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Volume Author/Editor: Leo Grebler, David M. Blank, and Louis Winnick

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## CHAPTER XVI

### THE ROLE OF FEDERAL AIDS IN MORTGAGE FINANCE

STIMULATING the flow of mortgage funds to residential construction has been a principal aim of federal housing policies since the early and middle thirties. Except for public housing and the recent urban redevelopment program, these policies in fact have operated almost exclusively through the use of various devices influencing the flow of private institutional mortgage funds, that is, mortgage insurance or guarantee and improved marketability of loans through the Federal National Mortgage Association.<sup>1</sup> As a result, government aids have had important effects upon mortgage lending activity, sources of funds, and the amount and composition of the mortgage debt.

Another major objective of federal housing policies has been to reduce the periodic payments of mortgage borrowers, by lowering interest rates and lengthening contract terms. Policy makers looked to easier borrowing as a way to increase demand for new residential construction.

The precise effects of the Federal Housing Administration and Veterans' Administration programs on the volume of residential mortgage lending are as indeterminable as their impact on residential building activity. By encouraging mortgage lending during the second half of the thirties and under the special circumstances of the war housing program, and by stimulating mortgage borrowing through more favorable terms for lower-priced houses, the FHA has unquestionably contributed to the spectacular increase of the residential mortgage debt, which totaled over \$69 billion in 1952 as against less than \$24 billion in 1935; and the VA home loan program with its special terms for veterans has operated in the same direction since 1945. In other words, it is at least dubious whether in the absence of the FHA and VA as many households could have used credit for the acquisition of houses as actually did, or whether the amount of mortgage funds for new rental housing would have been as high as it was. Moreover, public funds used by the Federal National Mortgage Asso-

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).

<sup>1</sup> The Housing Act of 1948 added a new Title VII to the National Housing Act authorizing "yield insurance" for debt-free investments in rental housing. In this instance the federal aid was intended to stimulate the flow of equity funds. However, no such insurance had been issued by late 1953.

ciation during the postwar years for purchase of FHA and VA loans have directly supplemented the large private funds that were invested in residential mortgages during this period.

### *Mortgage Funds for New Construction*

From 1935 to 1953 an estimated \$29 billion of mortgage loans on new residential construction were insured by the FHA or guaranteed by the VA. Of this amount, over \$24 billion originated during the eight postwar years 1946 to 1953. Less than \$5 billion of the grand total served to finance the construction of rental and cooperative housing projects, and all but \$300 million in this category originated during the postwar period. The annual data reveal a rapid growth in the use of FHA-insured mortgages on new construction from 1935 to 1940, as would be expected in the development of a new program, and during the early years of World War II. The growth was checked by the building limitations of the late war years and the difficulties of postwar reconversion of construction activity. In the postwar period when the VA as well as the FHA program was in operation, the annual amounts of insured or guaranteed mortgages built up rapidly to a peak of \$4.7 billion in 1950. A slight decline in 1951 and a sharp drop in 1952 were apparently associated with the credit restrictions during the Korean war and with the long delay in adjusting FHA and VA maximum interest rates to the general rise in interest rates (Chart 26 and Table 69).

Over the entire period from 1935 to 1953, government-insured loans on new residential construction averaged about 45 per cent of the total estimated flow of mortgage funds into new construction.<sup>2</sup> FHA-insured loans on new dwellings rose from 5 per cent of the total in 1935 to about 30 per cent in the immediate prewar period and supplied most of the new construction financing during the war. From 1947 through 1952 almost one-half of the flow of mortgage funds into new construction was in the form of FHA and VA loans (column 6, Table 69).

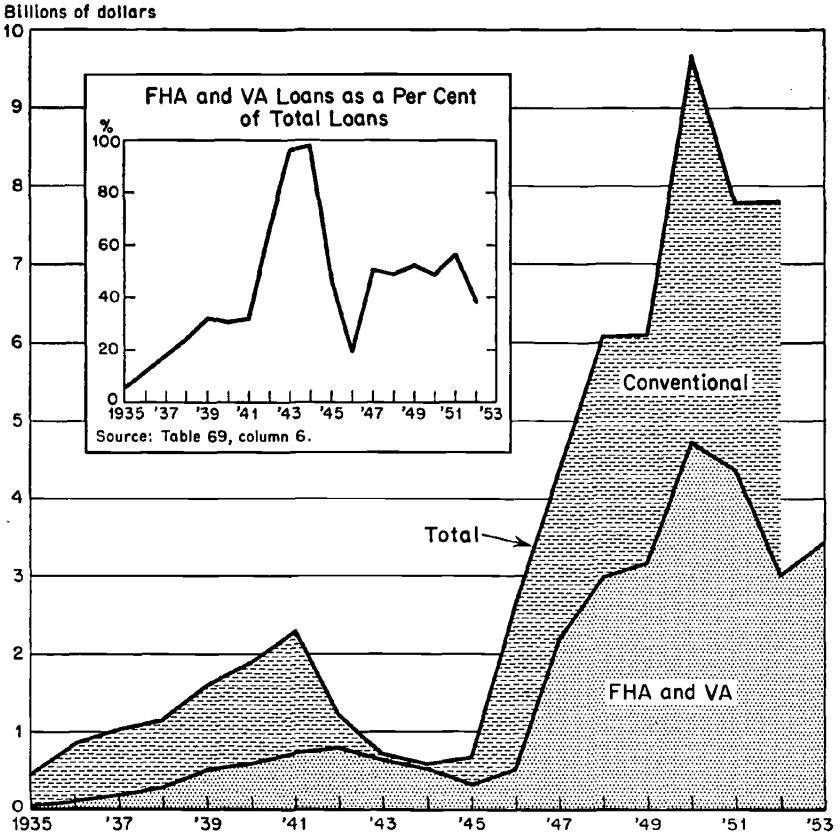
For the period as a whole over three-fifths of all FHA and VA residential mortgage loans have been for new construction<sup>3</sup>—a higher ratio than that for conventional loans. This proportion rose rapidly during the prewar years, maintained a very high level during the war period, and increased sharply after 1946. From 1948 through 1953 almost two-thirds of the total amount of all FHA and VA loans went into new construction (column 7, Table 69).

<sup>2</sup> See footnote to column 6 of Table 69 for qualifications of the data.

<sup>3</sup> Under the terms of the National Housing Act, FHA-insured loans on rental housing are in effect limited to new construction, except for the refinancing of projects originally financed with FHA loans.

CHART 26

Conventional, FHA-Insured, and VA-Guaranteed Loans on New Residential Construction, 1935-1953



Source: For FHA and VA loans, Table 69, column 5. Conventional loans represent the difference between total loans shown in Table M-1 and the FHA and VA loans.

The government programs attained their position in the debt financing of new residential real estate by assuming much of the risk involved in mortgage lending. Whether there are any limits to the use of this potent device, and some of the problems its use creates, will be discussed in Chapter XVIII.

*Influence in Home Mortgage Lending Activity*

Because the government programs, particularly that of the FHA, have emphasized new construction, FHA and VA loans have been somewhat less important in relation to total residential mortgage lending on both existing and new residential real estate. Nevertheless, their

TABLE 69  
 FHA-Insured Loans and VA-Guaranteed Loans  
 on New Residential Construction, 1935-1953  
 (dollars in millions)

YEAR	LOANS ON NEW HOUSES FOR OWNER OCCUPANCY			FHA LOANS ON NEW RENTAL AND COOPERATIVE HOUSING		COMBINED TOTAL (5)	TOTAL AS A PER CENT OF:	
	FHA (1)	VA (2)	Total (3)	(4)	Estimated Loans For New Construction (6)		FHA and VA Loans on New and Existing Construction (7)	
1935	\$ 22	..	\$ 22	\$ 2	\$ 24	5.2%	25.0%	
1936	95	..	95	2	97	11.5	31.2	
1937	169	..	169	10	179	17.5	41.1	
1938	227	..	227	48	275	24.2	52.8	
1939	461	..	461	52	513	32.1	71.2	
1940	562	..	562	12	574	30.6	76.7	
1941	707	..	707	12	719	31.5	79.7	
1942	751	..	751	20	771	65.3	78.8	
1943	552	..	552	84	636	96.2	75.2	
1944	484	..	484	46	530	97.8	70.4	
1945	257	\$ 31	288	16	304	47.0	44.6	
1946	120	371	491	11	502	19.2	18.4	
1947	477	1,357	1,834	359	2,193	50.9	48.3	
1948	1,425	944	2,369	606	2,975	48.9	64.7	
1949	1,306	842	2,148	1,016	3,164	51.9	68.2	
1950	1,637	1,930	3,567	1,155	4,762	49.2	70.9	
1951	1,216	2,566	3,782	578	4,360	56.0	71.2	
1952	969	1,705	2,674	322	2,996	38.4	60.1	
1953	1,258	1,929	3,187	259	3,446	n.a.	61.4	
1935-1953	12,695	11,675	24,370	4,610	29,020	45.2	61.8	

n.a. = not available.

Column

Source

- 1 *Sixth Annual Report, Housing and Home Finance Agency, 1952, Table 7, p. 240, and preceding Annual Reports.* Data for 1953 from *Housing Statistics, Housing and Home Finance Agency, January 1954.* Excludes a relatively small amount of loans insured under Title I, Class 3, of the National Housing Act.
- 2 Estimates derived from the total amount of VA loans closed (Table Q-1) and the percentage distribution of the number of loans by purpose of loan (undated mimeographed report of the VA, "Characteristics of Home Loans Reported Closed under the VA Loan Guaranty Program"). The application of the distribution of the number of loans for new and existing construction to the total amount of loans implies that the average loan per new dwelling was the same as the average loan per existing dwelling. Consequently, the amount of loans on new construction is probably understated. The VA report lists the percentage distribution for the period November 1944 to December 1946 as a whole, and this distribution was applied to the amounts reported for 1945 and 1946. Any resulting error should be small. The amounts of the principal of guaranteed loans are shown rather than the amounts of the guarantee themselves, which are about one-half the principal amounts.
- 3 Sum of columns 1 and 2.

(notes continued on next page)

## Notes to Table 69 (continued)

Column	Source
4	<i>Sixth Annual Report</i> , Housing and Home Finance Agency, 1952, Table 40, p. 304, and preceding <i>Annual Reports</i> . Data for 1953 from <i>Housing Statistics</i> , January 1954.
6	These percentages are based on the estimates of the flow of mortgage funds into new construction (Chapter XII). The percentage for the total period in column 6 is based on 1935-1952. The percentages are not more than rough approximations, both because of the tenuous basis for the estimates of total mortgage loans on new construction and because of the differences between the timing pattern of these estimates and that of FHA and VA loan closings. On the whole, the percentages conform fairly well with the percentages in Table 37, which are based on the number of dwelling units. The percentages for 1943, 1944, and 1945 in the above table, however, appear high, which is probably due to an understatement of construction expenditures during these years and a resulting understatement of total mortgage loans for new construction.
7	For the FHA, sources as given for columns 1 and 4. For VA loans, Table Q-1.

share in total lending activity and debt has become substantial, particularly in the home-financing segment.<sup>4</sup>

As shown in Chart 27, the amount of FHA-insured loans on one- to four-family houses increased from 4 per cent of the estimated amount of all such loans made in 1935 to more than 20 per cent in the immediate prewar years. After a decline during the war and immediate postwar period, FHA and VA loans combined rose to more than one-third of aggregate home mortgage lending activity. Because there are no data on the annual volume of conventional loans on multi-family (rental) housing, no such comparison is possible for this segment of the residential mortgage market.

#### *Government-Insured Loans in the Mortgage Debt*

At the end of 1952 the estimated balance outstanding of FHA and VA loans totaled \$29 billion and approximated 42 per cent of the aggregate residential mortgage debt.<sup>5</sup> The relative importance of government-insured loans in the total debt increased slowly before the war. By 1940, about 10 per cent of the debt was in the form of FHA loans. At the end of the war, FHA loans were about 19 per cent of the total debt. During the nine years from 1945 to 1953, however,

<sup>4</sup> The terms "home financing" and "home loans" relate to mortgage loans on one- to four-family houses unless noted otherwise.

<sup>5</sup> The estimates of balances outstanding of FHA and VA loans are based on the assumption that loans not paid in full or foreclosed are amortized on schedule. In view of prepayments, the balances and therefore the ratio of these balances to the total residential mortgage debt outstanding are probably slightly overstated. The 1950 Mortgage Census reported a \$16.5 billion outstanding debt covered by government-insured mortgages out of a total residential debt of \$44.5 billion, or nearly 38 per cent. The \$5.5 billion difference between the census total for August 1, 1950, and the \$22 billion shown in Table 70 for the end of 1950 is primarily due to a difference in dates but suggests some overstatement of the latter total.

TABLE 70

Estimated Balance Outstanding of FHA and VA Loans in Millions of Dollars  
and as a Percentage of Residential Mortgage Debt, by Type of Property,  
Year-Ends, 1935-1953

1935	FHA (1)	HOME MORTGAGES		FHA MULTI- FAMILY MORTGAGES (4)	TOTAL FHA AND VA MORTGAGES (5)	FHA AND VA HOME MORTGAGES AS A PER CENT OF:		FHA MULTI- FAMILY MORTGAGES AS A PER CENT OF:		TOTAL FHA AND VA MORTGAGES AS A PER CENT OF:	
		VA (2)	Combined (3)			Total Home Mortgages (6)	Institutional Home Mortgages (7)	Total Multi- family Mortgages (8)	Institutional Multi- family Mortgages (9)	Total Multi- family Mortgages (10)	Institutional Mortgages (11)
\$	12	\$	12	\$	13	a	a	a	a	a	a
1936	203	203	203	2	205	1.3%	2.3%	a	a	.9%	1.7%
1937	594	594	594	6	600	3.8	6.6	a	a	2.7	4.8
1938	967	967	967	36	1,003	6.1	10.3	a	a	4.5	7.9
1939	1,755	1,755	1,755	105	1,860	10.7	17.5	1.6%	3.0	8.2	13.7
1940	2,349	2,349	2,349	104	2,453	13.5	21.5	1.6	2.9	10.3	16.8
1941	3,030	3,030	3,030	107	3,137	16.5	25.4	1.6	2.9	12.6	20.1
1942	3,742	3,742	3,742	126	3,868	20.5	30.9	2.0	3.4	15.7	24.5
1943	4,060	4,060	4,060	202	4,262	22.8	34.0	3.2	5.6	17.7	27.4
1944	4,190	4,190	4,190	241	4,431	23.3	34.7	4.0	6.9	18.5	28.5
1945	4,078	\$ 500	4,578	237	4,815	24.7	36.8	3.9	6.8	19.5	30.3
1946	3,692	2,600	6,292	213	6,505	27.3	38.5	3.3	5.8	22.1	32.5
1947	3,781	5,800	9,581	549	10,130	34.0	45.7	8.0	13.9	28.9	40.7
1948	5,269	7,200	12,469	1,142	13,611	37.5	48.4	15.0	25.1	33.3	44.9
1949	6,906	8,100	15,006	2,134	17,140	40.0	50.3	25.4	39.9	37.3	48.7
1950	8,563	10,300	18,863	3,219	22,082	41.9	50.4	34.7	49.4	40.6	50.3
1951	9,677	13,200	22,877	3,706	26,583	44.1	52.1	36.5	49.4	42.9	51.7
1952	10,770	14,600	25,370	3,920	29,290	43.6 <sup>b</sup>	50.7	35.7	48.3	42.4	50.4
1953	11,990	16,100	28,090	4,028	32,118	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

<sup>a</sup> Less than 1 per cent.

<sup>b</sup> Based on preliminary total.

n.a. = not available.

(notes continued on next page)

## Notes to Table 70 (continued)

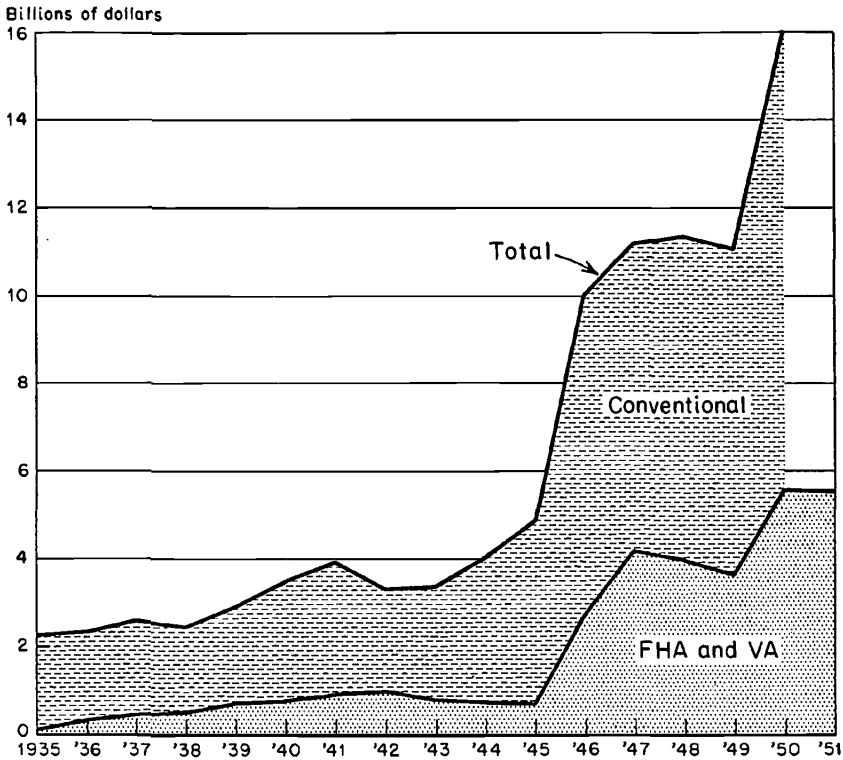
Column	Source
1, 4	For 1935-1938, estimates in <i>Annual Reports</i> of the Federal Housing Administration as of June 30. For this period, FHA loans are shown as percentages of the interpolated debt as of June 30 (debt at the preceding and at the current year-end divided by 2). For 1939-1953, <i>Housing Statistics</i> , Housing and Home Finance Agency, January 1954, p. 37. For discrepancies between the 1950 estimate by the FHA and the 1950 census figure for FHA loans, see <i>Census of Housing 1950</i> , Bureau of the Census, Vol. IV, <i>Residential Financing</i> , Part 1, p. XXXIII.
2	<i>Housing Statistics</i> , Housing and Home Finance Agency, January 1954, p. 41. These are rough estimates based upon the assumption that loans not paid in full and not extinguished by foreclosure are being amortized on schedule. Because of the general tendency toward accelerated repayment during the postwar years, the balances outstanding are probably somewhat overstated. For discrepancies between this estimate for 1950 and the 1950 census figure for VA loans, see <i>Census of Housing 1950</i> , Vol. IV, <i>Residential Financing</i> , Part 1, p. XXXIII.
3	Sum of columns 1 and 2.
5	Sum of columns 3 and 4.
6	Column 3 in this table divided by column 1 in Table L-4. Total home loans outstanding as estimated by the Home Loan Bank Board in its report "Estimated Home Mortgage Debt and Financing Activity, 1952."
7	Institutional loans as estimated in Table N-4, exclusive of HOLC loans. Column 3 in this table divided by difference between it and column 10 in Table N-4.
8-9	Total and institutional loans on multi-family structures outstanding as estimated in Table N-6. Column 8: column 4 in this table divided by column 1 in Table N-6. Column 9: column 4 in this table divided by column 3 in Table N-6.
10-11	Total and institutional loans exclusive of HOLC loans outstanding on all types of residential dwellings as estimated in Table N-2. Column 10: column 5 in this table divided by column 1 in Table N-2. Column 11: column 5 in this table divided by difference between columns 3 and 10 in Table N-2.

in which the VA home loan program, as well as the FHA program, was in operation, the balance outstanding of government-insured loans increased by more than \$27 billion. Of this amount, veterans' home loans account for roughly \$16 billion (Table 70).

A more significant comparison is that between FHA and VA loan balances and total holdings of private financial institutions, which represent the great bulk of portfolio lenders under the FHA and VA programs (Chart 28). This comparison omits from the debt the HOLC loans, which were direct government loans, and the loans held by individuals and miscellaneous mortgage lenders, who are negligible as portfolio holders of FHA and VA loans but important as loan originators. On this basis the share of government-insured loans increased from about 17 per cent in 1940 to almost 30 per cent in 1945 and 50 per cent in 1952. In other words, roughly one-half of the total amount

CHART 27

Conventional, FHA-Insured, and VA-Guaranteed Loans on One- to Four-Family Houses, 1935-1951



Source: For FHA and VA loans: Table Q-1, sum of columns 1 and 3.  
 For conventional loans: totals as estimated by Home Loan Bank Board (Table 47) minus FHA and VA loans.

of residential mortgage loans held by financial institutions were insured or guaranteed by the federal government (column 11, Table 70).

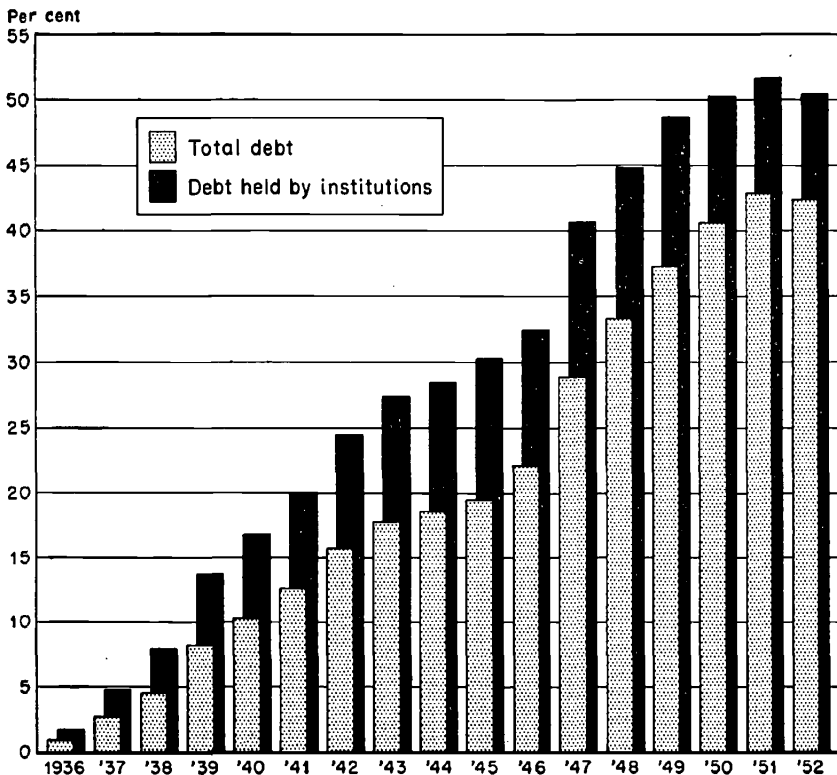
Over the period as a whole, the share of government-insured mortgages in the *home* mortgage debt has been larger than the share of such mortgages in the debt on multi-family dwellings. The importance of insured loans in the latter was small before and during the war but has shown a phenomenal increase since 1947. By the end of 1952, FHA-insured loans on rental projects represented more than one-third of the total mortgage debt on multi-family housing and nearly half of the debt held by institutional lenders.

*Influence on Sources of Funds*

Participation of various types of mortgage lenders in the FHA and,

CHART 28

Outstanding FHA-Insured and VA-Guaranteed Loans as a Percentage of Total Residential Mortgage Debt and of Debt Held by Financial Institutions, 1936-1952



Source: Table 70, columns 10 and 11.

to a lesser extent, the VA program has been at some variance with the historical shares of lenders in mortgage financing activity. The exclusion of individual lenders from the FHA program and their small share in the VA program<sup>6</sup> have accentuated the tendency toward institutionalization of the residential mortgage debt. Within the institutional sources of mortgage funds, government insurance programs, particularly that of the FHA, have stimulated the participation of commercial banks in residential mortgage financing (Chapter XIII).

The restrictions on loan-to-value ratios and maturity of mortgage loans imposed by the National Banking Act do not apply to loans insured by the Federal Housing Administration or guaranteed by the

<sup>6</sup> From 1948 to 1950 "individuals and others" accounted for less than 1 per cent of the amount of VA home loans closed. In 1950, individuals as such held less than one-tenth of 1 per cent of all VA first and second mortgages. *Census of Housing 1950*, Vol. IV, *Residential Financing*, Part 1, Table 2.

Veterans' Administration. This is also true for the limitations in many of the state banking laws. While similar exceptions apply to the other mortgage lending institutions, they are more potent in the case of commercial banks because their conventional mortgage lending activity is more severely limited by existing laws. The use of idle bank funds for mortgage loans was one of the prime motives in the development of the FHA insurance plan.<sup>7</sup> The greater assurance of a secondary market for FHA and VA loans made it possible for banks to convert them into liquid assets if necessary.

During the period 1935 through 1952 commercial banks originated about one-third of the total amount of FHA-insured home mortgage loans and approximately one-half of the total amount of FHA-insured loans on rental and cooperative housing projects.<sup>8</sup> As shown in Table 71, FHA and VA loans accounted for 38 to 53 per cent of the annual total amounts of home loans made by commercial banks from 1948 to 1950. The impact of government programs on the position of commercial banks in this field is reflected in the increasing share of bank loans in total home mortgage lending activity.<sup>9</sup>

The stimulation of residential mortgage loan investment by commercial banks is one of the outstanding recent changes in the history of mortgage finance. Even before 1935, residential mortgage lending was by no means foreign to commercial banks, in spite of legal limitations.<sup>10</sup> But government insurance of loans has been an important factor in the recent emergence of commercial banks as one of the most important types of residential lenders, and the banks are likely to hold this position with the aid of government arrangements that reduce risks and facilitate shiftability of mortgages.

Mortgage companies have played a large role in originating FHA and VA mortgages. Through 1952 they originated one-quarter of all home mortgages and one-tenth of rental housing loans insured by the FHA,<sup>11</sup> and they accounted for a large part of the 30 per cent of all VA loans originated by "mortgage and real estate companies" from 1948 to 1952.<sup>12</sup> However, mortgage companies for the most part do not represent primary sources of funds; they usually sell or assign loans to portfolio lenders immediately or shortly after making them.

<sup>7</sup> For example, see testimony by Marriner C. Eccles before the Senate Banking and Currency Committee. *Hearings, 73rd Cong., 2nd sess., on S. 3603, May 16-24, 1934*, pp. 153-155.

<sup>8</sup> Consolidated data from *Annual Reports of the Federal Housing Administration*.

<sup>9</sup> See Tables 54 and N-3.

<sup>10</sup> Cf. Carl F. Behrens, *Commercial Bank Activities in Urban Mortgage Financing*, National Bureau of Economic Research, 1952.

<sup>11</sup> Consolidated data from *FHA Annual Reports*.

<sup>12</sup> *Statistical Summary*, Home Loan Bank Board, 1951, Table 9, and *Savings and Home Financing Source Book*, Home Loan Bank Board, 1952, Table 11.

Life insurance companies have made a large and growing part of their home mortgage investments in FHA and more recently in VA loans. In 1948 and 1949 more than one-half of their estimated total home mortgage lending activity was in the form of FHA and VA loans

TABLE 71  
FHA-Insured and VA-Guaranteed Home Loans, in Millions of Dollars  
and as a Percentage of Total Home Loans Made by Principal Types  
of Lenders, 1948-1952<sup>a</sup>

YEAR	COMMERCIAL BANKS		INSURANCE COMPANIES		SAVINGS AND LOAN ASSOCIATIONS		MUTUAL SAVINGS BANKS	
	Amount	Per Cent of Total	Amount	Per Cent of Total	Amount	Per Cent of Total	Amount	Per Cent of Total
FHA-Insured Loans <sup>b</sup>								
1948	657	24.9	468	41.3	221	6.1	64	6.5
1949	672	30.1	507	46.4	238	6.5	107	10.8
1950	730	21.3	514	29.5	266	5.1	189	13.5
1951	669	n.a.	329	n.a.	174	n.a.	126	n.a.
1952	707	n.a.	267	n.a.	170	n.a.	85	n.a.
VA-Guaranteed Loans <sup>c</sup>								
1948	737	28.0	139	12.3	536	15.0	226	23.1
1949	345	15.4	65	5.9	330	9.1	191	19.3
1950	586	17.1	222	12.7	740	14.1	298	21.3
1951	765	n.a.	494	n.a.	703	n.a.	422	n.a.
1952	570	n.a.	155	n.a.	694	n.a.	414	n.a.
FHA and VA Loans Combined								
1948	1,394	52.9	607	53.6	757	21.0	290	29.6
1949	1,017	45.5	572	52.3	568	15.6	298	30.1
1950	1,316	38.4	736	42.2	1,006	19.2	487	34.8
1951	1,434	n.a.	823	n.a.	877	n.a.	548	n.a.
1952	1,277	n.a.	422	n.a.	864	n.a.	499	n.a.

<sup>a</sup> Comparable data for years prior to 1948 are not available. In the case of the FHA, data through 1945 refer to gross mortgages accepted for insurance rather than premium-paying mortgages, or include firm commitments under Title VI as well as net mortgages. The nature of both classifications precludes a comparison with the total mortgage loans made by each type of lender. In the case of the VA, no classification of the amount of loans closed by type of lender is available for years before 1948. Since insurance companies and mutual savings banks are net purchasers of FHA and probably of VA loans, the data in the table do not represent their total acquisitions of such loans but rather those written in their own names. For example, total acquisitions of nonfarm VA loans by life insurance companies were \$366 million in 1948, \$131 million in 1949, and \$930 million in 1950. Total acquisitions of FHA loans (on both homes and multi-family projects) by these companies were \$1,202 million in 1948, \$1,350 million in 1949, and \$1,542 million in 1950 (Institute for Life Insurance, New York).

<sup>b</sup> Amounts from *Annual Reports*, Housing and Home Finance Agency. Percentages based on total estimated amount of home mortgage loans made by each type of lender in "Estimated Home Mortgage Debt and Lending Activity, 1950," Home Loan Bank Board. The HLBB estimates were discontinued after 1950.

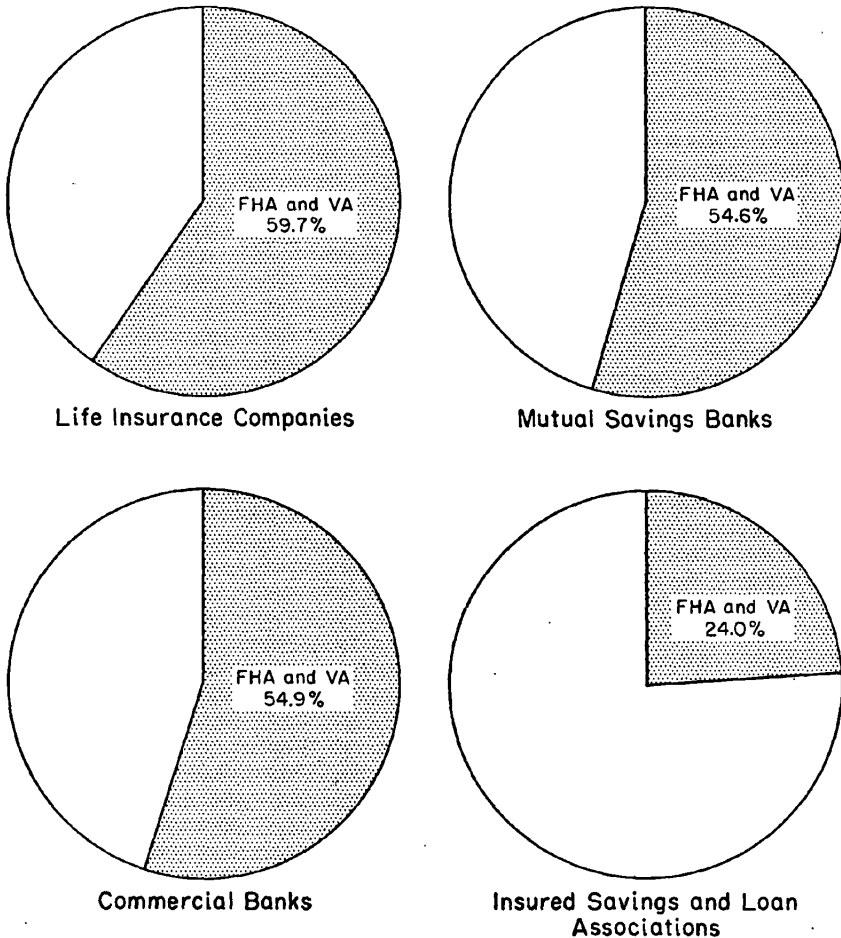
<sup>c</sup> Amounts from *Statistical Summary, 1951*, Home Loan Bank Board, Table 9; *Savings and Home Financing Source Book, 1952*, Home Loan Bank Board, Table 11; and *VA Statistical Summaries*, Veterans' Administration, 1952. Basis of percentages as given in footnote b above. n.a. = not available.

(Table 71), and this ratio does not reflect their acquisition of such loans from mortgage companies and other loan originators. Mutual savings banks and savings and loan associations have been less active in making government-insured loans, but the investments of savings banks in these loans expanded rapidly from 1948 to 1950.

Chart 29 and Table Q-2 illustrate the emphasis placed by the principal types of lending institutions on government-insured loans, in terms of mortgage *holdings* on both homes and multi-family structures.

CHART 29

FHA-Insured and VA-Guaranteed Mortgages Held by Principal Types of Lenders as a Percentage of Their Total Residential Mortgage Loans, December 31, 1952



Source: Table Q-2, last column.

In the case of life insurance companies the ratio of outstanding FHA mortgages to their total residential mortgage portfolio rose from 23 per cent in 1940 to 37 per cent in 1944, and the ratio of FHA and VA loans combined to total holdings stood at almost 60 per cent in 1952—the highest ratio for any of the four principal types of mortgage lenders. More than one-half of the residential mortgage portfolio of commercial banks at the end of 1952 was in the form of government-insured loans. Mutual savings banks from 1947 to 1952 nearly trebled their ratio of government-insured mortgages to total residential holdings, and at the end of the period they held 55 per cent of the total in these types of loans. The ratio for insured savings and loan associations decreased from 31 per cent in 1947 to 24 per cent in 1952.

In summary, the influence of the FHA and VA programs on the sources of mortgage funds may be related to the growth of residential holdings of the various types of lenders (Table 72). While many

TABLE 72  
Relative Growth of Residential Mortgage Holdings  
of Various Types of Lenders

TYPE OF LENDER	PER CENT INCREASE, 1952 OVER:	
	1930	1935
Institutional, total	241	282
Noninstitutional, total	3	57
Commercial banks	329	448
Life insurance companies	425	587
Savings and loan associations	186	433
Mutual savings banks	124	147

Source: Table N-2.

factors combined to produce the startling growth differentials revealed in the table, it must be considered more than a coincidence that the institutions participating most actively in the mortgage insurance and guarantee programs—commercial banks and life insurance companies—show by far the greatest relative increase in residential mortgage holdings. Savings and loan associations rank third, and mutual savings banks experienced a far slower growth of portfolios than any of the other types of institutions. The comparatively small increase of non-institutional holdings since 1935 probably reflects the historical decline in the importance of noninstitutional lenders, accelerated by the emphasis in the FHA and VA programs on institutional sources of funds.

#### *Geographical Distribution of Government-Insured Loans*

Because of the emphasis in the FHA mortgage insurance program on the financing of new residential construction, the geographical distribu-

tion of FHA loans shows greater resemblance to the distribution of dwelling units built from 1935 to 1950 than to the distribution of the existing stock of housing. On the other hand, the distribution of VA loans corresponds more closely to that of the standing housing inventory. This difference becomes evident when the location of FHA and VA *home* mortgages is compared with the location of all owner-occupied dwelling units and those that were mortgaged at census dates, in terms of the nine geographical divisions of the census (Table 73). Comparable data for the tenant-occupied segment are not available.

The difference in the geographical distribution of activity under the two government mortgage insurance programs is related to a difference in objectives. Stimulation of new residential construction has been one of the basic and continuing purposes of the FHA program. The VA program has been designed to help veterans purchase homes irrespective of age of property.

The two programs in combination have apparently been of greater relative importance in the West and South than in other regions. In 1950 the number of outstanding government-insured mortgage loans on owner-occupied one-family dwellings accounted for 36 to 37 per cent of all mortgages on such dwellings in the South and West, as against 27 to 28 per cent in the Northeast and North Central regions.<sup>13</sup>

Whether the operations of the FHA and VA have actually influenced the regional distribution of mortgage lending or have only followed changes in that distribution caused by shifts in new residential construction and real estate activity remains an open question. The same is true for another aspect of locational distribution: the "suburban push." There is a widespread impression that the FHA insurance program has accelerated the push to the suburbs since the thirties. The emphasis in the program on the construction of medium- and lower-priced housing, which generally requires low-priced land, and the increasing reliance on big merchant builders who need substantial tracts for their operation have been forces operating in this direction. However, the general factors creating the suburban push may have been so powerful as to swamp any specific influence of the FHA program.

There is evidence that FHA mortgage insurance has been more commonly used in metropolitan areas than in other places,<sup>14</sup> but in the

<sup>13</sup> *Census of Housing 1950*, Vol. IV, *Residential Financing*, Part 2, Table 9.

<sup>14</sup> While the standard metropolitan areas in 1950 accounted for 56 per cent of the housing inventory, more than 81 per cent of the total number of FHA home mortgages accepted for insurance between 1937 and 1952 were on properties in counties located in these areas. *Recommendations on Government Housing Policies and Programs*, Report of the President's Advisory Committee on Government Housing Policies and Programs, December 1953, Exhibit 6, pp. 83-84. A substantial

TABLE 73

Distribution of Number of Home Mortgages Insured by FHA, 1935 to 1950, and Guaranteed by VA, 1945 to 1950, Compared with Distribution of Owner-Occupied Dwelling Units Standing and New Construction, by Geographical Divisions  
(per cent)

GEOGRAPHICAL DIVISION	FHA LOANS (1)	VA LOANS (2)	NONFARM OWNER-OCCUPIED DWELLING UNITS		OWNER-OCCUPIED DWELLING UNITS MORTGAGED		NONFARM DWELLING UNITS BUILT 1935-1950 (7)
			1940	1950	1940	1950	
			(3)	(4)	(5)	(6)	
New England	2.4	7.8	7.2	6.3	9.1	8.1	4.0
Middle Atlantic	14.6	21.6	20.9	19.4	24.2	21.6	15.8
East North Central	20.6	18.4	24.6	23.1	26.0	22.6	16.7
West North Central	7.3	7.4	10.5	9.6	8.8	7.9	6.5
South Atlantic	11.7	12.0	9.8	11.5	8.3	10.9	17.7
East South Central	4.8	4.8	4.6	5.3	3.3	4.2	5.3
West South Central	11.6	10.2	8.1	9.2	5.9	7.8	11.9
Mountain	4.9	2.9	3.6	3.6	2.8	3.1	3.6
Pacific	22.1	14.9	10.7	12.1	11.6	13.7	18.6
United States total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Column

Source

- 1 *Fourth Annual Report*, Housing and Home Finance Agency, 1950, p. 242. Exclusive of loans in Hawaii, Puerto Rico, the Canal Zone, and the Virgin Islands.
- 2 *VA Statistical Summary*, "Finance," "Guaranty of Loan," Veterans' Administration, December 31, 1950.
- 3, 5 *Census of Housing 1940*, Bureau of the Census, Vol. IV, Part 1, "U.S. Summary," Table 14. The comparison of the percentage distribution of owner-occupied units with that of the number of FHA and VA loans, which are on structures, is not exact but is adequate for analysis of larger differences between the two sets of figures.
- 4, 6 *Census of Housing 1950*, Advance Reports, Series HC-8. Preliminary data. Percentages do not always add to 100 due to rounding.
- 7 Table H-1.

absence of VA data on this point, no generalizations for the two mortgage insurance programs combined are possible. Mortgage lending activity under FHA and VA auspices seems to have been relatively small in isolated smaller urban communities.

On the whole, the locational distribution of government-insured loans has probably reflected, rather than set the pace for, the geographical shifts of residential construction discussed in Chapter VI.

### *The Government's Role in the Secondary Market*

Government insurance of residential mortgage loans has created a debt instrument that can be shifted easily from one lender to another.

number of dwelling units built outside the metropolitan areas show such low value or rent that they may not be the type of houses commonly accepted as security for mortgage loans.

From the lender's point of view, government insurance endows mortgage loans with greater uniformity of quality than has ever been the case before, and it reduces the necessity for detailed examination that usually accompanies the transfer of loans from one mortgagee to another. As a result, an active "secondary market" for FHA and VA loans has developed, which in turn has widened the geographical scope of the market for mortgage loans and given it some of the characteristics of national capital markets. It has become quite customary, for example, to quote premiums and discounts for FHA and VA loans offered and sought in this market, and the deviations from par are determined by general mortgage market conditions as well as by the quality and location of the underlying security of specific loans.

The Federal National Mortgage Association, a wholly government-owned facility, has played an important role in the development of the secondary market. Its operations at times have had a substantial influence on the volume of construction although its purchases and sales have not always been limited to loans on new construction.

The quantitative importance of transfers of FHA home loans among mortgagees is shown in Table Q-3. Aggregate transfers increased steadily to 1950 except for the late war and early postwar years, and the face amount of loans transferred annually approximated or exceeded \$1 billion in 1949-1952. The annual number of home loans transferred from 1946 to 1952 varied between 6 and 13 per cent of the total number of FHA home loans in force. According to the 1950 census, one-third of the FHA-insured loans and almost one-fourth of the VA-guaranteed loans on owner-occupied houses had been acquired by purchase rather than origination of the mortgage, as against 11 per cent for conventional loans.<sup>15</sup> These figures show a velocity probably unequalled in the history of mortgage finance in this country, except for the refinancing operations of the government-owned Home Owners' Loan Corporation.

<sup>15</sup> *Census of Housing 1950*, Vol. IV, *Residential Financing*, Part 1, Tables 4a to 4c. The extent to which FHA insurance and VA guarantee have stimulated transfers of residential mortgage loans after origination is illustrated by data for Jacksonville, Florida (*Residential Mortgage Financing, Jacksonville, Florida, First Six Months of 1950*, Housing and Home Finance Agency, Housing Research Paper 23, December 1952). During the period from February 15 to August 15, 1950, almost \$11.5 million of first mortgages of \$500 to \$20,000 were assigned to other mortgagees by the originating lenders. All of the assigned mortgages except \$207,036 worth of conventional loans were FHA and VA mortgages. The FNMA accounted for \$6.1 million, or more than half, of the assigned mortgage loans. Of a little less than \$21 million in mortgages analyzed for the geographical source of funds, only \$8,546,030 came from Florida and \$12,228,853 came from outside the state, with the largest amounts from the FNMA, New York, Massachusetts, New Jersey, and Pennsylvania. Insurance companies were the largest group of private institutional assignees.

In these transfers mortgage companies and savings and loan associations have been consistent net sellers. Insurance companies and mutual savings banks, as well as the Federal National Mortgage Association, have been net purchasers, although sales by the FNMA have exceeded purchases during certain years. Commercial banks as a group have been net purchasers in some years and net sellers in others. Table Q-4 shows purchases and sales for each of the four principal types of private institutional lenders. While these lenders in the aggregate have been net purchasers of FHA home loans, their sales activity has been substantial, the ratio of annual sales to annual purchases ranging roughly from 40 to 80 per cent. In other words, there has been an active secondary market among the various types of portfolio lenders, in addition to transfers from loan originators such as mortgage companies to portfolio lenders and federal agencies.<sup>16</sup>

Data on transfers of FHA rental housing mortgages indicate substantial velocity in recent years. From 1950 to 1952 the face amount of loans transferred annually ranged from \$518 to \$823 million, equal to 16 to 25 per cent of the face amount of such mortgages outstanding at the end of each year.<sup>17</sup> No transfer figures are published for VA home loans.

The role of the federal agencies in the secondary market for FHA home loans has varied greatly from year to year. During the period 1935-1952, purchases by federal agencies represented more than 10 per cent of all purchases (Table Q-5).

The culmination of federal activity in the "secondary market" has come in the postwar period, primarily in support of the VA home loan program. From 1948 through 1953 the Federal National Mortgage Association, now the only government agency specifically authorized to buy and sell FHA and VA loans, purchased almost \$3.7 billion worth of government-insured loans, as against \$272 million during the preceding ten years. Of these, more than \$2.5 billion or 70 per cent were VA loans. Sales from 1948 to 1953 totaled \$870 million. The mortgage portfolio of the FNMA on December 31, 1953, was almost \$2.5 billion, of which about 75 per cent was in VA loans (Table 74). The FNMA holdings of VA loans at the end of 1953 represented more than 11 per cent of the estimated total balance of VA loans outstanding.

The overwhelming proportion of VA loans in recent operations of the FNMA illustrates the government's influence on mortgage lending and on the management of the residential mortgage debt in critical situa-

<sup>16</sup> Although there have been substantial transfers of FHA mortgages among different types of portfolio lenders, individual institutions tend to be either consistent net buyers or consistent net sellers.

<sup>17</sup> *Annual Reports of the Federal Housing Administration.*

TABLE 74  
Operations of the Federal National Mortgage Association  
(millions of dollars)

	1938-1947	1948	1949	1950	1951	1952	1953	1938-1953
Purchases of loans								
FHA	272	187	253	49	74	168	355	1,358
VA	0	11	420	995	603	370	187	2,586
Total	272	198	673	1,044	677	538	542	3,944
Sales of loans								
FHA	167	0	19	261	28	36	32	543
VA	0	0	a	208	83	20	181	493
Total	167	0	20	469	111	56	214	1,036
Balance of loans held at end of period								
FHA	4	188	403	169	204	320	621	..
VA	0	11	425	1,178	1,646	1,922	1,841	..
Total	4	199	828	1,347	1,850	2,242	2,462	..

<sup>a</sup> Less than \$1 million.

Source: *Housing Statistics*, Housing and Home Finance Agency, January 1954, pp. 67 and 69, and *Annual Reports*, Housing and Home Finance Agency. Because of rounding, the components do not necessarily add up to the totals.

tions. Most of the FNMA purchases of VA loans occurred from 1949 to 1951, when mortgage interest rates were rising. As a result of these changes in the mortgage market, the supply of funds for VA loans at 4 per cent threatened to dry up. The volume of new VA loans dropped from about \$3.3 billion in 1947 to less than \$1.9 billion in 1948 and \$1.4 billion in 1949. The purchases by the FNMA helped to overcome these difficulties and were in part responsible for the spectacular increase in VA loans to more than \$3 billion in 1950 and \$3.6 billion in 1951. During 1949 and 1950, FNMA purchases of VA loans equaled approximately one-third of all VA home loans made. The FNMA at that time represented an instrument for maintaining a fixed interest rate pattern and for continuing a high level of housing construction in the face of changing conditions in the mortgage market.

Much of the effectiveness of FNMA operations during this period was due to the issuance of advance commitments to purchase, which was begun on July 1, 1948, and terminated on March 13, 1950. The commitments enabled mortgage lenders to originate FHA and VA loans with the intention of selling them immediately to the FNMA, which, under the procedure, was committed to buy. "The commitment program made it possible for the lending institution . . . to arrange the needed financing for construction since the commitment assured a market for the permanent mortgage on the completed house. The procedure was of particular significance in facilitating the flow of credit for housing programs involving FHA-insured mortgages and VA-

guaranteed mortgages.”<sup>18</sup> Advance commitments issued during these twenty-one months totaled almost \$2.5 billion, of which about \$1.5 billion was outstanding at the end of the period. Purchases by the FNMA declined substantially in 1951 after advance commitments had been discontinued as a result of the Korean war.<sup>19</sup>

Another significant aspect of FNMA operations is the restriction of purchases, among other things, to loans with an original principal of not more than \$10,000 per unit.<sup>20</sup> This limitation represents another means of “channeling” new housing construction into predetermined price classes.

There is a real question whether the FNMA has been a secondary market facility or a primary supplier of mortgage funds. Its facilities have been widely used by mortgage loan originators who did not intend to hold loans in their portfolios, and the advance commitment procedure for a time sanctioned the role of the FNMA as a primary source of funds. The distinction between primary and secondary credit facilities is, of course, largely a matter of definition. In the mortgage market the distinction has come to be based on the method of originating mortgages, with the originator defined as a primary source and the first portfolio holder, if he is not identical with the originator, considered a secondary lender. The method of originating mortgage loans, however, depends on the organization of the mortgage market and has little significance for an analysis of the real sources of funds. For the latter the distinction between portfolio lenders who supply funds and other lenders who act as “feeders” to portfolio lenders is more meaningful. On this criterion the FNMA has at least at times served as a substantial primary source of mortgage funds.

This interpretation is supported by the fact that the agency, originally designed as a stand-by purchaser of FHA loans from portfolio holders or interim portfolio lenders, has at times been a prime instrument for the support of new lending activity. In some instances this support helped in the execution of special programs. Thus the FNMA in recent years purchased new types of FHA-insured loans on defense housing projects, which private institutions were initially reluctant to acquire. It usually was able to sell the loans after a period of “seasoning” to private portfolio lenders. On the whole, however, this pioneer-

<sup>18</sup> *Fourth Annual Report*, Housing and Home Finance Agency, 1950, p. 74.

<sup>19</sup> Advance commitments up to \$200 million were again authorized for defense housing in the Defense Housing and Community Facilities and Services Act of 1951 (Public Law 139, Chap. 378, 82nd Cong., 1st sess.) and increased by another \$52 million by Public Law 309, enacted April 9, 1952.

<sup>20</sup> Public Law 387, approved October 25, 1949.

ing activity has accounted for a relatively small portion of FNMA purchases during the postwar period.<sup>21</sup>

The Federal Home Loan Banks, through advances to member institutions secured for the most part by residential mortgage loans, also provide secondary credit facilities. Advances outstanding did not exceed \$200 million in the late thirties, but increased rapidly during the postwar period and reached \$951 million at the end of 1953.<sup>22</sup>

### *Influences on Cost and Terms of Financing*

Since the middle thirties the changes in costs and terms of mortgage financing, which were traced in Chapter XV, have been closely associated with the operation of government programs. Beginning with the then-revolutionary terms on which the Home Owners' Loan Corporation from 1933 to 1936 refinanced \$3 billion of the outstanding home mortgage debt,<sup>23</sup> federal programs in the residential mortgage field have persistently sought to reduce contract interest rates, lengthen contract terms to maturity, and increase loan-to-value ratios. The interest rate on HOLC loans, originally 5 per cent, was reduced to 4½ per cent in October 1939. The maximum interest rate on all FHA-insured mortgages was established in 1934 at 5 per cent (exclusive of the mortgage insurance premium) but was reduced by regulation in 1939 to 4½ per cent, and maximum permissible service charges were lowered simultaneously. The maximum interest rate on FHA home loans under Title VI was cut down to 4 per cent in 1946 in conjunction with the veterans' emergency housing program, but was raised later to 4¼ and 4½ per cent in response to the general increase in interest rates.

The Servicemen's Readjustment Act in 1944 established a maximum of 4 per cent for home loans guaranteed by the Veterans' Administration, and an amendment of 1948 authorizing an increase to 4½ per cent was not used before May 1953.

The maximum contract term for FHA home loans, originally 20 years, was extended in 1938 to 25 years for small new houses and now ranges

<sup>21</sup> Since 1951 the operations of the FNMA have been more severely restricted. Commitments have been limited to defense, military, and disaster housing, and over-the-counter purchases of loans in other categories have at times been suspended. Also, a program to stimulate sales of loans in the FNMA portfolio was adopted. *Annual Report*, Housing and Home Finance Agency, 1952, pp. 73-83. The Housing Act of 1954 included a new charter for the Federal National Mortgage Association. The charter provides for the eventual liquidation of the public capital invested in that agency and for a program to liquidate its mortgage portfolio. The FNMA's authority to provide financial assistance to special housing programs was continued, but mortgage purchases in its secondary market operations were restricted so as to preclude the use of FNMA facilities as a primary source of funds.

<sup>22</sup> *Housing Statistics*, Housing and Home Finance Agency, January 1954.

<sup>23</sup> Five per cent interest, maximum contract length of 15 years, and maximum loan-to-value ratio of 80 per cent.

from 25 to 30 years on new home construction, with 40 years allowed on rental and cooperative housing projects. The original maximum term of 20 years for veteran's home loans was extended in two steps to 30 years. Similar successive steps reduced the downpayment requirements for FHA-insured mortgages on new construction, and the Servicemen's Readjustment Act eliminated such requirements for veterans' home loans.<sup>24</sup>

The effects of these actions on interest rates and other contract terms for residential mortgages, of course, cannot be dissociated from the effects of changes in the entire market for capital funds, particularly the decline of interest rates from the middle thirties to the late forties. It is reasonable to assume that much of the drop in mortgage interest rates would have occurred without the federal aids, in response to competitive forces in the capital market and easy money policies of the monetary authorities. As a matter of general observation, however, the federal programs seem to have hastened the reduction of contract interest rates on mortgages and the use of more liberal contract terms.

A few data are at hand to illustrate the actual differences in terms between FHA and VA mortgages and conventional loans. The average contract interest rate on a sample of mortgages on one- to four-family houses held by 24 leading life insurance companies at the end of 1946 was 4.5 per cent for FHA loans and 4.1 per cent for VA loans, but varied between 4.6 and 4.9 per cent for conventional loans.<sup>25</sup> The comparable figures for a sample of loans held by 170 commercial banks in June 1947 were 4.5 per cent for FHA loans, 4 per cent for VA loans, and 4.8 per cent for conventional mortgages.<sup>26</sup> A sample of similar loans made by 92 savings and loan associations in 1946-1947 showed that practically all of the VA and FHA loans carried contract interest rates of less than 5 per cent, while only 16.3 per cent of the original amount of conventional mortgages fell in this class.<sup>27</sup> A survey of house pur-

<sup>24</sup> Terms for FHA and VA loans were tightened temporarily in the summer of 1950 as part of the anti-inflation policies instituted after the Korean war began, and in anticipation of Credit Regulation X for conventional mortgage loans. The restrictions on FHA and VA loans were relaxed in the summer of 1952 when Regulation X was suspended, and the legal maximums were restored later.

<sup>25</sup> Raymond J. Saulnier, *Urban Mortgage Lending by Life Insurance Companies*, National Bureau of Economic Research, 1950, p. 56. Figures represent average of current, or last-contract, interest rates weighted by amounts outstanding. The maximum interest rate for VA home loans was 4 per cent, and the reported 4.1 per cent was due apparently to erroneous inclusion of service fees and similar charges.

<sup>26</sup> Behrens, *op. cit.*, p. 45. Averages are weighted by the outstanding balance of each loan.

<sup>27</sup> Edward E. Edwards, "Urban Real Estate Financing by Savings and Loan Associations," mimeographed, National Bureau of Economic Research, December 1950, pp. 111-116. Based on original amounts of loans.

chases from October 1950 to March 1951 found that 43 per cent of the loans obtained by veterans had contract interest rates of 4 per cent or less as against 13 per cent of the loans obtained by nonveterans.<sup>28</sup> In 1950, median interest rates on loans outstanding were 4 per cent for VA-guaranteed mortgages, 4.5 per cent for FHA-insured mortgages, and 5 per cent for conventional loans.<sup>29</sup>

Contract interest rates are not, of course, an accurate basis for comparison of cost to borrowers in view of differences in non-interest charges. Nevertheless, the average spread between contract rates on FHA and conventional home loans in the postwar period was apparently small. Moreover, from the borrower's point of view, the spread tended to be offset by the mortgage insurance premium of one-half of 1 per cent, even if possible premium refunds were considered. The average spread between veterans' home loans and conventional loans was more substantial, particularly since the borrower on VA-guaranteed mortgages was free of any charges comparable to the FHA mortgage insurance premium.

On contract length, the sample of commercial bank loans showed that 58.6 per cent of government-insured mortgages had terms of fifteen years or more, as against only 2.4 per cent for non-insured loans.<sup>30</sup> In the sample of mortgage loans made by savings and loan associations, practically all FHA-insured loans and over 60 per cent of the VA-guaranteed loans were for twenty years or more, while only 7 per cent of the conventional loans fell in this group.<sup>31</sup> According to the 1950 census, the median term of first residential mortgages outstanding was twenty years for FHA and VA loans as against eleven years for conventional loans.<sup>32</sup>

While these data are for loans on both new and existing construction, contract terms more favorable to borrowers have been concentrated in the new house field. A sample survey of first mortgages on single-family houses bought from October 1950 to March 1951 indicates generally lower interest rates and longer maturities for loans on new dwellings than for loans on existing dwellings. About 78 per cent of the mortgages on new houses bought during this period carried interest rates of less than 5 per cent as against 51 per cent of the mortgages on old houses. More than two-thirds of the loans on new houses had maturities of

<sup>28</sup> "House Purchases in the Five Months Following the Introduction of Real Estate Credit Regulations," *Federal Reserve Bulletin*, July 1951, Table 13.

<sup>29</sup> *Census of Housing 1950*, Vol. IV, *Residential Financing*, Part 1, Table 1.

<sup>30</sup> Behrens, *op. cit.*, p. 44. Percentages refer to amount outstanding.

<sup>31</sup> Edwards, *op. cit.*, pp. 111-113. Percentages refer to original amounts of loans.

<sup>32</sup> *Census of Housing 1950*, Vol. IV, *Residential Financing*, Part 1, Table 2.

twenty years or more, as against one-third of the loans on old houses.<sup>33</sup> Differences in terms for mortgages on new and existing dwellings would be expected on the basis of risk considerations alone, but some of these differentials are probably due to the greater emphasis in the FHA program on new construction.

The information on contract interest rates and contract lengths in combination suggests considerable differences between periodic charges on government-insured and conventional loans per \$1,000 of loan. But to the extent that FHA and VA loans usually are for larger percentages of appraised value, the differences per \$1,000 of purchase price would be smaller.

The nationwide terms for FHA and VA loans have probably made a great contribution toward the narrowing of geographical differentials in residential mortgage loan terms. The uniformity of maximum interest rates has given added impetus to the long-term forces operating toward a reduction of geographical differentials in interest charges.<sup>34</sup> On the other hand, it appears at times to have diminished the flow of funds into new residential construction in certain areas with prevailing higher interest rates. Also, geographical differentials have taken the form of discounts on FHA and VA loans, which became widespread in 1952 and 1953, particularly for VA loans, and were passed on by builders to home purchasers in the form of higher purchase prices.

In summary, the federal credit aids since the middle thirties have probably accelerated the decline in residential mortgage interest rates and the liberalization of other contract terms. Lower interest rates and, particularly, longer contract terms on FHA and VA loans, compared with conventional mortgages, represent advantages to borrowers under these programs so far as periodic outlays are concerned. Because of the indirect influence of easy credit on prices paid for new as well as existing construction during the war and postwar periods, however, these advantages were at least partly canceled by price effects.

<sup>33</sup> "House Purchases in the Five Months Following the Introduction of Real Estate Credit Regulations," *Federal Reserve Bulletin*, July 1951, Table 21.

<sup>34</sup> Data on this effect of federal programs in many credit fields will be given in the forthcoming volume by Raymond J. Saulnier and others, on federal lending, loan insurance, and guarantees (National Bureau of Economic Research).