Private Agencies toward the Corporation	193
Administrative Evaluation	196

<u>Chapter</u>	<u>Page</u>
v	
Needed Changes in the Mortgage System	202
General Summarization	206
Footnotes	209
BIBLIOGRAPHY	212

LIST OF CHARTS

<u>Chart</u>		<u>Page</u>
I	Organizational Chart of the Home Owners' Loan Corporation as of June 30, 1935	118
II	A Typical Regional Office as of June 30, 1935	121
III	A Typical State Office	122
IV	A Typical District Office	123
V	Principal Housing Agencies and Functions of the Federal Govern- ment Prior to the Reorganization of February 1942	175
VI	Organization of the Principal Housing Functions of the Federal Government under the Reorganization of February 24, 1942	176

LIST OF GRAPHS

<u>Graph</u>		Page
I	Balance of Accounts Outstanding and Property Assets	102
II	Administrative Expenses of the Home Owners' Loan Corporation by Fiscal Year	157
III	Number of Employees in Home Owners' Loan Corporation by Fiscal Year	168

Chapter I

THE NEED FOR THE HOME OWNERS' LOAN CORPORATION

Home ownership has always been considered a virtue in this country. By acquiring a home it has commonly been believed that a person also acquires security and a place of respect in the community. Unfortunately, the means of obtaining a home were considered to be of a strictly local, individualistic nature. As a result, governmental responsibility in the housing field was confined to the local and State levels. This responsibility usually resulted in restrictive measures intended to curb the most apparent abuses as they occurred.

The Federal Government assumed no positive interest in housing for one hundred and fifty years. It did so only after a major depression required housing relief on a national scale. Events had demonstrated that home ownership could not be left entirely in the hands of private enterprise with only occasional checking by local governments.

The Declining Position of the Home Owner

The home owner's position was becoming constantly less advantageous in the United States prior to 1929. This was true despite the great sentimental value attached to home

ownership as part of the American way of life. A large part of the responsibility for this situation can be placed on the individualistic nature of the home owner and on the increasing use of mortgage financing as the means of acquiring a home. Conditions as they then existed within the housing field tended to change the home owner's position from one of security and prominence to one of insecurity and tenancy.

Individualistic nature of the home owner

Several factors contributed to the declining position of the home owner. Near the fore stands the inherent individualistic character of the home owner. In selling his services to industry he had to compete with highly developed organizations. Unable to state the wage that he would work for, he had to accept what was offered. This resulted in a low return for his services. On the other hand, he was met by the high charges placed upon the commodities and services that he required from industry.

Lack of organization placed the home owner in an increasingly poor position as the American economy continued to industrialize. Industrialization meant organization and specialization. As this process continued the individual home owner was standing less and less on an equal footing with those with whom he had to deal. It meant that he was increasingly forced to accept the terms imposed by others

when it came to owning his own home. The only alternative was to do without it, but even there he was subjected to pressures for there were many forces pointing to the satisfaction derived from home ownership.

This situation meant that the unorganized home owner was facing increasingly difficult obstacles. Abuses within the mortgage system were rampant. Higher construction costs were passed on to the ultimate consumer - the home owner. In many instances the product was of poor quality so that the home owner received less for more money. Even local governments increased the burden of the home owner. As governmental costs rose so did the tax on real estate even though other forms of property had grown proportionally greater in value. Lacking any organization, the individual home owner was powerless to make his voice heard for tax reductions. At every turn he was beaten into a position less favorable.¹

Speculative practices in land and homes

Apart from these developments appeared the practices that arose with the rapid expansion and settlement of the country. As new territory was acquired the land was thrown open to entry and settlement. No thought was given to whether the land was to be used for speculative resale or for actual use by the new possessors. Land companies purchased

huge tracts for a pittance, divided them, and resold them to settlers. Land became not so much a material to own as something with which to speculate. "Here the city lot or the quarter section passed from owner to owner with hardly more ceremony than marked the passing of a ten-dollar bill. Land speculation developed in time into a major vocation, standing side by side in importance with speculation in cotton, tobacco, and grain."²

Accent on profit. Profit, not prestige from ownership, became the guiding principle in land development. There was a profit to be had in the buying and selling of land. Lending institutions made their appearance to furnish the money necessary to finance this tremendous speculative urge. This financing was conducted to obtain the highest return on the capital invested. The safety of the investment had been forgotten.³

In competing for loans, "lending agencies bid against each other, mushroom developments sprang up, and homes were sold as fast as they were built and financed. Little regard was given to design, construction, location, or the ability of the purchaser to pay his obligation."⁴

Lack of governmental regulation. There were no effective means present with which to prevent, or control, this speculative phenomenon. Land speculation had colored the

entire social picture of the early years of the Republic and to a considerable extent dominated the formative stages of federal policy. There were few persons engaged in the shaping of that policy who were entirely immune from its lure. There may have been considerable wrongdoing in disposing of the public lands but either personal interest or the whole political atmosphere worked against any very definite stand against it.⁵

Local and State governments, too, were ineffectual in their regulatory duties. There was no regional or municipal planning. Cities grew by haphazard means with little regard paid to how the owner used his property. Certainly, little official attention was devoted to the financial means used by lending agencies operating within the real estate field.

The mortgage instrument. The instrument which so readily facilitated these speculative transactions was the mortgage. As is typical of so many tools whereby man proceeds to carry on his daily task of living, the mortgage could prove to be either a boon or a scourge to its users. In its development the mortgage more nearly resembled the latter. An indication of this can be surmised by its frequent use as the plot for a melodrama with the mortgagee appearing as the universally hated villain. These melodramas

might have been truly humorous had their counterpart in actual life not been so tragic.

Mortgage financing in itself is not harmful. Without it much of the economic expansion that took place in this country would have been impossible. More specifically within the housing field, the mortgage is a means whereby a person lacking the necessary capital for the outright purchase of property may secure credit to do so, pledging the property itself as security. When the safety of the loan is carefully observed no dangerous results need appear. But as practiced prior to 1929 mortgage financing was one of the contributing factors to real estate speculation. Real estate dealers and mortgage lenders "in an effort to make commissions and earn interest have ballyhooed home ownership and induced buyers to assume impossible debt burdens." ⁶ The mortgage made it possible for people on all levels to purchase homes ordinarily far beyond their means. "It masked the speculative nature of a transaction and lent the sober weight of appraisal and authority to prices that might otherwise have passed for fantastic." ⁷ By enlarging the number of people actively engaged in home buying it led to a marked inflation of the home-price structure.

Spiralling mortgages and indebtedness. The mortgage debt expanded as the price structure moved upward. Mortgage loans were made on the assumption of market values. As

land prices and construction costs rose the mortgage lending market responded with an upward movement releasing the necessary credit for the expanding real estate boom.⁸

Urban mortgages, in 1920 about \$9,000,000,000, increased to \$13,843,000,000 by 1925 and to \$22,153,000,000 in 1930.⁹ At the same time real estate values had started to decline and building activity continued on a large but diminishing scale in 1927 and 1928. The foreclosure marker was steadily moving upward until it reached nearly 26,000 in June, 1933, from a monthly average of approximately 6,000.¹⁰ Careful observation would have revealed that something was radically wrong.

Basic Defects in the Mortgage System

The weaknesses in the mortgage structure became apparent with the arrival of the depression. But

Back of the collapse of home ownership and home finance were conditions more fundamental than the depression itself. The basic defects were in the mortgage structure and the sense of insecurity which those weaknesses gave both to home owners and to those whose small savings were invested in mortgages, directly or indirectly. The depression simply revealed the defects and showed the need of safeguard against panic in mortgage finance.¹¹

Diversified types of lending institutions

The diversified types of institutions operating in the mortgage field constituted one of the basic defects in

the mortgage structure. Building and loan associations, mutual savings banks, life insurance companies and commercial banks as well as individuals engaged in mortgage lending. None of them except the building and loan associations was primarily engaged in lending in home mortgages.

This situation resulted in a lack of uniformity throughout the mortgage structure. Divergent interests and methods of doing business prevented any possibility of the adoption of standard practices. Each institution developed its own lending and appraisal methods, its own interest charges, and its own individual requirements concerning the granting of loans. Cooperative action was impossible among the thousands of widely scattered local financing institutions.

Lack of a constant flow of funds

Where institutions engaged in mortgage lending on a part-time basis it

often occurs that only when organizations have invested sufficiently in other assets are funds diverted into home mortgages. If, later, it appears that greater returns will accrue from brokers' loans or purchases of bond issues, funds are withdrawn from urban mortgages and returned to these fields.

This tendency is characteristic of other fields of credit activity also, but the real estate mortgage field was especially subject to influx and efflux of credit because each part of the nation had developed its own mortgage credit mechanism.¹²

This situation resulted in the development of an undependable,

vacillating flow of credit into the home mortgage system under special circumstances and in certain areas. No systematic, coordinated financial program was developed among the lending institutions and none took the responsibility of attempting to improve conditions.

Particular hardship was worked upon those borrowers located in relatively isolated areas serviced by only one or two lending institutions. They were thus forced to accept every condition demanded by the lender to secure the needed loan.

Use of the short-term mortgage

Although conservative business practice would have indicated the desirability of the long-term amortized mortgage, such was the exception rather than the rule prior to 1933. Instead, the short-term, lump-sum loan was in general use because of its higher profit return and more liquid nature. Usually written for three or five-year terms, the net result was the practical necessity of renewing the loan at the end of the period with high commission and refinancing charges.

The prevalent practice of lending only a small percentage of the value of the property on the security of the first mortgage required the frequent use of the second mortgage. In fact, institutional mortgage lenders were limited

by the laws of most States to a loan of 60-66 per cent of the price of the house. Thus, the second mortgage was resorted to as a means of spanning the gap between the amount secured by the first mortgage and the equity which the prospective home owner was able to pay down. In some cases builders and sellers customarily wrote up the selling price so that the second mortgage represented a bonus from 20 to as much as 30¹³ per cent.

Amortization was seldom used with the first mortgage but was generally required in the case of the more risky second mortgage. A common practice developed of paying off the second mortgage while the first mortgage was carried along by paying the required interest. When economic reverses occurred and an interest payment was skipped demands were made for immediate payment of the entire first mortgage.¹⁴

High interest rates

Interest rates charged by the mortgage system were relatively high. One reason for this was the fact that the "organization of our credit resources for home purchase has remained so primitive compared with the rest of our financing structure that the home owner has paid from 2 to 5 times as much as a business man for a loan."¹⁵

Sources of mortgage money were limited to a few institutions in any specific area so that the interest rates

could be fixed by them. The illiquidity of mortgages made it more difficult to shift the risk to other investors as in the case of marketable securities. This situation excluded lenders from the mortgage field who, under ordinary circumstances, might have entered. This left only the institutional lenders who ultimately determined the interest rates.¹⁶

Numerous studies of interest rates have been made with some variation in results. However, the following rates will give an adequate picture. It was estimated that the rate of interest charged by savings and loan associations on first mortgages during 1931 ranged from 6.2 per cent in Connecticut to 15.3 per cent in Tennessee. During 1924 second mortgage interest rates ranged from 8 to 15 per cent or more, with the country as a whole averaging over 10 per cent.¹⁷

That such charges were clearly exorbitant can be seen when they are contrasted with estimates for the three components which ordinarily are considered to determine the interest rate. Again, variation appears in these estimates but the following may be used as a reliable guide: one-half of 1 per cent for the risk element, one-half of 1 per cent to 2 per cent for the expense of making loans, and 2 per cent for the cost of money to the lender. Thus, the total cost to the lender was estimated to vary from 3 to 4 and one-half per cent.¹⁸

By comparing these figures with the interest rates charged it can be seen that the home owner was paying an unnecessary premium for the use of his borrowed money. This premium amounted to approximately 2 per cent under the most favorable conditions to as high as 12 per cent under the worst conditions. It must be remembered that this was for first mortgages only. The premium ran considerably higher in the case of second mortgages.

Lack of organization and a credit reserve system

The average mortgage institution was small in nature and operated in a localized area under local regulations and conditions. As such it was interested only in the problems immediately at hand and demonstrated no desire for large-scale organization or cooperation.

This localized, individualistic character prevented any possibility of a steady market for investment in mortgages as securities. Under the conditions as they prevailed such an investment was entirely too illiquid and offered no assurance of the loan being repaid. The mortgage system with its unorganized methods of doing business presented too great a risk factor.

Conditions were such that little attention was paid to the possibility of establishing a credit reserve system similar to the Federal Reserve System established for commercial

banking. This lack of credit facilities made the mortgage system extremely sensitive to any fluctuation within the general economic structure. Any slight downward move which caused more than the usual amount of withdrawals by depositors in turn placed a demand on the home owner for the immediate payment of his loan. Failure to pay meant foreclosure on the mortgage.

Other Factors Hurting the Home Owner

The home owner was faced by other nearly insurmountable obstacles in addition to those encountered within the mortgage field. These can be classified into the three following fields: high construction costs, high taxes, and cumbersome State laws.

High construction costs

The construction field has been an anomaly in the general American industrial picture. While industrial advancement has resulted in cheaper per-unit cost for most commodities this has not been the case in home construction. Here, the per-unit cost has actually shown a continual increase. This situation has been the result of several contributing factors, no one of which can be singled out as the main offender.

Characteristics of the construction industry. The

construction industry was, and still is, one in name only. In no significance does it have the characteristics of other well known industries. Attempts at industrialization have failed, so that the construction industry at the present time refers to the vast number of independent, but interrelated, suppliers of materials and services in the construction field. The industry is local, disintegrated, handicraft, and uncoordinated in nature. Its products are neither uniform in type, design, nor size, with 50 per cent of the contractors having one to three employees.

A lack of central responsibility is perhaps the industry's most significant characteristic. "There are many parts which are brought together temporarily for one job and temporarily for another job, but there is no central agency, no central pattern, no central organizing force in the construction industry."¹⁹ This lack of responsibility encourages each part in endeavoring to strengthen itself at the expense of the whole by whatever means are at hand.

Lack of organization has tended to make the sellers stronger than the buyers.

This is true all the way from the producers of building materials, who are in many cases large and concentrated, down through to the poor ultimate consumer who buys the product - a purchaser who is an amateur, who makes one purchase and knows very little about it, and who has nothing to speak of in the way of bargaining strength.²⁰

Restraints of trade have played an important role

in the construction industry. These restraints have been practiced by all groups in their attempts to secure what the traffic will bear. The uncoordinated nature of the construction industry

provides a perpetual and spontaneous breeding ground for efforts at integration. Almost universally there have grown up local tie-ups, reciprocity arrangements between contractors and building materials, dealers, between architects, building supply houses, and building and loan associations or banks, and between contractors and labor organizations. Local pressure is often utilized to keep the contracts in the community, particularly where local dealers or contractors have perfected arrangements for dividing the local market between them.²¹

Producers of materials use patents, basing point systems, zone price systems, joint selling agencies, and other devices to limit output, allocate markets, and raise prices. Distributors use fixed mark-ups to secure their profits and boycott producers who do not route their business through the distributive hierarchy. Contractors divide the work among themselves in a pre-arranged manner by the use of bid depositories, central estimating bureaus, and division of the field. Building trades unions have often participated in these restraints and add new restraints of their own. The unions have frequently boycotted new products or new processes from the fear of their displacing labor. Each section of the industry attempts to receive for its services what the traffic will bear. Consequently, the stimulus to achieve profitable restraints is an organic part of the industrial organization.

Moreover, local building, zoning, and sanitary codes, together with tax and other legislative restrictions are used to implement the restrictive practices of politically powerful groups.²²

Mr. Thurman W. Arnold, an Assistant Attorney General of the United States at the time he appeared before the Temporary National Economic Committee in 1939, listed five economic effects of these restraints in trade: (1) they have prevented prices from dropping when purchasing power dropped and when purchasing power rose they have raised prices still faster, (2) they have boycotted and eliminated competitors able and willing to reduce prices, (3) they have kept the industry horizontally split into groups so that no single group can get increased volume by lowering prices. Thus they have furnished the incentive for each group to get the greatest share possible, (4) they have handicapped the use of prefabricated materials and thwarted the development of methods of mass production, and (5) they have prevented experiment in housing design, materials, and methods of construction.²³ He might well have added as the sixth the fact that they have increased cost to the ultimate consumer - the home owner.

Cost components. In general, construction costs average between 70 and 80 per cent of the complete over-all cost of a house. A breakdown of these construction costs shows that labor costs represent about 23.37 per cent of the

total cost, material costs 46.73 per cent, operating overhead and profit 7.78 per cent, land acquisition 14.07 per cent, and fees 8.05 per cent.²⁴

Labor costs have always received considerable attention in the concern about housing costs. There has been a tendency to place most of the blame for high housing costs on labor's doorstep. Actually, labor "is far from responsible for all the snags and snarls that beset home building. There are ills for which it is accountable but they are too often exaggerated beyond reason."²⁵

Hourly wages for construction workers have continually been cited as being too high. It is true that they are higher than those for most classes of wage earners. But high hourly wages do not necessarily mean high yearly incomes, nor do all construction workers benefit from union wage scales. For example, the construction census of 1935 placed the average yearly earnings for all construction workers on jobs let by contract at only \$1149.00.²⁶ This situation occurs because of the seasonal nature of construction work. Even during the boom period of the twenties the building trades were fully employed for only three to five months during the year. About 100 days per year per man were lost and about 600,000 men, out of a total of 2,500,000, were always unemployed due to seasonal fluctuations.²⁷

This problem of high hourly wages and seasonal work poses a question which, to date, has not been solved. The home owner, an innocent bystander, of course has to pay the extra premium to the worker while he employs him to compensate the worker for the time that he will not be working at all. The best solution is the elimination of the seasonal characteristic of the industry. Little has been done along that line to date. Another possible solution that has been suggested is the guaranty of a minimum annual wage to the worker in return for a reduction in the hourly wage rate. This suggestion has met with a cool reception from labor apparently from fear that it would turn out to be a reduction in pay over the long-run. Actually, the entire construction industry will need a thorough revamping before such a system could be satisfactorily installed.

The percentage of union labor operating within the construction industry varies considerably with communities, trades, and the type of construction. While it is generally agreed that the building trades unions control well over one-half of the eligible workers in the over-all construction industry this does not hold true in house construction. A survey made in 1939 indicated that contractors in forty-nine out of seventy-two cities surveyed placed union labor at less than 25 per cent on small-house construction, while union officials in twenty-five out of the seventy-two cities agreed.

At the same time D. W. Tracy, President of the International Brotherhood of Electrical Workers, believed that the percentage of union labor working on houses costing \$15,000, or less, constituted only 10 per cent of the total number.²⁹

The reduction of laborers' wages alone will not bring the goal of low-cost housing much closer. Assuming the 23 per cent labor cost mentioned above to be true, a 20 per cent reduction in wages would effect only a 4.4 per cent decrease in the cost of housing. This would mean that a home originally selling for \$5,000 could be sold for \$4,770. This new figure still does not meet the requirements for low-cost housing.

Wage rates, however, constitute only one factor in labor-cost ratios. Management and the efficiency of the laborers play quite as important a part. And on these fronts labor's record is not unsullied.

Organization along craft union lines has resulted in an unusually large number of jurisdictional strikes arising from disputes between two crafts. It has been estimated that 95 per cent of the strikes within the construction industry have been the result of jurisdictional disputes.³⁰

The waste from this alone has been incalculable.

Unions have established rules governing the activities of the members in an attempt to control working procedures and working conditions. While such rules often do

concern themselves with maintenance of the work quality, and the health and safety of the workers, they have also been used to maintain high wages, to protect jobs, to increase work, and to increase the unions' bargaining power. As a result, "Plumbers with high hourly wages are now found moving plumbing equipment; brick masons wash down and point up brick work; carpenters strip forms from concrete."³¹ In such cases skilled workers are performing semi- or unskilled work with a resulting waste of time, skill, and effort.

Labor, too, has resisted the introduction of more efficient devices wherever possible. As a result home building largely remains in a handicraft stage and the tools most generally used are hand, not power driven. The effectiveness of this resistance has been more pronounced in the case of the construction unions because of the over-all localized, uncoordinated nature of the construction industry itself. The unions' bargaining power has generally been more effective because of that fact.

Costs prohibitive to the home owner. The practical result of the general archaic procedures practiced within the construction industry is the prohibitive cost burden placed on the home owner. This cost cannot be lowered effectively to meet the demand for low-cost housing by forcing cost reduction on any one group within the construction industry. The problem is too hydra-headed to require any but a full

force assault against all phases of the cost components. Without these necessary reductions housing costs will remain as they have been in the past. During the twenties about 25 per cent of the families could afford the housing produced while in 1936 about 85 per cent of the homes were built for those families in the upper 10 per cent of the income class.³²

High taxes

A factor in home ownership quite commonly overlooked, or minimized, is the property tax. Actually, the property tax has proved to be a considerable burden on the home owner and has frequently caused the loss of an otherwise unencumbered home.

Local government reliance on the property tax. The property tax has always been the mainstay of local government revenue in the United States. That the full force of the property tax fell on real estate during the early stages of the country's development was only natural. Ownership of real estate usually meant ability to pay. Then too, real estate values continued to advance and in the enthusiasm to own real estate the tax factor was easily overlooked.

Local government continued to rely upon the taxation of real estate as the country developed industrially and new sources of revenue became available. This was due primarily to two factors: (1) local governments were creatures of

the State and had to rely upon the type of taxes which they were permitted to levy by the State, and (2) real estate was immovable so there was no danger of its disappearing at assessment time and was therefore easily assessed.

Under such conditions it was very easy to rely upon the taxation of real estate to the utmost. In 1928 real estate taxes provided more than 60 per cent of the average municipality's revenue.³³ Unfortunately, conditions have changed very little to the present time. Although cities are presently engaged in scrambling for new sources of revenue real estate provided 50 per cent or more of their income in 1944.³⁴

Added burden on home ownership. The property tax is levied on an ad valorem basis. The basic disadvantage of the ad valorem levy is that it may or may not be related to the ability to pay. From the standpoint of the home owner, however, the necessity of payment is more important than the ultimate incidence. "Whether he is making or losing money, whether his property is free or encumbered, the owner of the property must ordinarily pay the property tax within the period prescribed by law or suffer the heavy penalties, direct and indirect, of delinquency."³⁵

Assessments are usually placed below market value of the property. Once established, however, they are subject to little change. During periods of depression the home

owner may find that the market value, through shrinkage, has become less than the assessed value. In this case the home owner is paying a premium for such ownership and it occurs during the time that he can least afford it.

A tax study made by the Home Owners' Loan Corporation indicated that the average annual taxes of the Corporation's borrowers amounted to approximately 2.7 per cent of the original loan. In twenty States the ratio was above 3 per cent and in eight of these States it was 4 per cent or more.³⁶ When comparing the tax load with other fixed charges the Corporation found that country-wide the average monthly tax installment represented approximately 33 per cent of the average monthly loan payment. In four States, however, taxes were equivalent to 50 per cent or more. The study further showed that the tax payment averaged approximately 80 per cent of the interest payment and that it actually exceeded interest charges in ten States.³⁷

Cumbersome State laws

State laws concerning mortgage lending and foreclosure proceedings have generally required costly, time-consuming, and unnecessary procedures. They have hampered mortgage institutions and at the same time burdened the home owner with higher fees for he is the one who pays for the services rendered.

State mortgage laws. There is no uniformity throughout the States on the form of instrument used. Nine States require a deed of trust, thirty-eight States require a mortgage, while one State requires an outright deed. Further variation is found in that the deeds of trust and mortgages may or may not carry a power of sale.

It has been a necessity that a lawyer draft the instrument to conform to all of the laws regulating the particular case. The usual instrument has been quite lengthy, running from one thousand to four thousand words. This redundancy would have been unnecessary under uniform mortgage laws. But with the great variation that has been present it has been necessary to cover every point that might arise.

State foreclosure laws. Even greater diversity has been found in the case of foreclosure laws. Three methods of foreclosure have been provided for: in twenty-eight States court action has been generally used; in eighteen States the power of sale has been used; and in one State foreclosure has been accomplished by notice or publication. In addition, there has been variation in the redemption periods. Twenty States have permitted no redemption period at all while twenty-eight States have permitted redemption periods ranging up to twenty-four months. In four of the States permitting redemption the purchaser has been entitled to possession of the

property during the redemption period while the other twenty-four States have permitted possession by the foreclosed owner. In some States the redemption period has preceded the sale of the property and in others it has followed the sale.³⁸

Roughly, three classifications can be made into which the State foreclosure laws may be grouped: (1) thirteen States where cost has been low (under \$100) and the time required has been short (less than three months); (2) eleven States where the cost has been high and the time required has been unnecessarily long; and (3) twenty-four States where cost has not only been high and the time required has been long but where there has also been a redemption period of six months or more during which time the mortgagor has been entitled to possession.³⁹

The diversity in State foreclosure laws was clearly demonstrated by a study of the foreclosure problem made by the Home Owners' Loan Corporation. Average foreclosure cost in Texas was found to be \$5.18 with the length of time required being one month and ten days. On the other hand, it cost \$354.30 to foreclose in Illinois with the average time required being twenty months and twenty-one days.⁴⁰ The average foreclosure cost throughout the nation was \$124 and the average time required was approximately nine months.

Results. An additional financial burden has been placed on the home owner by the diversity in mortgage laws

in two ways. First, it has been a practical necessity for a lawyer to draft the instrument to make sure that it complies with the law. This has added unnecessary legal expense to the acquisition of a home. Secondly, as instruments must be recorded the recording fee has generally been higher because of the lengthiness of the instrument.

The home owner has been penalized indirectly in another manner by the lack of uniformity in mortgage laws. The interstate flow of mortgage money has been hampered to a large degree due to this fact. This has prevented liquidity in the market and has forced the home owner to accept the terms, whatever they might be, of the local mortgage lender.

Foreclosure laws have resulted in additional hardship on the home owner. They have generally imposed too great a cost burden on the home owner for he is the one who ultimately has paid the foreclosure costs whenever possible. In addition, they have caused mortgage institutions in States where foreclosure costs have been high and the time required has been lengthy to forego high percentage lending for fear of losing money in the event they should have to foreclose. Furthermore, it has been estimated that the loss due to loss of interest on the investment, accruing taxes, insurance, and depreciation costs during redemption periods has been \$2 a day on a \$5,000 mortgage.⁴¹ To prevent this loss the lending

institutions have been forced to proceed immediately against the defaulter to prevent as much loss as possible on the investment.

Foreclosure costs generally have been highest where court action has been followed and lowest where power of sale has been used. But regardless of the method used costs have still been too high. Required attorney fees, auctioneer fees, charges for published notices of foreclosure, master in chancery fees, and sale referee fees have all extracted an unwarranted charge from the home owner.

The tragedy of this legalized waste is that while it was born of and had its apparent justification in a desire to succor the borrower, it has in fact injured him beyond measure. Legislatures in their zeal to give aid to the mortgagor have buried him beneath an unworkable system. To mix metaphors, the golden eggs seem generally to have turned to dust.⁴²

Lack of Information about the Housing Field

In any attack upon an existing evil a prerequisite for a task well done is factual knowledge about the conditions surrounding the evil. Such was not the situation in the early stages of our collapsing home structure. At the time of the President's Conference on Home Building and Home Ownership in December, 1931,

The general incompleteness of foreclosure information definitely shows a weakness in our realty structure. It should be possible to secure from various localities a factual picture of not only home foreclosures, but other trends which would be helpful in guiding

the sound economic development of the various communities along realty lines.⁴³

One of the great values of that Conference, from which came approval of the establishment of a central bank for home financing institutions, was that it was the first of its kind to collect available data on the subject of housing and to present it in a form suitable to serve as a working basis for an attack upon the existing conditions.

Federal Housing Legislation Prior to the Home Owners' Loan Corporation

When viewing the Federal Government's housing activities of the present time it is difficult to believe that its start, born of the depression, came in 1932 with the establishment of the Federal Home Loan Bank System. Prior to that time the Government's interest had been slight and sporadic. Official enactments consisted of measures directly concerned with the housing emergency during World War I. After that, until 1932, the Government retreated back into its "hands off" policy until forced to come to the rescue to prevent the complete collapse of the country's real estate structure.

World War I measures

The necessity of housing transient war workers and the inability of the existing housing facilities to do so prompted Federal legislative action to relieve the situation.

The War Finance Corporation, established in 1918, was authorized to provide credit for industries and enterprises which were necessary or contributory to the prosecution of the War. The field of housing was construed to be within the Corporation's jurisdiction and two loans were made to building and loan associations amounting to \$300,000 for building purposes.

Subsequent legislation produced the Emergency Fleet Corporation under the United States Shipping Board and the United States Housing Corporation within the Department of Labor to operate directly in the housing field. Appropriations totalling \$200,000,000 were made in July 1918 for their work. The Emergency Fleet Corporation made loans to limited dividend companies that constructed and managed housing for shipyard workers. However, the Corporation exercised such close supervision over the construction and management of the housing that the companies were little more than legal devices. In all, the Corporation provided quarters for 9,185 families and 7,564 for single war workers. All construction under this program was finished by the middle of 1919.

The United States Housing Corporation produced the "public war housing". Sixty contracts were awarded in all, but the termination of the war came before much actual construction had been completed. It was determined that twenty-seven of the projects should be completed. Through this means 5,998 family units and 7,181 single quarters were provided.

However, the first tenants did not move in until January 1919, two months after the War ended.⁴⁴

As these housing activities were viewed as emergency measures created by the conditions of war an immediate liquidation program was inaugurated at the termination of hostilities. The Emergency Fleet Corporation, which had been forced to acquire and manage many of the properties on which it had made loans in order to realize any return at all on its investments, sold all of its holdings by 1924 and went out of existence. The United States Housing Corporation, on the other hand, liquidated very slowly. Still legally in force in 1942 although its organization had disappeared, and still technically in possession of some property, its affairs were turned over to the Federal Home Loan Bank Administration on February 24, 1942 by Executive Order 9070 for final liquidation. Liquidation was finally effected by the fall of 1945.⁴⁵

Establishment of the Federal Home Loan Bank System

The number of housing problems arising after World War I, such as the developing housing shortage, high rents, and the shortage in long-term mortgage credit for home financing, stimulated the Department of Commerce to prepare a Federal Building Loan bill and have it introduced in Congress in 1919. Its terms provided for a credit reserve system for

institutions operating in the home financing field. It failed of enactment, however, and reintroduction in succeeding congressional sessions met a similar fate.

Herbert Hoover developed an interest in the proposed Federal Home Loan Bank system while he was Secretary of Commerce. Later, as a candidate for the Presidency in 1928, he pledged himself to sponsor legislation creating such an organization. As President, with the unanimous approval of the Conference on Home Building and Home Ownership, he called upon Congress to enact such a measure. Congress complied on July 22, 1932.⁴⁶

The Act created the Federal Home Loan Bank Board with authorization to establish a credit reserve organization for home financing institutions. Federal Home Loan Banks were established in twelve districts to which lending institutions could apply for advances backed by the security of home mortgages.

Its failure to aid the home owner. That such a measure was desperately needed is indisputable, but it came too late to stem the tidal wave of foreclosures swamping the country. Its beginning was as disappointing as its proponents were enthusiastic. The principal drawback was not that it was no good, but rather that it was hailed as a cure-all. The public had received the mistaken impression that it was to be the rescuer of harassed home owners. Such was not the

case,

Even with the best of intentions the Home Loan Bank, as at present constituted, can do nothing for the home owner who is today faced with foreclosure. Both the set-up and the purpose of the bank are designed not for the direct borrowing, but for rediscounting mortgages held by building and loan associations, insurance companies and savings banks.⁴⁷

The philosophy behind such a system was that the lending institutions in discounting their mortgages at the Home Loan Banks would use the money obtained to lend on new mortgages. The philosophy, in the earlier years, never entered the realm of actuality. The institutions were in no hurry to join the system because they were not interested in expanding their lending policy at that particular time. Those that did join used the money obtained to pay off their loans from commercial banks. The Home Loan Bank Board was powerless to change the situation because it could neither force eligible institutions to join the system nor, having joined, force them to use the funds obtained toward expanding their contracted lending policy.

The provision in the Act permitting the Home Loan Banks to make direct loans to home owners was more an after-thought than a primary purpose. No machinery was created to carry the provision into operation and the regulations made by the Board to provide for these direct loans were "so onerous they could not be taken advantage of. They allowed advances of but 30 per cent of the then depression value of the

property in most cases and but 40 per cent of that value if the loan could be paid in full in 8 years.⁴⁸"

A total of 41,580 applications for loans were received but only three, amounting to a total of but \$9,000, were made throughout the country. The cost of handling the applications was \$136,591.⁴⁹

During this period the States had been busy passing moratory legislation. Twenty-eight States passed such laws but this only served as a rude dike against the mounting flood of foreclosures. By March 1933, 500,000 families had lost their homes through foreclosure. It had become apparent that Federal relief for the home owner was a necessity.

FOOTNOTES

Chapter I

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- 2 Charles Abrams, Revolution in Land, p. 14.
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- 5 Charles Abrams, Revolution in Land, p. 15.
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 - 22 Temporary National Economic Committee, Hearings: Investigation of Concentration of Economic Power, 76th Cong., 1st sess., Part 11, Construction Industry, pp. 5148-5151.
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 - 28 Twentieth Century Fund Housing Committee, American Housing: Problems and Prospects, p. 73.

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Chapter II

CREATION OF THE HOME OWNERS' LOAN CORPORATION

A state of complete deterioration in the home financing field was reached by 1933. As home foreclosures neared the one thousand-a-day mark an immediate and effective governmental relief program for the home owner became imperative. Relief for the desperate farm owner had already been initiated on March 4, 1933 when Federal Land Banks were authorized to lend directly to farmers and to permit a five year moratorium on the payment of the principal.¹ "Although farmers have become more vociferous in their protests, because their mortgage troubles are eight to ten years older, the lot of many mortgaged home owners is no less dire."²

The task confronting the Federal Government in its efforts to aid the home owner presented many difficulties. An uncharted course had to be followed because no comparable measure had ever been attempted before. Yet a delay to permit thorough study of the situation could not be countenanced for conditions called for immediate action. The type of agency needed and the manner and procedures to be used in granting the relief were important. The extent of the aid and the effects which the contemplated action would have on the entire mortgage financing structure needed careful attention

as well as the needs of the home owners.

The Type of Agency Needed

Whatever form the agency assumed it had to be so constructed that it could bring effective, immediate relief to the distressed home owner. To accomplish that purpose an organization had to be devised that would come into local contact with those requiring its services. It was generally agreed that a system similar to the Federal Home Loan Bank System would not meet the requirements. Aid could not be granted quickly enough by simply establishing a number of regional lending organizations. Nor could the Government be assured that relief was being extended to distress cases or that the mortgages on which it would be making the loans were valid first mortgages.

Then too, the home owners were not the only ones who needed to be considered. The Government would be entering a field reserved for private enterprise during ordinary conditions. The agency established could not be such that would enter direct competition for loans with private lending institutions, nor could it hamper their operations to such an extent that the investments of the investors, depositors, and policy-holders in those institutions would be jeopardized. With these safeguards in mind, it was generally agreed "that it would be unwise to set up a system like that

of the Federal Land Banks to make loans direct to individual borrowers. To do this would be to put the government into competition with existing lending agencies. This is considered both unnecessary and inadvisable."³

The agency to be created needed to have a quickly-formed, emergency type of organization that could establish offices where needed. It had to be so constituted that it could send its field representatives into the field for direct financial operations with the mortgagors and mortgagees. To be effective the Government would have to go to the people,

The agency needed would have to be granted a large degree of administrative independence and discretionary rule-making and procedural-determining powers. Otherwise it would become enmeshed in "red tape" and be largely ineffectual.

Congressional Opinion Concerning the Bill

President Roosevelt in his message to Congress requesting legislation for the home owner said:

Implicit in the legislation which I am suggesting to you, is a declaration of national policy. This policy is that the broad interests of the Nation require that special safeguards should be thrown around home ownership as a guaranty of social and economic stability, and that to protect home owners from inequitable enforced liquidation, in a time of general distress, is a proper concern of the Government.⁴

Congressional debate on the bill creating the Home

Owners' Loan Corporation demonstrated the fact that the great majority of both houses of Congress realized the plight of the home owner and that they endorsed the program as a whole. Opposition did appear against some of the provisions "as being too liberal and by others as being too conservative."⁵ This was true of the limitation placed upon the value of the homes to be aided and the maximum limit of the loan incorporated in the bill. On the one hand its provisions were said to be "privileged socialism,"⁶ and would lead to a situation whereby we would "make the soviet government seem modest in its communistic program."⁷ On the other hand, proposals were made to do away with all limitations on the amount to be loaned on individual properties.

Action on the bill was expedited because of its emergency nature. It was passed in the House of Representatives on April 28 by a vote of 383 to 4, approved unanimously by the Senate on June 5, and signed by President Roosevelt on June 13, 1933, just two months after he had proposed that legislation be enacted.

Purpose of the Act

The declared purpose of the Act was to "provide emergency relief with respect to home mortgage indebtedness, to refinance home mortgages, to extend relief to the owners of homes occupied by them and who are unable to amortize their

debt elsewhere." ⁸ The Act's limitations concerning the maximum value of the home and the maximum amount of the loan that could be extended to the home owner narrowed its purpose to the relief of small home owners. This limited purpose was expressed by Representative Steagall when he said:

but the purpose of this bill is to afford a measure of relief, not complete relief, but a measure of relief to distressed home owners. Nobody contends that we should go to the extent of opening up the Treasury or its credit for adequate relief for all home owners in the United States. We only hope to relieve some of them, and we wish to see that the aid goes to those worst in need.⁹

Although cloaked with the shroud of emergency, the Act was one of the first concrete steps taken in recognition of the growing philosophy that adequate housing cannot be left entirely to chance and private enterprise but is a public concern. The general welfare of the Nation is enhanced by the protection of the home owners in the ownership and occupancy of their homes despite economic conditions which are beyond the owners' control and which jeopardize that ownership and occupancy.

Statutory Provisions

Most of the Act's provisions were concerned with defining the corporate status of the Home Owners' Loan Corporation and the authorizations and limitations granted to it to accomplish its purpose of aiding the home owner. Subsidiary provisions, however, provided for the Corporation's

underwriting of the Federal Home Loan Bank System to a limited extent by directing the Corporation to engage in certain financial transactions within that system.

Corporate provisions

The Federal Home Loan Bank Board was authorized to create the Home Owners' Loan Corporation which was to be an instrumentality of the United States with power to sue and be sued.¹¹ The Board was given the authority to direct the Corporation and to operate it under such bylaws, rules, and regulations as would lead to the accomplishment of the purposes of the Act. The members of the Board were to serve as the board of directors of the Corporation.

The provision authorizing the issuance of bylaws, rules, and regulations was later attacked on the ground that it granted illegal legislative powers to an administrative or executive agency. But this principle, now generally accepted, of permitting the executive arm the means to carry out the legislative intent through the issuance of rules and regulations was upheld in the case of Home Owners' Loan Corporation v. Rawson. The court determined that

The statute under which respondent corporation (an instrumentality of the United States) was created and its Board of Directors is authorized to function, does no more than permit the administrative board to exercise the discretion vested in it to effectuate the clearly and definitely expressed policy in the statute. It does not constitute legislation.¹²

Financial authorizations. The Act authorized the Federal Home Loan Bank Board to determine the amount of the Corporation's capital stock to a maximum amount of \$200,000,000. The Secretary of the Treasury was directed to subscribe for this capital stock in the amount issued.

The Corporation was so designed as to be self-supporting, and as nearly self-liquidating as possible. The funds necessary for the Corporation's operations were to be obtained by the issuance of bonds to be used for sale and exchange. The original Act provided for the issuance of bonds in an amount not to exceed \$2,000,000,000,¹³ such bonds being guaranteed as to interest only. The maturity date was not to be later than 1952. The bonds were to bear interest not in excess of 4 per cent and were tax-exempt, both as to principal and interest, except for surtaxes, estate, inheritance, and gift taxes. The Corporation was to retire its bonds and capital stock as rapidly as its resources permitted. To see that this was done the Corporation was required to use all payments made upon the principal of its loans for bond retirement.

The number and amount of applications for loans soon made it apparent that the original bond authorization would not suffice. To meet this high demand the bond authorization was raised to \$3,000,000,000,¹⁴ and subsequently to \$4,750,000,000.¹⁵

The guaranty extended only to the interest of the bonds proved to be an obstacle in the operation of the Corporation. Mortgagees offered considerable resistance to accepting the bonds in exchange for their mortgages and there was no legal authorization to force such acceptance.¹⁶ That the bonds were not looked upon as prime investments can be seen when they failed to go above ninety-two and one-half on the open market during 1933, and fell as low as eighty-two and one-half.¹⁷

It became apparent that guaranty would have to be extended to the principal of the bonds if home owners were to be given adequate relief without delay. Aside from the fact that smoother operation would result from guaranty of the principal other factors dictated that the guaranty should be extended. Bonds issued by the Farm Credit Administration had been guaranteed and the situation surrounding the Home Owners' Loan Corporation was in no way different. Then too, there was no compelling argument why what was really a moral obligation to pay should not be made a legal obligation. Guaranty was extended to the principal of the bonds on April 27,¹⁸ 1934.

Provision for the home owners' relief

The Home Owners' Loan Corporation was authorized, for a period of three years, to exchange its bonds or to

advance cash under certain conditions for the relief of home owners. The amount to be loaned was not to exceed \$14,000 or 80 per cent of the value of the property, whichever was the smaller.

Types of relief authorized. Section 4 (d) of the Act allowed the Corporation to acquire, in exchange for bonds, home mortgages and other obligations and liens secured by real estate recorded in the proper office or executed prior to the date of the Act.¹⁹ The Corporation was authorized to make advances in cash to the holder of the mortgage, obligation, or lien acquired in connection with such an exchange. The cash payment could be made to pay taxes and assessments on the real estate, to provide for necessary maintenance and repairs, and to meet the incidental expenses of the transaction. The amount of cash payment could equal the difference between the face value of the bonds and the purchase price of the mortgage, obligation, or lien but could not exceed \$50. The interest rate was not to exceed 5 per cent on such loans.

In those cases where the mortgagees refused to accept the bonds and the home owner could not obtain a loan from private lending agencies, the Corporation could advance cash to the home owner in an amount not to exceed 40 per cent of the value of the property. The interest rate upon such loans was not to exceed 6 per cent.²⁰

The Act further authorized the Corporation to make cash loans for the payment of taxes and assessments and to provide for necessary maintenance and repair work in cases where the property was not otherwise encumbered and it could be shown that the home owner could not secure the necessary loan from a private institution.²¹ The amount of the loan in such cases was limited to 50 per cent of the value of the property and was to be secured by a duly recorded home mortgage. The interest rate and amortization provisions were the same as those where bonds were exchanged.

In addition to refinancing mortgages the Corporation was authorized to advance cash or exchange bonds for the rehabilitation, modernization, rebuilding, and enlargement of homes already refinanced.²² The total amount finally permitted for such operations was \$400,000,000.²³ This provision was enacted when it was found that many homes refinanced were in very poor state of repair. By this means the home owner was able to secure needed improvements and the Corporation, at the same time, enhanced the value of its mortgage security.

Eligibility requirements. To be eligible for a loan from the Corporation an applicant must have been unable to carry or refund the indebtedness upon his home property and he must have been in involuntary default on June 13, 1933. However, the applicant was deemed eligible if he could show

to the satisfaction of the Corporation that he became involuntarily in default as to indebtedness after June 13, 1933 because of unemployment or because of economic reversals entirely outside his control.

The requirement of involuntary default was inserted in an amendment to the Act on April 27, 1934 to thwart those home owners who needlessly defaulted in order to receive loans from the Corporation. "From this it will be seen that the Corporation's business is to assist those home owners who would not require or request its assistance but for the temporary disruption and dislocation of their financial affairs by economic forces which they are powerless to control."²⁴

Relief was afforded those owners who had lost their homes by foreclosure or forced sale, or by voluntary surrender to the mortgagee, prior to the date of the enactment. The original Act provided for those who had lost their homes within the two year period immediately preceding the Act. This was subsequently changed to allow redemption by those who had lost their homes after January 1, 1930.²⁵

Loan security requirements. As security for its loans the Corporation could accept only real property owned by the applicant in fee simple or the applicant's interest in real estate held by him under a renewable lease for not less than ninety-nine years or under a lease having not less

than fifty years to run from the date of execution of the Corporation's lien instrument. The property must have been improved with one or more dwellings, although it became ineligible if it was designed for more than four families or if it had an appraised value by the Corporation of more than \$20,000.

The property must have been shown to be the bona fide home of the applicant although he need not have actually occupied the property, for economic conditions might have forced him to seek cheaper accommodations or he might have lost it through foreclosure. A small store, or shop, producing an income might have been present also if it could be proved to the satisfaction of the Corporation that it was incidental to the residential function.

Method of loan repayment authorized. The refinanced home owner was originally permitted a three year moratorium on the payment of the principal if he was not in default with respect to any other condition of his mortgage. This privilege was later rescinded by the amendment of April 24, 1934 after it had been found that one of the effects of "that provision has been to bring to us a lot of people who were not in distress, who were abundantly able to take care of their present obligations with the present mortgage lenders, but who thought it would be a nice thing if they did not have to

meet any of these obligations for the next 2 or 3 years."²⁸

Repayment of the loan was to be amortized by means of monthly payments sufficient to retire the loan within a period not exceeding fifteen years. However, individual extensions on any installment could be authorized by the Corporation when conditions merited it so long as the fifteen-year maximum was not extended.

On August 11, 1939 the amortization period was extended to twenty-five years for those cases which, in the opinion of the Corporation, needed such an extension.²⁹ The experiences of the Corporation had demonstrated that a large number of its borrowers could not meet the monthly payments required under the fifteen-year amortization plan. Extending the payments over a twenty-five year period meant a reduction in monthly payments of approximately 42 per cent.³⁰

Administrative independence granted

The Home Owners' Loan Corporation was granted a large degree of administrative independence by Congress. Aside from defining the general area within which the Corporation was to operate it was free to exercise its own discretion in determining the procedures and policies to be followed. Congress had authorized the Corporation to issue its own bylaws, rules, and regulations in refining the generalities into terms of the specific.

Few lines of responsibility were imposed. The Corporation's supervising agency, the Federal Home Loan Bank Board, was originally an independent agency whose members were appointed by the President with the advice and consent of the Senate. Few controls were maintained over it, and consequently over the Home Owners' Loan Corporation, except for the insignificant annual report to Congress and the approval of the Secretary of the Treasury for certain financial transactions. This independence of the Corporation extended, in its early years, to the determination of its expenditures without external control.³¹

Personnel. The original Statute granted a free hand to the Corporation in the matter of selecting, employing, and fixing the compensation of its employees. The only limiting clause was the provision that no employee could receive a salary in excess of that provided by law for the members of the Federal Home Loan Bank Board.³² Some restrictions were added on May 28, 1935 which prevented a person who was an officer or director of an institution engaged in lending money on real estate from being appointed as a Corporation employee in any regional or State office.³³ It was also required that a person must have been a bona fide resident of a State for at least one year immediately preceding the date of his appointment as an employee in any State or

district office of the Corporation rendering service in that State.

These restrictions still permitted the Corporation a great deal of discretionary power concerning its personnel policies. Legislative attempts were made to have the Corporation's employees placed within the classified Civil Service from the start of operations. These attempts were repelled, ostensibly because the type of organization and the necessity for promptness in selecting employees precluded the use of Civil Service procedures with the resulting loss in time. In addition it was claimed that Civil Service procedures would not permit enough flexibility in the organization's work.

The free hand in personnel matters granted to the Home Owners' Loan Corporation was not an exclusive grant. It became quite a common practice to permit the government corporations being established in large numbers during the early New Deal days similar privileges. As a result, pressure became increasingly persistent to cover the large number of employees in these corporations into the classified Civil Service. Such coverage was finally extended to most of the corporations on January 1, 1942 by Executive Order.³⁴ By that time, however, the Home Owners' Loan Corporation had completed its lending operations and had started to reduce the number

of its personnel.

Minor authorizations - interagency financial transactions

The Home Owners' Loan Corporation was used to help underwrite the Federal Home Loan Bank system to a limited extent. Statutory provision was made for the Corporation to purchase Federal Home Loan Bank bonds, debentures, or notes, or consolidated Federal Home Loan Bank bonds or debentures. Also, the Corporation was to purchase full-paid income shares of Federal Savings and Loan Associations after the funds of the Secretary of the Treasury for this purpose were exhausted. Authorization was also made for the Corporation to purchase shares in any institution which was (1) a member of a Federal Home Loan Bank, or (2) whose accounts were insured under Title IV of the National Housing Act. ³⁵ A limit of \$300,000,000 was placed on the amount available for these transactions.

Title IV of the National Housing Act authorized the establishment of the Federal Savings and Loan Insurance Corporation to insure deposits in mortgage lending institutions. At the same time Congress directed that its capital stock of \$100,000,000 was to be subscribed for by the Home Owners' Loan Corporation.

FOOTNOTES

Chapter II

- 1 United States Statutes at Large, vol. 47, Part 1, p.1547.
- 2 "Home Mortgage: New Deal Eases Home Owner's Debt Burden; Safeguards His Creditor," News-Week, vol. 1, April 22, 1933, p. 22.
- 3 "Real Estate Boards Sponsor Central Mortgage Banking," Business Week, June 10, 1931, p. 7.
- 4 73d Cong., 1st sess., "Protect Small Home Owners from Foreclosure," House Document No. 19, April 13, 1933, p. 1.
- 5 E. S. Wallace, "Survey of Federal Legislation Affecting Private Home Financing Since 1932," Law and Contemporary Problems, vol. 5, no. 4, Autumn 1938, p. 489.
- 6 Congressional Record, 72d Cong., 2d sess., vol. 76, Part 5, p. 5092. Statement by Senator Glass.
- 7 Congressional Record, 72d Cong., 2d sess., vol. 76, Part 5, p. 5094. Statement by Senator Borah.
- 8 United States Statutes at Large, vol. 48, Part 1, p. 128.
- 9 Congressional Record, 73d Cong., 1st sess., vol. 77, Part 3, p. 2491. Statement by Representative Steagall.
- 10 C. S. Shade, The Blue Book, (2d Ed.), 1936, p. 7.
- 11 United States Statutes at Large, vol. 48, Part 1, p. 129.
- 12 Home Owners' Loan Corporation v. Rawson et ux., 83 P. 2d 765 (1938).
- 13 United States Statutes at Large, vol. 48, Part 1, p. 129.
- 14 United States Statutes at Large, vol. 48, Part 1, p. 1263.
- 15 United States Statutes at Large, vol. 49, Part 1, p. 296.
- 16 Julliard v. Greenman, 110 U. S. 421 (1884)

- 17 J. E. McDonough, "The Federal Home Loan Bank System," The American Economic Review, vol. 24, December 1934, p. 680.
- 18 United States Statutes at Large, vol. 48, Part 1, p. 643.
- 19 United States Statutes at Large, vol. 48, Part 1, p. 130.
- 20 United States Statutes at Large, vol. 48, Part 1, p. 131.
- 21 United States Statutes at Large, vol. 48, Part 1, p. 131.
- 22 United States Statutes at Large, vol. 48, Part 1, p. 645.
- 23 United States Statutes at Large, vol. 49, Part 1, p. 297.
- 24 C. S. Shade, The Blue Book, (2d Ed.), p. 10.
- 25 United States Statutes at Large, vol. 48, Part 1, p. 645.
- 26 C. S. Shade, The Blue Book, (2d Ed.), p. 11.
- 27 United States Statutes at Large, vol. 48, Part 1, p. 131.
- 28 House Committee on Banking and Currency, Hearings: To Guarantee Bonds of Home Owners' Loan Corporation, 73^d Cong., 2^d sess., p. 8.
- 29 United States Statutes at Large, vol. 53, Part 2, p. 1403.
- 30 79th Cong., 1st sess., "Report of the Home Owners' Loan Corporation," House Document No. 71, February 16, 1945, p. 7.
- 31 Cf. Chapter IV, p. 151.
- 32 United States Statutes at Large, vol. 48, Part 1, p. 132.
- 33 United States Statutes at Large, vol. 49, Part 1, pp. 296, 297.
- 34 Executive Order 8743 of April 23, 1941. 1941 Supplement to the Code of Federal Regulations of the United States of America, Title 1 - Titles 7, 1942, pp. 204-206.
- 35 United States Statutes at Large, vol. 48, Part 1, p. 1256.

Chapter III

ACTIVITIES OF THE HOME OWNERS' LOAN CORPORATION

Full-scaled lending activity had to wait until a suitable organizational structure had been erected. This required three months to build and another month to secure satisfactory operation.¹ Applications for loans were being accepted during this period by the Corporation but few were receiving the necessary processing. By December 31, 1933 only 37,249 loans had been refinanced.²

It is not surprising, in view of the mortgage situation then existing, that considerable criticism was directed toward the Corporation for this delay. In all fairness to it a certain amount of lost time had to be expected. On the other hand, there is ample evidence that the problem was not attacked as promptly or as efficiently as it might have been.³

The Organization in Outline

A home office was established in Washington and an operating staff created consisting of a general manager, a general counsel, and heads of the various departments and divisions originally created. This staff was gradually expanded as new departments were created when the need for them

arose. Originally, five deputy general managers and six assistant general managers were appointed. The deputy general managers were to serve as aides to the general manager, usually as heads of home office departments or divisions. The assistant general managers were placed in charge of the six districts into which the country was divided. Central offices were established in each of the States as well as the District of Columbia and the Territories of Hawaii and Puerto Rico. States were subdivided into districts and district offices established in those areas where the amount of business required them.

During 1934 it became apparent that the pressure of business was becoming too great to be supervised expediently by the home office. The country was divided into eleven regions and regional offices established to which, thereafter, the primary supervision of the State offices was delegated. "The jurisdiction of the regional office is merely the jurisdiction of Washington headquarters transferred into regions for greater convenience and flexibility."⁴

Issuance of Bonds

The Corporation's success obviously depended upon the attractiveness of its bonds to the mortgagees. The capital stock limitation of \$200,000,000 and the proviso that cash could be loaned only when the mortgagee could not be

persuaded to accept the bonds prevented any other alternative.

Difficulty prior to principal guaranty

The resistance to acceptance of the bonds by the mortgagees and their poor showing on the open market have already been pointed out.⁵ This unexpected non-acceptance caused delay in extending aid to the home owner and resulted in increased operating cost to the Corporation.

As the bonds continued to meet a slow-moving and unstable market a group of some 3,000 investment dealers and bankers were organized into a bond selling group early in 1934.⁶ It was hoped that by this means the bonds would be better received. They did rise to ninety-three and ninety-four on the market but at no time did they reach par value. In all, about \$700,000,000 worth of interest guaranteed bonds had been exchanged for mortgages.⁷

The Act of April 27, 1934 extending guarantee to the principal allowed mortgagees who had previously accepted bonds to exchange them, for a period of six months, for the fully guaranteed bond. Approximately one-half of the bonds were so refunded during that period. On July 1, 1935 all 4 per cent interest-guaranteed bonds outstanding were called.

Total amount issued

Through June 30, 1946 the Corporation had issued

bonds to an amount of \$3,490,000,100.⁸ This amount, together with a small cash disbursement, refinanced \$3,093,451,321 worth of mortgages and permitted approximately \$400,000,000 for payment of delinquent interest and taxes, foreclosure and acquisition costs, and reconditioning costs on homes securing the Corporation's loans. In addition, a \$223,856,710 cumulative investment had been made in the share capital of savings and loan associations and \$100,000,000 provided for the entire capital stock of the Federal Savings and Loan Insurance Corporation.⁹

Lending Procedure

It is best to describe the lending procedure in a somewhat lengthy manner. A more thorough knowledge of the activities of the Corporation and of the methods employed to refinance loans can be secured by this means. It will also assist in understanding the Corporation's administrative organization and the problems connected therewith.

It should be remembered, in viewing its procedural pattern, that

the Corporation does not enjoy in the conduct of its business the freedom of action of the private lending agency. ... Thus, the extent of the relief granted by the Corporation in a given case is rigidly limited, as are the obligations which may be refunded, and the types of security which may be accepted by it are limited as well. Likewise, each case must be thoroughly investigated before a loan

may be granted, in order to determine the eligibility under the law of the applicant and his home property.¹⁰

Filing of application

A home owner could file an application for a loan in the Corporation's district or sub-district office operating in the territory in which he resided. If neither type of office covered his area, application was made at the State or Territorial office. At the time of application the applicant was required to submit evidence of his title or interest in the property and the circumstances necessitating his seeking a loan. This initial step, while absolutely necessary, created considerable delay in the lending process, for

in very few cases - not more than 25 or 30 percent of them, on the average throughout the country - does the home owner make at the outset a correct statement of his situation. It is to be remembered that a large proportion of these people have limited experience in matters of this sort, and they do not know.¹¹

Preliminary analysis and reports

After the application had been made it received a thorough analysis in the district office. If this analysis indicated that the case might be eligible it was placed on file in the Control Section of the district office. If the analysis showed that the case was clearly ineligible all interested parties were so notified. Reconsideration of the

case was permitted for rejected applications provided the home owner presented his evidence for believing that the rejection was erroneous.

Bases for rejection. Grounds for rejecting an application were a title fault, a property value over \$20,000, an unsatisfactory character report, too low a property value to support the asked for loan, and other tests prescribed by the Board. In the attempt to see that only distress cases received loans if "it is discovered that the home owner has unnecessarily or without justification stopped payments on his mortgage indebtedness, such evidence shall be considered sufficient basis for ending further consideration of any application."¹² It should be remembered that the distress requirement was not present in the original act. It was inserted in the Act of April 27, 1934 after it had become apparent that undeserved loans were being consummated.

Reports. The next step comprised a character report from an approved reporting agency. Statements were also secured from each holder of a lien or encumbrance on the property specifying the amounts of such lien or liens.

Appraisals

Assuming eligibility, a preliminary appraisal was made by an employee of the Corporation's Appraisal Section. The appraiser's report included his estimate of the state of

condition and the need for repairs as well as the value of the property. If this appraisal showed that the value of the property was sufficient to allow the loan applied for all material concerning the case was re-examined in the district office and either rejected or certified for a second appraisal.

The second appraisal was known as the fee appraisal and was made by an appraiser, not an employee of the Corporation, who was on the list of approved local appraisers. To speed the process of obtaining a loan it had been decided to have a local appraiser in each county and a proportionally larger number in congested areas.¹³ Appraisals were made by these appraisers on a flat fee basis. This basis was placed very low because the applicant was required to pay for it in cash except in those cases where he was unable to do so. In those cases the Corporation paid the fee and added it to the face value of the loan when consummated.

The fee appraiser had to submit findings similar to those submitted in the first appraisal. His report had to include an estimate of the repairs needed as well as the value of the property.

The report was then reviewed by a review appraiser of the Corporation. The case file was then forwarded to the State office for further action if the appraised value of

the property appeared to support the requested loan.

State office action

When a need for reconditioning work was indicated the case was sent to the Reconditioning Section of the State office. Specifications for the needed work and estimates of the cost were prepared and the case then forwarded to the State Loan Committee.

The State Loan Committee. A Loan Committee sat at every State office. The Committee members were the State manager, the State counsel, and the State appraiser, or their authorized deputies. The State reconditioning supervisor sat with the Committee in those cases involving reconditioning.

The Committee studied the entire file together with the appraised values of the property and the recommendations of the Corporation's review appraiser. The Committee then determined the final value of the property so far as the Corporation was concerned. This value could not be over 110 per cent of the fee appraisal value. If the value was incapable of supporting the desired loan, or if the case was found to be ineligible for other reasons, all interested parties were so notified.

Insurance report. A still-eligible case was sent to the State Insurance Section from the Loan Committee. This Section computed the amount of fire insurance which the

mortgagor would be required to carry. As a measure of security for its loans the Corporation required that fire insurance be carried in an amount equal to the depreciated reproduction value of the property or equal to the principal amount of the loan, whichever was the smaller. Hail and wind-storm insurance were also required in those areas where conditions deemed it advisable.

Lienholder's consent. The next step was taken by the State Adjustment Section. This Section had the responsibility of determining whether the amount of the proposed loan would be sufficient to cover the claims presented by the lienholders. The amount demanded by each lienholder had to be stated and a written acceptance of the Corporation's bonds or cash in exchange for the lien had to be secured from each. In those cases where the loan would not be adequate to satisfy all the claims the loan was rejected unless the lienholders agreed to scale down their claims or to subordinate their liens to the Corporation's prospective lien.

A practice developed during the period when the bonds had been selling below par whereby the lienholder required the home owner, in return for his agreement to release his lien, to pay to the lienholder the difference between the market price and the par value of the bonds. Although the Corporation could not prevent this practice,

from the beginning we issued most specific instructions on that point, and said that we would not make a loan, and we have refused to make loans in every case where we knew that practice was resorted to. We have repeatedly circulated publicity throughout the United States on the subject. We went on the radio on national hook-ups and advised home owners everywhere not to submit to any such imposition, and we have used every resource we could to stop it.¹⁵

This particular practice dropped out of existence after guaranty had been extended to the principal of the bonds.

Another method was devised by some unscrupulous mortgagees intent upon squeezing the last possible dollar out of the defunct mortgage. In those cases where they voluntarily, or from necessity, agreed to accept bonds of less value than the full value of the mortgage as a full settlement of their claim they required the mortgagor to agree, secretly, to pay them the difference as the price for doing so.

The legality of this practice was often presented for judicial interpretation. The principle soon developed that

Where a secured creditor agrees wholly to relinquish and release his claim against a debtor in consideration of receiving a specified sum from an HOLC loan to the debtor, he cannot, as a part of the same transaction, make a secret arrangement with his debtor to keep the indebtedness intact in whole or in part and stand by and permit the loan to be closed, become a beneficiary and later seek to realize upon his claim. But if he does make such an arrangement with his debtor with the full knowledge of the HOLC, and it closes the loan, then the creditor, not having

perpetrated any constructive fraud and there having been no accord and satisfaction, can maintain an action to collect the indebtedness still owing him.¹⁶

Title examination and loan closing. After the consent of the lienholders had been secured, the case was then sent to the Legal Department for title examination and loan closing. The Corporation relied upon attorneys, title companies, and abstractors to find evidence of the applicant's title to the property offered as security for the loan. Title companies and attorneys were employed to assure the Corporation that the instrument taken to secure its loan was a valid first lien upon that title.

Attorneys and title companies were closely examined by the Corporation and those satisfying its qualifications were placed upon its "Approved List of Fee Attorneys and Title Companies". At the height of the Corporation's lending activities on December 9, 1935 there were 8,486 attorneys and 326 title companies on this list. On the same date there were 3,163 abstractors and abstract companies rendering service on the Corporation's loans.¹⁷

The Title examiner, upon completion of the preliminary title examination, submitted the entire case file including the Preliminary Certificate of Title to the district counsel. After careful perusal of the record by the district counsel it was transmitted to the State counsel. If the case

still appeared to be eligible the State Counsel set a date for the closing of the loan and the record was turned back to a loan closer. Any approved attorney or title company could serve as the loan closer but it was preferable to have the same one that had carried on the preliminary title investigation. On that date the loan closer filed the Corporation's lien instrument for record and disbursed the loan proceeds.

All material concerning the case was then returned to the State, or district office, where it was thoroughly checked and then transmitted to the regional office. There the case was once more thoroughly examined by the Examining Section of the regional Legal Department and then placed in
18
the permanent files.

Notes on the lending procedure

The procedure as described was not perfected on the first day the Corporation opened for business. Considerable variation in procedures occurred during the early lending period which led to delay and confusion on the part of everyone concerned. One of the "greatest handicaps we have had, or we did have in the early operations of this Corporation, was the tendency of local officials to decide for themselves what the procedure ought to be rather than the standard procedure laid down by the Corporation."¹⁹

It does illustrate the fact, however, that the State organizations were responsible for the lending operations. All contacts with the applicants were carried on by the Corporation's State, district, and local offices. The regional offices and the home office acted purely as supervisory agencies in the actual lending procedure.

Wholesale Division

The large number of banks and other financial institutions that were closed and being liquidated presented a peculiar problem to the Corporation. Large numbers of home mortgages were in those institutions and with liquidation in full swing they were subject to immediate foreclosure. "The fact that a mortgage was held by a closed financial institution raised the presumption that they were subject to foreclosure and hence in distress under the terms of the act."²⁰

The Corporation created a separate division known as the Wholesale Division to handle the refinancing of the mortgages in those institutions. State Wholesale Divisions were established during 1934 and the actual work was done by those offices. Over 120,000 mortgages with a value of over \$380,000,000 were refinanced. With this type of emergency practically over by 1935, the Wholesale Division concluded²¹ its work during that year.

Early termination of application acceptance

The Corporation had been authorized to grant loans for a three year period ending June 12, 1936. The general assumption was that it would continue to accept applications until very shortly before that date. However, the large number of applications and the limited amount of funds available necessitated an earlier refusal to accept any more applications. Unfortunately, November 13, 1934 was selected as the announcement date. This produced charges that politics had entered the picture for the announcement had followed the elections of that year by only a few days.

It is relatively unimportant whether politics had actually played a part in determining the date set for the announcement. It is certain that politics played no part in determining that such a move had to be made. The Corporation found that it would be unable to handle new applications with the bond authorization that it had at that time and there was no way of knowing whether that authorization would be increased.

Later, on May 28, 1935, the bond authorization was increased to \$4,750,000,000 and the Corporation permitted applications to be filed for a thirty day period immediately following. From June 27, 1935 until June 13, 1936 the Corporation completed final action on the applications that it had on hand.

Lending statistics

The Corporation received a total of 1,886,491 applications for loans totalling \$6,173,355,652 in value. Eliminations or withdrawals reduced the number on which loans actually were made to 1,017,821 with a total value of \$3,093,451,321.²²

Of the total amount actually loaned, \$2,700,000,000 went to former mortgagees; \$230,000,000 was applied to the payment of taxes and assessments; \$70,000,000 was used for the repair and reconditioning of the properties refinanced; and the balance, or \$50,000,000, was spent for insurance, appraisal and legal fees, and other costs incidental to the processing of the applications and the granting of the loans.²³

A breakdown of the \$2,700,000,000 that was paid to former mortgagees shows that 35 per cent went to building and loan associations, 30 per cent to savings banks, 13 per cent to commercial banks, 8 per cent to life insurance companies, 5 per cent to mortgage companies, 4 per cent to investment companies, and about 3 per cent to individual mortgagees.²⁴

Appraisal Activities

Appraisals were an important instrument in the operation of the Corporation. Appraisal Sections were established in the State offices and appraisal activities usually conducted from there. The Appraisal Sections located in the

regional and home offices performed supervisory functions although they did aid in making appraisals in difficult or unusual cases.

During the actual refinancing period the great majority of appraisals were made in connection with loan applications. The type of appraisal action taken in those cases has been described previously.²⁵ But after the refinancing period ended large numbers of appraisals were necessary. Each foreclosed property acquired by the Corporation required a property appraisal to determine the proper sales price and whether repairs and reconditioning were necessary. Reappraisals were quite often made on properties still owned by the Corporation's mortgagors, "to keep appraisal data up to date and abreast of changes in local economic conditions, real-estate values, and the physical condition of properties."²⁶ Appraisals were necessary in the routine property management operations to determine whether reconditioning and modernization of properties would be profitable to the Corporation.

Appraisals for other government agencies

The Corporation's Appraisal Section cooperated with other government agencies to a considerable extent. Because of the scientific appraisal knowledge possessed by its employees the Section was requested to render services to the other agencies under the jurisdiction of the Federal Home Loan Bank

Administration. It also entered into arrangements with the Federal Works Agency and the Procurement Division of the Treasury for the appraisal of various types of properties throughout the country.²⁷

The Appraisal Section was used extensively by other agencies to make appraisals of properties during the acquisition of such properties for the War effort. For example, during 1942 the Section made 360 appraisals for the Navy, 110 for the Army, and 63 for other agencies.²⁸ All work of this nature was done on a reimbursable basis.

Appraisal statistics

A total of 5,168,533 appraisals were made in connection with Corporation activities from the start of operations through June 30, 1944. A breakdown of this figure shows that only 508,862 appraisals were made since June 30, 1936, leaving 4,660,771 that were made while the Corporation was engaged in lending operations. That this figure may be better understood it should be remembered that each property securing a refinanced loan received three separate appraisals.

Most of the 508,863 appraisals made subsequent to the lending period were made in connection with the acquisition of foreclosed properties by the Corporation or were re-appraisals of properties made because of changed economic

conditions or real-estate values.

Figures are not available concerning the number of appraisals made since June 30, 1944. However, the number would be small. Only 91,505 appraisals were made during the three years immediately preceding that date and the number was steadily declining each succeeding year.

Appraisal problems

The question of making proper appraisals was one of the most perplexing problems confronting the Corporation.

On the one side, the depression had shattered ideas of property values. All transactions were distress transactions, and the practical criteria of value presented by the market, which the great majority of appraisers had followed, were gone. On the other side, the country lacked a profession of real-estate appraising comparable with the professions of accounting, engineering, or medicine.²⁹

The practical expediency of basing appraisals on market value had created an absence of appraisers possessing a knowledge of economic principles underlying real-estate values and of the technique of making scientific building inspections and of computing valuations.

The Corporation was required to remove the chaotic conditions in the appraisal field if its purpose was to be accomplished. Appraisals would have to be based on some other factor than market value. Market value had depreciated to such an extent that few properties would have supported

the requested loan if appraised on that value.

Three-point appraisal formula. The Corporation developed the three-point appraisal formula as the basis for its property appraising. Basically, it was used to arrive at a fair valuation of the property and one liberal enough to permit the property to be used as collateral for a loan. This formula gave "equal weight to the present market value, the reproduction cost, less depreciation, and the value arrived at by capitalizing the reasonable rental value of the home over a period of years."³⁰

Despite the attempts made to arrive at a fair value, "the Corporation's valuations are often disputed, sometimes with entirely conscientious motives, but at other times from a desire to accommodate selfish interests."³¹ If serious disputes arose they became subjects for investigation by the regional appraisers in discussion with State appraisal advisors. That these protestations produced results in some cases would be expected. In the main, however, the valuations established by the Corporation were adhered to. To do otherwise would have reduced the appraisal program to a sham-
bles.

Methods used to improve appraisal technique. The Corporation attempted to secure the services of only the better qualified local appraisers.³² In addition, series of technical appraisal conferences were held in several States

and were open to anyone interested in appraisal work. These conferences were designed to assist appraisers in estimating the value of real property and in presenting their findings in an intelligent manner, with clear justification for their conclusions. In other words, the emphasis was directed toward appraisal judgment rather than the establishment of formulae. Basic principles stressed were: (1) that cost and value are not synonymous, (2) that the value of a property as mortgage collateral is not the same as market value, (3) that mortgages cannot be based upon speculative values, and (4) that appropriate allowances must be made for depreciation and obsolescence.³³ The Appraisal Section also held group meetings of the appraisal personnel in local, district, and State offices. Bulletins on technical appraisal principles were issued periodically and home office and regional appraisal personnel aided in difficult and unusual appraisals and issued instructions concerning them.

Property Reconditioning

Property reconditioning has been one of the major activities of the Corporation. Its magnitude became apparent when it was found that over 50 per cent of the homes being refinanced needed some type of repair or reconditioning work.³⁴ To direct this phase of the Corporation's work the Reconditioning Section was established on June 1, 1934. Prior to

that time 52,269 reconditioning contracts amounting to \$6,800,000 had been completed.

The Corporation actually assumed the initiative concerning the reconditioning of property. This is apparent by the requirement that the appraisers making the initial appraisal of property for loan refinancing eligibility also had to submit estimates as to the need for repair and reconditioning. In a case where such work was needed, work specifications and a cost estimate were prepared by the Reconditioning Section and became a part of the case record while the application was still being considered for loan refinancing. At the time the loan was closed Corporation employees inspected the home, advised the owner on the proposed repairs, prepared and secured bids, approved contracts, and supervised the progress of the actual work. Although the owner had the right to prevent such practices - he had to approve the work contract also - under the circumstances he very seldom objected.

A loan could be granted for the remodeling and modernizing of a home already refinanced by the Corporation. This type of relief constituted the only exception to the rule that an owner who had received one loan from the Corporation was not eligible for a second one. "To save the expense of reopening a first mortgage already held by the Corporation on a home, it may permit the writing of a second

mortgage to secure the recondition loan."³⁷

The Corporation also held the authority to advance funds to a home owner for necessary repair and reconditioning work even though his mortgage had not been refinanced by the Corporation. The home owner had to prove that he had been unable to secure the needed loan from a private lending institution before the Corporation could advance the money. Actually, this provision was seldom used. Reconditioning loans were made only to distressed home owners whose mortgages in practically all cases had been refinanced by the Corporation.

The Reconditioning Section also cooperated with insurance adjusters to provide for repairs or rebuilding of homes damaged or destroyed by fire or storm. Settlements from insurance companies averaged approximately \$40,000 a week during the period of maximum operation.³⁸

Cooperative action with other government agencies

In two cases the Reconditioning Section and the Works Projects Administration attempted to coordinate their efforts. In Atlanta, Georgia, and Louisville, Kentucky, the Reconditioning Section supplied the funds and the Works Projects Administration provided the labor on several jobs. The results were unsatisfactory because of the limited number of days that a WPA worker was allowed to work a week and because

most of the jobs were small ones unsuited to that type of employment program.³⁹

During the War the Reconditioning Section cooperated with other agencies on several occasions. Under the Home Use Service program it secured seven-year leases on privately owned buildings and dwellings and contracted for their conversion into suitable housing units to house war workers. This work was started in 1942 and terminated in 1944 when the management of the units was transferred to the Federal Public Housing Authority. A total of 47,195 leases were secured by the Section.⁴⁰

The Reconditioning Section also aided the Homes Registration Offices in their program of encouraging the repair, modernization, and conversion of homes to provide additional housing accommodations for war workers. The Section inspected properties and made recommendations concerning the work that had to be done.

The Section was called upon to cooperate with the War Production Board after the adoption of the priorities system for defense housing in 1941. Field investigators made surveys of priority compliance in 284 publicly financed defense housing projects to ascertain the extent of priority compliance and to emphasize the necessity of conserving scarce building materials. Later, in May 1942, another survey was

made in connection with the Board's "stop-construction order". This survey ended in July 1942 by which time over 23,000 contacts had been made in 5,503 cities. All of this work was done on a reimbursable basis.⁴¹

Reconditioning statistics

The Reconditioning Section, during the Corporation's lending period, was primarily concerned with extending reconditioning loans to borrowers whose properties needed necessary repair and maintenance work. By June 30, 1936 nearly 360,000 reconditioning contracts had been awarded.⁴² After the lending period had passed the need for such work decreased quite rapidly although the Section continued to advance loans for this purpose when needed.

When the Corporation started to acquire homes through foreclosure it was found that large numbers needed repair or maintenance work before they would be suitable for sale or rental. Consequently, the Reconditioning Section turned to that type of reconditioning as its primary concern. Of the 66,085 reconditioning contracts awarded during the 1940 fiscal year, 60,235 were of that nature.⁴³

As economic conditions improved borrowers were better able to finance necessary repair work themselves and the number of Corporation foreclosures started a rapid descent. The work of the Reconditioning Section necessarily started to

decline under those conditions. From July 1, 1940 through June 30, 1944 only 71,598 reconditioning contracts were awarded and of this number only 3,093 were made during the 1944 fiscal year.

A total of 867,466 reconditioning contracts amounting to a value of \$183,959,027 were awarded by June 30, 1944⁴⁴. Figures on the number of contracts awarded since June 30, 1944 are not available but would undoubtedly be quite small unless a reversal of the previous trend has occurred.

"Scientific" reconditioning techniques created

The Corporation has attempted to implant two new concepts in the field of property reconditioning. It is hoped that private agencies will follow its lead in this move.

Master specifications. One of the fundamental contributions of the Reconditioning Section has been its building of a set of master specifications with the cooperation of architects, contractors, manufacturers, building trades associations, the United States Bureau of Standards, and the American Society for Testing Materials. The specifications constitute a handbook of approved materials and practices in home reconditioning that is adaptable to varying conditions and localities. Constant revision of the specifications ensured the use of the latest improvements. Work done on

reconditioning projects under the Corporation's jurisdiction was performed in accordance with these specifications. Some private reconditioning work has also made use of them.

The advantage of these specifications is that they make reconditioning work simpler and more uniform. By their use the exact nature of the needed repairs can be adequately and uniformly described and the nature of the work to be performed accurately detailed.

Neighborhood reconditioning. While reconditioning of individual property was necessary for good security, the Corporation realized that it "would have achieved much more permanent and worth while results had they been empowered to recondition surrounding properties." ⁴⁵ The value of a home, although based primarily upon its own assets, is influenced directly by its surroundings. The effect of reconditioning a property in a blighted area, while increasing the value of the property somewhat, is not so satisfactory as the results of renovating the entire area.

Though the Corporation had no legal power to compel neighborhood reconditioning it encouraged such activities. The Reconditioning Section's staff participated in the preparation of neighborhood conservation surveys and in the development of cooperative improvement plans in those areas where the Corporation had a heavy concentration of loans. The most notable project was attempted in Baltimore, Maryland, in

a district known as the Waverly area. The Reconditioning Section, with the cooperation of private mortgage and insurance companies and with individual owners of both mortgaged and unencumbered properties, initiated an improvement project covering several blocks. Where the home owner was unable to finance the cost of reconditioning loans were obtained through the Federal Home Loan Bank System and private lending agencies. The city cooperated in the program by constructing necessary street and alley improvements, parks, and playgrounds.⁴⁶

Loan Servicing

The Corporation's financial success depended in large part upon the system developed in servicing its loans. Personal contact by Corporation representatives could not be used entirely because this method would prove too costly in view of the Corporation's country-wide organization. Another factor needing consideration was its policy in handling defaulting mortgagors. Too lenient a policy would result in an eventual breakdown in the Corporation's financial structure while too strict a policy would bring charges that the Corporation was abrogating the philosophy underlying its creation.

Collections

It was decided that mail billing would be the most

efficient and least costly method of loan collection. Monthly bills were mailed to the home owner in advance of the due date from regional offices. These offices were selected as the proper collecting offices as all loan records were kept there. As a means of convenience to the borrowers, collection offices were established by the Corporation in loan-concentration areas where payments could be made in person rather than requiring that the payments be made only to the regional offices by mail.⁴⁷

Sixty days after the first missed payment a field representative of the Loan Service Division made a personal call on the home owner. His task was to locate the cause of the trouble and to suggest any possible cure. "This is a fundamentally different approach from the methods of earlier years, when inability to make repayment according to the terms of the mortgage contract was solely the borrower's problem, and it was up to him to find his own solution."⁴⁸

When these methods failed to produce payments and delinquency reached the ninety-day stage the case was turned over to the State Loan Service Division to follow through either to collection or to foreclosure.

Procedure followed with defaulting home owners

Every possible aid was rendered to the home owner by the Loan Service Division. The method developed rested on

the assumption that better results could be obtained by an individual case analysis than by bulk treatment. The bases for this assumption were: (1) that the real cause of delinquency must be ascertained and a solution worked out cooperatively by mortgagor and mortgagee; (2) that careful investigation of the facts in each individual case spot-lights the real problem and permits accurate classification of delinquent loan accounts; (3) that since the mortgagor is more interested in the property than a third person, every inducement should be made to get the mortgagor to make some payment; and (4) that the problem of the mortgagor becomes automatically the problem of the mortgagee.⁴⁹

Satisfactory solutions to the defaulting home owner's problems were sought by whatever means available. Attempts were made to secure positions for the home owner if he was unemployed, arrangements were made for public assistance for the most needy, and loans were extended in certain cases. The latter method provided for the recasting of the loan payments more nearly suited to the individual's ability to pay.

Foreclosures

Foreclosure was undertaken only after all other efforts to secure payment had failed. In most cases foreclosure resulted from abandonment of the property, wilful refusal to

pay, death of the borrower, legal complications outside the control of the Corporation, or the absolute inability of the home owner to pay.

Charges that the Corporation pursued a hard-boiled foreclosure policy were unfounded. In over 70 per cent of all cases the Corporation withheld foreclosure proceedings until the arrearage amounted to twelve monthly installments or more. Because of this practice, "the average loan balance at the time of foreclosure was actually higher than the average original amount of the foreclosed loans ... the Corporation made substantial advances for taxes, insurance, and maintenance over and above the original loan amount before it resorted to foreclosure."⁵⁰ The Corporation's foreclosure policy might well be described as firm but not hard-boiled. It was this firmness in the face of bitter criticism that prevented the entire bottom from dropping out of the Corporation's program.

The question of the Corporation's right to foreclose was even brought to a judicial test. The court determined that

the obligation of the mortgagor to pay or the mortgagee to foreclose in accordance with the covenants in the note and mortgage are all absolute and none of them are made contingent on the borrower's health, good fortune, or ill fortune, or the regularity of his employment. In this respect a mortgage to the Home Owners' Loan Corporation is in no different status than one to any other person or corporation

and the court can in nowise change the contract or the obligation entered into.⁵¹

Foreclosure proceedings were handled by the State office after receiving the approval of the regional office. In most States practicing attorneys from the Corporation's "Approved List of Fee Attorneys and Title Companies" were employed to carry out the foreclosure proceedings. The State office assumed a supervisory role in the process.

The greatest number of foreclosures occurred during the recession period from July 1936 to June 1937 when the average age of the loans was about two years. By that time it became apparent that it was the only thing to do in those cases where the individual was absolutely unable to repay the loan and in those cases where the individual wilfully refused to do so, hoping to receive a free gift from the Government. During the 1937 fiscal year 70,864 foreclosures were authorized.⁵² From that peak period the number of foreclosures has shown a constant decrease. During the 1945 fiscal year the number totalled only 432 and it has been estimated that only 100 foreclosures will occur during the 1947 fiscal year. By June 30, 1946, 198,196 properties had been acquired by the Corporation through foreclosure.

When viewing the foreclosure policy of the Corporation, keeping in mind the type of mortgagor refinanced by the Corporation, the "outstanding fact is not that the Corporation

may ultimately have fifteen per cent of foreclosures but that 85 per cent or more of homes that were absolutely lost have been saved." ⁵⁴ This prediction, made in 1938, proved to be fairly accurate but erred on the optimistic side. Actually, 80.5 per cent were still solvent as of June 30, 1946.

Tax and insurance problems

The Corporation found in its loan servicing that taxes and insurance costs were difficult problems for its mortgagors. Loan payment is usually made by monthly installment but tax and insurance charges are usually paid in lump sum. Just how burdensome taxes were on the Corporation's mortgagors can be illustrated by the fact that 40 per cent of them were delinquent in tax payment for one or more of the years during 1933 to 1937. ⁵⁵

There are approximately 182,000 taxing jurisdictions in the United States. Under our haphazard system of tax administration it becomes a difficult problem to keep a current check upon the payment of local taxes by the mortgagor. Prior to 1939 the Corporation spent approximately \$350,000 a year to check the properties on which it held mortgages. ⁵⁶

During this same period the Corporation, to protect its lien, advanced considerable amounts to its mortgagors for the payment of taxes. The peak was reached during the 1940

fiscal year when such advances totalled \$66,283,241.⁵⁷ At the same time the Corporation was also paying an average of \$500,000 a month for penalties and interest on delinquent taxes.

A payment plan for taxes and insurance. The Corporation inaugurated a plan in September 1939 to protect itself against tax and insurance defaults. The plan permitted the home owner to transmit advances on a monthly basis for taxes and insurance. Those mortgagors who received an extension or revision of their loan payments under the Mead-Barry Amendment were required to enter into the tax and insurance plan with the Corporation. "Under this arrangement the home owner agrees to deposit monthly with the Corporation one-twelfth of the amount of his annual taxes and one-thirty-sixth of the amount of a three-year fire insurance premium."⁵⁸ At one time, on June 30, 1942, the number of mortgagors using this plan numbered 431,213.⁵⁹ The number has since decreased due to the reduction in the number of outstanding accounts. However, the proportion of such accounts to accounts outstanding has steadily increased. This proportion was approximately 53 per cent on June 30, 1942, and has risen to approximately 70 per cent at the present time.

Change in insurance policy. The Corporation had maintained insurance contracts since 1935 with the Stock

Company Association, formed to represent the stock fire insurance companies, and the Mutual Company Association, formed to represent the mutual fire insurance companies. These contracts covered the properties owned by the Corporation and the properties of borrowers who failed to provide adequate insurance protection for their properties.

A study of the Corporation's insurance program made during 1939 showed that fire losses on its mortgagors' properties proved to be very low compared to the premiums paid for the insurance. On February 1940 an invitation was extended to all insurance companies licensed to do business in the United States to submit bids for the insurance of the properties. A total of twenty-nine bids were submitted. The bid of the Stock Company Association was accepted, a new contract was executed, and existing contracts cancelled.

Under this agreement an open policy was provided for each State and Territory under which the properties of those borrowers who maintained monthly tax and insurance accounts with the Corporation could be insured. It also provided for insuring the properties of those borrowers who provided insufficient insurance for their properties as required by the Corporation.

It was not compulsory that mortgagors insure their property through the Stock Company Association but 90 per

cent of them who had adopted the Corporation's tax and insurance payment plan did so.⁶⁰

As a result of this insurance study the Corporation decided to handle its own insurance protection on properties owned by it. In June 1940 the Corporation cancelled all outstanding insurance policies carried by it and adopted a plan for the monthly accrual of a reserve for fire losses.

Loan servicing statistics

Loan servicing remains as the primary activity of the Corporation at the present time but even it has decreased considerably during the past few years. This is attributable to two reasons: (1) the number of outstanding loans has decreased considerably, and (2) improved economic conditions have made it easier for the mortgagors to maintain their accounts in a solvent status.

On June 30, 1939 forty-nine per cent, or 390,410, of the original accounts needed loan servicing. Of this number 204,298 accounts were more than three months delinquent; 74,374 represented problem cases although not actually in default; and 111,738 were delinquent in tax payment.⁶¹ On that date only 53 per cent of the accounts were being paid on schedule.

By June 30, 1945 only 10,972 of the 532,495 active

accounts were in arrears three months or more and 92,642 were in arrears less than three installments. By June 30, 1946, ninety-eight per cent of the 430,307 accounts outstanding were current or less than three months in arrears, leaving only 2 per cent, or approximately 8,500, seriously in need of loan servicing.⁶²

Property Management

Properties acquired by the Corporation were ultimately to be sold although they might stay in the possession of the Corporation for some time. The first step, after acquisition, in the majority of cases was necessary repair and reconditioning. Experience had demonstrated that this step enhanced the sales price of the property by a greater amount than the cost of the repairs. The average repair expenditure on acquired properties has been approximately \$333 per property.⁶³

The Corporation did not develop the practice of immediately ridding itself of its property holdings although sale was the ultimate destination. During the peak of its property holding in 1938 and 1939 the Corporation was such a factor in "the residential real estate market that if it pursued a policy of dumping, irrespective of losses or local conditions, it would soon so undermine the real-estate structure as to not only stop new building but depress the value

of the hundreds of thousands of homes on which it held mortgages." ⁶⁴ On the average, the homes were held a little more than ten months before being sold.

Acquired properties were placed under the supervision of the Property Management Division. This Division determined whether the properties were to be offered for immediate sale or rented for a period of time. It performed no rental or selling duties itself but did supervise these operations. These supervisory activities cost more than \$40 per year for each individual property.

The actual rental and selling of the properties were handled by contract and approved real estate brokers. Lists of sales and management brokers were compiled by the Property Management Division for these purposes. When the Division determined that a property should be rented it contacted one of the listed management brokers for that area who then performed the actual rental and rent collection duties. In the case of sales, the Division compiled lists of its properties to be sold, together with the established sale prices, in a particular locality and forwarded these lists to the sales brokers for that particular locality. These brokers were then free to contact prospective home buyers and make arrangements to sell the properties.

Brokers operated on a fee basis set by the Corporation's home office on the recommendation of the regional

office. These fees were based on the fees established by the real estate board of the locality if such fees were reasonable. If considered to be not reasonable, the Corporation established a fee schedule which it believed reasonable for the work.

Properties were sold on an all-cash basis or on a cash down payment of 10 per cent or more of the sales price, with the balance amortized for a period not exceeding twenty-five years. ⁶⁶ Actually, only 6 per cent of the sales have been made on an all-cash basis.

The Corporation faced other problems in the sale of its properties beside the fear of reducing real-estate values through immediate large-scale selling. Homes held by it were predominantly old and of the small-value type. To sell these houses the Corporation had to meet the competition not only of new housing but that of other institutions with houses to sell.

The decision to sell was not greatly influenced by the loss which would occur from the anticipated sale and the sales price was not determined by the capitalized value or acquisition cost but by the actual market value. This practice has resulted in a loss of approximately \$1400 per property. The average sales price has been 94 per cent of the original loan and 74 per cent of the capitalized value of the property. ⁶⁷

That the Corporation has had success, other than monetary, in the selling of its acquired properties cannot be denied. Until April 1939 the number of properties acquired monthly had exceeded the number sold. Since that time the reverse has been true in an increasing ratio. Two factors have contributed to this situation. Loan extensions permitted by the Mead-Barry Amendment have materially reduced the number of foreclosures and the housing shortage occasioned by World War II created a market for any available housing. The fact that the Corporation's "favorable balance of trade" in owned properties started before either of these factors were present does not alter the fact that had they not occurred the Corporation's owned property situation might be much different. By January 30, 1947 the Corporation owned only 38 of the nearly 200,000 properties it had acquired.⁶⁸

A rather small, but fairly important, accomplishment of the Corporation's sales activity has been its ability to meet the demand for low-cost housing. "Over 28 percent of its total sales have been in the price class below \$2,000, and more than half have represented units priced below \$3,000, which are generally within the reach of families with less than \$1,500 annual income."⁶⁹

Property management statistics

Peak property management activity had ended before 1942. The Division had acquired the vast majority of its properties between the 1937 and 1940 fiscal year and its heaviest selling period occurred between the latter part of the 1939 fiscal year and the 1941 fiscal year.

During the 1937 fiscal year the Division acquired 70,864 properties while it sold 49,716 during the 1940 fiscal year. Its peak in property holdings was reached during July 1938 when it handled 103,349 properties.

By the 1945 fiscal year its activity had decreased to such an extent that it acquired only 432 properties and sold 4,990. It is estimated that it will further be reduced to the point where only 100 properties will be acquired and 250 sold during the 1947 fiscal year.

Liquidation Progress

Too strict a comparison with "sound" business practices should not be made when considering the liquidation progress of the Corporation. In the first place, a safe financial consideration would not have dictated the refinancing of many of its loans. The average mortgagor when refinanced had been several months in default and unable to secure aid from private sources. Loans, in many cases, were made on homes in great need of repair and in areas where blight had made its appearance.

The Corporation had barely started operation, before two types of proposals were being made that would materially effect its liquidation progress. One type wanted liberalized mortgage terms while the second type sought enforced early liquidation of the Corporation.

Demands for liberalized mortgage terms

Despite the fact that the Corporation offered its mortgagors the most liberal mortgage terms experienced in this country to that time pressure soon appeared for greater liberalization.

With the rescue job well done ..., the HOLC was an easy target for various agencies and individuals who sought economic or political favor with the mortgagors, particularly with those who found themselves in trouble largely because of the decline in economic activity during late 1937 and early 1938. Many of these self-appointed friends of the people and agitators against the HOLC policy represented the same group, who were responsible largely for the original mess.⁷⁰

The demands for liberalization favored three proposals: lower interest rates, extension of the amortization period, and a new moratorium on principal payments. The Corporation's attitude was against any liberalization for several reasons: the terms were already the most liberal given, the Corporation was operating at a deficit and liberalization would result in further deficits, the difference in monthly payments would help the home owner only slightly, a moratorium would not help those in default because the

Corporation was already authorized to extend the payment period, and such changes would necessitate the recasting of the mortgages.⁷¹

In opposition to its announced views, however, the Corporation ruled on September 7, 1939 that after October 15, 1939 the interest rate would be reduced to $4\frac{1}{2}$ per cent on all loans. The probable object was to cut off further liberalization demands. By acting on its own initiative it hoped to forestall a possible lower rate imposed by Congressional action.

On August 11, 1939 some degree of liberalization had already been achieved through Congressional enactment. The Mead-Barry Amendment authorized the Corporation to extend the amortization period to twenty-five years where conditions merited such action.⁷² The concrete results provided by these two moves permitted the borrowers ten more years to pay their indebtedness and reduced their monthly payments from an average of \$24.55 to \$14.96.⁷³ In all, some 251,000 loans were extended under this amendment.

Even these previously unheard of liberalized terms failed to stop subsequent demands for more. In 1944 the National Association of Home Owners' Loan Corporation Mortgageors was advocating an interest rate of 3 per cent and an extension of the amortization period to 30 years.⁷⁴

Demands for early liquidation

Early liquidation proposals came from two sources: (1) legislative, and (2) private institutions dealing with housing finance. These proposals have produced no change in the original directive that the Corporation shall be liquidated by June 30, 1952. However, Congressional discussion of immediate liquidation and misleading publicity of that fact during 1943 caused thousands of the Corporation's mortgagors to arrange new loans with private lending institutions. Quite often these new loans were made on disadvantageous terms.

Congressional attacks. Legislative opponents of the Corporation, led by Representative Dirksen of Illinois and Senator Byrd of Virginia, started their attacks in 1940 and reached their greatest strength in 1943. Three major points were emphasized in their attacks: (1) the Corporation was an emergency agency and the emergency had passed, (2) non-war expenditures should be reduced, and (3) home financing was a private enterprise function and should be returned to it.

Although the Corporation vigorously opposed any liquidation plan other than that originally enacted the Joint Congressional Committee on Reduction of Non-essential Federal Expenditures under the chairmanship of Senator Byrd recommended to Congress that the Corporation be liquidated by June 30,

1945.⁷⁵ Also, the Independent Offices Appropriation Act of 1944 required the Corporation to submit semi-annual reports to Congress during the fiscal year, 1944, with respect to its liquidation showing "all dispositions of the property of such Corporation by States during the period of liquidation, together with the amounts of Federal funds expended in the process of liquidation, and any losses incurred in the use of such funds during each quarterly period of the fiscal year 1944."⁷⁶

Despite these attacks the Corporation was able to weather this period of legislative scrutiny without change being made in its liquidation plans. Apparently the opposition lost its force after that period for the Corporation has been sailing in fairly calm waters since that time.

Proposals made by private institutions. A group of mortgage lending institutions engaged in offering proposals whereby they would agree to take over mortgages held by the Corporation. They were classified by John H. Fahey, Commissioner of the Federal Home Loan Bank Administration, as the type who seem

to believe that the only purpose for which Congress established the Corporation was to take over their poor loans, enable them to put cash received into profitable mortgages and, after the Government had spent millions in making some of these defaulted obligations safe again, to turn them back to those who were foreclosing them from 1933 to 1936, and leave all the losses to the Government.⁷⁷

However, these proposals always had certain "conditions" present whereby the institutions would be sure of only one thing - easy profits. Such "conditions" usually stipulated that: (1) the private concerns take over all loans with the Government giving a complete guaranty against losses, (2) they take over only the "good" loans leaving the "slow" ones with the Government, or (3) they take the sound loans at par and accept the others at a discount.⁷⁸

No attempts were made by the Corporation to follow any of these proposals. If it had transferred only the "good" loans it would still require a nation-wide organization to service the "poor" loans remaining in its portfolio. This would have resulted in large losses to the Government. Any attempt to sell all of the mortgages would again result in a loss to the Government through loss of income from future interest payments.

Liquidation statistics

The Corporation's liquidation has been moving forward in an orderly fashion. On June 30, 1946 the number of loans outstanding totalled 430,307 and it is estimated that the figure will have declined to 343,090 by June 30, 1947. The value of these loans outstanding was \$736,000,000 on June 30, 1946 and had further diminished to \$621,412,000 on January 31, 1947.⁷⁹ As of that date the Corporation was

approximately 82 per cent liquidated.

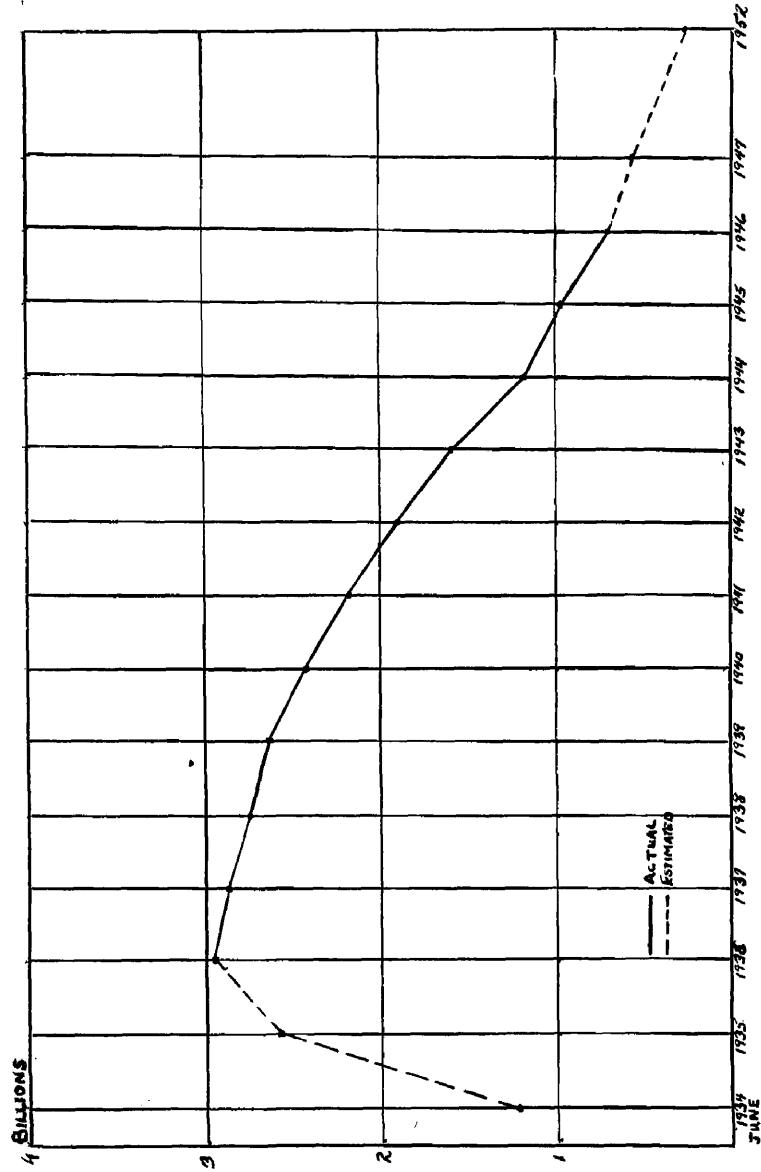
In accordance with statutory provision all money received on principal repayment has been deposited regularly in the Bond Retirement Fund and used exclusively for the retirement of bonds. By Board resolution certain other income such as the proceeds from property sales and the repurchase of investments in savings and loan associations are also placed in the Bond Retirement Fund. On June 30, 1946 bonds outstanding totalled \$737,000,000 and it is estimated that this figure will be reduced to \$588,258,000 by June 30, 1947.

By June 30, 1945 the cumulative net income had reached \$243,319,544 while the Corporation's losses totalled \$335,649,490.⁸¹ Thus, its operating deficit as of that date stood as \$92,329,946. This was later reduced to \$72,000,000 by June 30, 1946.

Considering the Corporation's present trend in loan amortization and its income and expense statements it is anticipated that there will be a remaining balance of outstanding accounts amounting to \$270,925,000 on June 30, 1952, the final liquidation date for the Corporation. It is further estimated that the Corporation, "should not only be able to cover all future expenses but also wipe out its present deficit, and thus make possible the return to the Federal

GRAPH I

BALANCE OF ACCOUNTS OUTSTANDING AND PROPERTY ASSETS



Government of the entire original \$200,000,000 capital of
the Corporation." ⁸²

There are two possible courses open for the handling of the remaining outstanding accounts as of that date. Either they can be turned over to an appropriate Government agency in the housing field for final liquidation or, as they will be seasoned mortgages and should be easily saleable, they can be sold to private financing institutions without loss to the Government.

Cooperation with other Government Agencies

Statutory authorization permitted the Corporation to purchase obligations of the Home Loan Banks and, after the funds available to the United States Treasury for such purposes were exhausted, full-paid income shares of Federal savings and loan associations. Originally these activities were confined to Federally chartered associations but an Act of May 27, 1935 permitted investment in State chartered institutions as well, provided they were members of a Federal Home Loan Bank or their accounts were insured by the Federal Savings and Loan Insurance Corporation. ⁸³

The period of heaviest investment was during 1935 and 1936. By the end of this period confidence toward savings and loan institutions had returned to such an extent that continued governmental investment had become unnecessary.

After September 1, 1937 the Corporation followed the policy of making no purchases of shares except in rehabilitation cases of extreme need.⁸⁴ Of the allotted \$300,000,000, the Corporation had invested a cumulative total of \$223,856,710⁸⁵ in the associations by June 30, 1946.

The enabling act permitted a five year period before the associations could be called upon to start repurchasing these Federal investments. At the end of this period of grace the repurchases were to be carried forward at the rate of 10 per cent of the investments per year. However, improved conditions during this five year span had enabled some associations to start repurchasing before the time allotted. By February 1941 the Corporation had received approximately \$40,000,000 through voluntary repurchase and the continuing early repurchasing had reduced the Corporation's investment to \$15,193,000⁸⁶ by September 30, 1946.

Dividends on these investments have helped offset part of the loss from property sales which the Corporation has had to sustain. By June 30, 1945 these dividends had reached the cumulative total of \$43,339,222.⁸⁷

Financial assistance was also extended to the Federal Savings and Loan Insurance Corporation. The entire capital stock of \$100,000,000 of this Corporation was authorized to be subscribed for by the Home Owners' Loan Corporation. The Home Owners' Loan Corporation has retained this

stock to the present time.

FOOTNOTES

Chapter III

- 1 Federal Home Loan Bank Board, First Annual Report of the Federal Home Loan Bank Board, 1933, p. 48.
- 2 Federal Home Loan Bank Review, vol. 1, October 1934 - September 1935, p. 32.
- 3 Congressional Record, 77th Cong., 1st sess., vol. 78, Part 4, p. 3746.
- 4 Senate Committee on Banking and Currency, Hearings: Home Owners' Loan and National Housing Act, 74th Cong., 1st sess., p. 72.
- 5 Cf. Chapter II, p. 45.
- 6 F. Seymour Barr, "Government and Farm Loan Bonds," United States Investor, vol. 45, November 17, 1934, p. 1679.
- 7 Federal Home Loan Bank Board, Second Annual Report of the Federal Home Loan Bank Board, 1934, p. 81.
- 8 United States Government Manual - 1947, 1947, p. 78.
- 9 National Housing Agency, Thirteenth Annual Report, Federal Home Loan Bank Administration, 1945, pp. 50-52.
- 10 C. S. Shade, The Blue Book, (2d Ed.), 1936, p. 9.
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- 12 Federal Home Loan Bank Review, vol. 1, October 1934 - September 1935, p. 141.
- 13 Federal Home Loan Bank Board, First Annual Report of the Federal Home Loan Bank Board, p. 48.
- 14 C. S. Shade, The Blue Book, (2d Ed.), pp. 32, 33.

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- 16 Jones et ux. v. Curtiss et al., 147 P. 2d 916 (1944).
- 17 C. S. Shade, The Blue Book, (2^d Ed.), p. 26.
- 18 C. S. Shade, The Blue Book, (2^d Ed.), pp. 53,54.
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- 20 Federal Home Loan Bank Board, Second Annual Report of the Federal Home Loan Bank Board, p. 83.
- 21 Federal Home Loan Bank Board, Third Annual Report of the Federal Home Loan Bank Board, 1935, p. 56.
- 22 79th Cong., 1st sess., "Report of the Home Owners' Loan Corporation," House Document No. 71, February 16, 1945, p. 3.
- 23 Federal Home Loan Bank Board, Sixth Annual Report, Federal Home Loan Bank Board, 1938, p. 70.
- 24 Congressional Record, 74th Cong., 1st sess., vol. 79, Part 3, p. 3165.
- 25 Cf. Chapter III, p. 61.
- 26 Federal Home Loan Bank Board, Eighth Annual Report, Federal Home Loan Bank Board, 1940, p. 145.
- 27 Federal Home Loan Bank Board, Eighth Annual Report, Federal Home Loan Bank Board, p. 145.
- 28 78th Cong., 2^d sess., "Tenth Annual Report of the Federal Home Loan Bank Administration," House Document No. 493, May 13, 1944, p. 34.
- 29 "Effect on Home Values of Appraisals by the Home Owners' Loan Corporation," Federal Home Loan Bank Review, vol. 1, October 1934 - September 1935, p. 119.
- 30 "Save the Home," Business Week, August 12, 1933, p. 20.

- 31 "Effect on Home Values of Appraisals by the Home Owners' Loan Corporation," Federal Home Loan Bank Review, vol. 1, October 1934 - September 1935, p. 121.
- 32 Cf. Chapter IV, p. 129.
- 33 "Effect on Home Values of Appraisals by the Home Owners' Loan Corporation," Federal Home Loan Bank Review, vol. 1, October 1934 - September 1935, p. 121.
- 34 "Home Reconditioning under the Home Owners' Loan Corporation," Federal Home Loan Bank Review, vol. 1, October 1934 - September 1935, p. 86.
- 35 Federal Home Loan Bank Review, vol. 1, October 1934 - September 1935, p. 347.
- 36 "Home Reconditioning under the Home Owners' Loan Corporation," Federal Home Loan Bank Review, vol. 1, October 1934 - September 1935, p. 85.
- 37 "Home Reconditioning under the Home Owners' Loan Corporation," Federal Home Loan Bank Review, vol. 1, October 1934 - September 1935, p. 85.
- 38 "Reconditioning Activities of the Home Owners' Loan Corporation," Federal Home Loan Bank Review, vol. 2, October 1935 - September 1936, p. 29.
- 39 House Committee on Appropriations, Hearings: Independent Offices Appropriation Bill for 1941, 76th Cong., 3d sess., p. 1192.
- 40 National Housing Agency, 3rd Annual Report, 1944, pp. 90,91.
- 41 78th Cong., 2d sess., "Tenth Annual Report of the Federal Home Loan Bank Administration," House Document No. 493, May 13, 1944, pp. 33,34.
- 42 Federal Home Loan Bank Board, Fourth Annual Report of the Federal Home Loan Bank Board, 1936, p. 31.
- 43 Federal Home Loan Bank Board, Eighth Annual Report, Federal Home Loan Bank Board, p. 143.
- 44 These figures were computed from information appearing in Annual Reports of the Federal Home Loan Bank Administration. They are the latest ones available. The

figures would not be much greater to the present time, for the amount of reconditioning work has steadily decreased since 1936. During the period July 1, 1941 through June 30, 1944, only 35,616 contracts were let with a value of \$15,284,640.

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- 49 Federal Home Loan Bank Review, vol. 6, October 1939 - September 1940, p. 14.
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- 52 Federal Home Loan Bank Board, Seventh Annual Report, Federal Home Loan Bank Board, 1939, p. 134.
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- 60 Federal Home Loan Bank Board, Ninth Annual Report, Federal Home Loan Bank Board, 1941, p. 148.
- 61 Federal Home Loan Bank Board, Seventh Annual Report, Federal Home Loan Bank Board, p. 131.
- 62 "HOLC Heads for the Black," Federal Home Loan Bank Review, vol. 13, no. 1, October 1946, pp. 4,5.
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- 64 Temporary National Economic Committee, Hearings: Investigation of Concentration of Economic Power, 76th Cong., 1st sess. Part II, Construction Industry, p. 5388.
- 65 House Committee on Appropriations, Hearings: Independent Offices Appropriation Bill for 1938, 75th Cong., 1st sess., p. 652.
- 66 Temporary National Economic Committee, Hearings: Investigation of Concentration of Economic Power, 76th Cong., 1st sess. Part II, Construction Industry, p. 5388.
- 67 "HOLC Heads for the Black," Federal Home Loan Bank Review, vol. 13, no. 1, October 1946, pp. 6,7.
- 68 Federal Home Loan Bank Review, vol. 13, no. 6, March 1947, p. 196.
- 69 "Survey of Housing and Mortgage Finance," Federal Home Loan Bank Review, vol. 6, October 1939 - September 1940, p. 71.
- 70 National Association of Housing Officials, Housing Yearbook, 1939, p. 172.
- 71 Federal Home Loan Bank Board, Sixth Annual Report, Federal Home Loan Bank Board, pp. 94-96.

- 72 United States Statutes at Large, vol. 53, Part 2, p. 1403.
- 73 Senate Committee on Banking and Currency, Hearings: To Amend Home Owners' Loan Act, 76th Cong., 3d sess., p. 35.
- 74 Senate Committee on Appropriations, Hearings: Independent Offices Appropriation Bill for 1944, 78th Cong., 1st sess., p. 336.
- 75 78th Cong., 1st sess., "Reduction of Nonessential Federal Expenditures," Senate Document No. 48, May 20, 1943, p. 1.
- 76 United States Statutes at Large, vol. 57, Part 1, p. 186.
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- 78 Congressional Record, 78th Cong., 2d sess., vol. 90, Part 3, pp. 3017-3025.
- 79 Federal Home Loan Bank Review, vol. 13, no. 6, March 1947, p. 196.
- 80 House Committee on Appropriations, Hearings: Government Corporations Appropriation Bill for 1947, 79th Cong., 2d sess., p. 1121.
- 81 National Housing Agency, Thirteenth Annual Report, Federal Home Loan Bank Administration, p. 58.
- 82 79th Cong., 1st sess., "Report of the Home Owners' Loan Corporation," House Document No. 71, February 16, 1945, p. 10.
- 83 United States Statutes at Large, vol. 49, Part 1, p. 297.
- 84 E. S. Wallace, "Survey of Federal Legislation Affecting Private Home Financing Since 1932," Law and Contemporary Problems, vol. 5, no. 4, Autumn 1938, p. 494.
- 85 United States Government Manual - 1947, p. 77.

- 86 Federal Home Loan Bank Review, vol. 13, no. 3, December 1946, p. 96.
- 87 National Housing Agency, Thirteenth Annual Report, Federal Home Loan Bank Administration, p. 52.

Chapter IV

ADMINISTRATION OF THE HOME OWNERS' LOAN CORPORATION

The history of the Corporation can clearly be divided into two major periods. The first period covered its first three years of operation from June 13, 1933 through June 12, 1936. During this time it engaged in actual lending activities. The second period extends from June 13, 1936 to the present time during which it has been in a liquidating status.

The first period was attended by a rapidly expanding organizational structure and a necessity for the establishment of its administrative and regulatory systems. The second period, after a time of fairly stable administrative and organizational conditions, has been characterized by a continual decreasing activity and a constant dwindling away and regrouping of its organizational framework.

It is necessary to examine the Corporation as it appeared at the height of its activities to obtain an accurate picture of its administration. Therefore, even though it is still an agency in good standing, the past tense must generally be used for many of the administrative features once present no longer exist.

Reference will quite often be made to the Federal Home Loan Bank Board even though it was abolished by Executive Order 9070 of February 24, 1942.¹ At that time its name was changed to the Federal Home Loan Bank Administration and the Board was abolished and replaced by a single administrator called the Commissioner. The Home Owners' Loan Corporation, however, experienced its greatest activity prior to that date and the Federal Home Loan Bank Board, as the Corporation's board of directors, served as the directive force for that activity.

General Administrative Organization

Administrative problems faced the Corporation on many fronts. The organizational structure had to be suited to the intricacies of the mortgage lending and real-estate title practices required under fifty-two separate jurisdictions. Major difficulties were encountered in securing satisfactory personnel. Training programs became necessary to ensure technically and professionally qualified personnel for its work. Lines of responsibility had to be so placed as to provide maximum freedom of action in the State and local offices and yet, at the same time, provide adequate supervisory facilities for the home office.

Apart from these questions, the major administrative problems faced by the Corporation during the early part of its program were

inherent on the peculiar character of its work. Unlike many governmental agencies, the Corporation is working not in large units through the mediacy of other organizations, but is dealing directly with nearly 2,000,000 individual homeowner applicants and borrowers in all sections of the country.²

These problems needed answering promptly and under conditions allowing no aid from previous experience in similar operations on any corresponding scale.

The chain of command

The Corporation was to operate under the control and supervision of the Federal Home Loan Bank Board which served as the Corporation's board of directors. Except for this connection and a few auxiliary departments performing services for all the agencies under the Board, the Federal Home Loan Bank System and the Corporation have had separate organizations.

The Corporation's executive control was delegated to a general manager appointed by the Board and assisted by deputy general managers. This control was then stepped down through a line organization comprising assistant general managers, regional managers, and State, divisional, and Territorial managers to the district and local offices.

The home office. A home office was created at Washington where all the policies of the Corporation were determined and corporate action authorized. Principal executive

direction of the Corporation was exercised from this point and control accounts and reports of the Corporation were consolidated here. On September 23, 1941 the home office was moved to New York City to permit more office space in Washington for the expanding military activities. It has remained in New York to the present time.

Special departments and divisions were created to deal with the special or technical aspects of the Corporation's work such as appraisal, reconditioning, loan servicing, and property managing. Auxiliary functions such as personnel, legal advising, and fiscal were performed by departments responsible directly to the Federal Home Loan Bank Board. These departments performed similar services for all of the agencies under the Board's direction.

Those departments created specifically for the Corporation's work were directly accountable to the general manager while those departments performing auxiliary functions were responsible to the Federal Home Loan Bank Board.³

Departments or divisions created in the home office were, in most cases, mirrored in the regional and State offices. Those regional, State, and district employees whose home office department or division heads reported directly to the Board were subordinate to their office managers in respect to discipline and compliance with manuals of procedure

that were not inconsistent with regulations issued by the home office department or division heads.⁴

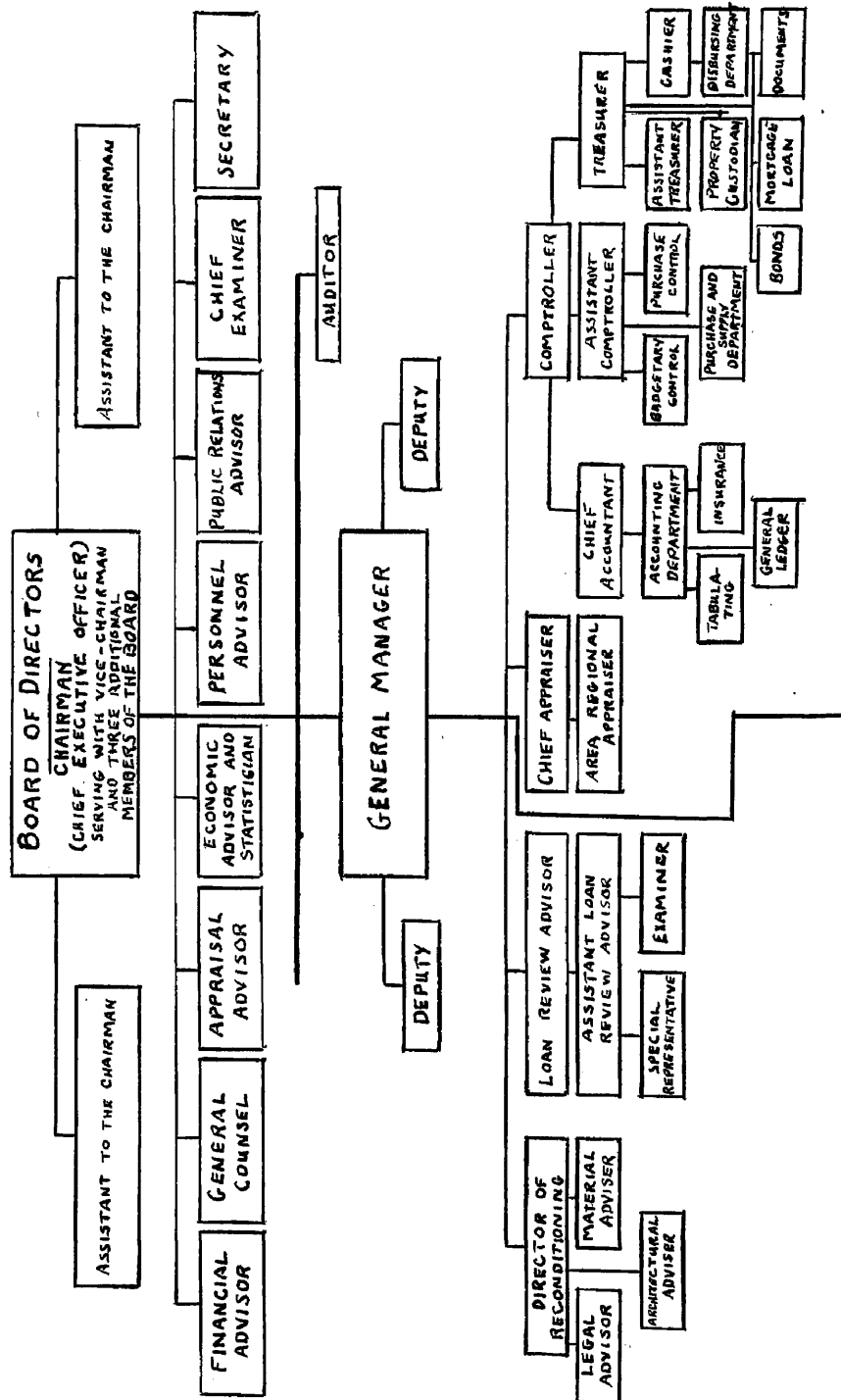
Deputy general managers were placed in charge of departments or divisions in the home office and assistant general managers were appointed to supervise the six district areas into which the United States was divided. These district areas were merely administrative devices. The assistant general managers in charge of these district areas remained in the home office and concerned themselves with the activities of the Corporation's State and district offices located within their respective districts. They served little purpose in the Corporation's operations, particularly after the regional offices were established, and were finally abolished on September 1, 1938.⁵ Home office supervision of field operations has been exercised by the general manager through home office department and division heads since their elimination.

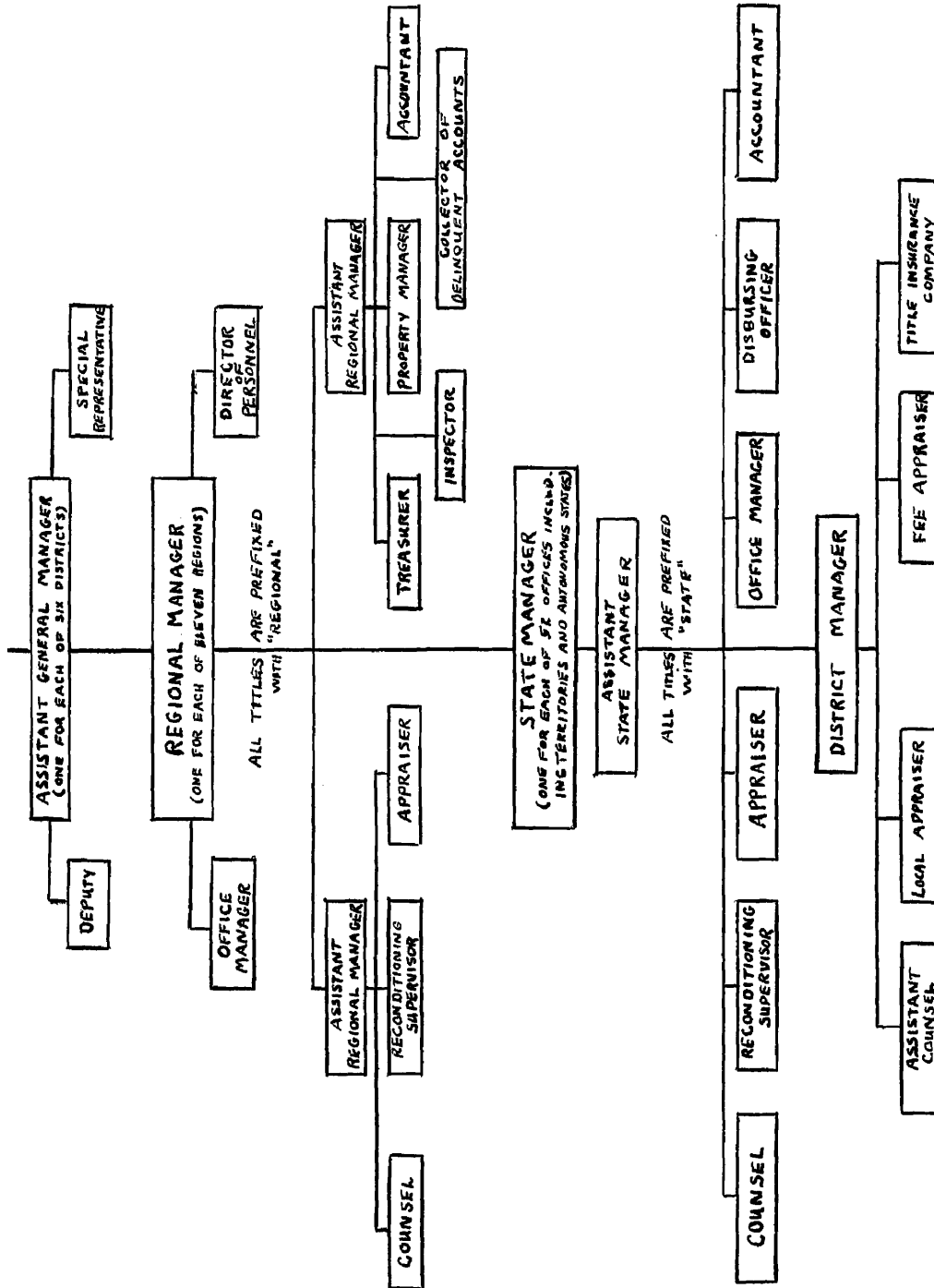
Regional offices. Regional offices were created between June 1934 and January 1935 after it became apparent that expeditious supervision of field operations by the home office alone was impossible. The regional offices did not assume new duties but

represent a breakdown and decentralization of functions that would otherwise have to be handled centrally in the home office. By decentralizing through regional offices the Corporation has not

CHART I

ORGANIZATIONAL CHART OF THE HOME OWNERS' LOAN CORPORATION AS OF JUNE 30, 1935





REPRODUCED FROM THE THIRD ANNUAL REPORT OF THE FEDERAL HOME LOAN BANK BOARD, 1935, PAGE P. 63.

only avoided an unnecessary and undue concentration of personnel at Washington and eliminated the handicaps, delays, and travel expenses that distances to one central office would have involved, but has facilitated dealings between supervisory executives and officials engaged in field service, with resulting improvement in efficiency all along the line.⁶

State offices. State offices were established in every State except Texas. Because of the distances involved in that State three divisional offices were located in Dallas, Houston, and San Antonio. Territorial offices were established in Hawaii, Puerto Rico, and the District of Columbia while the Washington State office assumed the responsibility for operations in Alaska.

These offices were responsible for the lending operations. All applications were finally passed upon and all loans disbursed by the State agencies with the exception of a small number of special cases that had to be approved by the home office.

Local offices. District offices were established at points of principal loan concentration and operated under immediate direction from the State offices as a part of the State agencies. In addition, loan service and collection stations were organized in local areas to bring the Corporation directly to the individual home owner. All personal contacts were made by the State, district, and local offices.

CHART II

A TYPICAL REGIONAL OFFICE
AS OF JUNE 30, 1935

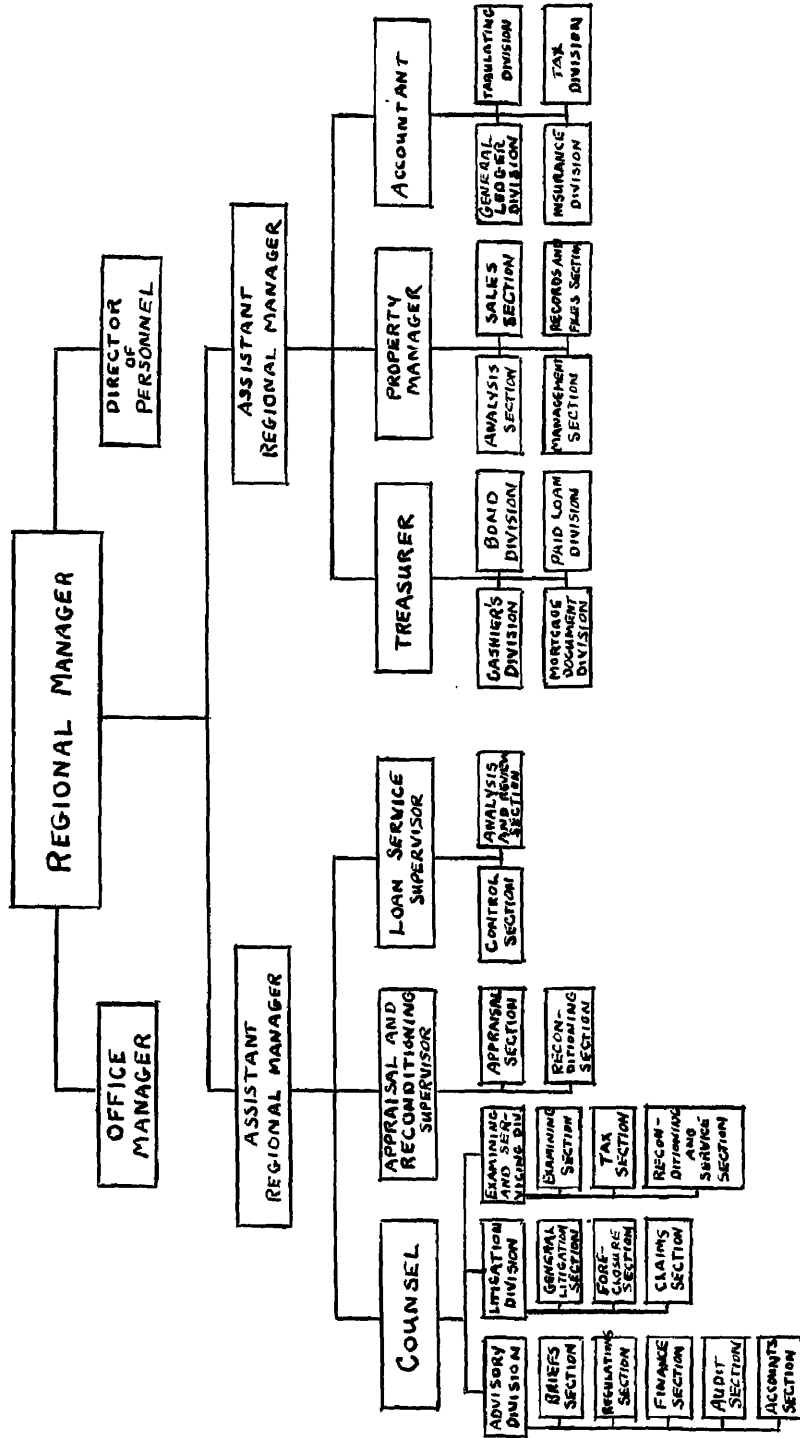
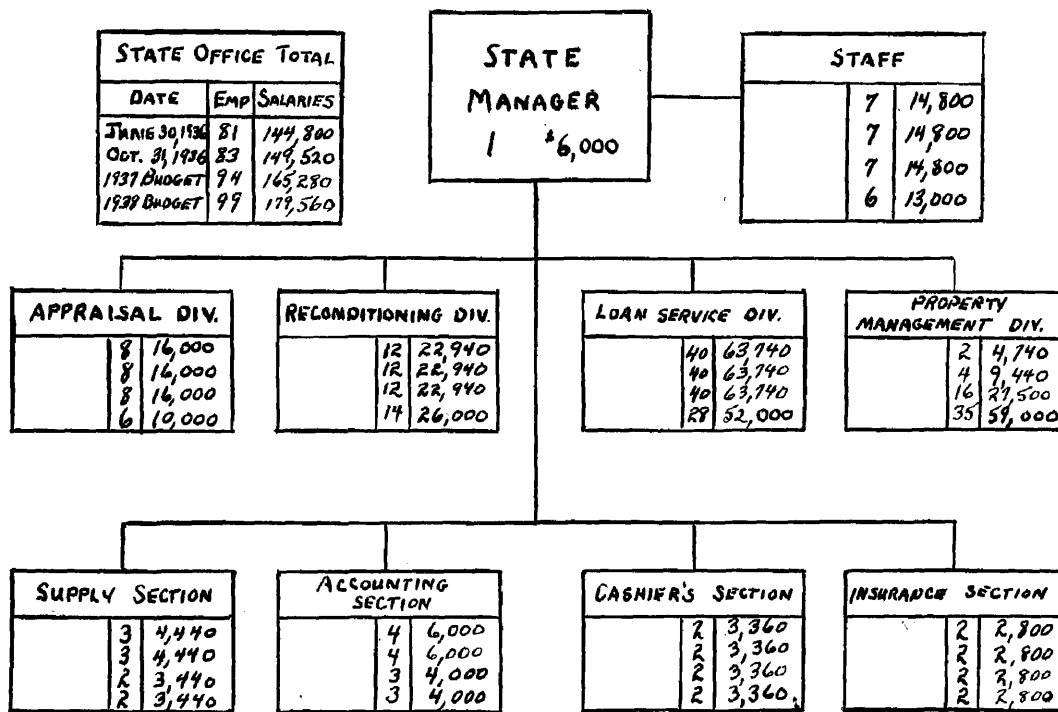
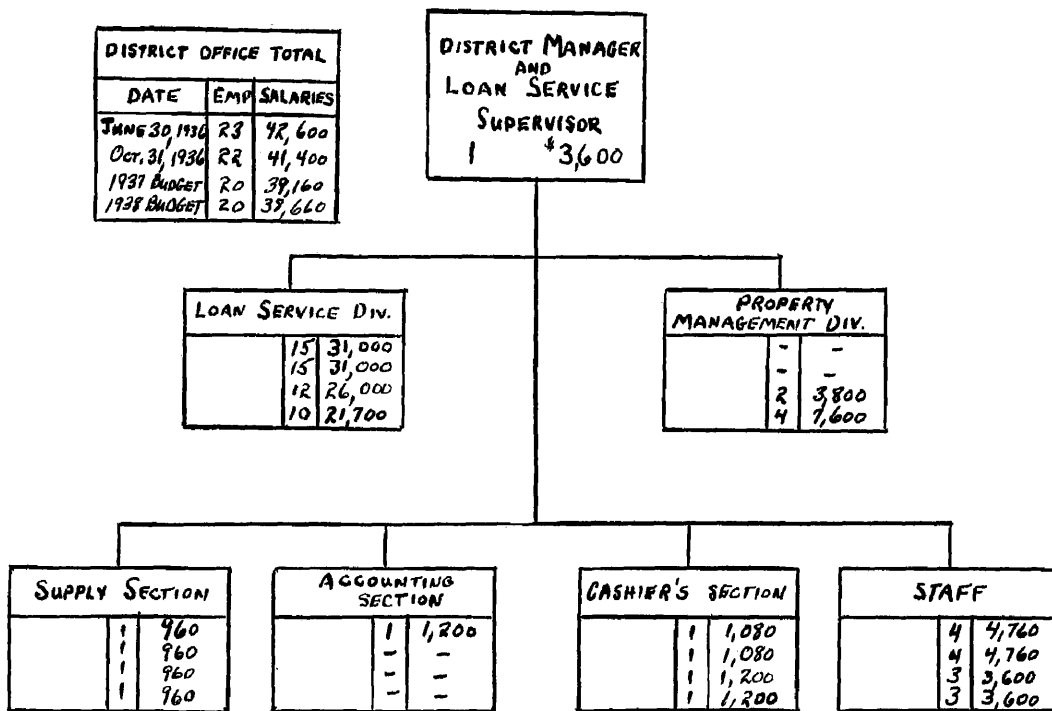


CHART III
A TYPICAL STATE OFFICE



TAKEN FROM HOUSE COMMITTEE ON APPROPRIATIONS; HEARINGS: INDEPENDENT OFFICES APPROPRIATION BILL FOR 1938, 75TH CONG., 1ST SESS., 1937, P. 659

CHART IV
A TYPICAL DISTRICT OFFICE



TAKEN FROM HOUSE COMMITTEE ON APPROPRIATIONS, HEARINGS: INDEPENDENT OFFICES APPROPRIATIONS BILL FOR 1938, 75th CONG., 1st SESS., 1937, P. 658.

Number of offices established

The Corporation rapidly expanded the number of its offices. The peak was reached in 1938, two years after its lending period had stopped. The necessity for this expansion after the lending period had finished might appear doubtful but it should be remembered that the Corporation experienced its greatest loan servicing problems during the recession years of 1936 and 1937. This required an increase in the number of local loan service stations to cope with the situation. During 1938 the Corporation had ten regional offices,⁷ fifty-five State, division, and Territorial offices, fifty-two district offices, and three hundred and seventeen loan service and collection stations.⁸

Home office supervision

All supervision of the field offices was performed by the home office and all accounts and records were centralized there during the first months of operation. As the Corporation's work grew it became physically impossible to maintain all of the supervisory functions in one central office. Eleven regional offices were established during 1934 and the immediate supervision of the field offices delegated to them.

The home office maintained general supervisory duties after the regional offices were established. It saw that the general policies issued by the board of directors

were carried out, provided technical assistance to the regional offices, and exercised general administrative control over their activities. The home office also served as the central gathering point for all records and reports on the Corporation. These records and reports were based upon the information forwarded to it from the regional offices.

Regional office supervision

The regional offices assumed the direct supervision of the field offices. Each regional office operated under the direction of a regional manager appointed by the board of directors. The structural organization of the regional offices was designed to permit the most direct supervision of State and district offices possible. For that reason divisions were established within the regional offices to supervise each type of activity in which the Corporation participated.

In 1935, at the peak of operation, a typical regional office presented this picture. Under the supervision of the regional manager were assistant regional managers directing the work of an Appraisal Section, a Reconditioning Section, a Delinquent Accounts Section, a Property Management Section, a Legal Department, an Accounting Department, and a Treasury Department. The executive staff also included an office manager and a director of personnel. These

sections supervised the work of their respective sections within the State and district offices.

Despite the obvious advantages derived from the use of regional offices considerable Congressional opposition to their establishment was encountered. This opposition culminated in an amendment introduced in the Senate to transfer regional activities to State offices.⁹ Fortunately it was defeated. Its supporters failed to realize the distinctive difference between the State and regional offices. They failed to distinguish between the actual lending functions and the supervision of those functions. A transfer of the regional activities to State offices would have rendered the State officers subject to their own control with the remote possibility of being effectively supervised by the distant home office. Such an administrative organization would have resulted in great variation throughout the country in the caliber and methods of work performed by the State offices.

Other supervisory provisions

Other methods of overhead control were developed to ensure a large degree of satisfactory operation in addition to home and regional office supervision.

Inspection and investigation. The Corporation employed field investigators to carry on continuous spot-

checking of the regional and field offices. Whenever reports were received in the home office that indicated weaknesses in operations these investigators were sent to the offending office to ascertain the reason for the difficulty. Investigations were made wherever anything showed up indicating an error in judgment or mismanagement.¹⁰

State Advisory Committees. State Advisory Committees were appointed to observe and advise on State office operation. The members, three in number, were appointed by the board of directors upon the recommendation of the State manager. The members received no compensation and if they failed to function the Board was so notified and it could appoint new members.

These Committees met periodically and observed the operations of the State offices. They gave such advice as appeared appropriate and the State managers could take any problem to them for discussion, "so that home owners in distress may be properly and fully served."¹¹

It appears highly improbable that these Advisory Committees served a very useful purpose. Periodic inspection of the Corporation's operation certainly would not afford these committees with sufficient information to offer pertinent suggestions or advice concerning specific operational problems.

Administrative Departments

Departments or divisions were established within the Corporation to handle specific functions as the need for them arose. Basically, the major activities of the Corporation concerned appraisal, reconditioning, loan servicing, and property managing. Other activities supplemented these in their work.

Appraisal and Reconditioning Division

Each of these activities was originally under the jurisdiction of a separate division but during 1936 they were combined within the Appraisal and Reconditioning Division and each reconstituted a Section.

Appraisal Section. Home office supervision of the Corporation's appraisal work was originally exercised by an Appraisal Advisor to the Board aided by a senior assistant and five others, each of whom supervised an area consisting of several States. In addition, there were twenty-five others, known as regional appraisers, each assigned to a State or a group of States. These, with assistants, were employed in continuous spot-checking of local personnel, values, and other appraisal problems.

The reorganization of the Appraisal and Reconditioning Divisions in 1936 abolished the position of the Appraisal Advisor and placed control in the hands of a deputy

general manager with jurisdiction over both Sections. The reorganization did not effect the method of supervising appraisal activities.

Appraisal supervision was delegated down through regional Appraisal Sections to State appraisers who controlled and supervised, through district appraisers, the appraisal work in each district. These district appraisers, in turn, supervised the appraisers making the actual appraisals, both preliminary and fee.

State appraisal advisors were appointed to aid in developing a good appraisal program. They were to consider appraisal results, personnel, and the Corporation's appraisal methods. They were to offer suggestions and recommend appropriate changes to the Appraisal Section. They served without pay and were to be selected "because of their experience and, in every case, outstanding citizens in their own community whose judgment receives ready and general acceptance."¹³

Selection of the proper appraisal personnel placed a great problem before the Corporation. The work could not wait until a force had been trained in the technicalities of the work to be undertaken. Training had to take place along with the lending operations. To allow immediate action and at the same time to protect the interests of the Corporation,

a screening process was inaugurated to provide a check on early errors. Reviews of the appraisals were made while the applications were still under consideration.¹⁴

A person had to have one or more of the following qualifications to be eligible as an appraiser of the Corporation: (1) at least five years of actual full time experience in the real estate brokerage and appraisal business, (2) at least five years experience as an appraiser of residential properties for a banking or home-financing institution, (3) experience in assessing residential property for a city, town, county, or State government, (4) be qualified as an expert appraiser in court, (5) be a member of the American Institute of Real Estate Appraisers, (6) be otherwise professionally qualified beyond doubt as a builder or architect. The last qualification was to apply to rural communities.¹⁵

The examination and rating of appraisers moved forward until at the height of its activity the Corporation had approximately 8,500 appraisers of which 6,500 were fee appraisers. These fee appraisers were not Corporation employees.

The Appraisal Section maintained card files on all appraisers making Corporation appraisals. These were kept up to date as well as possible and recorded current experiences

with the individual. In brief form they gave the background of their experience, their previous connections, the opinions of their present supervisors, and their professional ratings as established by the Corporation. These ratings were based on their accuracy in fixing values, on their care and thoroughness in inspections, on the quality of their reports, on their integrity and standings, and on their grades in written examinations on appraisal subjects.¹⁶

The Corporation rendered a service to the country by the development of its appraisal techniques. The training of appraisal personnel and the development of a national standard for real-estate valuations helped to bring a semblance of order to the home-mortgage field.

The comment of more than one bank man, that the real worth of Federal Home Owners Loan Corporation bonds depends upon the skill with which these men do their appraising, and that time alone can tell how they are doing their work, is absolutely correct. But there is convincing evidence that the management is picking its appraisers carefully and does not mean to be victimized.¹⁷

Reconditioning Section. The Reconditioning Section was established during 1934. The number of necessary home repairs and the proviso in the Act of April 27, 1934 permitting the remodeling and modernization of homes resulted in activities on too large a scale to be handled successfully by means other than a specialized section.

The Reconditioning Section was responsible for

determining the need for reconditioning, for aiding the home owners in securing reconditioning contracts, and for inspecting and supervising the repair operations. It also supervised the work done on homes when the Corporation granted loans for improvements beyond the necessary repair category.¹⁸

A director of reconditioning originally managed the Reconditioning Section. In 1936, however, the Section was grouped with the Appraisal Section within the Appraisal and Reconditioning Division and placed under the jurisdiction of the deputy general manager in charge of the Division. A small executive staff in the home office determined policies and supervised field operations. Each regional office contained a reconditioning staff to furnish more direct supervision of the field operations which were performed by the Reconditioning Sections located in the State offices.

The personnel of the Section was drawn in large measure from the building and architectural trades. At one time 44 per cent of the State reconditioning supervisors and 26 per cent of the assistants and inspectors held professional ratings.¹⁹

The work accomplished by this Section improved the property of the home owner and provided added security for the Corporation. Apart from these, the Section "has provided a considerable volume of construction work at a time when

stimulation of the capital-goods industries was badly needed. Of more permanent significance, however, is the standard set for home owners, contractors, and home-financing institutions the country over."²⁰

Loan Service Division

The Corporation established the Loan Service Division under the direction of a deputy general manager in October 1935. The Division's responsibility extended to the maintenance of the Corporation's mortgagors in a solvent status. This required its employees to serve as "trouble shooters" whenever mortgagors fell behind in their loan payments.

The focal points in loan servicing were the regional offices. The direct supervision, control, and review of field loan servicing were performed from these points. Under the direction of regional loan service supervisors the regional Divisions contained Control Sections and Analysis and Review Sections. The Control Sections assumed jurisdiction of the case files of mortgagors receiving loan servicing assistance. The Analysis and Review Sections supervised loan servicing activities in the field. Regional field investigators were employed for this supervisory work.

The State Loan Service Divisions were responsible for all personal contacts made with delinquent mortgagors.

This responsibility necessitated strict supervision of the loan servicing personnel located in district offices and loan service stations. These loan service stations were established in localities where concentration of delinquent mortgagors appeared. In most cases they were established for that specific purpose although they sometimes served as local collection stations also.

When an account became delinquent the regional Loan Service Division notified the State Division. When the State Division was strategically located to handle the case it did so, otherwise it was passed on to the district office or loan service station for action. Office interviewers and field representatives were located in these offices to contact the mortgagor and attempt to work out solutions for his problems so as to remove his account from a delinquent status.
21

The Loan Service Division has been the Corporation's largest division, numerically. During June 1936 the Division employed 5,000 of the approximately 16,000 Corporation employees. Only nine of this number were located in the home office while 1,235 were in regional offices and 3,756
22
were in field offices throughout the country.

Property Management Division

The Property Management Division was created on

January 15, 1936 "to provide for the orderly liquidation of properties acquired by the Corporation." ²³ The Division was responsible for analyzing the properties as they were about to be acquired by the Corporation, for determining whether they were to be offered for rental or sale, and whether or not any reconditioning was to be done. The sale and rental prices were also determined by this Division based upon the appraised value as determined by the Appraisal Section.

The Division's primary concern has been the liquidation of the acquired properties as speedily as possible. The fact that this has been governed somewhat by the effect its sales would have on the real-estate market resulted in properties being held by the Corporation for a considerable period of time, in some cases, before being sold. During this hold-over period the properties were under the jurisdiction of this Division.

Four Sections were established within the Division to accomplish its work. The Analysis Section analyzed the properties and determined whether they were to be sold or rented, the prices to be asked, and whether reconditioning was to be done. The Sales Section assumed jurisdiction of those properties offered for sale and was responsible for all activities leading to that end. The Management Section was responsible for the management of those properties to be

rented until such time as it was decided to offer them for sale. At that time jurisdiction moved to the Sales Section. The Records and File Section maintained records and files on all properties under the jurisdiction of the Division.

The regional Divisions performed the major property management duties. Under the direction of regional property managers, they made the analyses of all properties about to be acquired by the Corporation and determined whether they were to be sold or held temporarily for rental. They supervised the local sales and management activities and kept all primary records on properties owned by the Corporation.

Actual sales and management activities were placed in the hands of real-estate brokers "rather than to set up an independent system in competition with private industry."²⁴ Regional property managers were charged with the responsibility of selecting and preparing lists of Contract Sales Brokers, Approved Sales Brokers, and Contract Management Brokers. Contract Sales Brokers were real-estate agencies while Approved Sales Brokers were the individual real-estate salesmen. Payment for their services was made on a fee basis, established by the Corporation's general manager and usually conformed to the fees established by the local real-estate boards for similar real-estate transactions.²⁵

Lists of properties were prepared in regional offices and submitted to these brokers for action. In the case of sales, the lists were submitted to the Contract Sales Brokers. The Approved Sales Brokers, in turn obtained the property listings from them. The money collected by them from sales and rentals was transmitted to the regional offices and entered into the Corporation's working fund.

State and district offices also contained Property Management Divisions. Their responsibility extended to a more direct supervision of the Contract Sales and Management Brokers. Their main function, in other words, was to serve as liaison units for the regional Divisions.

The Property Management Division had 2,887 employees at the peak of its operations on July 1, 1938. Brokers' lists included 2,800 Contract Sales and Management Brokers and more than 15,000 Approved Sales Brokers on the same date. During the month of July 1938 the Division had jurisdiction over 103,349 properties.

The three major auxiliary functions developed to aid in the Corporation's work concerned legal advising, finance, and personnel. The departments organized to handle these functions were not responsible for any of the Corporation's primary functions but offered assistance and advice whenever possible to permit more efficient Corporation operation.

Legal Department

The Legal Department performed legal services for all of the agencies under the Federal Home Loan Bank Board and was directly responsible to the Board in its functioning. The services that the Department performed for the Home Owners' Loan Corporation included

the preparation of legal opinions, the preparation and promulgation of all legal regulations and procedure, supervision of the examination of land titles for the Corporation and of the closing of its loans, the examination of the Corporation's loans to determine their legal regularity, the preparation of all necessary legal instruments and forms, supervision and direction of the conduct of all necessary litigation, including foreclosures, disposition of all claims asserted by or against the Corporation, the general supervision of those branches of the Legal Department in the field, and, in short, the supervision and conduct of all of the Corporation's affairs which are legal in their nature, as distinguished from administrative and managerial.²⁸

The Legal Department created three Divisions for its work with the Corporation. They were the Advisory Division, the Litigation Division, and the Examining and Servicing Division. Each Division in the home office was under the direction of a division head who reported directly to the associate general counsel in charge of the Corporation's legal staff. The associate general counsel was subject to the supervision of the general counsel for the Federal Home Loan Bank Board. The general counsel served as counsel for the Federal Home Loan Bank System, the Federal Savings and

Loan Associations, and the Federal Savings and Loan Insurance Corporation as well as for the Home Owners' Loan Corporation.²⁹

The Advisory Division

The Advisory Division was charged with the responsibility of furnishing legal advice, opinions, and interpretations that were required in the Corporation's operations. It served as a legal clearing house by handling all legal matters not within the jurisdiction of the Litigation or the Examining and Servicing Divisions. The Advisory Division also served as the liaison agency between the Legal Department and the Corporation.

The Division contained five sections. A Briefs Section prepared briefs on all legal questions presented to it. A Regulations Sections drafted the rules and regulations as instructed by the Board or as requested by the Corporation. A Finance Section concerned itself with legal problems concerning bond transactions and maintained contact with the Treasury Department regarding them. An Audit Section worked with the Corporation's Auditing Department concerning problems arising from exceptions in the auditing reports. An Accounts Section worked with the Accounting Division concerning problems of credit and insurance losses.³⁰

The Litigation Division

The Litigation Division was subdivided into four sections to fulfill its litigation functions. A General Litigation Section handled all of the Corporation's litigation except that of foreclosure action. The large number of foreclosure actions authorized prompted the creation of a Foreclosure Section in 1936 to deal with the litigation arising within that specialized field. A Claims Section handled the claims filed with the United States Employees' Compensation Commission on behalf of Corporation employees. As the Corporation handled all of its own fidelity, casualty, and public liability risks the Claims Section also handled all claims of such nature. An Investigation Section was maintained to "investigate all alleged violations of criminal statutes in any way connected with the operation of the Corporation." ³¹ After an investigation, if a violation had occurred, administrative action was taken or, if it appeared to be willful violation of the criminal statutes, the case was turned over to the Justice Department for action.

The Examining and Servicing Division

Five sections operated within the Examining and Servicing Division. The Examining Section supervised the examination of land titles and the loan closing procedure. The Reconditioning Section supervised the awarding of contracts

for reconditioning and prevented the attachment of liens on property as a result of the reconditioning performed. The Tax Section maintained an accurate record of the tax status of the properties on which the Corporation held a lien or which it owned. This Section also authorized the payment of taxes on behalf of the borrowers when it was necessary to protect the Corporation's lien. On October 1, 1938 the Tax Section was transferred to the Loan Service Division as its functions were intimately connected with the work of that Division. A Loan Service Section furnished legal service and advice to the Loan Service Division and supervised the legal aspects of the servicing and collecting of the Corporation's loans. The Property Service Section gave legal service and advice to the Property Management Division in its work with the sale, rental, or other disposition of the properties under the Division's jurisdiction.

Operational Notes

This organizational structure was duplicated in the regional Legal Departments with two minor exceptions.³³ Therefore, each division of the home office Legal Department had a "point of quick contact, through its counterpart in the Regional office, with the State, Territorial and District Legal Departments, in every jurisdiction in which the Corporation operates."³⁴ By this manner it was possible to pass opinions

and directions to the field organizations in the quickest possible time. This decentralization of organization provided an effective legal service for an organization operating on such an extensive and such an individualistic scale.

The State and district Legal Departments did not own such extensive legal organizations. Legal counsels were appointed to render legal assistance to the State and district administrative units. These counsels were usually assisted by a small staff of legal personnel.

The Legal Department maintained a list of fee attorneys for loan closing, foreclosure, sale closing, and for litigation in some cases. These lawyers were selected on the recommendation of the State counsel after being passed upon by the regional counsel and by the home office. They were also endorsed by their Senators and Representatives most of the time but this had nothing to do with their legal qualifications of course.

On November 30, 1935 the Legal Department employed 2,964 persons. Of this number only 843 were attorneys. Of the attorneys, 67 were in the home office, 189 were in the regional offices, and 587 were in the State, Territorial, and district offices. At the same time there were 8,486 fee attorneys on the Corporation's approved list.

The following figures are given to illustrate the

amount of legal services rendered to the Corporation by the Legal Department. During the 1937 fiscal year the General Litigation Section handled 16,140 new cases, the Foreclosure Section handled 75,784 new cases, and the Claims Section 308 new cases. The Investigation Section had 2,700 cases referred to it, the Reconditioning Section handled more than 66,000 reconditioning cases and the Tax Section certified almost \$16,000,000 for payment of taxes by the Corporation on mortgagor-owned property and approximately \$9,000,000 on Corporation-owned property.

Financial Organization

The Federal Home Loan Bank Board maintained direct financial supervision of the Corporation through the offices of the Financial Adviser and the Budget Officer, both of whom served for all of the agencies under the Board and reported directly to it. The Financial Adviser supplied the Board with all the technical financial advice with reference to the issuance, sale, purchase, and refunding or retirement of bonds and maintained contact with the United States Treasury concerning these matters. On this advice orders would be issued by the Board pertaining to the Corporation's bonds.

The Budget Officer was responsible for the collection of budget data for all the agencies under the Board. He then organized it in a proper fashion and, after approval by

the Board, presented it to the Director of the Bureau of the Budget and to the appropriate Congressional appropriation committees.³⁸

The Comptroller's Division

The Comptroller's Division has been responsible for maintaining all accounting and financial records and has been custodian of the Corporation's assets. The original procedure kept the Comptroller's functions centralized in the home office. During 1934, however, regional Accounting, Treasury, and Insurance Sections were organized and a supervisory force maintained in the home office. The Purchase and Supply Section was retained in the home office "to permit more economical purchase and use of equipment and supplies than would be possible on a decentralized basis."³⁹

The Accounting Section. Complete records of all transactions effecting borrowers' accounts were maintained by the regional Accounting Sections. These records provided the material for reports submitted by the regional Accounting Section to the home office where they were then consolidated into the general books of the Corporation.

A staff of field representatives under the Comptroller's supervision maintained personal contact with the regional Sections and provided supervision and assistance in their work.

The accounts maintained in the regional offices were subject to inspection by the Corporation's Auditor, and current transactions were verified by his staff.

The Treasury Section. The Treasurer's functions placed responsibility upon him for cash received, for the disbursement of funds, and for the safekeeping and issuance of bonds. He also served as custodian for all certificates evidencing the Corporation's investment in connection with mortgage loans, all leases, and other papers. Other duties performed by him included the maintenance of records and the preparation of reports concerning the financial activities of the Corporation.⁴⁰

To assist the borrowers in making payments on their loans collection offices were established throughout the country in loan-concentration areas. These collection offices received and transmitted the payments to the regional Treasury Sections.

The Insurance Section. An Insurance Section was established to protect the Corporation's home-mortgage investments against fire, wind, and other hazards. Its duties were to see that the insurance requirements of the Corporation "are consistent with the provisions of the laws of the several States and conform to the various types of insurance coverage and contracts required by local conditions."⁴¹

The Corporation followed the practice of permitting the mortgagors to arrange for the purchase of insurance through local insurance agents when they so desired. All policies, however, had to be checked to see that they met the requirements of the Corporation and to make certain that non-standard clauses and conditions were not present. A consistent follow up on policies about to expire also had to be employed.

The Insurance Section helped mortgagors settle their insurance claims with private agencies on certain occasions. This was done when it appeared that the mortgagor was not receiving an equitable adjustment for damage sustained.

As of June 30, 1936 this Section was servicing approximately 2,500,000 insurance policies.⁴² Since that time the insurance problem has decreased considerably because of the large number of mortgagors who have adopted the insurance payment plan created by the Corporation in 1939.

The Purchase and Supply Section. A central Purchase and Supply Section was maintained in the home office. Since 1934 all purchases have been made through it except inconsequential items or supplies required to meet local emergencies and not exceeding \$25. Such purchases could be made by the office directly concerned. Prior to 1934 it had been

necessary to allow local purchasing to obtain the proper speed in operation.⁴³

This Section maintained warehouse stocks of common office supplies and approved forms for shipment to field offices upon requisition. It also kept a check on the Corporation's equipment by maintaining an inventory of the non-expendable equipment in all of the Corporation's offices.

Auditing

The Corporation's Auditor was appointed by the board of directors and was responsible to it for his activities. He was to properly audit the Corporation's accounts and report to the board of directors on any infractions of the rules and regulations prescribed by enabling legislation, Board resolutions, manuals of procedure, or general governmental standards or regulations that he discovered during the course of his activities.

The auditing procedures and functions fell into two broad categories: pre-audit and certification of vouchers prior to disbursement, and post-audit of the accounts, records, authenticated transaction sources of original entry, and certification as to their correctness.

In 1934 the Board directed that, in conformance with standard government disbursing practice, all vouchers from the home office be pre-audited and certified for

disbursement. This directive was issued after six months experience without pre-audit. Then, in 1936, the Board provided for the decentralization of the disbursing authority by permitting certain expenditures to be made from regional working funds. The expenditures authorized included advancements to borrowers for tax payment and insurance and the payment of expenditures incurred in the acquisition and repair of properties by the Corporation. Field pre-audit and certification of vouchers were required prior to these disbursements. This procedure provided "maximum safeguard of disbursements at the most effective point, before checks are drawn; the most expeditious payment without loss of control, and the minimum cost of audit per voucher."⁴⁴

Post-audit procedure consisted of continuous, periodic, and spot-check audits that were made by auditors in the regional offices and by travelling field auditors from the home office. Coordination of the auditing activities was performed by the staff of auditors in the home office.

Audits were maintained on an annual basis for State and district offices and for shorter periods for the field collection stations.⁴⁵ Any discrepancies that appeared were reported to the Board and to the department, or office, involved.

Financial independence leads to difficulties

The Corporation had been granted a large degree of financial freedom in fulfilling its objective. This freedom led to early difficulties. One of the first was determining the type of accounting forms and procedure that would be satisfactory to the General Accounting Office and still be of practical use to the Corporation.

Conflict with the Comptroller General. At the request of the Corporation a representative of the General Accounting Office worked with the Corporation in seeking a proper solution. A system of accounts was worked out and installed in the Memphis, Dallas, Omaha, and Cincinnati regional offices during 1935.⁴⁶ These accounts, however, did not extend any farther and the spirit between the two agencies cooled quite rapidly. The main contentions of the General Accounting Office were that the Corporation was unwilling to provide adequate accounting records, to make full and complete accounting for the funds of the Corporation, and to cover the accounts into the Treasury for appropriation and expenditure.⁴⁷

The Corporation, on the other hand, maintained that it had developed its own system after two years of striving on its part to reach a mutually satisfactory system and that the accusation of non-accounting and unwillingness to submit to an audit by the General Accounting Office was unfounded. The Corporation's views were expressed by John H.

Fahey, Chairman of the Federal Home Loan Bank Board, when he said:

This is not the fact. The work of the Corporation has been carried on within the letter and spirit of the law. The Comptroller General has full access to all records and accounts of the Corporation. On its own initiative the Corporation enlisted the cooperation and advice of the Comptroller General's office in setting up its forms and machinery for accounting, thus obtaining invaluable aid in providing for easier auditing of the books of account. The Office of the Comptroller General receives our regular statistical reports, is empowered to audit regularly the accounts of the Corporation, and is entirely familiar with our accounting records and procedure. The Corporation submits monthly financial reports and frequent special reports to the Treasury Department and the Bureau of the Budget. It makes regular financial and statistical reports to the Emergency Council for the information of the President.⁴⁸

The insistence of the Comptroller General that the accountable warrant system be employed by the Corporation was another basis for the conflict between the two agencies. This system was entirely inadequate and impractical from the Corporation's viewpoint. "The result of this process is that representatives of the Corporation in the field working on salaries will not assume the personal responsibility for miscellaneous expenditures until after approval by the Comptroller General."⁴⁹ This would have resulted in delay to the point that the Corporation would not have been able to accomplish its purpose.

This conflict, being only one of many developing between the Comptroller General's office and the rapidly

expanding government corporations, played a part in producing later Executive and Congressional action calling for more strict financial control of these corporations. These measures will be dealt with at a later point in this chapter. ⁵⁰

Types of expenditures authorized

The original act had empowered the Corporation to use its funds as it saw best in accomplishing its purpose. Congressional will did not need to be consulted in this matter. How long this independence was to prevail depended, in part, upon how well the Corporation used its funds.

One expenditure incurred by the Corporation during the course of its operation aroused a great deal of Congressional criticism. Forty thousand dollars were expended for a group health insurance plan for the Corporation's home office employees. This brought into the open the conflicting views as to just how far the implied authority of the Board could go. Congressional judgment frowned upon such expenditures.

I think the subcommittee were unanimous, perhaps, in their opinion that the Home Owners' Loan Corporation had no authority to use \$40,000 of their funds for that purpose; but if the gentlemen will recall, in the basic act setting up the Home Owners' Loan Corporation they were given the right to use their own funds ... for any purpose which the board of directors decided was in line with the general purpose for which the board was created. This was very broad discretionary power, there is no doubt of it. ... Personally I think that was

a very strained construction, and so said in the hearing, but it has been done."⁵¹

It must be admitted that this expenditure did stretch the discretionary power rather far, however much the purpose may be applauded.

Limitations placed on financial freedom

A generally accepted administrative principle requires central control over the operating agencies' financial operations. This principle had been largely ignored during the New Deal period when the corporate form of administrative agency became very popular. Like the Home Owners' Loan Corporation, a great percentage of the government corporations had been given broad discretionary financial freedom.

Since that time this financial freedom has gradually been encompassed by a number of Executive Orders and Congressional enactments. These have pertained to the Home Owners' Loan Corporation as well as to the other government corporations.

Executive Order 6166 of June 10, 1933 required the Bureau of the Budget to review periodic reports of departments and establishments relating to the obligation of appropriations and funds to see that they were keeping their expenditures within the apportionments approved by the Director.

This applied to the Corporation only insofar as its administrative expenses were concerned.⁵² Executive Order 7126 of August 5, 1935 required the Corporation to submit estimates of its administrative expenses to the Bureau of the Budget and prohibited it from incurring an obligation for administrative expenses unless the estimates for such an expenditure had the approval of the Director of the Bureau of the Budget.⁵³

The First Deficiency Act of 1936 imposed further control over the Corporation's administrative expenses. By its terms the Corporation could incur no obligation for administrative expenses after June 30, 1937 except in pursuance of a specific Congressional appropriation for that purpose. Thereafter, the Corporation has met administrative expenses from funds appropriated by Congress.⁵⁴ These appropriated funds, in reality, are part of the total funds of the Corporation that are to be set aside for administrative expenses.

Executive Order 8512 of August 15, 1940 required the Secretary of the Treasury to prepare and transmit to the Director of the Bureau of the Budget such financial reports "as may be necessary or desirable to make known in all practicable detail the financial condition and operations of the Government and its various agencies," to aid in the preparation

of budget estimates.⁵⁵ In turn, the various agencies were required to submit to the Treasury Department such information and data as were required in the preparation of the reports.

Government corporations' financial independence received its greatest jolt during 1945 when Congress passed two bills calling for restrictive measures. On February 24, 1945 the bill known as the George Bill was passed. It provided for an auditing of the financial transactions of all government corporations by the General Accounting Office "in accordance with the principles and procedures applicable to commercial corporate transactions and under such rules and regulations as may be prescribed by the Comptroller General of the United States."⁵⁶ Such audits were to begin with the 1945 fiscal year and a report was to be submitted to Congress by the Comptroller General not later than January 15 of the year following the close of the fiscal year. This report was to include recommendations by the Comptroller General and was to show any financial transaction which, in his opinion, was carried out without authority of law.

Congressional control was further widened with the passage of the Government Corporation Control Act on December 6, 1945.⁵⁷ It provided that all wholly-owned government corporations were to submit annual budget programs to the

President through the Bureau of the Budget starting with the fiscal year beginning July 1, 1946. Such "business-type" budgets were to contain estimates of the financial conditions and operations of the corporations for the current and ensuing fiscal years and the actual conditions and results of operations for the last completed fiscal year. The Act further required annual audits to be made. This provision was essentially the same as that provided by the George Bill but superseded it. Certain financial controls were invested with the Secretary of the Treasury concerning the issuance of bonds and the depositing of monies in banks.

Opposition to the bill was found within the affected corporations. Enforced limitations are always fought by those whose freedom is being encroached upon. Claims were made by some corporations that they already had administrative audits and that the new audit would merely be a duplication of effort. Further points were raised that it would be extremely hard to make estimates of their operating expenses with any degree of accuracy and that the required annual budget approval by Congress would, in effect, make them yearly corporations which would result in uncertainty and a decrease in efficiency.

A freedom from supervision is a nice provision for the operating corporations, but it is believed that the

following quotation is an excellent summation of the ideal situation regarding the financial control of government corporations.

During the past ten (10) years there has been increasing realization by the Congress and the Executive that while it is desirable from the standpoint of operation for Government corporations to have reasonable flexibility, some control by the Congress and the established fiscal agencies of the Government is necessary to a proper coordination of the budgetary and fiscal processes of the Government as a whole. . . . The purpose of the present bill is to set a uniform control for all Government corporations along broad lines without interfering with their authorized individual activities.⁵⁸

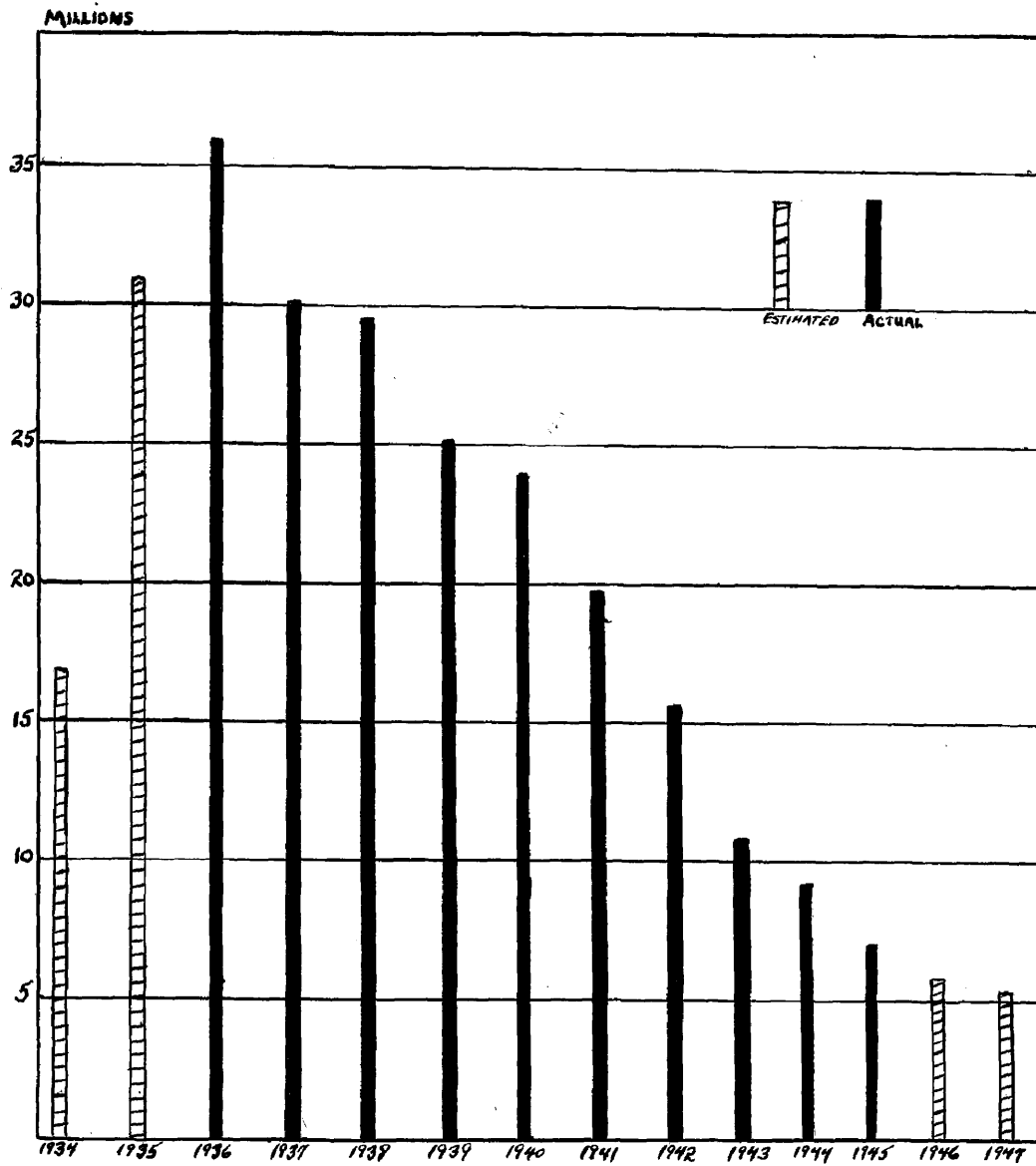
The Corporation's administrative expense record

The Corporation has displayed a good administrative expense record in its operation. These expenses, 85 per cent of which have been for personnel expense, have been consistently reduced from the \$37,000,000 peak in the 1936 fiscal year to \$6,944,556 for the 1945 fiscal year. It is estimated that they will be further reduced to \$5,179,000 for the 1947 fiscal year.

The fact that the cumulative administrative expenditures were \$11,763,082 less than the cumulative amounts approved by Congress as of June 30, 1943 illustrates that the Corporation has not needlessly thrown away money. Such expenses have averaged approximately three-fourths of one per cent of its total load in loans and properties. This compares

GRAPH II

ADMINISTRATIVE EXPENSES
OF THE HOME OWNERS' LOAN CORPORATION
BY FISCAL YEAR



quite favorably with any private financing institution. It stands as a very reasonable amount when consideration is given to the type of mortgagor refinanced by the Corporation.

Personnel

The selection of qualified personnel presented a staggering problem to the Corporation at the inception of its program. The need for prompt selection to permit an early commencement of operations counterbalanced the need for employees possessing the necessary technical and professional qualifications to efficiently handle so large and widespread a lending operation. As few possessed the necessary qualifications, it "was necessary to select, train and test personnel - attorneys, appraisers, investigators, clerks, accountants - in the necessary procedure almost as the work progressed." ⁶⁰ Manuals of rules and regulations were prepared and distributed to field offices; conferences were held and supervisory personnel were employed in traveling in the field, assisting the operating personnel wherever possible and helping straighten out difficulties whenever they developed. "The Corporation has field men and inspectors sent out from time to time to look into conditions, to investigate anything which shows up, as indicating error or mismanagement." ⁶¹

The personnel program was supervised by a central

Personnel Department under the Federal Home Loan Bank Board. It supervised the personnel programs within each of the agencies under the Board's jurisdiction. General policies were determined there and then transmitted to the Personnel Departments located in its home and regional offices of the Corporation. These, in turn, supervised the personnel policies employed by the Corporation. Payroll and leave matters were handled in these offices and standards were established for the field operations of the Personnel Department. Personnel matters were handled by employment managers in State and district offices but there were no full-scale personnel departments established in those offices.

Early personnel difficulties

Early employment qualifications included political connections. The chairman of the State Democratic Committee was selected as State manager in one State. In another, a variety of trades were represented in district managers: florists, merchants, undertakers and others, but not one had previous experience in the real-estate mortgage field. The State manager in a third State required each employee to pay 5 per cent of his salary into the Democratic State campaign fund. To get a job with the Corporation, "an applicant in most States had to get the approval of his local district, county, and State party leaders and obtain his Congressman's

or Senator's cooperation."⁶²

That all was not well on the personnel front appeared evident when it was found that during the first two years of operation forty-four State and district managers and assistant managers were removed because of mismanagement, disregard of explicit instructions, or inefficiency. During the same period twenty-two persons violated the Corrupt Practices Act, and eleven managers and assistant managers were removed because they solicited funds for political purposes.⁶³ During 1934, 1,178 lawyers were dismissed, many because of unsatisfactory work and 2,116 appraisers were dropped because their work disqualified them for further employment. In all, some 3,000 were removed during this period because of unsatisfactory work.⁶⁴

Improved conditions developed after Mr. John H. Fahey's appointment as chairman of the Federal Home Loan Bank Board in November 1933. "The personnel of the HOLC manifested much less interest in politics and much more in home financing."⁶⁵ Most of the dismissals for inefficiency or similar reasons came after his appointment to office.

Attempts to limit the Corporation's personnel freedom

During the Corporation's first year of operation an effort was made in Congress to outlaw any "partisan political test or qualification," and to require that all agents and

and employees "be appointed, employed, or promoted solely upon the basis of merit and efficiency." Any member of the Board or any agent or employee of the Corporation found to be violating these provisions was to be removed from office.⁶⁶ This effort failed as well as any effort to compel the use of the Civil Service Commission. There appeared to be almost unanimous agreement that Civil Service requirements would cause more damage than benefits. The Corporation itself was opposed to its use for the following reasons: (1) a large number of employees had to be put to work in the emergency in specialized tasks and it was necessary, to get the work done and to protect the Corporation against financial loss, that large numbers be promptly changed. "If the employees were placed under civil service, the time required to prefer charges, to conduct trials, and to accomplish these changes would hopelessly delay the program"; (2) delay; (3) to accomplish the task it was necessary for employees to work longer hours than under civil service. A switch would restrict hours and would "practically destroy the present esprit de corps"; (4) civil service laws and regulations involve red tape and delay. The Corporation would be unable to operate satisfactorily under such conditions; and (5) the success of the Corporation depended a great deal upon promptness. If it were placed under civil service its action would be

delayed.⁶⁷

A degree of control was given to the Civil Service Commission over the Corporation's personnel policies by Executive Order 6746 of June 21, 1934 despite this opposition. This Order provided for maximum salary rates approximately equivalent to the maximum of corresponding civil service rates. In keeping with the Order the Corporation's Personnel Department classified the positions of its employees according to the provisions of the Classification Act of 1923 subject to review and revision by the Civil Service Commission.⁶⁸

The Corporation's personnel policies

Personnel policies employed by the Corporation were developed to parallel those employed by Civil Service. In fact, there was a large degree of cooperation between the Civil Service Commission and the Corporation despite the fact that the Corporation was opposed to being placed under Civil Service jurisdiction. This cooperation might well have been instigated primarily by President Roosevelt for he stressed the desirability of such cooperation.⁶⁹

Selection of personnel. The Corporation followed the policy of filling vacancies whenever possible by the promotion or transfer of its employees. When this was impossible it used the following sources for new employees: "former

employees if available; other Federal employees; individuals on Civil Service registers; individuals registered with Federal and State Employment Agencies and in our offices." ⁷⁰

Tests were developed to measure an applicant's qualifications wherever possible. By this means these qualifications could be measured with the standard minimum requirements established by the Corporation. This testing program was widely used for the selection of the Corporation's clerical help.

Service ratings. Service ratings were inaugurated and the employees graded and classified according to their merits. These ratings were an index of performance and reflected the quality of work and the work production record of each employee. They also indicated the attitude of the employee, his possession of a knowledge of the work, his originality and good judgment, leadership, and cooperativeness.

The service ratings were made semi-annually and assumed considerable importance in the considerations for promotions, transfers, and salary increases. For that reason an opportunity was afforded to the employees to discuss the status of their service ratings with supervisors, how they had been evaluated, and to learn how they could improve their performances. ⁷¹

Salary scales. Executive Order 6746 of June 21, 1934 had provided for maximum salary rates approximately equivalent to the maximum of corresponding civil service rates. The Corporation, however, established the minimum of the Corporation's classified salary ranges several steps below the maximum rates permitted. This procedure allowed a certain degree of flexibility for promotion within grades. ⁷²

The Corporation also developed a practice which has seldom been used by government agencies. Grade schedules were established progressively lower in field offices than corresponding grades in the home office. The Corporation found such differentials to be satisfactory and economically sound in the administration of the field offices. ⁷³

Terminations. Termination problems have occupied a large part of the Personnel Department's time since the period of active lending operations has stopped. Standard separation procedures were established and all offices required to follow them. Fairness and equal consideration to all employees was possible by this means. Factors considered included service ratings, length of employment, versatility, qualifications for advancement, military service, and economic circumstances. ⁷⁴

Voluntary separation has played an important part in the termination program. Such separations have been high.

One reason for this has been the low salaries paid by the Corporation in competition with private industry. At one time nearly 90 per cent of the employees in the field were under grade 9 which had a maximum limit of \$2,600. The top salary paid State employees was \$8,500 to the State managers of New York and Pennsylvania. The situation was graphically presented by John H. Fahey, Chairman of the Federal Home Loan Bank Board, when he said: "You are not going to be able to hold a man that is capable of running a business of that sort. No private enterprise in the world would even expect it. ... Take even clerks and stenographers. Right now we are experiencing in the matter of separations, 60 per cent of voluntary separation."⁷⁵

Another factor influencing voluntary separations has been the desire of employees to secure employment of a more permanent nature. This matter has represented a serious loss to the Corporation as it means that it is losing experienced employees who have to be replaced by inexperienced personnel, or perhaps not replaced at all. This difficulty can be illustrated by the fact that it was estimated that 1390 employees would be needed for the 1947 fiscal year, yet on December 31, 1946 the Corporation actually had only 935 employees.⁷⁶

Summation of personnel policies. The personnel

policies pursued by the Corporation showed a rapid improvement from their poor beginning. By sincere effort and cooperation with the Civil Service Commission it had developed standards and procedures that conformed closely with those of Civil Service. The Corporation was in the "fortunate position of being able to meet quickly and with few changes in our policies and procedures, the requirements of any Executive Order which may be issued covering our organization into the Federal Civil Service."⁷⁷ Its position might well be said to have been that of enjoying all the privileges of membership without the necessity of paying dues.

Entrance into Civil Service

On November 26, 1940 Congress authorized the President to cover into the classified Civil Service any offices or positions in or under an executive department, independent establishment, or other agency of the Government with some exceptions concerning federally-owned or controlled corporations. Exempted were those employed on a fee, contract, or piece-work basis who may lawfully perform their private profession or business simultaneously. Executive Order 8743 of April 23, 1941 followed this enactment. This Order placed the Corporation's employees within the classified Civil Service on January 1, 1942 with the exception of a few top administrative personnel and those employed by the Corporation

on a temporary or by fee or contract payment.⁷⁸ Since that date, of course, Civil Service rules and procedures have been followed in the Corporation's personnel work.

Organizational Reduction

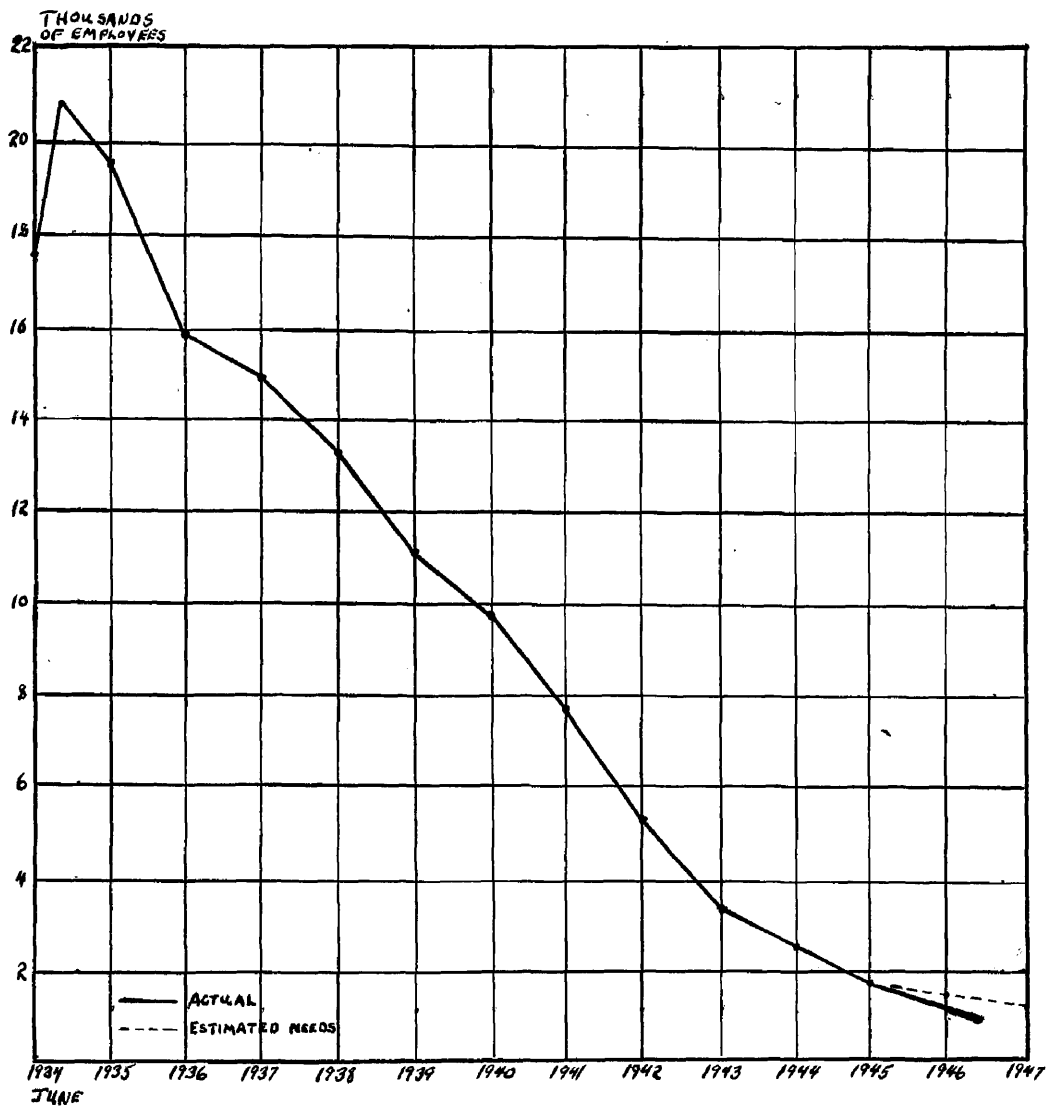
The organizational structure as described was developed during the first few years of the Corporation's existence. By 1939 it became apparent that necessary operations could be performed by a smaller organization. The mortgage refinancing period had been ended for three years and the loan servicing and foreclosure problems occasioned by the 1936 and 1937 recession were easing. Therefore, the Corporation started to eliminate offices and consolidate its organization whenever possible.

During 1939 the number of offices had been reduced to forty-one State, division, and Territorial offices, three district offices, and ninety-six loan service and field stations. The ten regional offices and the home office remained in operation of course.⁷⁹ By March 6, 1947 the Corporation had decreased to the point where only the home office⁸⁰ and regional offices at New York and Chicago remained.

The rapid closing of offices would indicate a corresponding sharp decrease in the number of employees but such was not the case. In some instances there was "practically no personnel saving effected in the closing of field

GRAPH III

NUMBER OF EMPLOYEES IN
HOME OWNERS' LOAN CORPORATION
BY FISCAL YEAR



stations. Simply the designation as an office is eliminated, but the representatives, most of whom represent loan service, continue to operate in their respective territories and in most instances operate out of their homes rather than from a locally designated office." ⁸¹ The actual reduction in the number of employees proceeded along more gradual lines than the reduction in the number of offices. From a high of 20,811 in September 1934, the figure had decreased to 9,843 by July 1, 1940 and to 935 by December 31, 1946.

During 1944 the Corporation consolidated the Loan Service Division, the Property Management Division, and the Appraisal and Reconditioning Division into one division called the Loans and Property Division. Also during 1944 all field operations of the Accounting and Treasury Sections were consolidated into the Comptroller's Division in the regional offices. ⁸²

The Federal Government's Housing Structure

Federal housing agencies have been subjected to several external administrative reorganizations. The Home Owners' Loan Corporation has been no exception. These changes have produced little internal reorganization but they will be briefly described so that the Corporation's status among the housing agencies can better be identified.

The expansion of the Federal housing activities

has been stepped up steadily since their beginning in 1932 when the Federal Home Loan Bank Board was established. Unfortunately, this expansion did not follow any previously planned pattern. Each agency was established independently when a new need for housing aid became apparent. As a result there were Federal agencies interested in public housing, in mortgage financing, in mortgage holding, and in mortgage insurance, all of whom were independent and uncoordinated as to purposes and practices.

The Central Housing Committee established in 1935 was the first attempt to bring order out of the general chaos. This Committee had no appropriation and no administrative powers. As originally established it consisted of representatives from the eight Federal agencies concerned with housing. They were to develop some sort of cohesive program by holding periodic conferences and by establishing subcommittees to study specific factors connected with housing. Its purpose was to

eliminate causes of friction and conflict among the agencies, to encourage the exchange of information, to avoid duplication of effort, to decrease the confusion that exists in the public mind about federal housing activities and, in general, to make possible a smoother and more effective administration of the housing work undertaken by the federal government.⁸³

Its results depended entirely upon the spirit of cooperation existing between the participating agencies.

Any official move to coordinate the Federal housing agencies was delayed until 1939. On April 25 of that year President Roosevelt submitted Reorganization Plan No. 1 to Congress to take effect July 1, 1939. This Plan put the Federal Home Loan Bank Board, with its constituent agencies, within the newly created Federal Loan Agency under the supervision of an Administrator.⁸⁴ Other agencies primarily interested in home mortgage financing were also placed in the Federal Loan Agency. The powers of the Administrator extended to the supervision of administration and the coordination of functions and activities of the various agencies. No functions or operations were consolidated or redistributed.

The United States Housing Authority and the United States Housing Corporation were placed within the newly created Federal Works Agency by the same Reorganization Plan. The latter was merely continuing its prolonged liquidating program and was not actively engaged in housing. The former was actively engaged in the public-low-cost rental housing field.

This reshuffling of the housing agencies might be defended along functional lines but it cut across the logical channels of common purpose and common endeavor and continued to make any far-reaching cooperation among the housing agencies an impossibility.⁸⁵

This organizational structure continued until February 24, 1942 when, by Executive Order 9070, the National Housing Agency was created.⁸⁶ Under the direction of a National Housing Administrator three constituent units were established: the Federal Home Loan Bank Administration, the Federal Housing Administration, and the Federal Public Housing Authority. Each unit was placed under the direction of a Commissioner.

By this means the Federal Government's housing activities were placed under the direction of one agency with the responsibility for over-all housing policies and programs, for handling relations with other government agencies, and for conducting financial and technical housing research, housing market analyses and urban development studies.

Definite areas of responsibility have been established for its constituent units. The Federal Home Loan Bank Administration is primarily responsible for providing a credit reserve system for home financing institutions, for insuring the savings of investors in savings and loan institutions through the Federal Savings and Loan Insurance Corporation, and for carrying out the liquidation of the Home Owners' Loan Corporation. It has already succeeded in finally liquidating the United States Housing Corporation. The Federal Housing Administration's primary responsibility is

the encouragement of private construction, repair, and improvement of homes by insuring mortgages made by private financing institutions. The Federal Public Housing Authority is responsible for publicly-financed war housing and for low-rent slum clearance programs carried out by local housing authorities.

The internal structure of the Home Owners' Loan Corporation was changed somewhat by this Executive Order when it abolished the Federal Home Loan Bank Board except for the Chairman. The Chairman received the new title of Commissioner. This automatically abolished the board of directors of the Corporation and placed it under the supervision of the Federal Home Loan Bank Commissioner.

Executive Order 9070 was issued under the provisions of the First War Powers Act of 1941 and its force will automatically expire with the termination of that Act. This means that the present National Housing Agency's organization will also be automatically terminated at that time. With this in mind, President Truman submitted Reorganization Plan No. 1 of 1946 to Congress establishing a permanent National Housing Agency. The submission for such a plan had been authorized by Public Law 263, 79th Congress.⁸⁷

Despite the obvious advantages demonstrated by the actual existence of this organization since February 24, 1942,

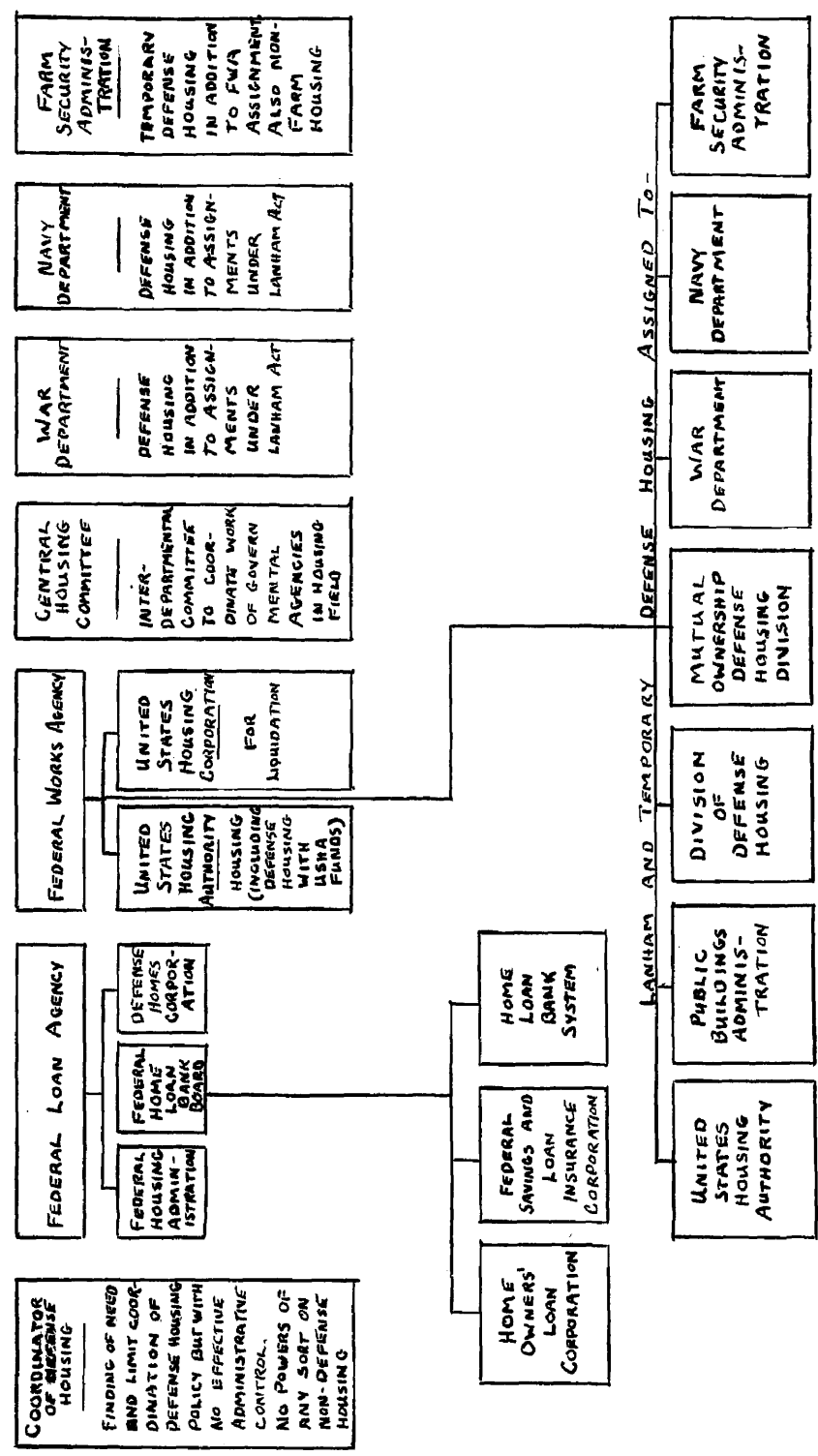
the now very familiar cries of socialism and of exploitation of the lending agencies by the public housing agencies were raised. Such tactics aided in the defeat of the Plan. The Senate passed a resolution disapproving the Plan on July 15, 1946, just one day before it would have been placed in effect.⁸⁸ This followed an earlier disapproval by the House of Representatives.

During the 79th Congress a housing bill sponsored by Senators Wagner, Ellender, and Taft was introduced in the Senate. One of the provisions of the bill called for a permanent National Housing Agency. Passed by the Senate on April 15, 1946, the bill died while being considered by the House Banking and Currency Committee at the time of Congressional adjournment. Reintroduced in the Eightieth Congress, its fate is still undetermined.

The Federal Government's housing organization, while coordinated under the National Housing Agency, rests on a shaky foundation at the present time. Its dissolution will come with the revocation of the First War Powers Act unless preventive steps are taken in the meantime.

CHART V

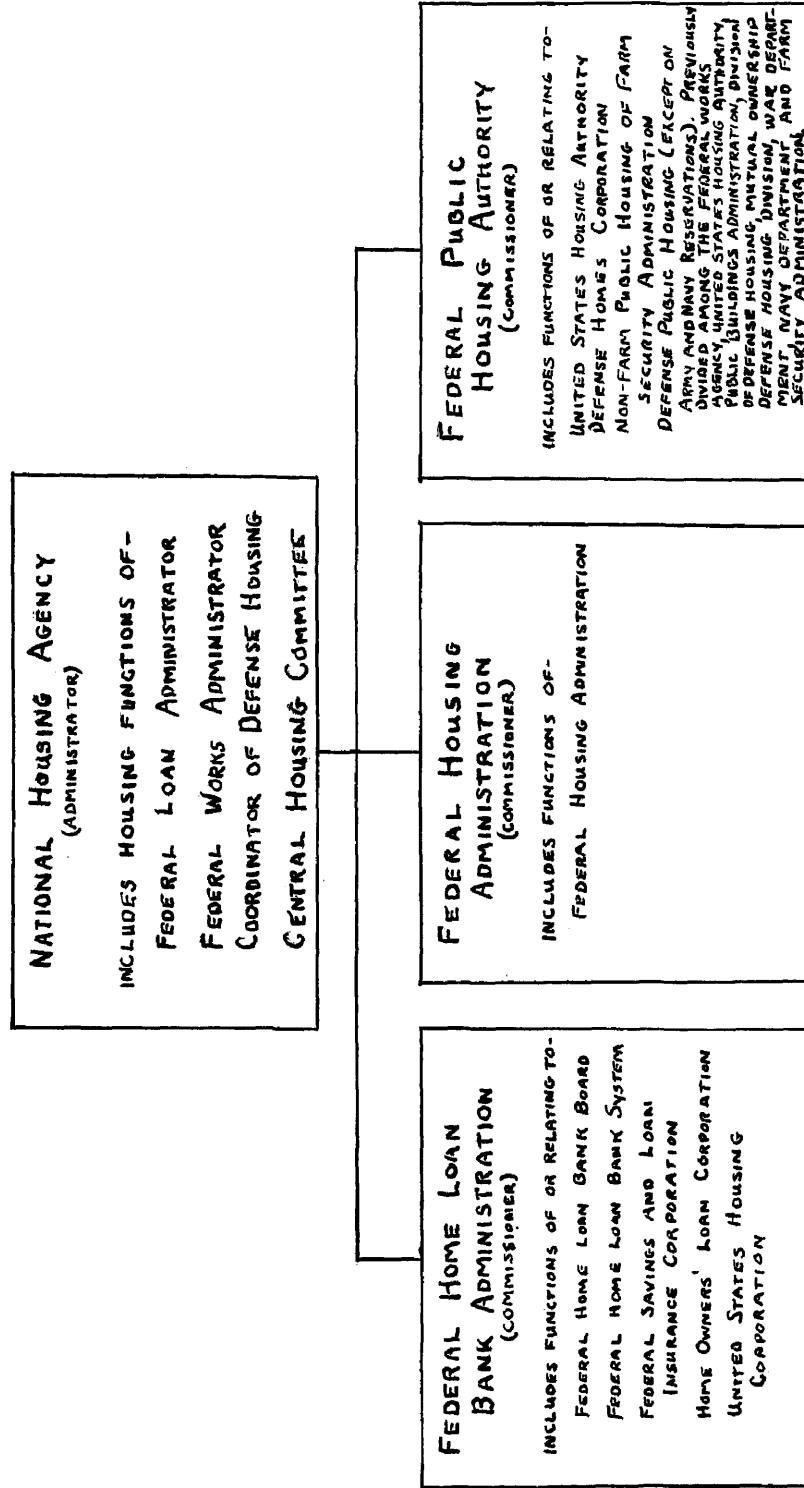
PRINCIPAL HOUSING AGENCIES AND FUNCTIONS OF THE FEDERAL GOVERNMENT PRIOR TO THE REORGANIZATION OF FEBRUARY 1942



TAKEN FROM SENATE COMMITTEE ON BANKING AND CURRENCY, HEARINGS: GENERAL HOUSING ACT OF 1942, 79th CONG., 1ST SESS., APPENDIX

CHART VI

ORGANIZATION OF THE PRINCIPAL HOUSING FUNCTIONS OF THE FEDERAL GOVERNMENT UNDER THE REORGANIZATION OF FEBRUARY 24, 1942



TAKEN FROM SENATE COMMITTEE ON BANKING AND CURRENCY, HEARINGS: GENERAL HOUSING ACT OF 1942, 77th CONG., 1st Sess., APPENDIX.

FOOTNOTES

Chapter IV

- 1 Cf. Chapter IV., p. 172.
- 2 Federal Home Loan Bank Board, Third Annual Report of the Federal Home Loan Bank Board, 1935, p. 60.
- 3 Federal Home Loan Bank Board, Third Annual Report of the Federal Home Loan Bank Board, p. 54.
- 4 House Committee on Appropriations, Hearings: Independent Offices Appropriation Bill for 1938, 75th Cong., 1st sess., p. 610.
- 5 Federal Home Loan Bank Board, Seventh Annual Report, Federal Home Loan Bank Board, 1939, p. 156.
- 6 Federal Home Loan Bank Board, Third Annual Report of the Federal Home Loan Bank Board, p. 54.
- 7 The number was reduced to ten when the Boston regional office was disbanded October 25, 1938 and its activities consolidated with the New York regional office.
- 8 House Committee on Appropriations, Hearings: Independent Offices Appropriation Bill for 1941. 76th Cong., 3d sess., p. 1159.
- 9 Congressional Record, 74th Cong., 1st sess., vol. 79, Part 5, pp. 5497-5506.
- 10 House Committee on Banking and Currency, Hearings: To Guarantee Bonds of Home Owners' Loan Corporation, 73d Cong., 2d sess., p. 63.
- 11 Text of Regulations governing the making of loans and appraisals under the Home Owners' Loan Act found in National Real Estate Journal, vol. 34, August 1933, p. 35.
- 12 "Home Owners Corporation Appraisals," United States Investor, vol. 45, July 28, 1934, p. 1082.

- 13 "Home Owners Corporation Appraisals," United States Investor, vol. 45, July 28, 1934, p. 1082.
- 14 Federal Home Loan Bank Board, Third Annual Report of the Federal Home Loan Bank Board, p. 57.
- 15 "How the HOLC Is Valuing Homes," National Real Estate Journal, vol. 35, January 1934, p. 21.
- 16 "Effect on Home Values of Appraisals by the Home Owners' Loan Corporation," Federal Home Loan Bank Review, vol. 1, October 1934-September 1935, pp. 121,122.
- 17 "Home Owners Loan Corporation: In Minds of Banks is Still on Probation," United States Investor, vol. 44, October 21, 1933, p. 1554.
- 18 Federal Home Loan Bank Board, Third Annual Report of the Federal Home Loan Bank Board, p. 57.
- 19 "Home Reconditioning under the Home Owners' Loan Corporation," Federal Home Loan Bank Review, vol. 1, October 1934-September 1935, p. 85.
- 20 Federal Home Loan Bank Board, Third Annual Report of the Federal Home Loan Bank Board, p. 57.
- 21 House Committee on Appropriations, Hearings: Independent Offices Appropriation Bill for 1938, 75th Cong., 1st sess., pp. 614, 615.
- 22 Federal Home Loan Bank Board, Fourth Annual Report of the Federal Home Loan Bank Board, 1936, p. 34.
- 23 Federal Home Loan Bank Board, Fifth Annual Report of the Federal Home Loan Bank Board, 1937, p. 31.
- 24 Federal Home Loan Bank Board, Fifth Annual Report of the Federal Home Loan Bank Board, p. 32.
- 25 The Code of Federal Regulations of the United States of America, ch. IV, Title 24, 1939, pp. 29-32.
- 26 Federal Home Loan Bank Board, Sixth Annual Report, Federal Home Loan Bank Board, 1938, pp. 82,83.
- 27 Federal Home Loan Bank Board, Eighth Annual Report, Federal Home Loan Bank Board, 1940, p. 138.

- 28 C. S. Shade, The Blue Book, (2d Ed.), 1936, p. 22.
- 29 C. S. Shade, The Blue Book, (2d Ed.), p. 23.
- 30 Federal Home Loan Bank Board, Fourth Annual Report of the Federal Home Loan Bank Board, pp. 37,38. Also see C. S. Shade, The Blue Book, (2d Ed.), p. 23. This book contains an excellent description of the Legal Department's organization as it pertains to the Corporation, pp. 19-27.
- 31 Federal Home Loan Bank Board, Fourth Annual Report of the Federal Home Loan Bank Board, p. 38.
- 32 Federal Home Loan Bank Board, Fourth Annual Report of the Federal Home Loan Bank Board, p. 38.
- 33 There were no Investigation Sections in the regional Legal Departments and the regional Reconditioning Sections were merged with the regional Service Sections.
- 34 C. S. Shade, The Blue Book, (2d Ed.), p. 25.
- 35 House Committee on Appropriations, Hearings: Independent Offices Appropriation Bill for 1939, 75th Cong., 2d sess., p. 1346.
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Chapter V

EFFECTS AND EVALUATION

The Home Owners' Loan Corporation was designed as an emergency agency to furnish relief to distressed home owners. While fulfilling that objective the Corporation has produced other benefits, some of which will have a lasting effect in the home financing field.

The Corporation's Accomplishments

When enumerating the benefits derived from the Corporation's work it should be remembered that it has been only one of several Federal agencies working within the housing field for the past decade and a half. It would be erroneous to bestow the entire credit for improvements made upon one agency. Mutual credit must often be extended.

Relief to home owners and mortgage institutions

The most tangible achievement has been the saving of approximately 800,000 home owners from threatened foreclosure. This represents the number successfully refinanced of the 1,017,821 original borrowers. The immensity of this task can be better appreciated when it is realized that the Corporation refinanced approximately one-sixth of the total

number of mortgaged homes in the United States.

Each time a mortgage was refinanced meant that some lending agency was receiving a financial shot in the arm. With its quickly developed program, "the Corporation constitutes the one force powerful enough to prevent complete disaster. ... It protected the solvency of financial institutions of all types." ¹ The Corporation exchanged its bonds for frozen assets and provided banks, building and loan associations, insurance companies, mortgage companies, and individuals with cash to pay needy depositors or creditors.

A breakdown of the total sum paid shows that former mortgagees received approximately \$2,700,000,000 of the \$3,093,451,321 total of loans refinanced. Building and loan associations received \$945,000,000; savings banks, \$810,000,000; commercial banks, \$351,000,000; life insurance companies, \$216,000,000; mortgage companies, \$135,000,000; investment companies, \$108,000,000; and, individuals ² \$81,000,000.

More effective use of the bonds received might have been made by the private lending agencies. They were employed usually in meeting depositors' withdrawal demands or merely stored away for use in whatever emergency appeared. Refinancing might well have been conditioned by the requirement that the proceeds be used for making new loans.

This requirement would have required payment in cash rather than in bonds for the refinanced mortgages.

This type of refinancing program might have resulted in the proverbial killing of two birds with one stone - the refinancing of distress mortgages and the building of new homes so badly needed. It is a conjectural matter whether this procedure could have produced the necessary speed in relieving the distressed home owner. The then existing economic conditions would undoubtedly have produced great reluctance on the part of many institutions to enter into new lending operations. However meritorious such a plan appears now there was no demand for its instigation, primarily because no one appears to have thought of it.

Adoption of the long-term mortgage

The Corporation instigated a great change in mortgage-financing technique by its adoption of the long-term amortized mortgage. "The Home Owners' Loan Act passed by Congress in June of 1933 to stop the mortgage panic of that period, was the most constructive and liberal mortgage plan which had been developed in this country up to that time." Little effect would have been felt had the Corporation been the only agency to use the long-term mortgage, but the Federal Housing Administration followed its lead. This has resulted in the long-term mortgage now being generally accepted

by private lending agencies.

This type of mortgage is better suited to the interests of the mortgagor than the short-term mortgage. Its fixed monthly payment can be handled more easily by the mortgagor whose income, on most cases, comes on monthly payments.

Hand in hand with the long-term mortgage came the practice of lending a larger percentage of the property valuation. The maximum percentage was 80 per cent in the case of the Corporation while the Federal Housing Administration permits loans up to 90 per cent. The desirable feature of this large percentage lending is that it eliminates the necessity of resorting to the second mortgage with its many abuses.

Private lending agencies have generally accepted the long-term amortized mortgage but they have not adopted the liberal terms offered by the Government agencies. Their terms usually permit a 60 to 70 per cent valuation loan amortized over a fifteen-year period when government backing is not present. Very few permit the twenty-five year amortization period encouraged by the Government housing agencies.

The Corporation permitted some flexibility in its mortgage repayment plan. Mortgagors were encouraged to pay more than the required amount whenever possible. This permitted them to adjust their payment pattern to their

economic situation. By this means mortgagors were able to eliminate their indebtedness sooner than they could have by remitting only the set amount each month.

Private lending agencies have not encouraged this practice. To do so means a reduced return on their investments through lower interest income. This failure to encourage any flexibility in loan repayment continues to make the mortgage a rigid financing instrument regardless of economic circumstances.

There are definite advantages in the long-term mortgage. There can be little argument with the statement that it "is not overstating the case to say that the greatest single achievement of the Federal Government in the home financing field was to make America conscious of the soundness of the fully amortizing mortgage." ⁴ But there are dangers also in its use. Dangers which do not arise from the type of mortgage itself but from its use as a means to fulfill the dream of many prospective home owners. The ease with which a home may be obtained under such a system is widely advertised by private lending institutions and endorsed by Federal housing agencies. Though it opens the door to possible home ownership by many who otherwise could not afford it, it also invited over-purchasing unless caution is used. The procedure can ricochet in several directions: (1)

it may not insure the repayment of the mortgage within the useful life of the building or provide adequately against depreciation or obsolescence, (2) it makes it more difficult for the home owner to retire the loan within the productive period of his life-time, especially if he buys after he has reached middle age, (3) the long-term mortgage actually increases the total outlay a family makes for a home, and (4) the easy home purchase plans, like other forms of consumer credit, encourage buyers to undertake obligations beyond their long-run ability to pay comfortably.⁵

The last point particularly imposes a serious problem with present day conditions. It cannot be questioned that the critical housing shortage is causing many people to over-step themselves in purchasing homes. The results may be disastrous with the appearance of an economic recession. Large monthly payments for low valued houses will be the situation in many cases.

Reduced interest rates

The 5 per cent interest rate adopted by the Corporation started the general lowering of interest rates throughout the entire mortgage structure. Little effect would have resulted in private lending practices had the Corporation been the only agency to adopt it. Once adopted, however, it was used by the Federal Housing Administration.

The result has been that private lending institutions in competing for loans have had to reduce their interest rates from the pre-depression rates of 6 to 15 per cent to the 4 to 6 per cent level. The importance of interest rate reduction can be appreciated when it is learned that the Corporation's borrowers have saved \$600,000,000 in interest payment alone.

Improved appraisal techniques

The Corporation made a lasting contribution to real-estate practice in its development of improved appraisal techniques. Realizing that proper appraisal methods and value form the base of a sound mortgage credit structure the Corporation developed the three-point appraisal method to arrive at proper valuations. This method gave equal weight to the market value, the reproduction less depreciation cost, and capitalization of the average rental value over a ten-year period rather than relying on the unscientific, hit-or-miss market value appraisal previously employed. A property valuation was secured that approximated the true value of the property.

Full-scale adoption of this appraisal method would tend to stabilize property values and prevent the extreme fluctuations to which they have been subjected. The number of appraisers using this method is of course unknown. The

Corporation trained approximately 8,500 appraisers in scientific appraisal techniques and their influence should continue to lend a scientific approach to the appraisal problem.

Tax relief

The Corporation has rendered a degree of aid to local governments by the payment of taxes on its property and the payment of delinquent taxes for its borrowers. It advanced \$66,283,241 to its mortgagors during the 1940 fiscal year for tax payments. Prior to September 1939 it also advanced an average of more than \$500,000 per month for the payment of penalties and interest on taxes.⁷ Since the beginning of operations some \$230,000,000 has been advanced to mortgagors for the payment of delinquent taxes.⁸

The tax and insurance plan adopted by the Corporation in 1939 not only reduced the tax and insurance problems of its mortgagors but it aided in selling this type of payment plan to private lending agencies. Started by the Federal Housing Administration in 1934, such plans are now commonly used in all mortgage repayment systems. They are beneficial to all parties concerned: the home owner can better handle his taxes and insurance by regular monthly payments, the mortgagee does not have to worry about the security of his investment because of tax delinquency, and the local

governments are assured of steady property tax payments.

Standardization of mortgage practices

Private real estate and legal personnel were employed by the Corporation in many of its operations. Appraisals, title examination, loan closing, title filing, and foreclosure action were handled in this manner. In such cases the Corporation established standard fee payments. These standards were usually based on the prevailing local standards established for such work but where such fees appeared to be too high the Corporation established its standard at a point which appeared to be a reasonable charge. Direct benefits accrued to the mortgagors by this practice for these fees were paid by them.

The success of this project was handicapped by the varying mortgage and foreclosure procedures required throughout the fifty-two States and Territories in which the Corporation operated. Nevertheless, the policy of developing standardized procedures was followed wherever possible. Standardization is the key to reducing excessive charges present in the mortgage business. Such charges can be reduced and rendered uniform as the operations of the Corporation have shown.

Home improvements

A rather minor accomplishment has been the

reconditioning of homes instituted by the Corporation. Approximately \$190,000,000 has been advanced to borrowers for this purpose. Homes have been improved that might not have been otherwise and at the same time the security for the Corporation's investments has increased in value. Assistance has been given to the building industry and idle labor employed. In addition to these benefits, the Corporation's reconditioning program "has demonstrated to private home-financing institutions the advantages that a well-directed reconditioning program can yield both in protecting an institution's active loans and stimulating the rental and sale of acquired properties."¹⁰

Attitude of Private Agencies toward the Corporation

The attitude of private mortgage agencies toward the Corporation has been typical of all business attitude toward government - that of self-interest. This self-interest entailed a hesitancy on their part to accept bonds guaranteed only as to interest. Marked improvement was noticed in the saleability of the bonds in early 1934 when it was rumored that the guaranty was to be extended to the principal. After that extension had been made conditions improved remarkably in the exchange of bonds for mortgages.

A policy of watchful waiting was assumed by the private institutions. During the first years of the

Corporation's existence they were in such poor financial condition that Federal action was the only method available to aid recovery. For that reason they were compelled to accept the Corporation's help. But at all times they were fearful of any form of extension for the Corporation, either in bond authorization or in time. While testifying in regard to a contemplated increased bond authorization, Mr. Friedlander, President of the United States Building and Loan League said:

We are very fearful that it will have a very decided effect, first, upon collections of loans which we have in our note case; secondly, that it will retard the getting back into normal functioning of private capital. As long as there is an opportunity for borrowers to file applications with the Home Owners' Loan Corporation and get the benefit of Government credit, just that long they are going to look to the Government for their funds rather than to private institutions.¹¹

It appears that in this statement he has unwittingly built a case for the extension of governmental financing.

In some cases an adverse effect was felt by private lending agencies merely by the existence of the Corporation. They faced the problem of home owners defaulting who were able to carry their loans. "Our problem has come since all the publicity has attended the Home Owners' Loan Corporation, that the people who could meet their obligations have started to coast and lay back in the hope of getting a Government loan later on."¹²

That they were justified in their complaint against

this practice is indisputable. But it was not a charge that could be placed against the Corporation for the original act did not limit loans to distress cases only. To combat this practice the Corporation gave specific instructions to its lending stations that loans were not to be consummated when it was evident that this practice had been resorted to by an applicant. The distress requirement inserted in the amendment of April 27, 1934 further alleviated this cause for complaint.

Once rescued from the brink of disaster by the Corporation the self-interest of private business asserted itself again. Starting as early as 1936 and 1937 various proposals were advanced whereby the Corporation would transfer back to the private agencies those loans that had turned out to be satisfactory risks. ¹³ None of these proposals were accepted by the Corporation.

The following quotation describes the general attitude private lending institutions had towards the Corporation.

In spite of its gigantic extent, mortgage refinancing in itself did not serve to divide opinion on any fundamental issues. Creditors were relieved of a crushing weight of frozen assets in a time of great stress, and debtors obtained more favorable credit terms than had ever before prevailed in this country. It was well understood that in the H.O.L.C. no permanent socialization of mortgage lending was intended and no attempt to preserve home ownership irrespective of public cost.¹⁴

For these reasons the Corporation has not been subjected to any large scale opposition by private lending agencies.

Administrative Evaluation

The following matters deserve consideration before conclusions are reached concerning the Corporation's administrative success.

It has had at one time all of the problems of organization, establishment of procedures and methods of doing business, employment, the development of a new method of mortgage refunding with bonds, the establishment of a servicing procedure, and the conduct of a financial operation which is unprecedented. And all of these things had to be done by a public institution which was subject to criticisms not only just and proper, but also from critics who are biased and who said it could not be done and who did not wish to see the result accomplished, and, in many cases, who for partisan reasons desired to discredit even the best efforts made in good faith.¹⁵

Early difficulties

Complaints were heard against the Corporation soon after its establishment. Some were justified and some were mutterings of malcontents. It could hardly be expected that an agency of this type could be established and operated without any friction or trouble appearing. Then too, it was sometimes very simple to hover outside and select individual cases of error. There were cases where loans had been made to people with substantial incomes. This has been freely admitted. Mistakes were made in personnel selection, in

appraisals, in individual tests of eligibility, and in other instances. The Corporation has been the first to admit it.

Trouble spots developed along certain fronts and in certain geographical areas. The necessity of building the organization from the base up resulted in delays in loan consummations and the inevitable "red tape" during early operations. Lending transactions at first placed too great an emphasis upon complicated forms and procedures causing delay in aiding the home owner. During the first five months of operation it

was necessary that more than 1,000 items be checked and answered and 22 forms completed before the application could even be sent from the branch office to the State office. Then new rules were promulgated from Washington with great frequency. For many weeks it was the rule that every loan in every part of the country must first be sent to the loan examining committee in Washington for scrutiny and further checking before the loan application, previously thoroughly checked at the local and State offices, could be granted. For many weeks it was necessary for each district manager to affix his signature to each application for a loan 18 times and the State manager 22 times.¹⁶

The administration of the Illinois and New York agencies developed into points of contention. Criticism directed against their management appears to be well founded when it was established that the average cost to the Corporation per closed loan in Illinois was as follows: October 1933, \$504.10; November 1933, \$135.39; December 1933, \$199.57; and, January 1934, \$238.72. The average cost in

New York was \$440.14 in November 1933, \$525.81 in December 1933, and \$122.84 in February 1934.¹⁷ These averages are to be compared with a cost of \$13 to \$15 per loan in Ohio and Indiana.

There were 442 salaried field employees in Illinois in February 1934. During that month they closed only 181 loans. During that same month the New York employees were able to close 1.69 loans per employee. The truly astounding fact was that the average cost per closed loan, in Illinois, was increasing during this period, reaching \$456 in February 1934.

It seems inexplicable that the average cost per closed loan should rise the longer the Corporation is in operation in that State. The only plausible theory would seem that so many politicians out there are being added to the Home Owners' Loan Corporation pay roll, traffic police should be employed to keep them from bumping into each other, or that salaries are increased or both.¹⁸

Whatever the true causes were for this situation they were gradually eradicated and replaced by improved administration.

Organizational difficulties, procedural "red tape," and politics all played their part during the Corporation's early career. These appear to be inevitable factors whenever government agencies are organized, particularly when few lines of responsibility are imposed. To have expected the Corporation to operate differently would have meant expectation of a defiance of human nature.

General administrative evaluation

The appointment of John H. Fahey as chairman of the Federal Home Loan Bank Board in November 1933 created a vast improvement in the Corporation's administration. Personnel policies were established to secure efficiency rather than to reward politicians. Incompetence was eliminated in large scale fashion. Selection was standardized and based on tested qualifications whenever possible, rating scales were developed and used to aid in determining promotions, transfers, and terminations. Positions were classified and standard pay schedules were adopted. A policy governing terminations was devised that was just and equitable.

These policies were formulated before the Corporation was placed within Civil Service jurisdiction. Little change was required when the Corporation was placed under Civil Service on January 1, 1942.

The Corporation's administrative organization offered no new administrative devices to study. A line organization was developed with home, regional, State, and local offices established to meet the dispersed type of operations performed by the Corporation. The home and regional offices served primarily as supervisory agencies while the State and local offices performed the personal contact duties. This permitted the Corporation to operate on the local level,

where it was needed, and at the same time permitted adequate supervision of that operation.

The establishment of regional offices provoked some Congressional criticism.¹⁹ It was claimed that they merely produced a pyramiding organization, that they duplicated work done in the State offices thereby increasing the cost of operation needlessly, and that they should be eliminated and their duties transferred to the State offices.

It is true that regional office work was a duplication of State activities in many respects. Their rechecking of all case records and other data received from State offices constituted a duplication of effort. But the regional offices served a useful purpose for it was from those points that local operations were primarily supervised. By this supervision a much greater uniformity and smoothness in operation was perfected than would have been possible by the home office alone. Direct home office supervision over such a dispersed and localized organization would have permitted local managers to be their own supervisors to too great an extent. Little effective control could have been maintained by the central home office.

An organization's efficiency is quite often measured by its expense record. When measured from this standpoint the Corporation's record is excellent. Administrative

expenses have consistently been smaller than the amounts appropriated by Congress. Operating costs have been gradually lowered until they average about three-fourths of 1 per cent of the average loan balances.²⁰ This compares quite favorably with the showings made by private lending agencies. In making such a comparison it must be admitted that the Corporation has had an advantage in the size of its organization but it must also be recognized that it has had large numbers of cases requiring special attention and additional cost not generally encountered by the private agencies.

It is quite an oddity for a government agency to cost less than originally planned. Yet that is the Corporation's situation. Estimates were "freely made in Congress and among the managers of mortgage-lending institutions throughout the country that the legislation would impose a loss of \$500,000,000 to \$1,000,000,000 on the Government."²¹ The present financial standing, however, indicates that the Corporation will have returned to the Government its entire investment including the \$200,000,000 originally invested as the Corporation's capital stock by the final liquidation time in 1952.

Several factors have been responsible for the Corporation's excellent financial showing. Improved economic conditions arising from the War have permitted many mortgagors

to maintain their accounts in a solvent status who might not have been able to otherwise. The housing shortage occasioned by the War has allowed the Corporation to sell its acquired properties more easily and at a higher price than it might otherwise have been able to do. Regardless of these facts, the Corporation's competence must be given partial credit for producing this financial standing. It was expected to be far different than it is and it might have been so had the Corporation been poorly operated.

Needed Changes in the Mortgage System

The most significant lesson taught by the Corporation's work is the need for a standardized and controlled home financing system. Improvements have been made. The long-term mortgage has been accepted and interest rates have been lowered. Variation is still found, however, in many financing practices.

An adequate credit reserve system needed

The inability of private institutions to meet the housing crisis in an adequate manner demonstrated the need for a mortgage reserve system long before the Federal Home Loan Bank System was established. In the words of John H.

Fahey:

it proves that if we had developed a representative mortgage reserve system in time it would have prevented most of the trouble that occurred in the

mortgage field, and the direct lending of the Government would have been unnecessary. In my judgment the experience means that nothing is more important to the safety of the country's mortgage lending institutions than to give thought to the value and utility of the mortgage reserve system represented by the establishment of the Federal Home Loan Bank System.²²

It is true that such a system would have helped, but such enthusiasm for the ability of the Federal Home Loan Bank System appears somewhat out of place if the tenor of the period immediately preceding the depression will be recalled. A system can be only as good as are the means of controlling it. Lending institutions were not required to join the System and to believe that State chartered institutions operating under a myriad of laws and interested only in securing the largest degree of profits possible would have been interested in such a system is rather wishful thinking.

These institutions became interested in, and willing to join, such a system only after the depression appeared. Self-preservation was the motivating force in most instances rather than any particular desire to participate in a Federally sponsored reserve system.

The Federal Home Loan Bank System will aid in future crises but total success can hardly be expected. It does not possess the necessary controls to prevent speculative practices entirely. It is in actual contact with only

a part of the institutions engaged in home financing. On June 30, 1945 it was estimated that there were 2,624 non-member savings and loan associations.²³ In addition, the number of other lending institutions and individuals engaged in this field were inestimable. It would be safe to state that this number has increased during the last two years due to the handsome rewards appearing in the housing field. These new institutions are the ones that can create havoc with their eyes glued on easy money with too little regard paid to safe mortgage principles.

The present Federal Home Loan Bank System does not go far enough. The credit reserve system needs to encompass all mortgage lending institutions. It needs to have competent control over the institutions once they are within the system. Interest rates should be controlled and standardized lending procedures need to be installed and controlled by the credit reserve agency. By this means a stable home-mortgage system could move much nearer reality.

Uniform State mortgage and foreclosure laws needed

The Corporation found great variation in State mortgage and foreclosure laws. This has only helped to surround mortgage-financing with mystery and has required the potential home owner to secure legal, or expert, services at every step with needlessly high fees. Mortgage and foreclosure laws must be amended to provide a more simple,

uniform, inexpensive, and expeditious procedure. No justification can be found for present condition.

Studies made by the Corporation point to this need for standardization and simplification. The time required to obtain a certificate of title varied from sixteen to seventy-one days and cost varied from \$21.12 to \$55.78.²⁴ A standard land title registration system should be installed in all States to reduce title examination time and cost to a minimum.

Costs and time spent in foreclosure are excessive in over half of the States. The time required varies from three weeks to eighteen months and costs vary from only a few dollars to as high as \$800.²⁵ Procedures are extremely varied and complicated. A simplified power of sale foreclosure system should be installed in all States. This would eliminate the present costly court proceedings required by many State laws.

Need for tax relief

State tax laws must be amended so as to prevent their acting as impediments to the financing and owning of homes. That the amount of taxes play an important part in home ownership can be seen from a Corporation analysis made during 1940. In four States real-estate taxes were found to be equivalent to 50 per cent or more of the loan payment

and in twelve more they represented two-fifths to one-half of the monthly installment. The experience of the Corporation has shown that it has acquired fewer homes and has been able to dispose of them at better rates in communities and areas where taxes were on a reasonable level.²⁶

The most notable movement in State property taxation has been the trend toward granting homestead exemptions. By June 1942 twelve States had offered exemptions in some form to property owners.²⁷ The movement has not spread any further to date. This type of legislation does furnish some degree of relief but it does not offer the all-around relief so badly needed in property taxation. The property tax still violates the ability-to-pay principle. Real tax relief must stem from the development of local tax systems based upon that principle rather than by adopting partial relief measures while still relying on the property tax as the chief revenue collector.

General Summarization

It appears certain that the Corporation will continue its present program leading to final liquidation by June 30, 1952. It played a sudden and dramatic part in the home financing field though little noticed now. It was largely through the Corporation's efforts that a bottom remained intact in the real-estate market during 1933 and 1934. The

Corporation was one of the first Federal housing agencies created and the success of the Government's entire housing program depended upon its success to a large extent. Had the Corporation permitted its defaulters to run over it the whole Government program might have broken down with a resulting demoralization of the entire real-estate market.

The Corporation developed a new pattern in the theory and the practices of mortgage financing.

It has demonstrated conclusively, on the one hand, that with reasonable and proper encouragement, ultimate debt-free home ownership is possible for the great majority of families who undertake the venture. It has also, on the other hand, pointed the way in new techniques of lending and collection policies that make such a venture a worthwhile proposition for owner and lender alike.²⁸

It is unfortunate that the Corporation has not taken advantage of its opportunity to render a greater service to the general public. No agency has been in a better position to assess home ownership and the problems connected with it. Yet it has failed miserably as an educational instrument to acquaint home-hungry citizens with these facts. Every means should be used to alleviate the general ignorance which surrounds home financing. Yet the Corporation has done nothing in this area. Though not an active participant in sounding the call for home ownership for everybody it has remained silent, to its discredit, when it could have so beneficially pointed to the pitfalls surrounding such a move.

The mortgage financing field has improved tremendously since the inception of the Corporation. The long-term amortized mortgage is in general use, the interest rate has dropped, a credit agency has been established for home financing institutions, a system of depositor insurance for these institutions has been created, and the insurance of mortgages has been inaugurated. Federal housing agencies have been placed under one central agency, at least temporarily, and legislation is pending to make such an organization permanent.

Whether an organization similar to the Corporation shall ever be needed again is of course unknown. The need for one can be eliminated if only the present mortgage financing gains can be retained and the remaining dark spots progressively removed. There can be no logical reason advanced for permitting such basic needs as housing and a good mortgage financing system to be governed by a few to the detriment of the many.

FOOTNOTES

Chapter V

- 1 "Home Owners' Loan Corporation," Federal Home Loan Bank Review, vol. 2, October 1935-September 1936, p. 379.
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