January 30, 1950

Honorable Burnet R. Maybank
United States Senate
Washington, D.C.

Dear Senator Maybank:

I have followed with great interest the work of the Banking and Currency Committee on S.2216, the Housing Bill, and have taken special interest in the amendments which you introduced on January 6 of this year. I should like to say that I am in full accord with the objectives of these amendments. They seem to me to initiate a vigorous program which will help cooperatives and other nonprofit corporations provide housing at monthly costs which families of middle income can afford. I feel that such a program is urgently needed now in order to fill the major gap in our present housing plans.

You may have noted in the press that on January 26th the Housing Commissioner of my own state, in an address to the Building and Construction Department of the American Federation of Labor, made some criticisms of your amendments. I thought you would be interested to know that in my judgment these criticisms do not reflect the feeling of the people of New York State. They surely do not accord with the facts as presented in the course of the hearings. Certainly the two features which Mr. Stichman criticized -- a low rate of interest and the long amortization period -- are essential to the success of the entire program which S.2216 seeks to carry forward.

There is certainly no other feasible way in which sound and suitable housing can be made available to middle income families at monthly costs which such families can afford. To deny these two essential parts of the program would be to make a wagon without wheels. I was very glad to learn, therefore, that the American Federation of Labor, the Congress of Industrial Organizations, the major veterans' organizations and many other public interest groups have declared themselves in strong support of your amendments, particularly those provisions relating to the low rate of interest and the 50-year amortization period.
The New York Housing Commissioner stated in his speech that the interest rate on loans to cooperatives, as proposed in your amendments, was unsound and undesirable because it was too low. He said that this interest rate, which is expected to be about 3 percent, was too far below what savings banks need to get on their deposits and below the return life insurance companies calculate on their investments in determining premiums. This argument, it seems to me, entirely overlooks the fact that under your amendments, the National Mortgage Corporation for Housing Cooperatives would obtain the funds to make its loans by selling its debentures in the private investment market. As I understand it, these debentures would be fully guaranteed by the U.S. Government, both as to principal and interest. Securities of this type, of course, involve no servicing costs to the purchaser. The rate of interest on such securities is therefore a net rate. The rate on mortgage loans is a gross rate. As I recall, figures were presented at the American Life Insurance Convention in Chicago in the Fall of 1945, which indicated that mortgage loans bearing interest at 4 1/4 percent represent a net rate of about 3 percent, after deducting the costs of procuring and servicing the loans, together with a pro rata share of administrative expenses. Since these figures were those of the large life insurance companies, who have the advantage of geographical diversification and a better balanced loan portfolio than most banks, the net return for these insurance companies would certainly be more favorable than the return for many lenders for whom a 4 1/4 percent gross rate on the mortgage loan represents a net return of less than 3 percent. Hence I would consider the provision in your amendments of an interest rate of approximately 3 percent a fair one.

The securities issued under your amendments would certainly represent a sound and profitable investment for life insurance companies, trust accounts in banks, investment portfolios, and similar types of investors. Far from decreasing the amount of interest for saving banks' depositors, or decreasing premiums which life insurance policy holders might receive, these securities would actually be one of the soundest sources of a steady rate of return for savings banks or for life insurance policy holders.

The New York State Housing Commissioner was also critical of those provisions of your amendments which would provide a long term amortization period of 50 years. He said that, with
such a long period of amortization, 99 out of 100 members of the cooperatives would never pay off their mortgages in their lifetime but would die in debt. The theory that a dwelling unit must be paid for in 25 to 30 years has no real basis except in a traditional practice. This practice was based not on the life expectancy of the building, but on the life expectancy of the owner of the building. It was designed not for the benefit of the purchaser, but for the benefit of the seller, and has worked, over the years, to prevent families with modest incomes from being adequately housed.

I feel that the longer period of amortization, in combination with the lower rate of interest, will be very beneficial to the cooperatives, without being at all detrimental to the lenders of the money.

It seems to me that under your amendments, the individual cooperators do not contract a fixed debt. They contract to pay monthly charges for their houses, as long as they are members of the cooperative and live in the housing. Unlike the ordinary renter, however, they accumulate an equity or ownership of interest in their housing by paying the monthly charges. If a cooperator should find it necessary to move, his equity or interest would be repurchased by the cooperative. If he dies, his equity would be an asset in his estate. It has a cash value. It is not a liability. This is certainly not true in the case of rents.

I understand that it was thoroughly brought out, in the course of the hearings on S. 2246 and on your amendments, that the middle income families, whom this measure proposes to assist, would be able to save ten to twelve dollars a month because of the longer period of amortization. The cooperative provisions eliminating profit and the savings made possible by cooperative management would cut the cost to the middle income families by another thirteen dollars monthly, making an average saving to these families of $25 a month. I would therefore judge the low rate of interest and the long amortization period to be essential provisions of the entire proposal.

The third and final point made by the New York Housing Commissioner was that your amendment would prove to be a boon to speculators rather than a benefit to labor and to middle income families, unless the profits of the contractors are specifically limited by law. Naturally, I would be deeply concerned and disturbed if there were such a possibility. It was for this reason that I made direct inquiry of you.
regarding this matter. I was pleased to be assured, as I expected, that there is a specific provision in your amendments that the benefits of this program will not be dissipated through speculative devices. I would assume that the officials administering this program must, among other things, insure that no contractor is allowed to make a speculative profit. I agree that speculation may sometimes develop in unforeseen manners. Only vigilant administration can prevent this. I assume that vigilant administration will be forthcoming. I certainly expect that the legislative history of the consideration of this measure will give full assurance that it is the intent of Congress that speculative profits be prevented. In general it has always seemed to me extremely undesirable to inject into legislation the minutiae of regulations which would, in the long run, only result in hampering sensible and efficient administration.

In closing, I want to take this opportunity to express my high admiration for your able and energetic leadership in developing this housing legislation. This country will derive years of life and benefit from the Housing Act of 1949. I hope your committee will approve your pending amendments and that they will be brought to the Senate floor where, I am confident, they will receive overwhelming support.

Very sincerely yours,

Herbert H. Lehman