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17C-117

815 SIXTEENTH STREET, N.W.
WASHINGTON 6, D. C. NATIONAL 8-3870

March 23, 1964

Subject: Mortgage Investment Trust
and
Auxiliary Housing Corporation

Dear Sir and Brother:

The AFL-CIO General Board, at its February 24, 1964 meeting, approved a recommendation of the Executive Council to establish a Mortgage Investment Trust, to provide a medium for a mortgage investment program available to all affiliates of the AFL-CIO and any qualified Labor-Management, Welfare, Pension or Retirement Plan desiring to participate; and to set up an Auxiliary Corporation which would provide seed money to encourage and assist local non-profit sponsors with plans for the development of lower income housing.

Both the Mortgage Investment Trust and the Auxiliary Housing Corporation will be non-profit ventures and no fees, commissions or charges will be paid by participants.

It is proposed that the Mortgage Investment Trust be a common trust fund that permits the pooling of funds under one trust agreement for the proportionate benefit of each participant.

It, therefore, offers an opportunity to participate in a well organized mortgage investment program under competent management, thus eliminating the necessity for separate agreements by all funds desiring to invest a portion of their reserves in mortgage loans.

Participating union treasury or special purpose funds and the trusted welfare, retirement and pension plans, as well as Organized Labor as a whole, would benefit as follows:

- 1) The pooling of funds will provide an effective medium to construct socially desirable housing projects, and at the same time create additional and continuing employment for the construction trades and industries that provide material, furnishings, appliances and other necessities for new developments.
- 2) Through the lending of seed money to local non-profit housing corporations sponsored by Labor or other public interest organizations, moderate and elderly housing projects which would be financed with below interest rate loans from Government funds might be planned and constructed. This type of Government financing permits substantially lower rentals than are now charged in regularly financed projects.
- 3) A massive attack would be made to meet America's tremendous unmet housing needs and to replace deteriorating housing units.
- 4) A higher interest return, with maximum degree of safety, can be earned by investment in Government insured or guaranteed mortgage loans than on investments in high grade corporate, agency or Government bonds.

The proposed Mortgage Investment Trust, formed by investments from AFL-CIO affiliates and qualified labor or labor-management, welfare, retirement or pension plans of such amounts as each investing fund deems advisable, will be governed by a ten-member Board of Trustees selected from representatives of the participants.

Under the direction of the Board of Trustees, a qualified Manager will deal with mortgage bankers and other banking officials to coordinate a program for the acquisition and servicing of mortgage loans in different parts of the Country.

The mortgage investments of the proposed trust will be restricted to Federally insured or guaranteed mortgage loans to finance single family dwellings and multi-family apartment projects.

The underlying construction of all properties, financed by mortgages acquired by the fund will be 100 percent union built.

Any affiliated AFL-CIO fund or any qualified Labor-Management, Welfare, Retirement or Pension Plan may participate in the Fund at the date of its inception by payment of its proposed participation.

Participants will be accepted at future dates; however, any fluctuation from present interest rates might result in some small adjustment to the participant.

Investing funds may redeem their participations upon a reasonable notice of intention to redeem. Or, if their funds are required for a short period of time, a loan secured by their participation may be arranged. An extreme fluctuation from present interest rate levels might result in a small adjustment at the time of redemption.

The provision for the redemption of any participation provides an investing fund with the liquidity which may be necessary for unforeseen future contingencies.

It is the opinion of this office that the pooling arrangement of the proposed Trust provides an excellent medium for the smaller as well as the large union treasury, welfare, retirement, pension and special purpose funds to participate in a program that assures an extremely high degree of investment safety for funds that must not be handled in a speculative manner.

The Trust will earn a reasonably high interest return, provide necessary liquidity and, at the same time, will put Labor's funds to a practical and useful social purpose.

It also will relieve the trade union official of the burden of managing a portfolio to obtain the best results from the investment of funds under his direction.

The Auxiliary Housing Corporation will be organized with Trustees of the Mortgage Investment Trust acting in the dual capacity of corporate directors.

The purpose of this proposed corporation is to encourage and support the planning of low cost non-profit housing developments for moderate income families and elderly, in rural and urban areas where research indicates the need for such housing to be greatest. Such projects, as approved for development, will be owned by local non-profit organizations sponsored by Labor or other civic groups.

Funds of the Corporation will be used to provide modest amounts of equity or "seed money" required to supplement presently available Federal assistance programs. Technical or other necessary assistance will also be made available to local sponsoring groups.

As estimates indicate, approximately \$35,000 of "seed money" is required to initiate a \$1,000,000 project. It is proposed that to make an effective contribution in this socially desirable area, the corporation be initially capitalized at \$1,000,000.

Advances for initial equity or "seed money" to assist approved projects are recoverable at completion. It is, therefore, expected that the proposed capital funds will be continuously revolved into newly approved projects.

The long term mortgage financing for these projects will be obtained through Federal aid funds, which finance such mortgages at the low interest rates of 3 1/8% per annum for moderate income family housing, and 3 5/8% for elderly housing projects.

Current interest rates on Federal Housing Administration insured loans which are financed through usual investment channels are presently 5 1/4% per annum.

Therefore, it is estimated that the use of the direct low interest Federal aid mortgage loan results in a lower per month rental of \$4.00 per room.

As these low interest rate mortgages are acquired by a Federal Agency they will not be investments of the proposed Mortgage Investment Trust.

It is expected that each participant in the Mortgage Investment Trust will invest a nominal amount in the Auxiliary Housing Corporation. The percentage will be determined after receipt of the total amount of indications to participate in the Mortgage Investment Trust are calculated. However, for the purposes of a guide, the following figures are set forth:

If total commitments to participate in Mortgage Investment Trust are:	Percentage to be invested by participants in Auxiliary Housing Corp.:	Capitalization of Auxiliary Housing Corporation:
\$100,000,000	1%	\$1,000,000
50,000,000	2%	1,000,000
25,000,000	4%	1,000,000

It therefore can be determined from the above figures that the larger the size of the mortgage investment trust the lesser amounts of investment will be expected to be made to the Auxiliary Housing Corporation.

While the actual method for capitalizing the \$1,000,000 has not been finally determined, it is presently considered probable that each investor will receive a ten-year interest bearing debenture. When these details are concluded, you will be advised.

These well conceived proposals should receive maximum consideration from the trade union official acting as custodian of his union's treasury or as a Labor Trustee of a negotiated Labor-Management, Welfare, Pension or Retirement Plan.

It is the desire of the Executive Council and the General Board of the AFL-CIO that affiliates and all eligible welfare, pension and retirement plans be encouraged to participate, and that the details, policies and benefits of the proposed Mortgage Investment Trust and the Auxiliary Housing Corporation be widely publicized throughout the trade union movement.

Therefore, it is requested that the subject information of this letter be transmitted to all affiliated local unions in order that their officials acting as custodian of treasury and special purpose funds or as a Labor Trustee of a negotiated plan might have the opportunity to favorably consider the proposals.

It is also realized that many affiliates presently have unrealistic investment restrictions and it is suggested that consideration be given to amendments which might permit participation in the newly proposed programs.

It might also be advisable to consider the advisability of liquidating some present holdings and reinvesting the proceeds at higher interest rates in the proposed Trust.

Our Investment Department, available at all times without fee or charge, will be happy to review your present security holdings and make any recommendations which might be helpful.

It is the desire of the Executive Council and the General Board to inaugurate the proposed programs without delay. Therefore, it is requested that you advise us at your early convenience of the amount of your proposed participation and, also request your affiliated local unions to advise us of their interest.

The necessary Trust Agreement and Participation Certificates relating to the proposals are presently being prepared by our attorneys. Upon completion and receipt of an indication of your proposed participation, we will forward copies for your inspection.

Sincerely and fraternally,

President