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Letter to Federal Housing Administration Commissioner Norman P. Mason about mortgage interest rates

Strom Thurmond

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The Honorable Norman P. Mason, Commissioner
Federal Housing Administration
811 Vermont Avenue
Washington, D. C.

Dear Mr. Commissioner:

In reviewing the current trends of rate of interest charged by lenders for conventional and Government guaranteed mortgages, it occurs to me that the cost for financing the purchase of a home has reached a level which precludes many of our citizens from qualifying for a loan. It has been reported to me that many individuals in the middle income and lower middle income groups are denied the opportunity of home ownership even though they have accumulated funds for a reasonable down payment and loan closing costs. In respect to this latter item, I am informed that in some areas loan closing costs are so extremely high that they actually act as a deterrent to home purchase. I realize that some of these matters may be beyond the direct control of your agency. However, the rates of interest allowed for an FHA loan to finance a residential purchase, which are under your direct control, have been recently adjusted upward with the possibility, according to trade journals, of another upward adjustment.

During the years of FHA operations the interest rates of section 203 loans have been changed as follows: August 1, 1939, 5% to 4 1/2%; April 24, 1950, 4 1/2% to 4 4/5%; May 2, 1953, 4 4/5% to 4 4/5%; December 4, 1956, 4 4/5% to 5%; August 5, 1957, 5% to 5 1/2%. With respect to war and postwar housing, that is to section 603 loans, the rates were 4 1/2% for March, 1941, to October, 1945, and 4% from May 22, 1946, to April 30, 1948. To these rates must be added another 1/2% of the mortgage loan for loan insurance. Thus a purchaser today pays a total rate of 5 - 3/4%, which is comparable to, and sometimes higher than, a conventional loan rate.

I would appreciate your informing me of the reason and justification of the upward adjustment in FHA interest rates made on December 4, 1956, and August 4, 1957; and whether you now plan
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a downward, rather than an upward, adjustment in the FHA rate. Frankly, in view of the Federal Reserve Board's recent reduction of the rediscount rate from 3½% to 3%, as well as other signs of the relaxation of credit, it is my belief that we should work toward a downward adjustment in the FHA rate.

My evaluation of this situation is, according to the "Wall Street Journal" of December 5, 1957, in harmony with responsible people in financial circles. An article in the December 5 "Journal" states in part:

"Bankers here are predicting the first general interest rate cut to business in nearly four years will be made within the next 60 days.

"...most New York City bankers look for the cut to come by early February--possibly sooner.

"Says an officer of one big New York City bank: 'I'd bet you even money that the rate goes down by January 15.'

"...Bankers wearily concede they've been under some pressure from customers to lower their rates. This pressure, they say, has increased sharply since mid-November, when the Federal Reserve System lowered the discount rate--the rate banks pay for loans from the system--to 3% from 3½%.

"...As the supply of money in the banks' hands has increased in the past two weeks, the banks' 'borrowed reserves' have declined from about $100 million to $300 million. And some banks have been able to work themselves entirely free of debt.

"'The feeling around here is that, as soon as banks get reserves to work with, they'll really become competitive again, and that means cutting rates,' says a New York City banker.

"...There also are indications of a rising supply of funds available for home mortgages."
The article went on to state that a New York mortgage firm which represents a large insurance company says that it is now actively urging builders to borrow money for homes--and industrial and commercial structures, as well.

In another article in the December 5 "Journal" a big Philadelphia builder is reported as saying, "Lenders are now coming to me instead of me having to look for them".

In view of these trends it is my belief that we should concern ourselves more with providing housing on financial terms which can be met, and less with providing investors with yields or interest rates which, in the immediate future, would be well out of line for long term investments.

Thanking you for your attention to this matter, and with best wishes,

Sincerely,

Strom Thurmond

ST: bbj