

U. S. Federal Housing Administration.

PROPOSED PROGRAM

DIVISION OF ECONOMICS AND STATISTICS

SUBMITTED TO THE FEDERAL HOUSING ADMINISTRATION

JUNE 13, 1935

Federal Housing Administration
Library

June 12, 1935

Hon. Stewart McDonald,
Acting Administrator,
Federal Housing Administration,
Washington, D. C.

Dear Sir:

I am transmitting to you herewith a proposed program for the Division of Economics and Statistics for the immediate future.

A number of items in the program have been discussed with heads of other Divisions to whom we attempt to give service. I would appreciate a discussion of the program with you and the officers of the Administration who would be most affected by this program.

We are prepared to proceed upon the program or to make such changes in it as seem advisable as soon as you have an opportunity to pass judgment on it.

Very truly yours,

Enclosure

ERNEST M. FISHER, Director
Division of Economics and Statistics

SUMMARY

The work of this Division is necessarily organized in sections centered around specific projects and fields of work. The program has been designed to meet specific requirements of the Federal Housing Administration in both its policy forming activities and its field operations.

The following topical outline indicates the general policies and practices which have been considered in drawing up the program and indicates the particular projects designed to facilitate the adoption of policies and the improvement of practices in connection with each problem.

1. Underwriting Policies and Practice. The principal problems of policy and execution involved in underwriting as indicated in the Underwriting Manual are those of determination of standards for and the rating of property, neighborhood, relation of property to neighborhood, borrower and his income, mortgage pattern.

Applicable Projects. The principal activities of the Division designed in the light of these problems are: (1) Cooperative promotion of real property surveys and their analysis, (2) Preparation of block maps for underwriting staff, (3) Studies of elements of city growth and structure, (4) Preparation of dynamic maps for underwriting staff, (5) Mortgage experience study, (6) Analysis of insured mortgage portfolio, (7) Tabulation and analysis of current business and financial statistics (See projects listed under heading 7), (8) Tabulation and analysis of current real estate data such as local building in relation to demand--Collection stimulated and analysis prepared (see projects listed under heading 7).

2. Underwriting and Supervision of Low Cost Housing Projects. The applicable projects are: (1) Development of

a technique for analysis of demand for low-cost housing generally and in connection with specific projects (involves use of local Real Property Inventory data, etc.), (2) Preparation of a system of low-cost housing management accounts, (3) Study of operating experience of large scale housing projects, (4) Study of financial experience of low-cost projects.

3. Protection of Insured Risks from Avoidable Hazards. Just as certain large life insurance companies help to support public health measures designed to reduce death rates, the Federal Housing Administration must prepare to take a constructive part in measures to protect home neighborhoods from blight and to promote stability in local home building and real estate mortgage markets. Such protective measures include good city planning and zoning, adherence to intelligent policies on the part of mortgage lenders, large property owners and civic organizations, with regard to areas threatened with blight, and the exercise of sound judgment by Federal Housing Administration field representatives with regard to new housing developments. Their effectiveness generally will be increased by the practical application of current statistical data of a detailed character, and more wide-spread knowledge of the constructive and destructive forces affecting the stability of home properties.

It is believed that much can be effected by close co-operating with and securing the assistance of governmental agencies in this connection; specifically, the aid of the National Resources Board and the Home Loan Bank Board would be valuable here.

Applicable Projects: (1) Real property surveys, (2) City growth and structure, (3) Current real estate indexes, including data on new construction, selling price of houses, number and volume of mortgages recorded and their relation to present and prospective personal income, etc.

4. Actuarial Control. For the purposes of adequate actuarial control, a considerable amount of statistical material in regard to the experience of mortgage lenders must be obtained to serve as a basis for the necessary expectancy tables, etc. These actuarial projects will be planned and executed in close cooperation with the Comptroller's Division.

Applicable Projects: (1) Default-expectancy tables, (2) Post-foreclosure expenses expectancy tables, (3) Liquidation profit or loss expectancy tables, (4) Evaluation of non-ledger accounts, such as mean reserve on outstanding insurance in force and analysis of surplus in various group accounts, (5) Preparation

of an underwriting exhibit including: (a) Gain or loss on loading for expenses, (b) Gain or loss on expected foreclosure cost, (c) Gain or loss on expected profit or loss on liquidation of property, (d) Gain or loss on lapses.

(6) Residential property life expectancy tables, (7) A study to determine whether any premium differentials are suggested by experience with mortgages in groups A, B and C, (8) Possibilities of adverse selection, (9) Possible effects of excessive leniency toward delinquent mortgagors, (10) Study of proper charges by banks to cover the risk involved in modernization loans made after the expiration of Title I.

5. Operating and Control Statistics: The applicable projects are (1) Continuation of operating statistics and application of quotas as at present, or adapted from time to time as may be required, to provide definite measures of the accomplishments of the different branches of the Federal Housing Administration, and to aid in planning and budgeting the activities of the various divisions and field offices.

6. Economic and Financial Conditions Affecting Federal Housing Administration Policies and Operations. The applicable projects are: (1) Maintenance and analysis of current business and financial data such as those relating to industrial employment, earnings, income, population movements, national savings, interest rates, and activities of other government agencies such as the Home Owners Loan Corporation and Public Works Administration, Housing Division, (2) Maintenance and analysis of current data regarding business and employment conditions in representative cities, (3) Cooperative development, recording and analysis of local and national current real estate data and indexes for the following items:

(a) Rents, (b) Vacancy and occupancy, (c) Property operating expenses, (d) Real estate values, (e) Real estate transfers, (f) Subdividing activities (g) Value of new construction, (h) Construction costs, (i) Volume of mortgage financing and its costs, (j) Foreclosures, (k) Population trends.

In the following pages these projects are discussed in detail and the specific tasks which the Division proposes to assume in connection with them are set forth. The policy of the Division is to eliminate as rapidly and as far as possible work of a data gathering nature and to emphasize and increase the analysis of materials in the light of specific problems of the Administration.

SUMMARY OF PERSONNEL

The carrying on of the work outlined in this program will require the services of the following personnel:

- 1 Director
- 1 Associate Director
- 14 Economic Analysts
- 10 Assistant Analysts
- 5 Supervisors
- 55 Statistical Clerks
- 13 Stenographers
- 2 Typists
- 9 Draftsmen
- 1 Messenger
- 1 File Clerk

The approximate payroll would be \$220,000 per year.

PROGRAM

The proposed program of the Division may logically be divided into two parts:

1. A program of original research in the whole field of real estate with particular emphasis upon mortgage practices and the stability of real estate values.
2. A program of analysis of statistics based on the operations of the Federal Housing Administration.

ORIGINAL RESEARCH PROGRAM

A program of original research in the field of real estate offers an opportunity for the Federal Housing Administration to make a long term and permanent contribution to the welfare of the nation as a whole through the development of information in a field that is basic to the welfare of the nation, in which every citizen has a direct and immediate interest, and in which studies of a fundamental nature are almost entirely lacking. This field is one of greatest importance in the economic life of the nation and is certainly the one important field that has been most neglected.

In view of the neglect of the field and the consequent lack of data and basic studies, this portion of the program of the Division is most difficult to outline in such a way as to keep it within the scope of possibility when the limitations imposed upon the Administration by the Act are considered.

When the vast sums expended by the Government for research in connection with the industry of agriculture, manufacturing industries, and in the field of banking are contemplated, and when the vast scope and aggregate social importance of real estate in the national economy as compared to these other industries is considered, the magnitude of designing a program of research within the limitations imposed by the Act can be appreciated.

This problem has been considered at great length and has been discussed with the ablest advisers in Washington. The following program is suggested in the light of the counsel which has thus been received and is designed to secure the largest possible results for both the Administration and the public with a minimum expenditure of funds by the Administration.

The difficulty in outlining such a program arises primarily from the lack of fundamental data which can be subjected to careful analysis. Collection of such data on a nation-wide scale is obviously prohibitive under the restrictions of the Act. The research program is centered therefore upon two major objectives: (1) the preparation and refinement of techniques designed for the purpose of obtaining the basic fundamental data which are lacking, and (2) the analysis of such data as they become available.

A beginning has been made on the development of techniques for securing fundamental data. These will be referred to in connection with specific proposals which subsequently appear. The problem is to analyze

existing techniques, to select from them the best techniques for our purposes, and to further refine those techniques so that they will make available additional comparisons and studies on a uniform and standardized mass of data gathered from all parts of the country.

After these techniques have been developed, it is the plan of the Division actively to encourage the adoption and utilization of the techniques by institutions and groups scattered throughout the country who would operate upon a voluntary basis because of the benefits which they would receive directly from the program. The data gathered on a voluntary basis would be available to the Administration for analysis and utilization in its program at the minimum expenses involved in the preparation of the techniques and in the promotion of their use by these voluntary groups.

Thus the second portion of the research program will be enabled to proceed and will likely increase in importance as the volume of data available for analysis grows.

As an immediate program for advancing toward the objectives the following projects are recommended:

1. REAL PROPERTY SURVEYS

The development of additional real property surveys. The technique of real property surveys has reached the stage where it can be characterized as essentially perfected after experimentation in about 150 cities. There are four major tasks which it is recommended that the Federal Housing Administration undertake in connection with

these surveys:

1) Close cooperation with the Federal Emergency Relief Administration in the analysis of surveys that have been taken in some 75 cities with funds appropriated by the Relief Administration but without close supervision. Wherever these surveys have developed data which are dependable, it is proposed to secure such an analysis of the data as will enable Government agencies like the Federal Housing Administration to utilize them as we are now utilizing the results of the Real Property Inventory and the surveys which we have assisted in conducting in West Virginia and in Meadville, Pennsylvania.

In connection with this analysis, the Federal Emergency Relief Administration has requested the assistance of experienced field research supervisors in this organization. Arrangements have been made for giving them one full time man for this purpose and part time of other field research supervisors who are or will be in the field. The Federal Emergency Relief Administration will pay their travel expenses and per diem while they are engaged in this work.

2) In view of the funds available under the Work Relief Act it is felt that a rare opportunity exists for extending these surveys into additional communities. It is proposed that the Federal Housing Administration cooperate with other Government agencies in the promotion of such surveys under the Work Relief Act. It is not proposed that we undertake the responsibility of

supervising and administering the project but that we act in an advisory capacity to it and urge that it be set up and prosecuted under the supervision of a qualified agency to be selected and in accordance with the techniques that have been prepared by the Federal Housing Administration and the Federal Emergency Relief Administration.

Under the program of mutual mortgage insurance it is difficult to exaggerate the value of these surveys to the Administration. They provide the basic datum line from which future studies can be made and from which changes in the community structure and the influence of forces affecting the stability of property values and the hazard of mortgage lending can be judged. They will also provide additional appreciation of the significance of studies on real estate and will greatly contribute to the securing of periodical real estate censuses such as now exist in several European countries, notably France, Germany, Sweden, etc.

3) As additional surveys proceed and as the data from surveys that have been made heretofore are made available through supplementary tabulations, the work of analysis of the data for the specific purposes of the Administration should be carried on.

This work will consist of two principal activities:

(1) the preparation of maps for underwriters and for study by the Division similar to those that are now being sent to the underwriting offices and (2) the analysis by statistical methods of relationships existing in the data thus mapped.

In carrying on this work it is proposed to utilize the

services of two analysts each with one assistant and approximately six statistical clerks.

4) In connection with real property surveys that are now being made in Kansas City, Kansas, a financial schedule is being carried which is designed to secure data which will give a complete picture of the mortgage financing of the community. The Division has agreed to edit and tabulate these schedules which will require the services of six to eight statistical clerks and one supervisor for a period of about 50 weeks.

The Division does not propose to undertake this editing and tabulating in connection with any additional surveys which may be carried on in the future. The work in Kansas City, Kansas was undertaken in order to test the technique of securing financial data and to experiment with the data to determine their significance.

2. STUDIES OF CITY GROWTH AND STRUCTURE

Studies of city growth and structure are essential in the analysis of mortgage hazard. Changes in city structure have been in the past probably the greatest factor in undermining mortgage security.

Considerable progress has been made in developing techniques for these studies and several of these techniques have been

applied on an experimental basis to certain communities. It is proposed to continue these studies utilizing the techniques which have been developed and adding techniques as experience is gained.

The following specific analyses are proposed:

1) Analysis of the Data in the Real Property Inventories.

The Division of Economics and Statistics has in its possession the most extensive and the most detailed mass of statistics on residential properties ever collected together. These include the figures in the Real Property Inventory for 64 cities and the data for 10 West Virginia cities broken down by Individual blocks. One of the objectives of the Division has been to put this mass of data into such a graphic form that they could be readily used by underwriters. Accordingly color maps have been prepared for all these cities showing the different areas graded by rental level. In addition to rents, these maps also include several other major items collected in the Real Property Inventory, which can be consulted by underwriters in valuing specific parcels of real estate and rating the risk involved in the mortgage.

It is the purpose of the Division to go much further, however, in the use of these data. Work is now in progress in the study of the correlation or statistical relationship that exists between rents and other items given in the Real Property Inventory. If

the material in the Real Property Inventory can be used for the purpose of developing a technique that can be universally applied by the underwriters, then neighborhoods can be rated by a quick method even in cities where there is no Real Property Inventory. For example, if it is found that a high degree of correlation exists between low rents, poor condition of buildings, absence of private bath, presence of members of a race other than white, etc., rental maps of cities, prepared on a sample basis, might serve to indicate the desirability or undesirability of mortgages in such areas from the risk point of view.

Similar investigations of this sort are being made of the data in the Real Property Inventory and should be continued. It is proposed to assign one assistant to the chief of the section and two or three statistical clerks to this work for a period of several weeks.

2) The Preparation of Dynamic Maps Showing City Growth.

The pattern, direction, and the rate of neighborhood changes can be shown by the preparation of what has been designated as dynamic maps. These maps show the location of the principal commercial, factory, and residential areas in a city at three intervals of time, namely: 1900, 1915 and 1935. The practicability of this technique for map making has been demonstrated in a number of cities already. By its use maps for cities of 100,000 population or less can be prepared in a few days' time by contacting representative residents of the city and securing their voluntary

assistance. This work will, therefore, be carried on through field research supervisors who will attempt to make such contacts in all the cities which they visit and secure these maps.

We have been assured also that members of the research staff in the Rural Resettlement Administration, because of their interest in this type of material, will cooperate and attempt to secure similar maps when they are in the field. This work will, therefore, not require any special assignment of personnel.

3) Statistics Relating to the Economic Background of Cities.

In order to appraise the stability of a community and its residential properties a wide acquaintance with the principal economic activities of the community is necessary. The statistical data for developing this acquaintance are available in Washington but are generally speaking not compiled for this purpose.

It would appear necessary, therefore, for some experimentation to be undertaken in compiling these statistics for selected cities and interpreting the general economic forces operating in the community.

This work is in an exploratory stage. The Federal Emergency Relief Administration has done some important studies of this nature, and one member of this Division in cooperation with the Federal Emergency Relief Administration has made some studies of the use of these data.

It is proposed to continue these studies by assigning part of the time of one member of the staff to them, together with clerical help--probably one or two statistical clerks.

4) Historical Background of Cities from Material in the Library of Congress. To supplement statistical records and to gain an insight into the causes of city growth and neighborhood changes a survey of the qualitative factors of city growth is of the utmost importance. In the Library of Congress there are thousands of books on local history from which a digest of passages relating to the specific problem of causes of city growth and neighborhood change can be prepared. It is proposed that one member of the staff give some attention to the direction of this work with the aid of one statistical clerk.

Cities will be selected for this study where Real Property Inventory and dynamic maps have been made, and it is expected that occasionally articles may be prepared for publication illustrating the relationship between these historical factors and the situation revealed by the Real Property Inventories and the dynamic maps.

Finally, from such an analysis it is believed that certain fundamental principles of city growth and neighborhood changes may be evolved.

5) Field Surveys of Cities. Even with all of the statistical and historical material that is available it must be recognized that the study of cities is peculiarly a local matter and that to get the peculiar individual characteristics of each city it is

necessary to make an actual inspection of the city being studied. This is true because much of the material, such as local records, maps, photographs, etc. can only be secured in the locality itself, and also because much valuable material can be secured by interviews with old residents, and by the inspection of existing buildings and neighborhoods. It is important, however, to enter the city with some knowledge of its previous history and its economic background. Therefore, in the previous studies made in Washington in the Library of Congress statistics of the economic background will be of the greatest aid in making the proper approach to the studies of the city in question.

In turn, the first-hand inspection of the city will give added meaning to the statistics and will furnish a concrete and visible evidence of the neighborhood changes as revealed by the books in the Library of Congress. During these field surveys dynamic and rental maps can be made and in all cases where Real Property Inventories or field investigations are being made the field representatives of the Division of Economics and Statistics could be instructed to secure information on historical backgrounds of the cities. Studies being made by the Central Statistical Board on the number of deeds recorded, on new construction, etc., and other local studies made on the number of lots subdivided, the number of foreclosures over a long period of years, should be related to these historical studies of cities. Qualitative facts as to booms and

and depressions and their effects on city growth should be related to statistical evidence wherever it can be obtained, and vice versa.

This work will be done largely by the field research supervisors when they are engaged in field work. It should be possible in addition for a member of the staff in the Washington office to make occasional field trips. No special personnel will be assigned to this problem.

In conclusion, the various methods of approach to the problem of city growth and neighborhood changes involve an assembly of all the data in the Federal Housing Administration and the various governmental agencies in Washington in the form of books in the Library of Congress and in the form of recollections of old settlers, local records, maps, photographs and the actual inspection of buildings and neighborhoods.

The purpose of bringing this material together will be to establish fundamental principles of city and neighborhood growth by correlation, by comparison between cities, and by the analysis of long run trends and cyclical fluctuations. Published articles and reports can be issued from time to time showing the development of special techniques, and special reports can be issued showing the application of these techniques to individual cities or to specific types of problems.

The whole mass of data, however, assembled, organized and analyzed, furnishes the fundamental background to which all problems

of city and neighborhood growth can be related. By this broad and inclusive method that covers selected cities in the United States one can be certain that any principles evolved rest on a broad foundation. At the same time detailed block-by-block analysis in certain specific cities and the development of techniques and correlations based on individual dwelling units should guarantee scientific accuracy.

Piecemeal studies that are made without any reference to any comprehensive plan fail to solve fundamental problems. Scientific advance can best be made by correlating as many types of data relating to city growth as possible, for that is probably the best means of separating the accidental and temporary elements from those that are permanent and vital.

It is proposed to assign two analysts to these studies, each with an assistant, and to utilize the services of four to six statistical clerks for making the necessary tabulations and calculations in connection with it.

3. CURRENT REAL ESTATE INDEXES

The functions specifically ascribed in the Act to the Federal Housing Administration of "guiding the development of housing" and "creating a sound mortgage market" indicates the necessity for the securing of data regarding the real estate and mortgage market upon the basis on which sound judgment may be exercised in formulating major policies of the Administration.

Real estate activity moves in cycles which in the past have extended over long periods, probably 15 to 30 years, and which cover a wide range of activity and depth, from the depression to the crest of the most active year. Sound judgment on specific proposals made to the Administration requires as complete an analysis of these cycles as can be made available.

Experience with such data as are available suggests that a series of indexes are desirable, if not necessary, to an understanding of the current situation in the real estate market, namely:

1. Index of rents
2. Index of vacancy and occupancy
3. Index of property operating expenses
4. Index of real estate values
5. Index of real estate transfers
6. Index of subdividing activities
7. Index of the value of new construction
8. Index of construction costs
9. Index of volume of mortgage financing and its costs
10. Index of foreclosures
11. Index of population trends

Some of these indexes are currently available for restricted communities, and techniques have been prepared covering an index of rents, occupancy and vacancy, real estate transfers, subdividing activity, volume of new construction, foreclosures and population changes. These techniques will need further refinement in the light of experience with them, and techniques for the preparation of other indexes herein indicated should be prepared.

The Federal Housing Administration has cooperated with the Central Statistical Board and other Government agencies in preparing

a number of these techniques. It is not yet clear whether some form of cooperative unit can be established to carry on the work of perfecting these techniques and of securing their wide utilization. In case such a unit should be established, the Federal Housing Administration should cooperate in its activities. Pending the establishment of such a unit, it is recommended that this Division be authorized to promote the utilization of those techniques which are now available and to utilize such time as can be made available of various members of the staff of the Division in further studies of these techniques.

The plan developed by the Central Statistical Board for securing occupancy-vacancy data indexes and real estate transfers data is to depend upon local cooperating agencies encouraged by funds made available from the Work Relief program to carry on the collection of data periodically to provide these indexes. Field research supervisors from this Division can devote some attention, when they are in the field, to encouragement of local groups in this cooperation. It is proposed to utilize a portion of their time for this purpose.

As data come in from the field, it will be necessary to utilize the time of some of the members of the staff and the statistical clerks in the analysis of the presentation of these data to the Administrative officers and to the field underwriting offices in whose territory the communities lie for which the data are available. It is impossible at the present time to estimate how much time this work will require, but it is not anticipated that it will be necessary to assign anybody

solely to this work in the immediate future. Field research supervisors will be instructed to encourage local groups to make the studies wherever other duties take them.

4. CURRENT ECONOMIC DATA

Since all the activities of the Federal Housing Administration are affected more or less directly by the current economic situation, it would seem necessary to provide for the Administration from time to time an analysis of the most significant economic developments with particular reference to the influence which such developments may have upon the program of the Administration.

In preparation for this task a member of the Division has collected all the series bearing on economic conditions which are available from published public sources and some from non-published public sources. These series are now being analyzed from the point of view of their significance, their dependability, and the importance to the program of the Federal Housing Administration of the developments which they reflect.

It is proposed to select the most important of these series and to carry them forward continuously, interpreting them from time to time to the officers of the Administration.

For this work it is proposed to utilize one analyst with an assistant and the necessary number of statistical clerks. It is impossible at the present time to determine definitely the number of statistical clerks necessary to carry on this work, but the number will probably not exceed four.

5. SPECIAL STUDIES

A number of studies of a different type from those which have been described suggest themselves as important to the Administration. From a wide variety and a large number of such studies which have been suggested the following have been selected as of most immediate importance and significance to the Administration:

1) A continuation of the mortgage experience study that has been initiated in four cities reflecting the experience of lending institutions with mortgage loans over a considerable number of years. The data for this study are now in the Division and are being tabulated and analyzed and will be made available at the earliest possible moment to the officers of the Administration.

The technique for making such mortgage experience studies will be revised in the light of the experience in these four cities and will then be made available to mortgage lending institutions who wish to make a study of their portfolio from the point of view of stability of mortgages, ratio of losses to total mortgage loans, ratio of amounts recoverable from foreclosures to cost of acquisition of foreclosed properties, and a number of other similar ratios significant to the determination of mortgage lending policies.

One large mortgage lending institution has already made its own study of its portfolio in accordance with the technique which has been developed for this purpose. A copy of the

preliminary study made by this institution has already been sent to the Administration and is now being reviewed and studied.

It is believed that if this technique is made available to other mortgage lending institutions they can utilize it widely and make these studies at their own expense and subsequently make the data available to the Administration.

It is proposed to utilize a portion of the time of the field research supervisors in promoting the use of these techniques by such mortgage lending institutions. In some instances it will be desirable to send field research supervisors or other members of the staff on special trips to contact lending institutions and explain to them the objective of such studies and the technique utilized in making them. It is not anticipated, however, that these trips will be numerous, and it is not planned to utilize the full time of any members of the Division for the purpose of promoting these studies. It is estimated that the work of editing and tabulating the data now in the office will require the services of seven statistical clerks and one supervisor for a period of seven weeks. The preparation of the materials for publication will be done by members of the staff as a portion of their regular duties.

2) Studies in the Field of Low Cost Housing. In consultation with the Director of the Division of Low Cost Housing

the following projects have been discussed and are proposed as activities of this Division:

a. The completion of a system of low-cost housing management accounts. A member of the Division has been working on such a system for several weeks during which he has consulted the Director of the Low-Cost Housing Division, the Director of the Underwriting and Realty Division, and the Comptroller.

It is proposed to complete this project in close cooperation with the Comptroller's Division and have the system of accounts ready in the very near future for use by those limited dividend companies which are operating under Section 207 of the Act.

b. A study of the operating experience of a large number of housing projects comparable to those which will be developed under Section 207 of the Act. Data on operating experience of both apartment houses and other rented residential dwelling units are almost completely lacking and few sources are available from which data can be secured and analyzed in the light of a uniform system of accounts. Such an analysis of operating experience seems essential to the guidance of the Administration in connection with underwriting mortgages on proposed developments.

c. A study of the financial experience of companies operating low-cost housing projects also is suggested.

This experience should be reviewed in the light of the system of uniform accounts to determine the stability of the income of such companies and the factors which effect such stability. This study is essential not only in formulating judgment as to the risk involved in low cost housing enterprises but also as a means of indicating to prospective limited dividend companies the opportunities and dangers involved in this type of enterprise. The Administration stands in a position to make a considerable contribution to better housing and to the stability of real estate investments in this country by analyzing the stability of income and the factors influencing it in connection with properties of different types and character.

d. A study of a method of determining what volume and kind of accommodations in low cost housing projects a community can reasonably be expected to absorb when proposals are submitted to the Administration. In the development of housing accommodations it has been customary in the past to depend principally upon the immediate market for properties, in making a decision as to whether to proceed. It has been found that this market is very erratic, subject to violent and quick reactions so that voluminous losses have been sustained in the past because of the dependence upon this volatile and fluctuating criterion. A more dependable index of the capacity of a community to absorb additional accommodations and utilize them permanently can probably be constructed. Such an index would obviously be

of immediate and great value to the Administration in its program under Section 207 of the Act and also to builders and developers generally throughout the country.

In connection with these studies in low cost housing it is proposed to utilize the services of one analyst and an Assistant together with such statistical clerks as are necessary to carry out the program. The number of such clerks necessary would depend upon the extent to which the Administration wishes to develop this program. It would be possible to utilize effectively from three to ten clerks in this connection.

3. Actuarial Studies. The general objectives of the actuarial studies will be to accumulate on an actuarial basis the experience of the Administration and of other lending institutions to whose records we may obtain access with respect to the probabilities affecting risk. The present status of mortgage insurance is comparable to the status of life insurance about a century and a half ago when the first mortality tables were constructed. Experience and accumulation of data should enable the construction of various expectancy tables and methods of valuation of reserves, on the basis of which risk can be measured mathematically, studied from an actuarial point of view, and premiums adjusted in relation to risk.

Already a considerable volume of material is available which can be treated from an actuarial point of view.

The sources of such data are Real Property Inventories, mortgage experience studies, and the insured mortgage portfolio of the Federal Housing Administration.

On the basis of this material available the following statistical tables can probably be constructed:

1. Default--expectancy tables
2. Post--foreclosure expense expectancy tables
3. Liquidation profit or loss expectancy tables
4. Federal Housing Administration operating expense expectancy tables based on annual reports of insurance companies and other financial institutions.

These tables should be prepared in close cooperation with the Comptroller's Division.

In close cooperation with the Comptroller's Division a technique for the evaluation of all non-ledger liabilities could also be prepared for use in appraising the liabilities of the Administration in annual and interim accounting statements. The principal non-ledger accounts to be evaluated are:

1. Mean reserve on outstanding policies in force.
2. Reserve for debentures outstanding.
3. Reserve for payment of certificates of claim.

An analysis of a surplus in various group accounts and the preparation of an underwriting exhibit should also be prepared each year. The principal items which would probably appear in the underwriting exhibit are:

1. The gain or loss on loading for expenses.
2. Gain or loss on expected post--foreclosure maintenance cost.
3. Gain or loss on expected profit or loss on liquidation of property.
4. Gain or loss on lapses.

The Actuarial Section of the Division of Economics and Statistics might also be of service to the Comptroller's Division in setting up a method of valuation of reserve of Modernization Credit Insurance under Title I of the National Housing Act.

A method should also be devised for comparing the actual trend of defaults with the expected defaults for purposes of control by the Underwriting and Realty Division over field underwriting staff.

The following actuarial research and special studies are also proposed for consideration:

1) The construction of a residential property life expectancy table on the basis of data tabulated in real property surveys and inventories.

2) A study of the excess interest rate to be charged by banks to cover the risk involved in modernization loans if it is to be assumed that this type of operation will be continued by banks after the expiration of Title I.

3) A study of overhead expenses on modernization credit to determine what the reasonable costs of extending such credit are to lending institutions.

4) A study to determine whether any premium differentials are suggested by experience with mortgages in groups A, B and C.

5) A study of the fundamental principles of insurance protection underlying the National Housing Act with particular reference to the probability of adverse selection in various methods of controlling this contingency; the effect of lapses on the mutual insurance fund and the possible effect on the mutual fund of excessive leniency toward delinquent mortgagors.

For carrying out this program there is available in the staff of the Division only one analyst, who can be given the services of an assistant and not to exceed two statistical clerks.

4) Special Studies of Real Property Survey Materials. In addition to the studies proposed of the real property survey materials in connection with city growth, there are a number of other analyses that can be made of the relationships which exist between the data in these studies and such problems of the Administration as bear on the stability of property values and mortgage experience. A typical study of this sort is illustrated by the attached chart. This type of study would naturally fall in the Special Study Section.

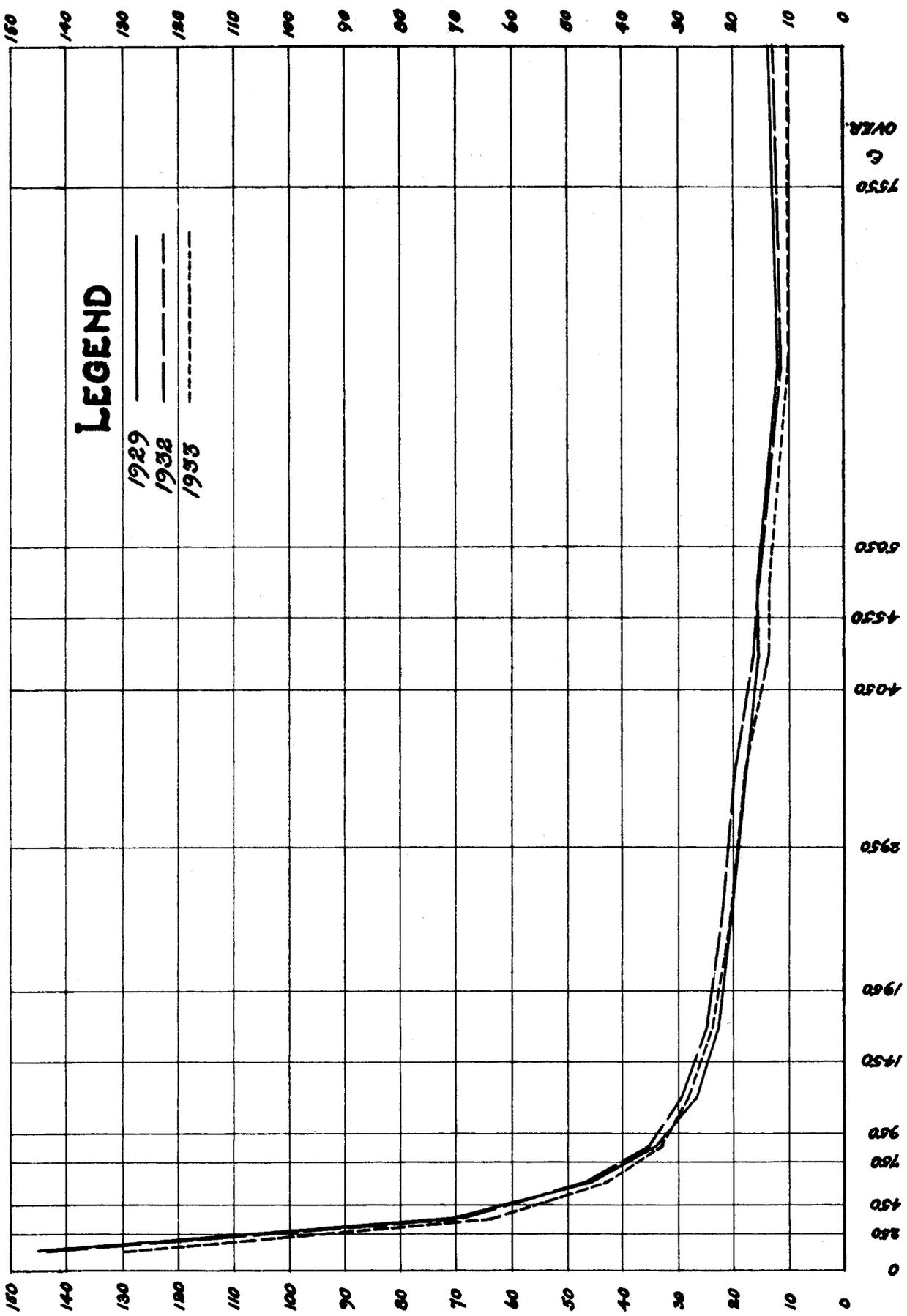
5) Special Studies of the Mortgages Insured with the Federal Housing Administration. These cannot be outlined at this moment. In addition to those studies of an actuarial nature there will undoubtedly be special tabulations and analyses that will be desired from this source. An example is to be found in the analysis of the borrower's income and other similar relationships influencing the defaults and stability of insured mortgages.

RENT-INCOME RATIO - PITTSBOROUGH, PA.

1929, 1932 & 1933.

RENT-INCOME RATIO

RENT-INCOME RATIO



INCOME

OVER
C
7550

6. OPERATING STATISTICS

The purpose of compiling and analyzing operating statistics is to enable administrative control of widely scattered or diversified organization or functions. The program of collections and analysis of such data, therefore, should be made in the light of this fundamental principle. In general, it would appear unnecessary to analyze such data any more frequently than is necessary for adequate administrative control. In fact, such data can be reported so frequently as to become confusing for purposes of administrative control rather than illuminating.

The Division is not prepared to make specific recommendations with respect to the schedules of such reports. The entire reporting system of the organization must be studied. The forms of reports and the intervals at which they should be prepared, made up on the basis of the necessity for data for Administrative control and a considerable amount of supervision, may be necessary in connection with the analysis of these data to determine precisely the form in which they should be reported so as to make them most valuable to administrative officers.

At the present time two analysts, each with an assistant and nine statistical clerks are definitely assigned to this work. An additional analyst is making a careful study of all report forms used by the Administration and is from time to time submitting recommendations as to the changes suggested by his analysis. He is

also studying the method of presenting the material so as to make it most readily and promptly available for use.

It is proposed to reduce, so far as possible, the detailed and recurring work involved in collecting the data necessary in the Operating Statistics Section. It is further proposed to develop the analysis of the data collected so as to get from them the greatest possible volume of information that will aid in the formulation of administrative and operating policies.

The work of this section must proceed slowly because it must be carried on continuously and it must be carried on simultaneously with the process of refining and improving the data so as to make them more useful.

ORGANIZATION

I am attaching hereto a proposed plan of organization for the Division of Economics and Statistics. This plan I consider tentative until our program is decided upon and until it is tried for a long enough time to indicate its feasibility and desirability.

The organization is divided into seven sections, four of which are intended to perform staff functions and three line or operating functions. The sections designed for staff functions are:

1. City Growth and Structure Studies Section
2. Statistical Techniques Section
3. Special Study Section
4. Current Real Estate and Economic Data Section

The sections which will perform operating or line functions are:

1. Office Management Section
2. Field Operations Section
3. Statistical and Drafting Section

Each section will be in charge of a section chief with at least one assistant, except the Current Real Estate and Economic Data Section and the Statistical and Drafting Section each of which will be staffed with a section chief and more than one assistant. In the Current Real Estate and Economic Data Section we plan to utilize the services of three analysts each with an assistant. In the Statistical and Drafting Section there will be two assistants, one in charge of

drafting work and the other in charge of tabulation and calculation.

The Field Operations Section chief will supervise the activities of field research supervisors with one assistant.

At the present time it is planned to utilize the services of five men, using the major part of their time in the field as field research supervisors. The duties of these men are of two sorts:

(1) The promotion of the use of the techniques for research which have been prepared by the Division and are ready for active use in the field. Reference is made subsequently to a number of these techniques and the importance to the Administration of gathering data which they are designed to secure. (2) Direct servicing of the underwriting offices in the preparation of research data needed by the underwriting staff in their operations.

A number of calls from underwriting offices are already on file requesting the services of field research supervisors. It appears likely, therefore, that the volume of this type of work will increase and will necessitate the addition of other field research supervisors.

The section on Statistical Techniques is intended to render technical services to all the other sections in reviewing the statistical techniques used or proposed in those sections. The personnel in this section will also be responsible for studying the techniques that are in use from the point of view of perfecting them or improving their efficiency and appropriateness. This work is, therefore, a

distinct staff function which is essential to a program in a field where so little experimental statistical work has been done. Already the personnel in this section has proved useful not only to this organization but has been called into frequent conference with other Government organizations interested in this field.

It is proposed to assign one analyst with two assistants to this work and from time to time to assign from one to four statistical clerks to make the calculations called for.

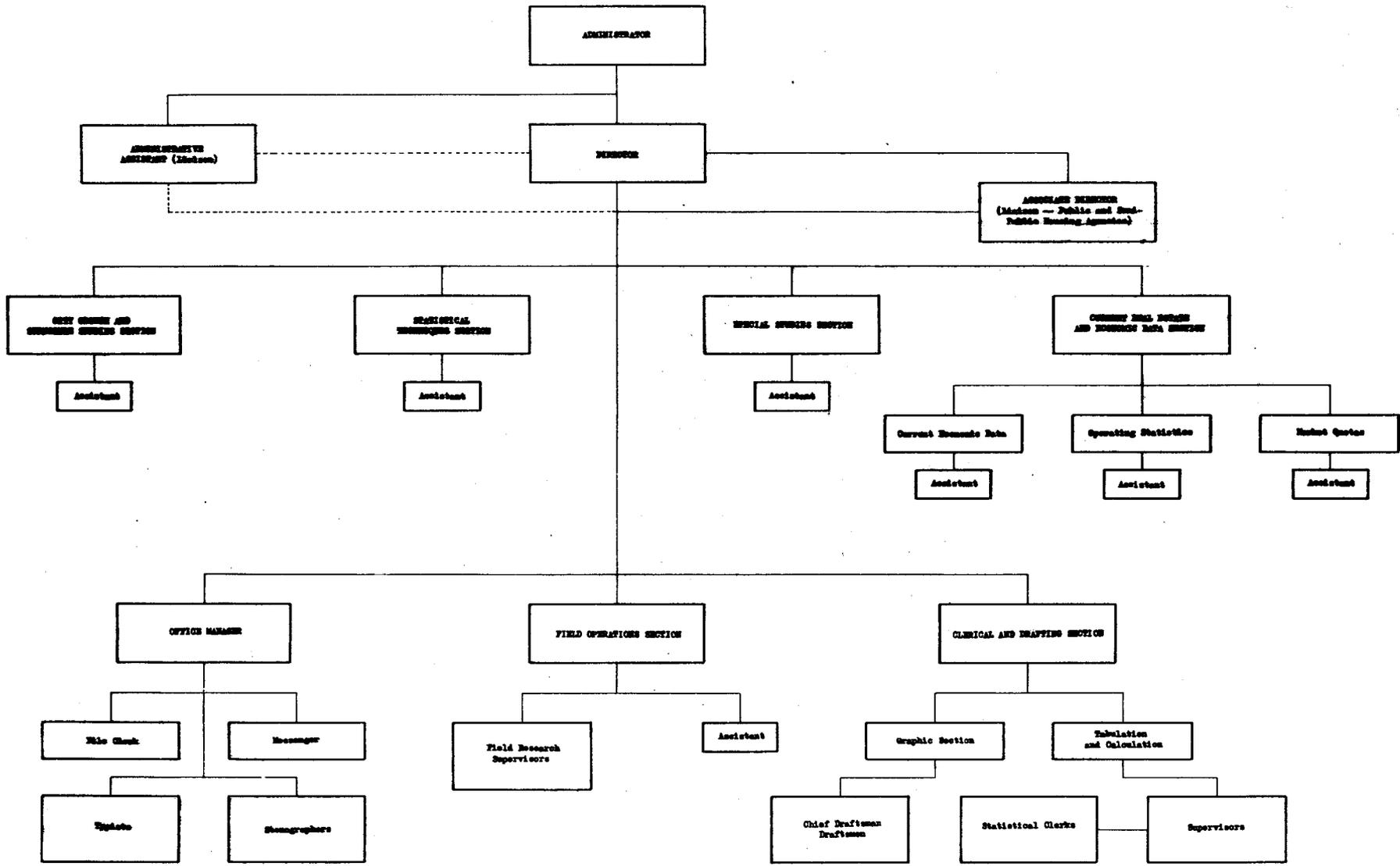
The Office Management Section and the Clerical and Drafting Sections are assigned duties for the entire organization with the usual personnel assigned under the Office Manager and with draftsmen, statistical clerks and supervisors in the Clerical and Drafting Section. It is believed that by operating these two pools of service the Division can function more efficiently than if the personnel in these sections is distributed throughout the organization.

In addition to the personnel thus assigned, the Associate Director will be assigned to liaison work with public and semi-public housing agencies and will be charged with the responsibility of keeping the Administration informed with respect to the programs and plans of other governmental agencies in the field of housing and of the activities of semi-public housing organizations throughout the country. As his work develops he may require the services of an assistant.

In addition to the personnel thus assigned to regular functions in this Division there are a number of special requests which constantly come to the Division for services from other Division heads.

Specifically the Comptroller has requested the personnel of this Division to be prepared to assist his Division in work similar to that work of the Economics and Statistics and in which the two Divisions should actively cooperate. The Comptroller estimates that his Division will need the services of personnel in this Division which will be the equivalent of the full time of two analysts.

FEDERAL HOUSING ADMINISTRATION
DIVISION OF ECONOMICS AND STATISTICS



Orig. Research Teach.
analysis

1. R. P. Summary

- 1+ (a) analysis - genl - field,
- 2 2 6 (b) Univ. course
- (c) F.H.A. analy. mlt maps (d) relationships
- (d) Fin study - H.C., Kans.

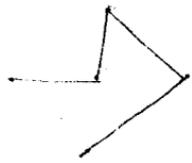
2-2-6 2. City Gr. + Street

~~1+3~~
~~2~~

- (a) R.P.I.'s
- (a) Dyn. maps
- (c) Genl city stats
- (d) Hist. backgrs.
- (e) Field Summary

3. Current R. E. Studies

span
from



- Rents
- Vacancy
- Op. Exp.
- r. e. values
- " transfers
- Subdiv. acts
- New constr.
- const. costs
- mtg. fin. + costs
- bond issues
- pop trends

1+ + 4 4. Cur. Ec. Data

5. Spl. studies

- 1+7 (a) Utilz. Exp.
- 1+1+- (b) Low cost
- (1) apts
- (2) op. exp.
- (3) fin. exp.
- (4) markets
- (5)

1+1+4 CI Act, studies

- { Defult expit. -
- { Port for. exp. - } + exhibits
- { " " sales, - }
- { Op. exp.
- { Reserves
- { Prop. life expectancy
- { Int. rates - T.H.I
- Premium diff's

(d) Spl Studies of R.P.S. Maths.
e.g. Income / rent rates

(e) Insid' netge portfolios

2+2+9 6. Op. Stats.

SUMMARY OF PERSONNEL ASSIGNMENTS

The following list indicates the approximate assignment of personnel to the various types of activities proposed in the program:

	1			
DIRECTOR	1			
ASSOCIATE DIRECTOR	1			
		Asst. to	Super-	Statistical
		Analysts	visors	Clerks
<u>REAL PROPERTY SURVEYS</u>				
Analysis of FERA data		1	(Travel and per diem to be paid by FERA)	
Preparation of maps and analysis of statistical methods	2	2		6
Editing and tabulating Financial Schedules on survey now being made in Kansas City, Kan.			1	6 to 8
For survey in Memphis, Tenn. (Tentative)			1	6
<u>STUDIES OF CITY GROWTH & STRUCTURE</u>				
For analysis of data in Real Property Surveys--Preparation of rental maps	1	1		2 or 3
Statistics relating to economic background of cities		1 (Part time)		1 or 2
Historical background of cities from material in Library of Congress		1 (Part time)		1
Field Survey of Cities	2	2		4 to 6
<u>CURRENT ECONOMIC DATA</u>	1	1		4
<u>SPECIAL STUDIES</u>				
Mortgage experience study			1	7
Low Cost Housing Studies	1	1		3 to 10
Actuarial Studies	1	1		2
<u>OPERATING STATISTICS</u>	2	2		9
For study of report forms	1			
	<u>14</u>	<u>10</u>	<u>3</u>	<u>51 to 64</u>
<u>OFFICE MANAGEMENT</u>				
Stenographers	13			
Typists	2			
Draftsmen	9			
Messenger	1			
File Clerk	1			
	<u>28</u>			

TOTAL PERSONNEL -- 106 to 119

