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CHAPTER X

THE ROLE OF FEDERAL AIDS

SINCE the mid-thirties federal government aids have emerged as a new, important force conditioning the level and movement of private residential construction—a force that may have modified the operation of the historical factors analyzed in some of the preceding chapters. Within less than twenty years the federal aid programs have attained a strategic position. Whatever their original objectives, they have become deeply imbedded in the processes of capital formation and financing in residential construction. Although objectives, methods, and intensity of aids have changed, the aids themselves have become widely accepted as essential parts of the institutional framework in which new housing is produced and financed.[1]

It is important, therefore, to trace the magnitude of these programs and to assess their effects on capital formation in residential real estate. At least three questions are important: Have federal credit aids served to increase the total volume of residential building over and above the level that would have been attained without them? Have they tended to widen the market for new dwellings, in the sense that they have reduced carrying costs to mortgage borrowers to a point where occupancy of new housing has become possible for buyers and renters who otherwise would have been unable to afford new housing? Have they operated to change the distribution of new construction as between dwellings for sale and rent? Other questions that relate to the role of federal aids in mortgage financing, the instrument by which the government influences residential construction, will be discussed in Chapter XV.

The programs considered here include the insurance of residential mortgage loans by the Federal Housing Administration, the guarantee of veterans' home loans by the Veterans' Administration,[2] and the operations of the Federal National Mortgage Association in the so-

An earlier version of this chapter was published in 1953 as part of *The Role of Federal Credit Aids in Residential Construction*, by Leo Grebler (National Bureau of Economic Research, Occasional Paper 39).

[1] Federal activities designed directly to affect new residential construction did not exist before the National Housing Act of 1934, except for some quantitatively insignificant operations during World War I, primarily those of the United States Housing Corporation and the Emergency Fleet Corporation. Cf. Miles L. Colean, *Housing for Defense*, Twentieth Century Fund, 1940.

[2] While there are legal and financial differences between the "insurance" of loans by the FHA and the "guarantee" of loans by the VA, the generic term "insurance" will sometimes be applied for convenience when the combined importance of the two programs is discussed.

called secondary mortgage market. These programs have provided assistance in the financing of both existing and new construction, but the analysis here will focus on their importance to the volume and financing of *new* housing.[3]

New Residential Construction under FHA and VA Programs

From 1935 through 1953 more than 4½ million new dwelling units were financed with mortgage loans that were insured by the Federal Housing Administration or guaranteed by the Veterans' Administration. This number represents about 40 per cent of all new dwelling units built during this period, and equals two-thirds the entire volume constructed during the twenties. Of the 4½ million dwelling units, over 3.3 million were financed with FHA and VA loans made during the eight postwar years 1946 to 1953. Changes over time in the quantitative importance of these programs are shown in Chart 17 and Tables 37 and 38.

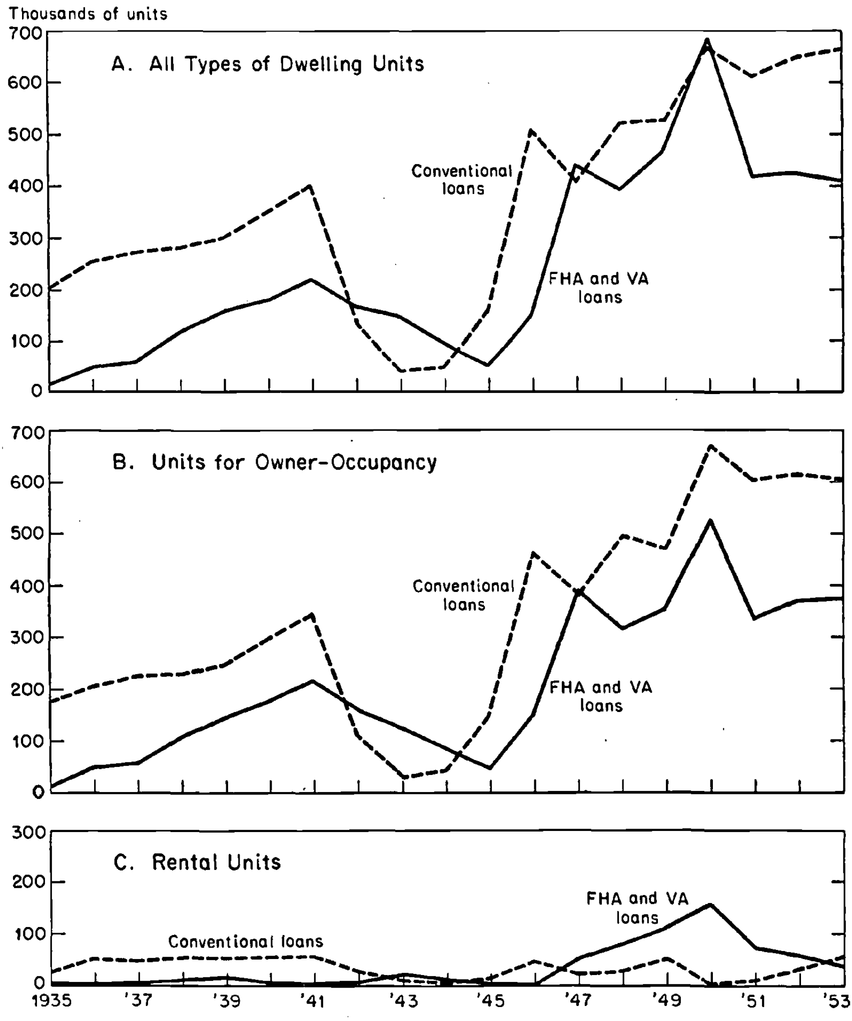
The number of new dwelling units financed with mortgage loans insured by the FHA[4] increased rapidly from 1935 to 1941 and repre-

[3] Other activities of the federal government in the fields of housing and mortgage finance, such as the operations of the Home Owners' Loan Corporation, the Reconstruction Finance Corporation Mortgage Company, and the Home Loan Bank System, have influenced the volume of new construction at times. But their effects have been less direct or more sporadic than those of the programs included in the analysis. The insurance by the Federal Housing Administration of loans for alteration, repair, and modernization of existing structures under Title I of the National Housing Act has affected expenditures for additions and alterations, which are part of capital formation in residential real estate. However, the quantitative importance of this program for the total volume of additions and alterations cannot be measured inasmuch as it covers repairs and installations of consumer durables as well as structural improvements. There is no place or need here for a review of all of the many activities of the federal government in this field, and of their origin and evolution. For such a review see Miles L. Colean, *The Impact of Government on Real Estate Finance in the United States*, National Bureau of Economic Research, 1950, esp. Chaps. 5-8. R. J. Saulnier's "The Growth of Federal Lending, Loan Insurance and Guarantees" (mimeographed, National Bureau of Economic Research, 1952) presents comprehensive basic data on housing and other programs as well as a résumé of the programs. This manuscript shows also the important position of housing in aggregate federal lending and loan insurance activities. See also C. Lowell Harriss, *History and Policies of the Home Owners' Loan Corporation*, National Bureau of Economic Research, 1951.

[4] The terms "financed with" and "built with" FHA-insured or VA-guaranteed mortgage loans require qualification. The data for new dwelling units built under FHA auspices are based on "first compliance" inspections and denote starts of dwelling units. A varying proportion of dwelling units built with FHA inspection have been sold upon completion with conventional mortgage financing or, since 1945, with mortgage loans guaranteed by the Veterans' Administration. After June 1950 the data for new dwelling units built under VA auspices are also based on compliance inspections. For preceding periods they represent rough estimates by the Housing and Home Finance Agency of the starts of new dwelling units sold with VA-guaranteed first mortgage loans. In terms of final financing of the acquisi-

CHART 17

New Nonfarm Dwelling Units Financed by Conventional and by FHA-Insured and VA-Guaranteed Loans, 1935-1953



Source: Table 38.

tion of new residential construction, the data overstate somewhat the importance of FHA-insured loans and understate somewhat the importance of VA-guaranteed loans. Thus the combined FHA and VA totals are more accurate than the separate data for the FHA and the VA. Any overstatement of the combined ratio of new units financed with FHA and VA loans to total units should be small. Cases in which construction was started with either an FHA or a VA loan but was finally financed with a conventional mortgage are at least partially offset by cases in which houses were started with conventional loans but were bought upon com-

TABLE 37

New Nonfarm Dwelling Units Financed by FHA-Insured and VA-Guaranteed Loans as a Percentage of All Privately Financed New Nonfarm Dwelling Units, 1935-1953

	PER CENT OF ALL UNITS			PER CENT OF UNITS FOR OWNER OCCUPANCY			PER CENT OF RENTAL
	FHA	*VA*	*Combined*	*FHA*	*VA*	*Combined*	UNITS (FHA)
1935	6	..	6	7	..	7	3
1936	16	..	16	19	..	19	1
1937	18	..	18	20	..	20	6
1938	30	..	30	32	..	32	18
1939	34	..	34	37	..	37	20
1940	34	..	34	37	..	37	6
1941	36	..	36	39	..	39	6
1942	55	..	55	59	..	59	18
1943	80	..	80	82	..	82	67
1944	67	..	67	67	..	67	69
1945	20	3	23	20	3	23	15
1946	10	13	23	11	13	24	4
1947	27	25	52	23	27	50	71
1948	32	12	44	26	13	39	75
1949	36	11	47	30	13	43	69
1950	36	15	51	27	17	44	99
1951	26	15	41	20	16	36	89
1952	26	13	39	23	14	37	60
1953	24	15	39	22	16	38	40

Source: See Table 38 for absolute numbers, sources, and footnotes.

sented about one-third of all new dwelling units started during the three years preceding Pearl Harbor, as against 6 and 16 per cent, respectively, in 1935 and 1936. The relative importance of FHA-insured loans in the financing of new construction rose sharply during World War II in conjunction with the war housing program. In 1943 almost 80 per cent of all privately financed new dwelling units were started under the FHA program.

In 1945 the home loan guarantee provisions of the Veterans' Administration under the Servicemen's Readjustment Act of 1944 began to operate. Nevertheless, the relative importance of the FHA and VA programs combined was low in 1945 and 1946, accounting for only 23 per cent of the total number of dwelling units started. From 1947 through 1950, however, approximately one-half of all privately financed

pletion with FHA-insured or VA-guaranteed loans. The above qualifications apply to Chart 17, Tables 37 and 38, and all text references to ratios of new dwelling units financed or built with FHA or VA loans to the total number of dwelling units. Moreover, the timing of starts as estimated by the Bureau of Labor Statistics and that of starts based on FHA and VA compliance inspections are not quite synchronous. These differences are minor and do not affect the orders of magnitude.

TABLE 38

New Nonfarm Dwelling Units Financed by FHA-Insured and VA-Guaranteed Loans Compared with All Privately Financed New Dwelling Units Started, 1935-1953

	FHA STARTS				TOTAL PRIVATELY FINANCED STARTS		
	Total	*One- to Four-Family Houses*[a]	*Multi-family Structures*[b]	VA STARTS[c]	*Total*	*One- and Two-Family Houses*	*Multi-family Structures*
1935	13,964	13,226	738	..	216,000	190,000	26,000
1936	49,376	48,752	624	..	304,000	252,000	52,000
1937	60,003	56,980	3,023	..	332,000	281,000	51,000
1938	118,741	106,811	11,930	..	399,000	334,000	65,000
1939	158,119	144,657	13,462	..	458,000	392,000	66,000
1940	180,091	176,645	3,446	..	530,000	474,000	56,000
1941	220,387	217,091	3,296	..	620,000	562,000	58,000
1942	165,662	160,204	5,458	..	301,000	270,000	31,000
1943	146,154	126,119	20,035	..	184,000	154,000	30,000
1944	93,259	83,604	9,655	..	139,000	125,000	13,000
1945	41,159	38,897	2,262	6,000	208,000	193,000	15,000
1946	69,033	67,122	1,911	83,000	662,000	614,000	48,000
1947	228,818	178,052	50,766	211,000	846,000	774,000	71,000
1948	291,053	213,443	77,610	102,000	914,000	810,000	104,000
1949	360,541	249,365	111,436	105,000	989,000	827,000	162,000
1950	485,930	327,494	158,436	200,000	1,352,000	1,193,000	159,000
1951	260,523	186,924	73,599	148,679	1,020,000	932,000	88,000
1952	279,901	229,085	50,816	141,274	1,068,000	985,000	84,000
1953	252,448	216,509	35,939	156,616	1,069,000	978,000	91,000
1935-1953	3,475,162	2,840,980	634,182	1,153,569	11,611,000	10,340,000	1,270,000

[a] Based on FHA first compliance inspections; excludes a small number of new dwelling units financed under Title I, Class 3, of the National Housing Act.

[b] Includes rental and cooperative housing projects and military housing (Secs. 207, 213, 608, and 803); Section 611 projects are included under one- to four-family houses.

[c] Estimated on basis of first mortgage loans guaranteed by the VA before June 1950; since then based on VA first compliance inspection.

Source: *Housing Statistics*, Housing and Home Finance Agency, January 1954, p. 26. The comparison between starts under the FHA and VA programs with total starts is only approximate in respect to units for owner occupancy and rental. In this comparison one- and two-family houses reported by the Bureau of Labor Statistics are assumed to be built for owner occupancy, and units in three- or more-family dwellings (multi-family structures) are assumed to be built for rent. The classification of FHA starts by units in one- to four-family houses and rental projects does not quite match the BLS classification. Likewise, some of the new houses bought on VA-guaranteed loans may contain one or more dwelling units for rent. However, the proportion of dwelling units in FHA- and VA-financed two- to four-family houses (as against single-family houses) has been very small. Finally, definitions of type of structure vary. For example, a group of row houses for rent may be classified by the FHA as a multi-family (rental) housing project and by the BLS as single-family houses.

new dwelling units were acquired with loans insured by the FHA or guaranteed by the VA, as against the maximum of one-third reached before World War II under the FHA program alone. The increased proportion of construction under these government aids was accompanied or preceded by the introduction of more liberal credit or guarantee terms for both FHA and VA mortgages, until the Korean conflict caused the introduction of credit curbs in the summer and fall of 1950. Due to the credit restrictions and the withdrawal of rigid Federal Reserve support of government securities, which tended to raise bond yields and make investment in FHA and VA loans[5] at fixed maximum interest rates less attractive, new dwelling units financed with government-insured mortgages fell to 41 per cent of the total in 1951, and this percentage was about maintained in 1952 and 1953.

Effects on the Volume of Construction

The question as to the precise impact of FHA and VA aids on total residential building activity will forever remain unanswerable. For there is no basis for estimating what the level and movement of residential construction would have been in the absence of the federal programs. It would be rash to assume that all of the new construction financed with FHA and VA loans represented additional volume that would not have been produced without these aids. Much of the building sponsored under the FHA and VA programs would probably have occurred without them, for the two facilities have operated largely in a period when rising or high incomes have increased demand for new residential construction. It would be equally rash to deduce that these programs have had no influence on the volume of residential construction.

There is some reason for believing that the FHA program in the middle and late thirties helped to accelerate the expansion of residential building—which was indeed its immediate purpose. Recovery in housing construction is usually dependent on substantial improvement in occupancy and prices and rents of existing facilities, and on the abatement of foreclosures and distress sales. By 1935, when the FHA mortgage insurance system began to operate, residential real estate markets in most areas had only moderately recovered from the Great Depression. The refinancing program of the Home Owners' Loan Corporation was still in progress. Foreclosures were still at a high level though declining. The rent index of the Bureau of Labor Statistics reached bottom in 1935 and remained low in the next few years. Resi-

[5] For simplicity the terms FHA loans and VA loans are used to denote mortgage loans insured by the Federal Housing Administration and guaranteed by the Veterans' Administration, respectively.

dential vacancies were still high.[6] In the face of these obstacles there would probably have been even less recovery in residential construction during the second half of the thirties had it not been for the FHA program.

Whether federal aids during the postwar period added substantially to the volume of residential construction is much more difficult to judge. The arsenal of federal credit tools was greatly expanded: the VA home loan program and more massive support of the market for FHA and VA loans through the Federal National Mortgage Association were added to the FHA mortgage insurance system. As was shown before, the ratio of new dwelling units built with FHA and VA financing to the total number of housing units constructed was much greater than before the war. The special privilege of no-downpayment loans for veterans facilitated acquisition of new houses by families otherwise unable to obtain them. Net purchases of $2.5 billion of FHA and VA loans by the FNMA from 1948 to 1953 added to the funds supplied for new construction. And there is reason to believe that the volume of postwar rental housing construction would have been much smaller had it not been for liberal FHA financing, which created unusual profit opportunities for rental builders (see below). On the other hand, all circumstances after the end of the war were favorable to a large volume of home building even on conventional financing terms, and inflationary effects of liberal credit under the FHA and VA on the price of new construction probably canceled much of the demand stimulation that would have been expected from the greater ease of borrowing under these programs.

In the long run, to the extent to which government credit aids succeeded in continuously widening the market for new housing, they tended to raise the level of new construction. Many changes in federal housing policies since the middle thirties may, in fact, be interpreted as efforts to widen the market for new residential facilities by differential credit terms in favor of lower-priced dwelling units and lower income groups. It is important, therefore, to trace briefly the development of this objective and to indicate the extent to which it has been met.

[6] Nonfarm real estate foreclosures totaled 229,000 in 1935 as against a depression peak of 252,000 in 1933. The number declined to 185,000 in 1936, 151,000 in 1937, and 59,000 in 1941 (Foreclosure Reports of the Home Loan Bank Board). The BLS rent index stood at 94.2 in 1935 and increased to 96.4 in 1936 and 100.9 in 1937, as against a level of roughly 140 to 150 in the twenties (1935-1939 = 100). The Real Property Inventories for sixty-four cities revealed an average vacancy ratio of 7.8 per cent on January 1, 1934, with a ratio of 12.9 per cent for five- or more-family structures (David L. Wickens, *Residential Real Estate*, National Bureau of Economic Research, 1941, p. 22).

Widening the Market

The change in the orientation of the FHA insurance program furnishes an instructive record on this point. Hearings and Congressional debates leading to its legislative enactment in 1934 reveal an almost exclusive concern with stimulation of residential construction and home purchase and modernization, as part of an economic recovery program, and with improvement of the mortgage system. There is hardly any reference to the possibility of using FHA insurance as a device for making new or better housing available to consumers who would otherwise be unable to afford it. The emphasis was on encouragement of mortgage lenders to lend rather than on encouragement of particular groups of consumers to borrow. Subsequent legislation, however, has given the FHA an increasing consumer orientation. The terms of FHA-insured loans have been more and more differentiated among various price and rental groups on the basis of social need rather than of mortgage loan risks (although these two criteria need not be in conflict).[7] This differentiation has been carried so far that, under the FHA terms operative in the winter of 1952, the minimum downpayment on a house appraised at $11,000 was almost five times as large as the minimum downpayment on a house appraised at less than $7,000.

The first step in this direction was a 1938 amendment to the National Housing Act, which permitted easier credit terms for newly constructed small homes.[8] The second step was the removal of the "economic soundness" requirement for loans insured under the wartime amendments to the act. War housing financed with FHA-insured loans was to be "channeled" to war workers, many of whom would be unable to buy houses without more liberal financing and borrower credit ratings. The use of mortgage insurance for "channeling" new housing into lower income groups was stated as a specific objective of the Veterans Emergency Housing Program of 1946.[9] Congressional hearings

[7] Such a conflict does not exist to the extent that lower-priced houses have a larger resale market and are therefore sounder security for mortgages with high loan-to-value ratios.

[8] Colean, *The Impact of Government on Real Estate Finance in the United States*, as cited, p. 98.

[9] The program, as announced by the Housing Expediter on February 7, 1946, included the following recommendation: "Channeling the largest part of material into homes and rental housing, both farm and urban, selling for not more than $6,000 or renting for not more than $50 per month." The announcement also specified: "To provide moderately priced homes with a maximum of rental units, it is necessary for the government to offer greater incentives for the building of such housing. This can be achieved by insuring mortgages on low-cost homes for builders to the extent of 90 per cent of value. Furthermore, such mortgages must be based on necessary current costs of construction rather than on long-term economic value and they should be amortized over a long period." (Mimeographed

on comprehensive housing legislation during the late war and the postwar period reveal a consistent emphasis on the development of special financing tools for construction suited for "middle-income families," the groups between those served by private enterprise with existing government aids and those to be served by publicly financed housing.[10] Such tools were provided in the Housing Acts of 1948[11] and 1950.[12]

The extent to which the objective of widening the market has in fact been met is difficult to determine, even in the relatively simple case of new single-family houses for owner occupancy. The credit restrictions, issued in 1950 upon the outbreak of hostilities in Korea and suspended in September 1952, and the temporary materials restrictions caused by the military preparedness programs tended to limit the immediate use of the financing tools enacted in 1948 and 1950. Moreover, the historical data required for assessing the influence of government aids on the demand structure for new single-family houses are not available. The Federal Housing Administration reports the income distribution of purchasers of new single-family houses financed under its mortgage insurance program. Similar information exists for all purchasers in selected metropolitan districts for recent years. But there are no comprehensive time series on the distribution of purchase prices, of down-payments, of debt charges classified by government-insured and conventional mortgage financing, and of incomes of buyers of new houses. However, a few observations are made possible by comparing the characteristics of new house purchases financed with FHA and VA loans with the characteristics of new house purchases financed with conventional mortgages during 1949 and 1950.

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statement of the Housing Expediter.) These changes were incorporated in amendments, enacted May 22, 1946, to Title VI of the National Housing Act.

[10] For example, *Hearings before the Subcommittee on Housing and Urban Redevelopment of the Special Committee on Postwar Economic Policy and Planning*, 79th Cong., 1st sess. (1945), pursuant to S. Res. 102, esp. pp. 1301-1305. Also, *Report of the Senate Committee on Banking and Currency on S. 1592*, 79th Cong., 2nd sess., S. Rept. 1131 (General Housing Act of 1946).

[11] Colean, *The Impact of Government on Real Estate Finance in the United States*, as cited, pp. 124-125, esp. Nos. 5, 6, 7, and 9.

[12] Public Law 475, 81st Cong., approved April 20, 1950. The principal features of this act designed to widen the market are special financing provisions for cooperative housing (Section 213), and more liberal financing terms for small homes (Sections 8 and 611), as well as for rental housing projects (Section 207). These measures were taken "with the object of encouraging greater production of homes for middle-income families" (*Fourth Annual Report*, Housing and Home Finance Agency, 1950, p. 213). In addition, the law authorized a maximum of $150,000,000 in direct loans by the Veterans' Administration under specified conditions, increased the guarantee for VA home loans generally from 50 per cent of appraised value not to exceed $4,000 to 60 per cent not to exceed $7,500, and extended the maximum maturity from 25 to 30 years.

Table 39 shows a concentration of purchases financed with government-insured loans in the $6,000-to-12,000 price class. More than four-fifths of all FHA- and VA-financed purchases, and only two-fifths of purchases financed with conventional loans, fell into this category.

TABLE 39

Distribution of Purchase Prices of New Owner-Occupied Single-Family Houses Financed with Mortgage Loans, by Type of Mortgage Financing, 1949 and 1950

PURCHASE PRICE CLASS	FHA AND VA FIRST MORTGAGES *Number*	*Per Cent*	CONVENTIONAL FIRST MORTGAGES *Number*	*Per Cent*	FHA AND VA AS PER CENT OF TOTAL IN EACH PRICE CLASS
Less than $4,000	4,000	1	54,000	17	7
4,000 to 5,999	13,000	3	43,000	14	23
6,000 to 7,999	126,000	31	46,000	15	73
8,000 to 9,999	139,000	34	42,000	13	77
10,000 to 11,999	73,000	18	39,000	13	65
12,000 to 13,999	27,000	7	25,000	8	52
14,000 or more	27,000	7	64,000	21	30
Total reporting	407,000	100[a]	312,000	100	57

[a] Components do not add to 100 because of rounding.

Source: Based on *Census of Housing 1950*, Bureau of the Census, Preliminary Reports, "Mortgaged, Residential, Nonfarm Properties Acquired during 1949 and First Half of 1950," Series HC-9, No. 1, Table 5. The data are from a sample survey and are subject to sampling errors detailed in the Bureau publication.

Within this price range the government programs operated largely in the $6,000-to-10,000 class. Almost two-thirds of FHA- and VA-financed purchases, and only 28 per cent of purchases with conventional loans, were for houses priced at $6,000 to $10,000. On the other hand, only 4 per cent of all houses purchased with government-insured loans were priced at less than $6,000, whereas almost one-third of the houses purchased with conventional mortgages were in this price group. Similarly, only 14 per cent of all FHA- and VA-financed purchases, as against 29 per cent of all purchases financed with conventional loans, were in the price class of $12,000 or more. About three-fourths of all new mortgaged houses bought for $6,000 to less than $12,000 were financed with government-insured loans. Here again, the corresponding ratios for the lower-priced and higher-priced houses are much smaller.

Thus the federal programs were operative largely in the medium price field, with emphasis on the lower range of this field. Their small share in the price class under $6,000 may be due to failure of many of these houses to meet minimum construction standards of the FHA and the VA. Also, large numbers of lower-priced houses are in small towns where FHA and VA facilities are less accessible or in locations not acceptable for mortgage insurance or guarantee. In any event, the number of houses in this price class accounted for less than 16 per cent of the total.

Downpayments made on these purchases varied significantly with type of financing. The median downpayment was 8 per cent of the purchase price for houses bought with VA first mortgages, 22 per cent for those bought with FHA first mortgages, and 35 per cent for those purchased with conventional first mortgages.[13] These differences in conjunction with the purchase price data suggest that reduction of downpayments through federal insurance and guarantee programs was a factor in stimulating demand for medium- and low-priced houses which otherwise would have been out of reach of many families.

Nevertheless, the evidence is by no means conclusive. The reduction of downpayments may have had the effect of causing a number of house purchasers to devote a smaller proportion of their liquid assets to this purpose than they would have done otherwise, or to buy more expensive houses.[14] Also, from a historical point of view, downpayments have been reduced much less than a comparison of maximum loan-to-value ratios for government-insured and for conventional loans would indicate. Before the initiation of the federal programs, junior mortgages often filled much of the gap between purchase price and first mortgage. Finally, the almost universal inclusion of payments on principal in debt service on single-family houses, though a sounder financing practice, has tended to absorb much of the advantage to borrowers resulting from the consolidation of multiple loans into high-percentage first mortgages at lower interest rates and for longer contract terms.[15]

Thus the extent to which the federal programs have succeeded in widening the market for new construction is not determinable from available data, but some progress in this direction has probably been made. At the same time, widening the market for new residential building has clearly emerged as a continuous and major objective of

[13] Based on *Census of Housing 1950*, Bureau of the Census, Preliminary Reports, "Mortgaged, Residential, Nonfarm Properties Acquired during 1949 and First Half of 1950," Series HC-9, No. 1, Table 12. The data are from a sample survey and are subject to sampling errors detailed in the Bureau publication.

[14] Thus a survey of purchases from October 1950 to March 1951 revealed that about one-fourth of house purchasers had left-over liquid assets valued at $1,000 or more, and about one-tenth had liquid assets valued at $2,000 or more, after purchase on terms prevalent before Regulation X. *Federal Reserve Bulletin*, July 1951, p. 779. See also Daniel B. Rathbun, "Liquid Assets: A Neglected Factor in the Formulation of Housing Finance Policies," *Journal of Finance*, December 1952. For the relationship between financing terms and purchase price see Ernest M. Fisher, *Urban Real Estate Markets: Characteristics and Financing*, National Bureau of Economic Research, 1951, pp. 69-90.

[15] This point is examined in greater detail in Chapter XIV.

federal housing policies and one that has direct bearing on the volume of housing construction in the long run.

Sales Housing vs. Rental Housing

Have the federal programs influenced the proportions of new construction for rental and sale? The FHA has often been accused of unduly promoting housing for owner occupancy to the neglect of rental housing[16] and the veterans' home loan program is, of course, exclusively designed for purchase (although houses bought by veterans include additional dwelling units for rent in a small number of cases).

The facts on this point are complex. On the statistical record, the proportion of dwelling units in new multi-family structures to the total number of new dwelling units has been lower in the period of FHA and VA operations than during any similar period since the turn of the century—about 11 per cent for 1935 through 1953.[17] Also, the volume of rental housing construction during the recent postwar period was relatively low compared with a similar period after World War I. From 1946 through 1953 little over 10 per cent of all new dwelling units were in multi-family structures (Table 38). From 1920 through 1927 more than double this percentage was of the rental housing type.

It does not follow, however, that government aids for multi-family rental housing have been quantitatively less important than those for housing for sale. It is true that before World War II the share of FHA-financed rental construction in total rental construction was much lower than the share of FHA-financed building for owner occupancy in total building for owner-occupancy (as is evident from a comparison of the last two columns of Table 37). But there was a reversal after the war. From 1947 to 1953 the share of FHA-financed rental construction in total rental construction was much higher than the share of owner-occupied housing built with both FHA and VA loans in total building for owner occupancy. During the five years 1947-1951 about 80 per cent of the annual production of rental housing was financed by FHA loans, with a decline to 60 and 40 per cent, respectively, in 1952 and 1953, following the termination of operations under Section 608 in 1950.

The two phenomena of the small relative importance of rental

[16] See, for example, Charles Abrams, *The Future of Housing*, Harper, 1946, pp. 224-225.

[17] See Table 38 for data for 1935-1953 and Chapter III for data for years prior to 1935. Multi-family structures are defined as structures with three or more dwelling units. Structures with two dwelling units usually provide at least one unit for rent. The inclusion of these would increase the proportion of units for rent to total units, but would not change the statement that the 1935-1953 ratio was lower than that during any similar period since 1900.

housing since World War II and of the large share of FHA financing in rental housing can be reconciled. Many factors other than government financial aids have influenced the volume of rental housing construction. Among these are a possible long-term shift in consumers' preferences for single-family houses, fortified by the rise in real income and liquid assets since 1940 and the tax advantages of home ownership; the financial hazards of rental housing construction during a period of rapidly changing costs; and uncertainties over the long-run earning capacity of new projects when rent controls are removed.[18]

To meet the obstacles to rental housing construction during the postwar period, and in response to public pressure for a greater volume of rental housing, easy FHA-financing arrangements under the wartime Section 608 of the National Housing Act were renewed until 1950 and even liberalized.[19] In spite of these efforts, the quantity of building for rent was relatively small, but the overwhelming proportion of this small quantity was financed by liberal FHA loans. The rewards for rental project builders using FHA financing were unusually attractive. In many cases builders could fully or nearly "mortgage out" on loans representing 90 per cent of "necessary current costs" and were able to reap large profits on very thin equities. In other cases cost estimates as approved for mortgage insurance were in excess of actual costs, as disclosures made in the spring of 1954 on Section 608 projects revealed.[20] That these attractions did not produce any larger volume of rental housing is perhaps a measure of the postwar hazards of constructing residences for rent. It is safe to conclude that the quantity of rental housing would have been even smaller if the liberal FHA aids had not existed.

[18] Cf. Leo Grebler, "Implications of Rent Control—Experience in the United States," *International Labour Review*, April 1952.

[19] Among other things, the appraisal basis was changed from "reasonable replacement cost" to "necessary current cost" and later to "costs prevailing December 31, 1947"; and higher maximum mortgage amounts per room were authorized.

[20] *FHA Investigation. Report of the Senate Committee on Banking and Currency.* S. Rep. 1, 84th Cong., 1st sess., January 6, 1955.