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Volume Author/Editor: Saulnier, Raymond J., Harold G. Halcrow, and Neil H. Jacoby

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Chapter Author: Raymond J. Saulnier, Harold G. Halcrow, Neil H. Jacoby

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CHAPTER 8

Federal Lending and Loan Insurance Programs for Housing

In our basic series, federal credit aid to housing is limited to loans made for construction, purchase, or improvement of real estate (including insurance or guarantee, or purchase of such loans); it does not include financial assistance to state or city authorities for urban redevelopment projects and the like, nor aid to private financial institutions that supply housing credit. Descriptively, however, we depart from that limitation here in including aid extended to savings and loan associations by the Federal Home Loan Bank system. Among the principal private lending agencies extending long-term mortgage credit, savings and loan associations differ from the others (commercial banks, mutual savings banks, life insurance companies) in devoting their resources almost exclusively to that field, especially to home financing. When federal credit programs for housing arose during the Great Depression, the first step taken was to create a system of federally sponsored district banks that would supplement the investment resources of savings and loan associations and thus increase the supply of mortgage credit.

Development of Federal Agencies for Housing and Home Financing

The Federal Home Loan Bank Act of 1932 (47 Stat. 725; 12 U.S.C. 1421, *et seq.*), provided for the establishment of twelve Federal Home Loan Banks (now eleven) operating under a Home Loan Bank Board and financed by government capital—at its maximum amounting to nearly $125 million—and by funds which the banks were authorized to raise in the open markets from the sale of consolidated Federal Home Loan Bank obligations. The district banks were authorized to make loans to member associations, predominantly federally chartered savings and loan associations but also state-chartered associations and certain other types of mortgage lenders. A requirement that borrowing members purchase Home Loan Bank stock in an amount not less than $500 and equal to 1 percent of their outstanding balance of home loan[1] or one-twelfth of

[1] In June 1950, raised to 2 percent.

their outstanding indebtedness to the Home Loan Bank, whichever might be greater, provided means for the retirement of government capital in the district banks. Beginning in 1945 the banks gradually repurchased federally owned stock, so that by mid-1951 the capital stock was owned entirely by their member institutions.

The Home Owners' Loan Act of 1933 (48 Stat. 128; 12 U.S.C. 1461 *et seq.*) established the Home Owners' Loan Corporation for the purpose of refinancing defaulted home mortgages,[2] and also authorized the Federal Loan Bank Board to set up a system of federally chartered savings and loan associations. The HOLC was organized exclusively with government capital, and was authorized to obtain additional funds in the open market by issuing bonds whose interest, and later both principal and interest, were guaranteed by the federal government. It was placed under the supervision of the Federal Home Loan Bank Board.

The federal savings and loan associations provided for in the 1933 legislation were granted the privilege of borrowing from their district Home Loan Banks, and both the Treasury and later the HOLC were authorized to purchase their shares. Under this authority the Home Loan Banks made advances to federal- and state-chartered associations of more than $5 billion through 1953, and at that time had a balance of about $950 million of such advances outstanding. From 1935 until its liquidation in 1951 the HOLC purchased nearly $224 million of association shares, mainly those of federally chartered associations. Treasury purchases of shares in federal associations totaled something over $49 million, and were entirely extinguished by the end of 1949.

The next important step in the unfolding of federal policy in the field of housing and home finance was the passage on June 27, 1934 of the National Housing Act (48 Stat. 1246; 12 U.S.C. 1702). This provided for the establishment of two direct government agencies: the Federal Housing Administration, authorized to insure loans for the modernization and repair of residential property or for the construction or purchase of such property, and the Federal Savings and Loan Insurance Corporation, set up to do for the savings and loan group substantially what the Federal Deposit Insurance Corporation was authorized to do for commercial banks and mutual savings banks.

[2] The organization, policies, and operation of the HOLC are described in detail by C. Lowell Harriss in *History and Policies of the Home Owners' Loan Corporation* (National Bureau of Economic Research, Financial Research Program, 1951).

These two steps represented quite different approaches to the problem of expanding and strengthening home mortgage credit facilities. The fundamental initial purpose of FHA was to promote employment in the construction industry by encouraging a freer flow of credit into the urban real estate market.[3] The insurance of home mortgage loans contributed to the stability of the institutions engaged in extending such credits, but at the outset its employment-increasing effect was the paramount objective.[4] While there was support for this approach, the savings and loan groups expressed little if any interest in such insurance. They expressed a preference for an agency similar to the FDIC which would attract savings to their institutions and stand ready to aid them in the event of difficulties. Accordingly the Federal Savings and Loan Insurance Corporation, as a means of supporting its share-insurance program, was authorized to extend financial aid to savings and loan associations that seemed likely to default on their obligations to shareholders, and also to associations already in default. Specifically, the corporation was empowered to make loans to distressed associations, to make cash contributions to them, or to purchase their assets for cash, all with the object of preventing defaults or restoring defaulted associations to operation. The corporation has so far used the contribution and asset-purchase methods of aiding institutions, rather than the loan-extension method. Since these activities are concerned exclusively with liquidation operations, and carry only a contingent repayment commitment, they are excluded from our compilation of data on direct lending.

In much of this early legislation there are evidences of the federal government's interest in establishing additional facilities for channeling funds into the financing of urban real estate. Thus the National Housing Act empowered the FHA to charter and supervise national mortgage associations and gave to the Reconstruction Finance Corporation the authority to provide funds to the FHA for establishing and operating such agencies. Also, a January 31, 1935 amendment of the RFC Act gave RFC the right to purchase stock

[3] See *Government Agencies of Consumer Instalment Credit*, by Joseph D. Coppock (National Bureau of Economic Research, Financial Research Program, 1940), pp. 22f.

[4] In addition to its power to insure lending institutions against losses on loans made for the repair and modernization of real property and on home mortgage loans, the FHA was also given the power to charter, and the responsibility of supervising, national mortgage associations. These associations would purchase insured mortgage loans, with funds obtained from open market sales of debentures.

in mortgage loan companies, among other types of corporations. In March 1935 action was taken under this amendment to provide a facility for financing multifamily residential and nonresidential properties: the establishment of the RFC Mortgage Company. The object of the new company was to make mortgage loans on structures having more than four apartments (or smaller properties ineligible for FHA-insured mortgage or HOLC financing) and other income-producing properties such as hotels and office buildings. The company was authorized to refinance existing first mortgage loans, make first mortgage loans in connection with the construction of new properties, make loans to holders of first mortgage bonds and first mortgage certificates in cases where the investor was found to be in need of such help, and, finally, to purchase FHA-insured mortgages. The latter function of the RFC Mortgage Company represented the government's effort to establish a secondary market for home mortgages.

A related development occurred in 1938 when, acting under powers granted in the National Housing Act of 1934 as amended, the Reconstruction Finance Corporation was directed by the President in February to organize a national mortgage association to purchase FHA-insured mortgages. The National Housing Act provided for such associations, but none had been formed privately. As a result, the National Mortgage Association of Washington, later named the Federal National Mortgage Association, was established with a capital stock of $10 million, the whole of which was purchased by the RFC. From time to time the resources of FNMA have been supplemented and the terms on which it may purchase loans altered; the most important extension of its activities came in 1948 when it was granted authority to purchase VA-guaranteed home mortgages as well as FHA-insured loans.

Federal intervention in the field of home finance was broadened, as World War II veterans returned to civilian life, with the passage of the Servicemen's Readjustment Act of 1944 (59 Stat. 626; 38 U.S.C. 693 *et seq.*). This far-reaching statute provided for Veterans' Administration guarantees of loans made by lending agencies to veterans for purchase or improvement of a home, farm, or business.

Under the Housing Act of 1954 (68 Stat. 613) the Federal National Mortgage Association was reorganized so that private capital could replace federal funds and the organization might be transformed into one fully capitalized by the mortgage lending insti-

tutions using its facilities. At the same time, the association was given the right to borrow up to $1 billion from the federal treasury, so that resources would not be lacking for the purchase of insured and guaranteed mortgages of all types in a period of financial stringency or for the support at any time of special programs of loan insurance or guarantee.

Volume and Relative Importance of Federal Credit

Federal credit aid for housing in the immediate sense—that is, aid to owners or purchasers of residential or commercial properties, as distinct from aid to financial institutions serving that sector or to urban redevelopment projects and the like—has been entirely the work of direct agencies of the government. Both direct lending and (increasingly through time) insurance or guarantee of loans have been the methods used.

Chart 14 shows two periods of intense activity in direct lending, 1934–1935 and 1949–1953. The first came when the Home Owners' Loan Corporation was refinancing large amounts of home mortgages, and the second when federally insured or guaranteed mortgages were being purchased on a large scale by the Federal National Mortgage Association. Throughout the period direct loans were made on a relatively modest scale by other agencies, namely the RFC Mortgage Company, the FHA, the VA, the Defense Homes Corporation, and the Housing and Home Finance Agency.

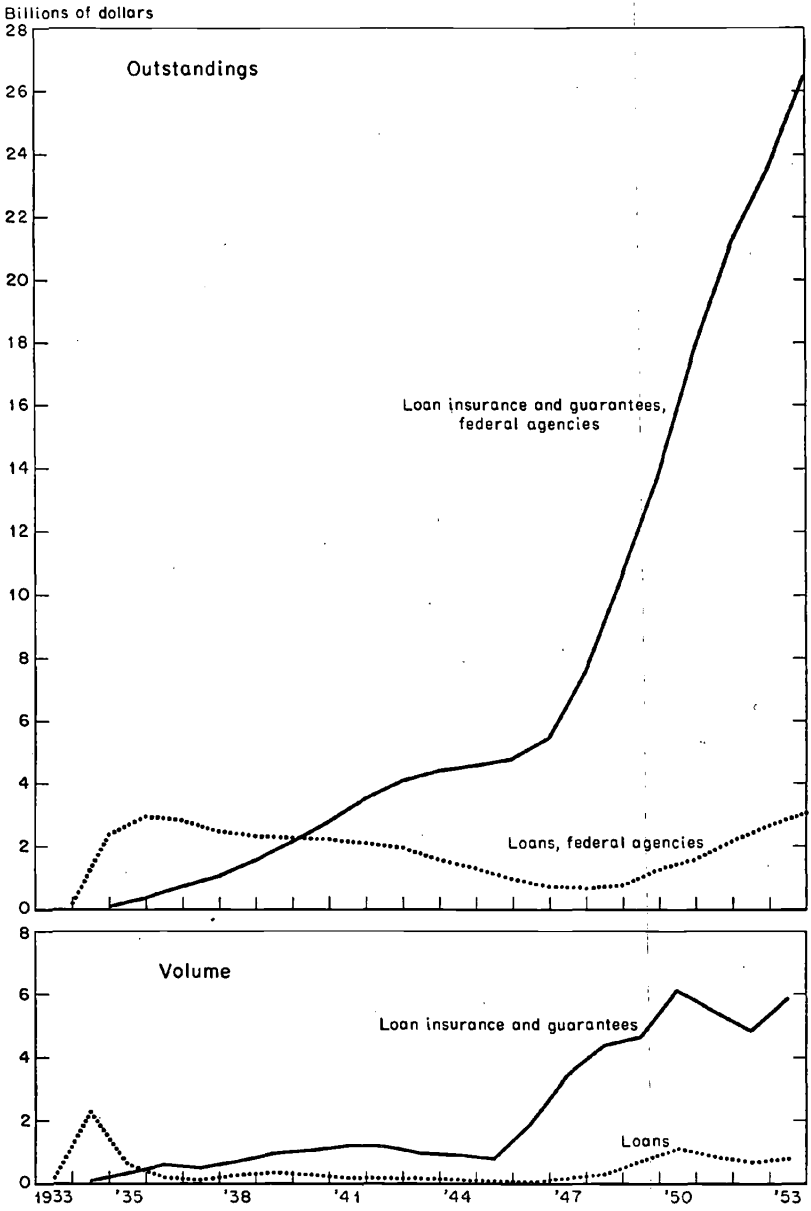
In contrast, the insurance and guarantee of privately made housing loans has grown steadily and in recent years quite steeply. The outstanding amounts of federal liability rose in every year from the beginning of the activity, and during 1947–1953 increased more than fivefold, to over $26 billion (Chart 14). The annual volume of insurance or guarantees, except for minor reductions during the war and in 1951 and 1952, also moved steadily upward. During 1953, the commitments made by federal agencies through insurance or guarantee of housing loans totaled about $5.9 billion.

The relative importance of the federal agencies' direct lending is shown in Chart 15 where it gives annually their percentage share of the estimated total mortgage debt on nonfarm residential structures. The imperfections of the measure[5] involve relatively small amounts

[5] Federal credit includes some loans on commercial (as well as residential) structures, by the RFC Mortgage Company; and it is not certain whether direct loans by the Defense Homes Corporation, HHFA, FHA, and VA are included in the debt total as well as in the federal share.

CHART 14

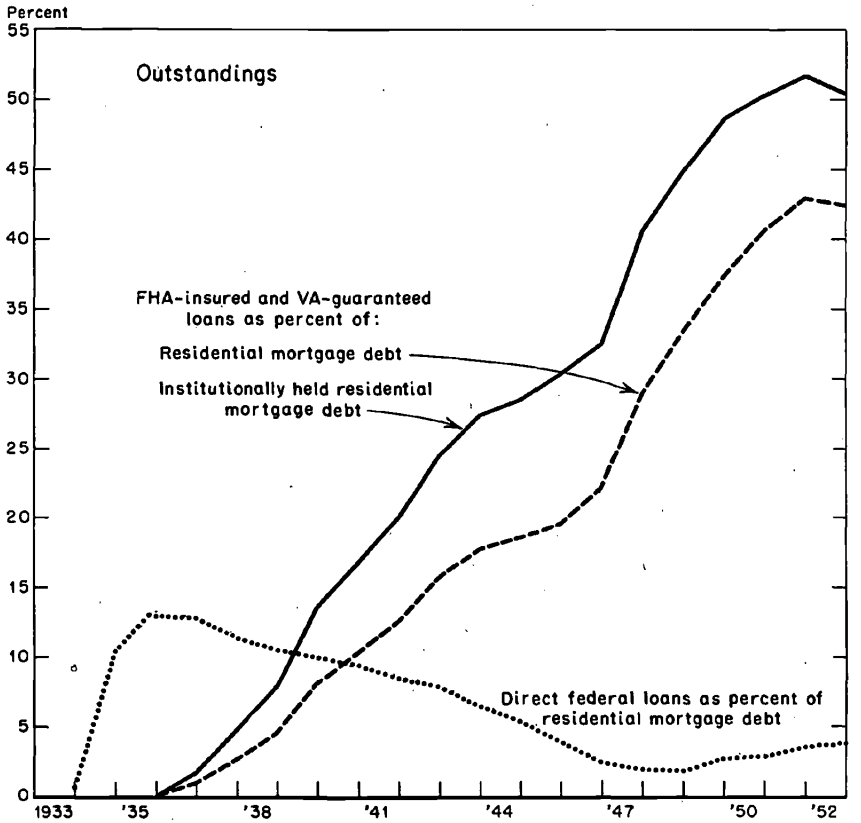
Federal Credit for Nonfarm Housing, 1933–1953



From Table A-7. For data on the components of the series, see Tables A-10, A-11, A-14, A-17, A-28, and A-30.

CHART 15

Ratios of Housing Loans Held by Federal Agencies and of Outstanding Home Loans Insured by FHA or Guaranteed by VA to Estimated Nonfarm Residential Mortgage Debt, 1933–1952



Federal agency direct housing loans are from Table A-7. FHA-insured outstandings for 1935–1938 were estimated as of June 30 from the "Annual Reports" of the Federal Housing Administration (all other data are year-end figures). Data for FHA, 1939–1952, and VA, 1945–1952, are from "Housing Statistics" (Housing and Home Finance Agency), January 1954, pp. 37 and 41; and for institutionally held and total nonfarm residential mortgage debt, from Table N-2 in "Capital Formation in Residential Real Estate: Trends and Prospects," by Leo Grebler, David M. Blank, and Louis Winnick (Princeton University Press for the National Bureau of Economic Research, 1956).

The estimates of total residential debt cover loans on one- to four-family houses and multifamily structures held by open and closed commercial banks, mutual savings banks, open and closed savings and loan associations, life insurance and other insurance companies, real estate and mortgage investment companies, the Home Owners' Loan Corporation, the Federal National Mortgage Association, and miscellaneous other institutions, as well as those held by individuals and other noninstitutional investors.

and for present purposes can be ignored. Federal agencies held 13 percent of the residential mortgage debt in 1935—that share representing almost exclusively the activity of the HOLC—but in recent years only 3 to 4 percent.

The relative importance of government insurance and guarantee of loans is also shown in Chart 15, by measuring federally protected loans against the total residential mortgage debt and then against the part of it held by institutional lenders, both private and public (excluding HOLC). Outstandings of loans carrying federal protection steadily increased as against the amount of conventional loans, until by the end of 1952 about 40 percent of the total and 50 percent of the institutionally held debt was underwritten by the federal government.

Since federal protection does not always apply to the full amount of a loan, another way of measuring its relative importance is to compare the amount of the government's contingent liability actually in force with the debt total. This gives somewhat lower percentages, but still indicates a role of considerable importance: thus, in 1952 the liability of federal agencies for insured or guaranteed loans amounted to 34 percent of all nonfarm residential mortgage debt. In short, whatever measure is employed, it is seen that the federal government now has a large part of the urban mortgage debt under its insurance protection; naturally, through its influence on the contract terms of the protected loans, it exerts also a very considerable influence, as will be shown later, on the contract terms of that part of the mortgage debt which is written on an uninsured basis.

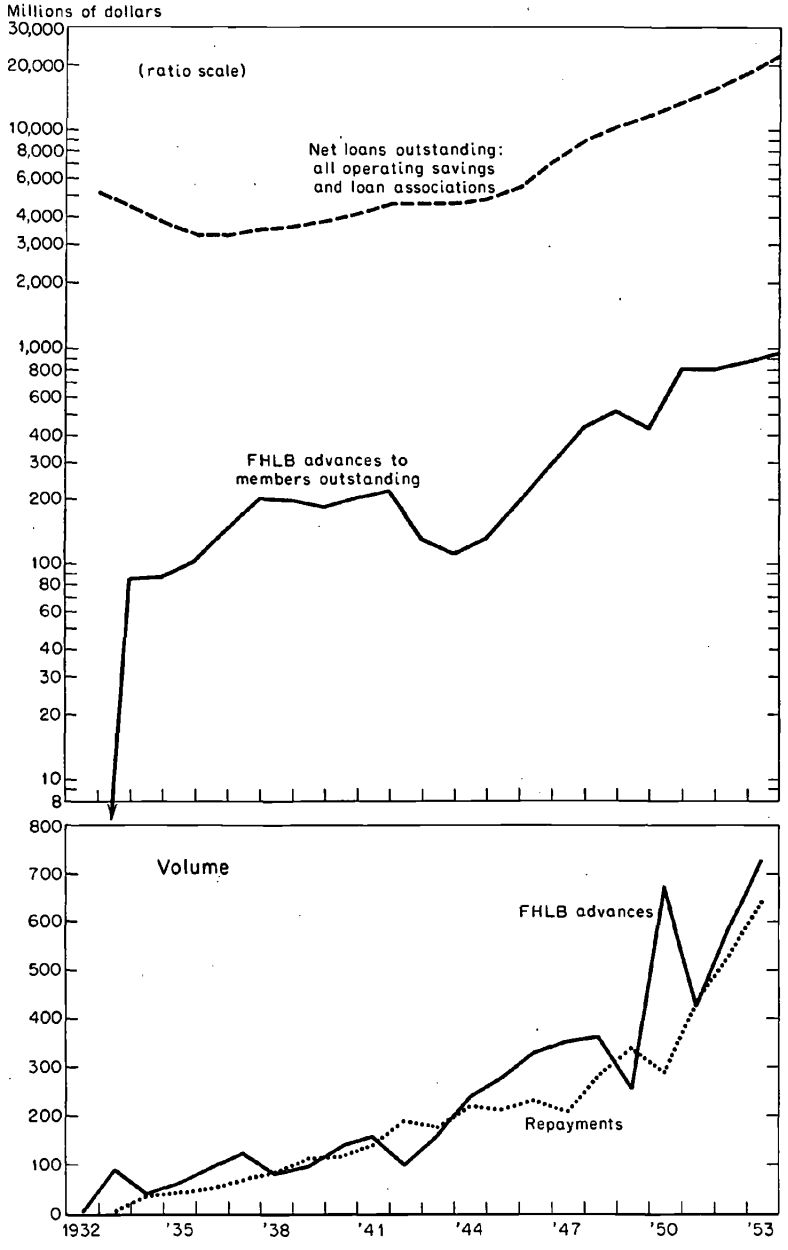
The federally sponsored Home Loan Bank system—consisting of the Home Loan Bank Board, the eleven district banks with their member institutions, and the Federal Savings and Loan Insurance Corporation—was formed with the immediate object of aiding savings and loan associations that had been adversely affected in the depression years of the early thirties by heavy demands on them for withdrawal of funds and by illiquidity of their investment holdings, and to provide a continuing pool of credit which would supplement, as circumstances might require, the associations' resources for investment in real estate markets.

Chart 16 traces the annual volume of Home Loan Bank advances to members[6] and of repayments, and also compares the outstanding

[6] The membership at the end of 1953 consisted of 4,108 savings and loan associa-

CHART 16

Federal Home Loan Bank Lending Activity and Outstanding Mortgage Loans of Savings and Loan Associations, 1932–1953



From "Housing Statistics" (Housing and Home Finance Agency), January 1954, p. 43, and "Trends in the Savings and Loan Field, 1953" (Home Loan Bank Board), Table 1, p. 4.

amounts of such advances with the outstanding loans of all operating savings and loan associations. Lending by the Home Loan Banks was negligible in the early thirties and reached a considerable volume only during the real estate credit expansion following World War II. The low level of borrowing which prevailed from 1932 through 1936 may be explained by the fact that the net loans of savings and loan associations declined in those years by somewhat more than did their private share capital.[7] Individual associations doubtless found themselves hard pressed at that time, but the group as a whole was holding less assets, on balance, year after year. Outstanding net loans of associations grew moderately in 1937 and 1938 but their increased demand for funds was apparently satisfied through the liquidation of owned real estate, a process which began in 1937 to provide substantial amounts of funds for the expansion of other types of assets.

Changes are shown for the period 1939–1953 in the unadjusted net sources and uses of funds account for all operating associations in Table 47. Through 1945 the growth of private share capital, plus the liquidation of owned real estate, exceeded by substantial amounts the net increase in mortgage holdings, and for that matter in the total assets of all associations, and Home Loan Bank advances were retired on balance by a small amount. In the three-year period 1946–1948 a rapid increase in mortgage loan holdings was financed with relatively small demands on the Home Loan Banks, mainly from increased private shareholder capital and by the liquidation of United States government securities. Heavy dependence on the Home Loan Banks did not come until 1950 when associations expanded their loan accounts by some $2 billion and their shareholder accounts by only $1.5 billion. By that time their holdings of government securities had been largely liquidated and there was an immediate and heavy draft on the Home Loan Banks for supplementary funds. Repayments on Home Loan Bank advances about equaled new advances in 1951 and 1952 but member associations were moderate net borrowers in 1953. The lending policy of the Home Loan Banks made it possible for the associations to participate more heavily than would

tions (about two-thirds of all operating associations), 23 mutual savings banks, and 3 insurance companies (*Seventh Annual Report*, Housing and Home Finance Agency, 1953, p. 143; *Trends in the Savings and Loan Field, 1953*, Home Loan Bank Board, p. 4).

[7] For selected data on the financial condition of savings and loan associations over the period 1932 to 1938 see *Trends in the Savings and Loan Field, 1954*, Home Loan Bank Board, p. 3.

TABLE 47

Sources and Uses of Funds of All Operating Savings and Loan Associations, Selected Periods, 1939–1953

(*in millions*)

Sources and Uses	*1939–45*	*1946–48*	*1949*	*1950*	*1951–52*	*1953*
Uses of Funds						
First mortgage loans[a]	$1,762	$4,929	$1,311	$2,006	$4,714	$3,546
Owned real estate	−868	−21	3	6	0	−1
U.S. government securities	2,345	−965	7	27	302	132
Other assets[b]	84	379	279	191	735	381
Total Uses	$3,323	$4,322	$1,600	$2,230	$5,751	$4,058
Sources of Funds						
Private savings capital	$3,288	$3,599	$1,507	$1,507	$5,165	$3,635
FHLB advances	−8	310	−76	365	56	87
Reserves and undivided profits	129	323	140	174	381	244
Other liabilities and capital[c]	−86	90	29	184	149	92
Total Sources	$3,323	$4,322	$1,600	$2,230	$5,751	$4,058

Derived by taking the first differences between year-end balance sheet items of the year preceding and ending each period. A negative use is a source and a negative source is a use. Data are from *Trends in the Savings and Loan Field, 1954*, Home Loan Bank Board, Table 2, p. 4.

[a] Net of mortgage pledged shares.

[b] Includes real estate sold on contract, non-real-estate loans, FHLB stock and other investments, cash on hand and in banks, net fixed assets, and miscellaneous other assets.

[c] Includes U.S. government savings capital, other borrowed money, loans in process, permanent stock, deferred credits, and other liabilities.

otherwise have been possible in the real estate expansion which followed 1949.

The member associations of the Home Loan Bank system have used its facilities fairly widely; 2,147 of them (including one nonmember noninsured state-chartered association and one insurance company) were indebted to the banks at the end of 1953—52 percent of the membership.[8] Dependence on FHLB funds varies among districts. At the end of 1952, for example, amounts owed by associations to the Cincinnati district bank equaled less than 2 percent of their total assets; in the San Francisco district, the corresponding ratio was nearly 6 percent. Puerto Rican associations, with FHLB advances equal to more than 8 percent of their total resources, were

[8] *Seventh Annual Report*, Housing and Home Finance Agency, 1953, pp. 136 and 143.

the most dependent of all.[9] Interestingly enough, it is the larger associations, as will be seen in Table 48, which have recently been most dependent on advances from the FHLB's.

Services

The credit extended by private agencies in the real estate market is of two types: long-term, or so-called permanent, mortgage credit extended to finance the purchase of new or existing structures; and short-term loans primarily to builders, to finance the construction process itself. There is a close connection between the two, since the proceeds of long-term financing are frequently employed in part to liquidate the short-term construction loans. Loans made to finance repair, alteration, or modernization of existing structures—usually on a medium- or short-term installment payment basis—complete the system of credits directly involved in the production and transfer of urban real estate. Certain additional types of credit are provided on a relatively minor scale, which nevertheless play a critical role in the real estate financing process. Credits are frequently advanced to finance holdings of mortgages that are passing from their originator (usually a builder, or a mortgage loan or investing company closely connected with a builder) to the hands of a long-term investing agency. These "warehousing" credits serve to bridge the time intervals required to find permanent financing for mortgages. They have been used for a number of years where an interregional flow of funds is involved, and more recently have also served to supplement with short-term credit, and presumably on a temporary basis, the flow of long-term funds available for mortgage investment.

Although some institutions engage in several of the operations, there is a fairly high degree of functional specialization among private real estate financing institutions. Insurance companies, savings banks, trust and pension funds, and other long-term investors are predominantly interested in permanent financing; commercial banks and savings and loan associations are to all intents and purposes the sole sources of construction financing, and commercial banks of warehousing credits; the placing of construction loans and

[9] From *Trends in the Savings and Loan Field, 1953*, Home Loan Bank Board, Tables 6 and 7, pp. 9–15. The percentages given measure outstanding FHLB advances to members against the assets of all operating associations in a district. When only member associations' assets are considered, the percentages are practically the same, since nonmember associations are comparatively of very small asset size.

TABLE 48

Number of FHLB-Member Savings and Loan Associations and Their Ratios of FHLB Borrowing to Total Assets, By Size Group, 1946 and 1952

TOTAL ASSET SIZE (000)	DECEMBER 31, 1946			DECEMBER 31, 1952		
	No. of Assns.	*% Distribution Total Assets*	*FHLB Borrowings as % of Total Assets*	*No. of Assns.*	*% Distribution Total Assets*	*FHLB Borrowings as % of Total Assets*
Less than $250	509	0.9%	2.33%	479	0.7%	3.77%
250–499.9	539	2.2	2.51			
500–999.9	662	5.2	3.20	545	1.9	3.79
1,000–2,499	955	17.3	3.73	1,047	8.0	3.13
2,500–4,999	584	23.1	3.14	799	13.6	3.41
5,000–9,999	260	19.8	3.02	648	21.4	3.27
10,000–24,999	127	20.7	3.04	379	26.7	4.00
25,000 and over	25	10.8	2.86	131	27.8	5.03
Total	3,661	100.0%	3.15%	4,028	100.0%	3.97%

From the Federal Home Loan Bank Administration's *Annual Report, Combined Financial Statements of Members of the Federal Home Loan Bank System,* 1946, Table 8, and the Home Loan Bank Board's *Combined Financial Statements of Members of the Federal Home Loan Bank System,* 1952, Table 3, p. 13.

mortgage loans, and in some cases the secondary distribution of the latter, and a certain amount of the arrangements for refinancing are handled by mortgage loan or investment companies, dealers, and brokers. In the aggregate these agencies comprise the private mortgage financing system.

Federal credit programs in the field of real estate financing do not reach directly into each area of financial service, yet their role is a strategic one. In many cases the availability of long-term financing is contingent upon the possibility of obtaining loan insurance or guarantee under one of the federal programs, and it is often true that the availability of permanent financing is a necessary prerequisite to the availability to construction or warehousing credit. Thus the system of loan insurance and loan guarantees support to a great extent the whole structure of mortgage credit. In addition, the federal government has extended substantial amounts of credit directly to the real estate market. The following sections describe in detail the services of the principal federal agencies involved, and compare them wherever possible with the services rendered independently by private lending agencies. We follow the order in which the main kinds of federal activity began: the refinancing of defaulted home mortgages by HOLC; credit support for privately made loans, begun by FHA and later augmented by the VA guaranty program; the activity of the RFC Mortgage Company and FNMA in the secondary market; and the VA direct loan program.

REFINANCING DEFAULTED HOME MORTGAGES: THE HOME OWNERS' LOAN CORPORATION

The Home Owners' Loan Corporation was set up in June 1933 as a depression-alleviating device. The response was immediate and widespread: within four months it received something over 400,000 applications for the refinancing of home mortgage loans, and nearly 1,900,000 by mid-1935. It has been estimated that in twenty-five states applications for refinancing loans were received from one-half of all those homeowners potentially eligible for assistance—owner-occupants of one- to four-family nonfarm properties appraised by the HOLC at not over $20,000 and whose mortgages were in default.[10] Although a good many of the applications were ultimately withdrawn by the prospective borrower or rejected by the HOLC, 54 percent were accepted. Loans were made approximately—one million

[10] Harriss, *op.cit.*, Tables 1, 2, and 5, pp. 17, 21f., and 32f.

in number for a total of $3.1 billion—to an estimated 21 percent of all homeowners eligible for assistance. Other lending programs administered by HOLC were incidental to its major task of refinancing defaulted mortgages and will not be discussed in detail. Specifically, they consisted of (a) direct cash loans, either for the payment of taxes where a tax sale was imminent or for refinancing defaulted loans where a lender refused to accept HOLC bonds, (b) group or wholesale purchases of loans from banks in receivership, (c) direct advances for the maintenance or reconditioning of properties, and (d) direct credits to individuals in connection with the sale by HOLC of properties acquired through foreclosure—the so-called "vendee" loans.[11]

HOLC dealt entirely with distressed mortgagors, yet its services were employed more frequently by homeowners in what might be described as the middle income group. This point is not easily established, but it is strongly suggested by the data in Table 49, which show that a much lower proportion of HOLC borrowers in the New York region had incomes of under $1,200 annually than did a sample of families in Trenton, New Jersey, which can probably be taken as

TABLE 49

Income Distributions of HOLC Borrowers in the New York Region, 1933–1934, and of Families in Trenton, New Jersey, 1933

Annual Family Income	*HOLC Borrowers*[a]	*Trenton, New Jersey Families*[b]
Under $600	12.5%	36.2[c]%
600–1,199	29.2	28.7
1,200–1,799	28.5	17.7
1,800–2,399	15.8	7.8
2,400–2,999	7.5	5.2
3,000 and over	6.5	4.4
Total	100.0%	100.0%

[a] Based on a sample of HOLC loans made in New York, New Jersey, and Connecticut, from *History and Policies of the Home Owners' Loan Corporation*, by C. Lowell Harriss (National Bureau of Economic Research, Financial Research Program, 1951), Table 8, p. 51. Original data, referring mainly to 1933–1934, have been adjusted by assuming that the loans for which information was not available were distributed in the same proportion as the known cases.

[b] Based on a sample of families in Trenton, New Jersey, from *Changes in Income Distribution during the Great Depression*, by Horst Mendershausen (National Bureau of Economic Research, 1946), Appendix B.

[c] Includes families with no income.

[11] *Ibid.*, pp. 37, 38, 127ff., and 137ff.

broadly similar to the population from which HOLC borrowers in the New York region were drawn. More pertinent would be an income comparison of HOLC borrowers with the generality of mortgagors (rather than with the whole population), but requisite data are lacking.

Certain other facts also suggest that HOLC functioned most in the middle-income range. Only about 6 percent of the HOLC-financed New York region properties were valued at less than $3,000, as against 10 percent for all nonfarm, owner-occupied properties in that area; and only slightly more than 30 percent of the HOLC-financed New York region properties were valued at $8,000 or over, as contrasted with more than 45 percent for all owner-occupied dwellings. It was in the intermediate zone of property values—from $3,000 to $8,000—that HOLC was relatively most active: over 60 percent of the properties financed by the HOLC were in that range, as against about 40 percent of the comparable properties in the real estate market as a whole.[12]

Further evidence that those who received HOLC aid, even though they were in default on their mortgages, held an intermediate economic position with respect to the whole population is seen in the fact that the structures securing HOLC loans were far from inferior in quality. Thus, 87 percent of those refinanced by the HOLC in the New York region had central heating facilities and 84 percent had the same number of baths as families; 57 percent were less than fifteen years old, as compared with only 41.3 percent for all nonfarm owner-occupied properties in the area; and 77 percent had depreciated by less than 25 percent.[13]

Also, while HOLC loans were relatively modest in amount they were not notably smaller than home mortgage loans in general. Sample data indicate that the average size of such loans originated by life insurance companies during 1930–1934 was $5,500; by commercial banks, $4,300; and by savings and loan associations, $2,800.[14] The average size of HOLC loans made between August 1933 and June

[12] *Ibid.*, Table 15, p. 58. Data were adjusted by assuming that the loans for which information was unavailable were distributed in the same proportions as the known cases.

[13] *Ibid.*, Tables 11, 12, and 17, pp. 55, 56, and 60. Data were adjusted by distributing information-lacking loans in the same proportions as the known cases.

[14] From *Urban Mortgage Lending: Comparative Markets and Experience*, by J. E. Morton (Princeton University Press for the National Bureau of Economic Research, 1956), Table 37, p. 94. Refers to loans on one- to four-family dwellings, without regard to owner occupancy.

1936 (that is, the average amount advanced in purchase of a defaulted mortgage) was about $3,000.[15] In general these facts suggest that the individuals aided by HOLC were drawn from the lower middle-income brackets of the population and that even among mortgagors generally, who would be expected to have a somewhat better than average income position in the community, they probably were not notably concentrated in the lower ranges. The credits advanced went, of course, to the financial institutions from whom the defaulted mortgages were purchased, but it is a matter of interest that they alleviated the financial circumstances of what might be described as a lower middle-income group.

LOAN INSURANCE AND GUARANTEES: THE FHA AND VA PROGRAMS

No activity of government has made a greater impress on the private mortgage market than its loan insurance and guarantee programs. These consist primarily of the FHA's programs for insurance of home modernization and repair loans and for insurance of mortgages on one- to four-family and larger, so-called "project" dwellings, and the VA's program of guarantees of loans for the purchase or construction of owner-occupied residences.

Loans for home modernization and repair. At the same time that it provided for Federal Housing Administration insurance of home mortgage loans, the National Housing Act of 1934 authorized the program under which the FHA insures medium-term amortized loans for the modernization and repair of specified types of properties, the principal purpose being to stimulate expenditures for home improvement as a counter-cyclical measure. The program for insuring modernization loans (Title I program) was the first to get under way, and with the stimulus of considerable publicity it quickly grew to sizable dimensions: in the first three years of operation over a million loans were insured. At the outset loans made by eligible institutions for approved purposes were insured up to 20 percent of the aggregate amount loaned by the individual lender. Later, when it became clear that losses on the loans were relatively small, the percentage was reduced to 10; and in 1939 a fee for the insurance service was introduced and the program was put on a self-supporting and presumably permanent basis. After the disclosure of sometimes spectacular practices of fraud in connection with the contracts under

[15] Harriss, *op.cit.*, Table 4, p. 30.

which homeowners had borrowed money under this program, the Housing Act of 1954 provided that the lender assume up to 10 percent of the loss sustained on individual loans, thus introducing a new principle of loss sharing as between the federal government and the private lending institution.

From the beginning of the program to the end of 1953 nearly 16,600,000 loans, with net proceeds of over $7.4 billion, were insured.[16] In 1953, the following types of loans were eligible for insurance under Title I on the terms indicated:[17]

TYPE OF LOAN	TYPE OF IMPROVEMENT	MAXIMUM PERMISSIBLE		
		Maturity	*Amount*	*Annual Financing Charge*
Class 1 (a)	Repair, alteration, or improvement of *an existing structure*	3 years	$2,500	5% discount
Class 1 (b)	Repair, alteration, improvement, or conversion of *an existing multifamily structure*	7 years, 32 days	$10,000	5% discount if $2,500 or less; 4% if more
	Construction of *a new structure for*:			
Class 2 (a)	Nonfarm, nonresidential use	3 years, 32 days	$3,000	5% discount
Class 2 (b)	Farm, nonresidential use	7 years, 32 days or 15 years, 32 days, if secured by first lien	$3,000	5%, or 3.5% discount if maturity is over 7 years, 32 days

The Title I program has been widely used by financial institutions, mainly by commercial banks, which accounted for 76 percent of the net proceeds of loans insured in the years 1934–1953. Finance companies accounted for 20 percent and savings and loan associations for 4 percent of the loans insured.[18] For the most part, the loans have been of small amount and of relatively short term, usually three years or under; and during 1953, as in most other years, they were

[16] *Seventh Annual Report*, Housing and Home Finance Agency, 1953, Table 61, p. 297.

[17] *Ibid.*, p. 187.

[18] *Sixth Annual Report*, Housing and Home Finance Agency, 1952, Tables 63 and 64, pp. 337f., and the agency's *Seventh Annual Report*, 1953, Tables 66 and 67, pp. 304f.

made predominantly for the improvement of single family properties.[19] The principal types of improvement for which loans in 1953 were made, given in descending order, were: insulation, heating, exterior finish, plumbing, interior finish, and roofing.[20]

Home mortgage loans. When the innovation of federal home mortgage insurance was launched in 1934 with the establishment of the Federal Housing Administration, the scale on which it would develop was neither intended nor foreseen. Today more than two-fifths of the outstanding home mortgage debt ($75.6 billion at the end of 1954) comprises loans made under conditions of federal insurance or guarantee;[21] and though estimates of debt on larger structures are not available, the evidence on nonfarm housing starts that was shown in Table 9 (Chapter 2) indicates that during the war and in 1947–1951 most apartment house projects, too, utilized federal credit support. It is not too much to say that through FHA and VA the entire structure of residential housing credit has been brought under federal influence.

Two measures are available of the extent to which various types of financial institutions extend mortgage credit on an insured basis, namely the proportions of all insured and guaranteed loans that are originated by the different types of agencies, and the proportions of the current mortgage holdings of major institutional lenders that consist of insured loans. Data on originations are given in Table 50 through mid-1954 for VA loans through 1953 for FHA. It should be borne in mind, of course, that an agency does not necessarily hold the same proportion of insured loans that it originates. Particularly, real estate and mortgage investment companies are major originators of loans but occupy a minor position as permanent investors.

As will be seen in Chart 17, insured mortgages comprise almost one-half of the combined residential mortgage holdings of the principal institutional lenders, but there are interesting differences among types of institutions in use of federal credit support; the relative unimportance of FHA insurance to savings and loan associations is perhaps the most notable.

Finally, the home mortgage market served by the federal programs may be described, and contrasted with the market served by the so-called conventional or uninsured loan, in terms of the bor-

[19] *Seventh Annual Report*, Housing and Home Finance Agency, 1953, pp. 306ff.
[20] *Ibid.*, Table 71, p. 308.
[21] *Savings and Loan Fact Book, 1955*, United States Savings and Loan League, p. 24.

TABLE 50

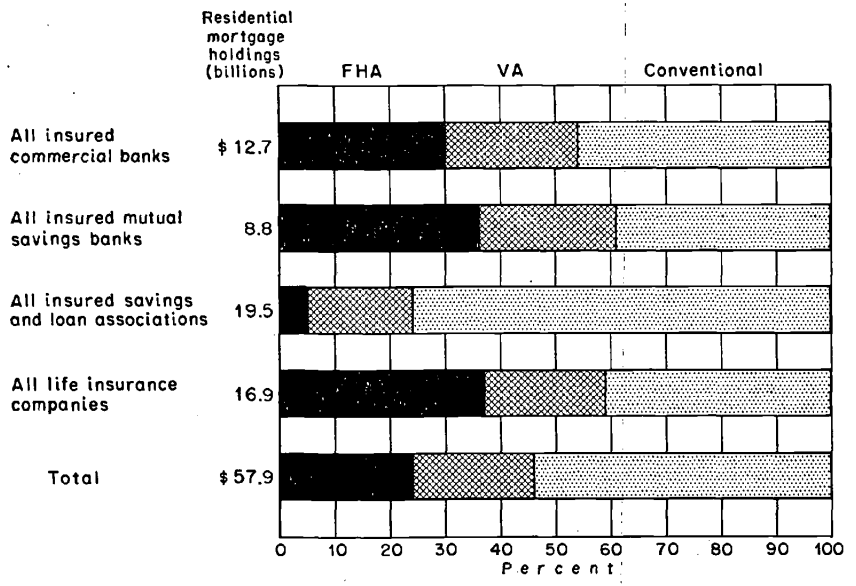
Type of Institution Originating FHA-Insured and VA-Guaranteed Home Mortgage Loans
(percentage distribution of cumulative amount of loans made)

Type of Institution	*FHA 1935–1953*	*VA 1944 to mid-1954*
Commercial banks	36.9%	25.9%
Mortgage and real estate companies	27.8	27.7
Savings and loan associations	10.4	27.6
Savings banks	4.6	11.8
Insurance companies	16.5	6.4
All others and individuals	3.8	0.6

For FHA, from the *Annual Reports* of the Federal Housing Administration and of the Housing and Home Finance Agency; for VA, from *G.I. Loans—the First Ten Years* (VA Pamphlet 4A-11), Chart 6, p. 31.

CHART 17

Insured and Guaranteed versus Conventional Residential Mortgages: Holdings of Principal Private Lending Institutions Compared, 1953



End-of-year data: for commercial banks and mutual savings banks, from the "Annual Report" of the Federal Deposit Insurance Corporation, 1953, p. 101; for federal savings and loan associations, from the "Seventh Annual Report" of the Housing and Home Finance Agency, 1953, p. 153; and for life insurance companies, from "Mortgage Investments of Life Insurance Companies" (Home Loan Bank Board, 1953), p. 2.

rower's economic position—his income, the price of the house he buys, his occupational status—and of the terms on which credit is made available. Table 51 presents evidence on borrower characteristics, where it will be seen that the federal programs, particularly FHA, are employed with the greatest relative frequency by a

TABLE 51

Conventional versus Insured or Guaranteed First Mortgage Financing for Home Buyers Grouped by Price of House, Income, and Occupation, October 1950–March 1951

Characteristics of Property and Buyer	*FHA-Insured*	*VA-Guaranteed*	*Conventional*	*Total*
PURCHASE PRICE OF HOUSE				
Less than $5,000	10%	11%	79%	100%
5,000–7,499	15	26	59	100
7,500–9,999	26	31	43	100
10,000–12,499	27	30	43	100
12,500–14,999	16	29	55	100
15,000 and over	19	8	73	100
ANNUAL INCOME OF HOME BUYER				
Under $3,000	19	21	60	100
3,000–3,999	16	30	54	100
4,000–4,999	21	30	49	100
5,000–7,499	29	18	53	100
7,500 and over	15	13	72	100
OCCUPATIONAL STATUS OF HOME BUYER				
Professional and semi-professional	23	24	53	100
Managerial and self-employed	20	12	68	100
Clerical and sales	27	29	44	100
Skilled and semiskilled	19	27	54	100
Unskilled and service	10	20	70	100
Other	10	22	68	100

Data are for purchases during the period October 12, 1950 to March 15, 1951 of new and existing one- or two-family nonfarm dwellings for owner occupancy, from a nationwide sample survey conducted by National Analysts, Inc. for the Board of Governors of the Federal Reserve System. See *Federal Reserve Bulletin*, July 1951, Tables 9, 16, and 19, pp. 786, 790, and 793.

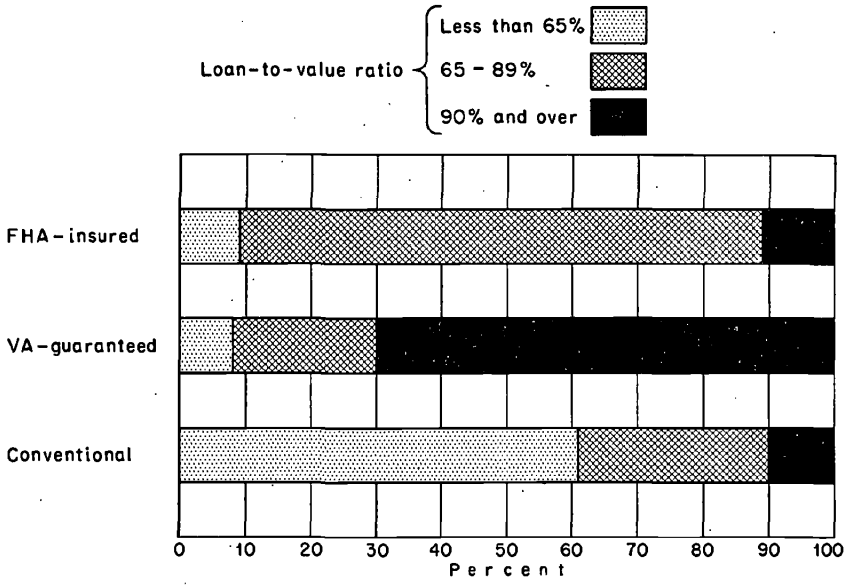
middle class of home buyers. Individuals both in the lowest and in the highest income brackets, those buying the least, and those buying the most, expensive home, and buyers in occupational groups consistent with these brackets of income and wealth are more frequently found borrowing on a conventional basis than are those in the in-

between groups, where the dependence on FHA-insured or VA-guaranteed loans is greatest. The reasons differ for houses in the upper and lower price brackets. In the case of the more expensive dwellings, the fact that there is an upper limit on the amount of the loan that will be insured by FHA means that the loan-to-value ratio required under the insured loan is no more liberal than that which might be obtained on a conventional loan; and the fact that the percentage of the loan guaranteed by VA declines as loan size rises makes lenders less willing to assume the risks involved. At the other end of the price range, buyers able to purchase only the least expensive houses either cannot meet the standards set up for insured financing or are unable to find a willing lender at the maximum rates set by the insuring or guaranteeing authorities. This suggests that one of the principal effects of the maximum rate schedules on federally protected financing is largely to cut off this type of service from borrowers in the least favored economic positions. It is true also with apartment house projects that those of the more expensive type are predominantly financed by uninsured mortgage loans; the federal programs have been more prominent in projects built for war or defense housing purposes and for structures organized for ownership on a cooperative plan.

As for the terms on which home mortgage financing is available, there is considerable overlapping of markets as between the federally protected and the conventional loans but, as will be seen in Chart 18, clear differences are nonetheless evident: VA loans carry much the most liberal loan-to-value ratios, conventional loans are clearly the most conservative, and FHA loans are in an intermediate position. The availability of VA-guaranteed loans on which little or no down payment is made has been dependent on the condition of the money market in general and on the anti-inflationary policies of the government. In 1944–1946, no-down-payment loans accounted for nearly 60 percent of the total first mortgage home loans made under VA guaranty. During the recession of 1948–1949 and the period of credit controls in effect from July 1950 through 1952 their importance dropped considerably. In 1953 and especially in 1954 after a rise in the interest rate on federally protected loans to 4½ percent, and some decline in yields on other types of investments, an increased volume of funds was attracted to the mortgage market. No-down-payment loans increased from less than 5 percent of total VA loans

CHART 18

Loan-to-Value Ratios of FHA-Insured, VA-Guaranteed, and Conventional Loans, 1949–1950



Data are for new owner-occupied one-family dwellings acquired during 1949 and the first half of 1950 as reported in the census Survey of Residential Financing. See "Housing Research" (Housing and Home Finance Agency), Winter 1951–1952, Table 1, p. 9.

closed in 1952 to 14.7 percent in 1954.[22] In addition, some so-called "negative down payment" loans began to appear, namely those on which the proceeds of the loan were enlarged to cover closing costs.

In original maturity provisions, however, FHA- and VA-protected loans differ little. In 1953 the average maturity for home loans closed under VA guaranty was about 21 years; for single family home loans insured by FHA under Section 203, the average maturity was 22 years in the case of new, and 20 years in the case of existing properties.[23]

Within the field of conventional lending, the policies of financial institutions differ, and it is of interest to compare the characteristics

[22] *G.I. Loans—the First Ten Years*, p. 20, and the *Annual Report* of the Administrator of Veterans Affairs, 1954, p. 95.

[23] Data for VA-guaranteed loans are for the fiscal year ending June 30, from the *Annual Report* of the Administrator of Veterans Affairs, 1954, p. 95. Data on FHA-insured loans are for the calendar year, from *Seventh Annual Report*, Housing and Home Finance Agency, 1953, Table 18, p. 228.

of conventional loans by particular types of lender with the characteristics of federally protected loans. Sample survey materials gathered by the National Bureau of Economic Research in 1947 afford data on the contract terms of conventional loans on one- to four-family residential structures that were held at that time by three of the principal institutional lenders.[24] Whereas less than 10 percent of the federally protected home loans analyzed in Chart 18 had loan-to-value ratios under 65 percent, the percentages of conventional home loans where the ratio was less than 60 percent were: for commercial banks, 67 percent; life insurance companies, 43 percent; savings and loan associations, 25 percent. Of the conventional loans held by savings and loan associations, only 7 percent had contract lengths of twenty years or more; of commercial bank loans, 1 percent; of life insurance company loans, 31 percent. To be compared with interest rates (in 1947) or 4 percent on VA-guaranteed home loans and 4.5 percent on FHA-insured loans are the following average current interest rates on conventional loans held: by savings and loan associations, 5.2 percent; by commercial banks, 4.7 percent; by life insurance companies, 4.6 percent. Thus in contract maturity and rate of interest the conventional loans of life insurance companies most nearly resembled federally protected loans, and in loan-to-value ratios the savings and loan associations, which made less use of federal protection than the other lenders, came closest in their conventional lending to matching the insured or guaranteed loans.

It would be a mistake to interpret the above data as evidences of differences in credit liberality without reference to the character and quality of the loans involved. The conventional loans made by life insurance companies on small residential dwellings also resemble FHA-insured loans fairly closely in certain other characteristics (size, for example) and in quality; the conventional loans of savings and loan associations and of commercial banks, on the other hand, are doubtless sufficiently different in character to warrant differences in the contract terms which they carry.

The fact that conventional loans often carry terms that are sub-

[24] Loans held by 24 large life insurance companies were sampled as of December 31, 1946; by 170 commercial banks, chiefly as of mid-1947; by 202 savings and loan associations, chiefly as of the fall of 1947. The survey is fully described in *Urban Mortgage Lending: Comparative Markets and Experience*, by J. E. Morton (Princeton University Press for the National Bureau of Economic Research, 1956), Chapter 4 and Appendix A.

stantially at variance with those available on federally protected credits, in some cases being more, and in other cases, less favorable to the mortgagor, is consistent, of course, with the facts reviewed above to the effect that insured and guaranteed loans (especially the former) are made predominantly to individuals occupying a middle position as regards income and value of home purchased. One would expect that loans made without insurance or guarantee to borrowers in a more favored economic status would carry more favorable contract conditions, and vice versa. In other words, a division of the market would seem to have been reached in which the federal programs reach a mass of standardized middle-quality credits and in which conventional lending supplies the needs of mortgagors who are distributed, in their economic and financial position, mainly on either side of the middle ground and who require a loan such as will deviate, in its terms, from the standard pattern.

Mortgages on multi-unit dwellings. Extensive use of the loan insurance facilities of the federal government was made in the apartment house or "project mortgage" field in the war years, when as much as 90 percent of the units constructed were started under, or in contemplation of, financing arrangements that involved FHA insurance. The percentage dropped sharply in 1945–1946, was above 60 throughout 1947–1951, years of high construction activity, but then again fell, to just over 25 in 1953 as building in the multi-unit field came to consist more of the higher-cost structures.

Relevant section numbers of the National Housing Act help in specifying briefly the projects carried out under FHA insurance. During 1952 the programs were concerned with rental projects (Section 207), cooperative housing (213), veterans' emergency rental housing (608), the disposition of existing publicly constructed housing (608, pursuant to 610), rental projects of twenty-five or more site-fabricated houses (611), military rental housing (803; Maybank-Wherry Bill), and rental projects in critical defense areas (908). In 1953 activity concerned mainly the Section 207, 213, and 803 projects. Section 608 insurance, which had earlier been of such importance, was terminated by the Housing Act of 1954 after the investigation of so-called overlending in that program. The same act severely restricted other elements of the program, and activity sharply declined.

The kinds of structures financed have varied somewhat from one insurance program to another: one-family structures of the row type

and those that are detached or partly detached are most frequent with housing built in or near military installations for military personnel; in other rental project programs the structures consist mainly of the walk-up apartment type; cooperative housing projects are either elevator type or one-family (row, semidetached, or detached) houses. Military housing projects have been the largest, averaging about 300 units per project in 1950–1953, as against averages of about 165 units for cooperative housing and 90 units for Section 207 rental projects.[25]

Fair comparisons of monthly rental values in projects of different types are difficult to make, but it may be of interest to note that 77 percent of the dwelling units in cooperative housing projects for which insurance commitments were issued in 1953 carried monthly charges of $70 to $100, whereas only 35 percent of the units in Section 207 projects had rentals in that range.[26] Over half the units in Section 207 projects were planned to rent for $110 or more per month. The lowest proposed rents were those in the military and defense housing projects: 56 percent of the military units had monthly rentals of $60 to $80, and nearly 80 percent of the defense units were to rent at $80 to $100.[27]

Since the size of loan per unit and its ratio to the value of the property are limited, under the different programs, by statute or FHA regulation, data on these matters are difficult to interpret. Nearly all mortgages insured in 1953 under the cooperative housing program, and almost half in the case of military and defense housing, were in amounts of $8,000 or more per dwelling unit (specifically, 98, 46, and 45 percent). Besides giving rise to comparatively large loans, the cooperative and defense housing programs also involved the highest loan-to-value ratios, with 48 and 69 percent, respectively, of the mortgage loans insured in 1953 being for amounts equal to 85 percent or more of the replacement cost of the project.[28]

The extent to which various types of financial institutions participate as originators of insured project-mortgage loans, or as holders of such loans, or in their purchase and sale is summarized in Table 52. Commercial banks were the principal originators of FHA project mortgages in 1953, doubtless because of their role in financ-

[25] Estimated from *Annual Reports* of the Housing and Home Finance Agency.
[26] *Seventh Annual Report*, Housing and Home Finance Agency, 1953, Table 58, p. 292.
[27] *Ibid.*, pp. 283 and 286.
[28] *Ibid.*, Tables 55 and 56, pp. 287 and 290.

TABLE 52

Originations, Holdings, and Transfers of FHA-Insured Project Mortgages, 1953, by Principal Agencies

AGENCY	ORIGINATIONS DURING YEAR			HOLDINGS AT YEAR END		TRANSFERS DURING YEAR	
	Amount (000,000)	*Percentage Distribution*	*Average Size (000)*	*Amount (000,000)*	*Percentage Distribution*	*Net Purchases (000,000)*	*Net Sales*
Commercial banks	$151	58%	$1,320	$ 552	13%	..	$284
Savings banks	38	15	1,533	1,469	35	$120	..
Insurance companies	10	4	1,156	1,502	36	63	..
Savings and loan assns.	10	4	1,476	29	1	..	1
Mortgage companies	32	12	676	240	6	..	42
Federal agency	2	1	703	104	2	72	..
All others	15	6	1,675	325	8	72	..
Total	$259	100%	..	$4,221	100%	..	..

Data are from *Seventh Annual Report*, Housing and Home Finance Agency, 1953, Tables 49 and 50, pp. 278 and 280. Commercial banks include state and national banks; insurance companies include life and other companies; federal agency operations are exclusively those of the Federal National Mortgage Association; "all others" include industrial banks, finance companies, investment companies, private and state benefit funds, and endowed institutions.

ing construction. Next were savings banks and mortgage investment companies; but their combined amount was less than half the total for commercial banks. Insurance companies and savings banks were the principal permanent holders of insured project mortgages.

SECONDARY MORTGAGE MARKET FACILITIES

The interest of the federal government in promoting new facilities in the secondary mortgage market, its action in 1935 empowering RFC to invest in the capital of privately formed national mortgage associations, and the failure of private initiative to create such associations have been described earlier. Accordingly a subsidiary agency, the RFC Mortgage Company, was authorized to serve as a secondary market facility in the home mortgage field by purchasing FHA-insured loans, in addition to its other services—chiefly, refinancing and construction loans on multifamily and commercial properties, and loans to distressed holders of first mortgage bonds and first mortgage certificates. During World War II other functions were added: lending to the Defense Homes Corporation; the purchase of FHA-insured, Title VI mortgages on war and defense housing; and the making of loans to defray taxes and other fixed charges on income properties in distress as a result of wartime restrictions and regulations. The RFC Mortgage Company operated from March 1935 until June 1947, when it was discontinued. By then it had disbursed, or committed itself subsequently to disburse, credits in the amount of $496 million.

The discontinuance of the RFC Mortgage Company was made possible mainly by the creation of the Federal National Mortgage Association, which was set up early in 1938 in order to provide a market for FHA-insured home mortgages. The association was subsequently authorized to conduct operations in VA-guaranteed mortgages and in all types of FHA-insured mortgages. FNMA operations can be described briefly: cumulatively through December 31, 1953 the agency had purchased $3.9 billion of mortgages and at that date was holding about $2.5 billion.[29] The difference between the two figures is accounted for by sales of mortgages, by repayments on those held, and by other credits. In the main, over the period 1938–1953, the discrepancy between purchases and sales was greatest with VA-guaranteed mortgages on single family and multifamily homes and with mortgages insured by FHA under Sections 8, 207, and 903.

[29] *Ibid.*, Table 11a, p. 82.

Of VA single family loans, FNMA purchased $2,553 million worth and sold only $477 million, or less than one-fifth of the amount; of multifamily loans it purchased $9.1 million and sold less than one-tenth as much. Of nearly $29 million of Section 8 FHA-insured loans (for construction of one-family homes for families of low or moderate income) only one percent was sold; of $23 million Section 207 loans (rental housing project loans), less than 2 percent. Of Section 903 loans (for one- and two-family houses in critical defense areas)—a recently added program—FNMA purchased $268 million, and had sold less than one percent as much by the end of 1953. During 1953 its purchases of FHA-insured mortgages amounted to $355 million and its sales to $32 million; its purchases of VA-guaranteed mortgages, the overwhelming bulk of which were secured by single family homes, to $187 million, and its sales to $181 million.[80]

Unfortunately, it is not possible to contrast the characteristics of mortgages purchased by the Federal National Mortgage Association with those handled by the market without recourse to the federal credit agency: hence, not possible to determine whether the mortgages acquired by FNMA, and more particularly those which it holds for the longest periods of time, are relatively unattractive investments. However, in view of the fact that the mortgages in which it deals are either insured or guaranteed, there would seem to be no basis for presuming that they are of inferior credit quality. More likely, FNMA purchases, and finds it necessary to hold as a more or less permanent investment, loans in which the private market has the least interest because the costs involved in servicing them are high in relation to the interest income which they yield.

The FNMA was never empowered to act as a secondary mortgage market in the full sense of that term: its operations have always been confined to governmentally insured or guaranteed mortgages and exclude transactions in so-called conventional loans. At times its activity has been restricted to the purchase and sale of mortgages only at par and only where secured by new construction. The latter restriction was removed, however, by the Housing Act of 1954, which, through provisions described in the opening section of the chapter, effected a basic reorganization in the structure and functions of the FNMA. The history of the agency reveals clearly two distinct purposes: on the one hand, there has been pressure to use its facilities to underwrite special programs which would not be ex-

[80] *Loc.cit.*

pected to survive in the open financial market or which might need bolstering until the private lending industry could become favorably disposed. On the other hand, there has been an interest in designing the agency along lines enabling it to serve as lender of last resort for mortgage investors during a period of severe financial stringency. The Housing Act of 1954 made it possible for FNMA to perform both functions.

DIRECT FINANCING FOR HOMEOWNERS

Among direct lending activities of the federal government in real estate markets are certain operations of FHA and VA. The former may be ignored here since concerned entirely with financing the sale of properties acquired by FHA in foreclosure proceedings. The VA program, on the other hand, is directed specifically to supplying credit to homeowners where, for one reason or another, an inadequacy of private lending facilities is alleged.

The VA direct loan program was authorized by Congress in 1950, with resources of $150 million. Later a revolving fund was set up, consisting of the unreserved portion of the original allocation plus such funds as would become available from repayments or from sales of loans to private investors. On several occasions Congress then increased the revolving fund, adding $375 million, but subject to offset by the proceeds of loans sold to private investors. Up to the end of 1953, 42,102 loans, amounting to approximately $290 million, had been closed and fully disbursed. The average size was $6,874, as compared with $8,340 for VA-guaranteed home loans closed and fully disbursed by private lenders over the same period (August 1, 1950 to December 25, 1953).[31]

The program extends loans at 4½ percent (originally, 4 percent) in amounts of not more than $10,000 to veterans for home purchase or construction, or for construction or improvement of farm homes, provided the veteran furnishes evidence that he was unable to obtain a VA-guaranteed loan from a private lending institution in his locality at the specified maximum rate (4½ percent in May 1953). Since credit would most probably be unavailable in thinly populated places, a system of so-called eligible areas was conceived which embraced all or part of 2,600 of the 3,100 counties and independent cities in the United States in 1950. In 1952 all cities with 50,000 or more

[31] Veterans' Administration, *Finance, Guaranty of Loans*, July 1950, p. 79, and *Loan Guaranty*, December 1953, pp. 69 and 75.

inhabitants in 1950 were removed and additional measures were taken to limit eligibility to smaller places.

Loans originating in smaller centers of population would very likely be smaller, on the average, than those secured by properties located in more heavily populated areas, a presumption that is borne out by the difference in average size between loans made directly by VA and those guaranteed. The size factor may partly account for the alleged unavailability of private funds, but other factors are doubtless also important, such as the relatively small number of loans available in a given area, and thus the relatively high cost of servicing loans and managing acquired properties. That loan size is insufficient to explain the lack of private credit would seem to be demonstrated by the fact that the average size of the direct loans which VA was able to sell to private lenders through the end of 1953 ($6,839) was only slightly larger than the average size of all direct loans closed up to that date ($6,740). Furthermore, there is no evidence that VA regional offices originating the largest direct loans have had any greater success in disposing of them to private lenders than the offices with a relatively low average size of loan. What factors were responsible for the unavailability of private investment funds in the first place, and subsequently in the failure of some, and success of other, regional VA offices in selling direct loans to private lenders, cannot be determined from available data. Nor can one determine how much of the requirement for home mortgage funds which was satisfied by direct government loans might have been made from private sources at an interest rate more nearly in line with the cost of administering a loan portfolio of this type.

Under the Housing Act of 1954 the Voluntary Home Mortgage Credit Program was created to facilitate private mortgage lending under federal insurance or guaranty in small communities and remote areas, as an alternative to federal mortgage lending of the kind undertaken by the VA. Under the supervision of the Administrator of the Housing and Home Finance Agency, regional committees composed of representatives of private lending agencies and builders refer credit needs not being met locally to private institutions in the region or elsewhere. As of early 1955 the program was only just organized and its effectiveness as yet unknown.

Experience

This section reviews the credit experience of the federal agencies

that have made direct housing loans or loan purchases, and of the agencies that have insured or guaranteed such loans; and an attempt is made to determine whether the several programs have been self-supporting.

HOME OWNERS' LOAN CORPORATION[32]

The activities of the Home Owners' Loan Corporation consisted of two distinct operations: the refinancing of about one million distressed mortgage loans in the amount of $3 billion under its "original" lending program, and the so-called vendee loans which, in the amount of close to $600 million, financed the sale of properties acquired by HOLC through foreclosure of refinanced mortgages. Naturally the two programs involved quite different experience records: refinancing loans were made in depressed economic conditions to borrowers already in default and were destined to produce a substantial number of further defaults; vendee loans, on the other hand, were made under improved economic circumstances to individuals thought by HOLC to be capable of meeting their contract obligations. These expectations were borne out in experience: the foreclosure rate on HOLC refinancing loans was 19.1 percent; on vendee loans only about 2 percent (through March 1951, near the end of the program). Regional variation in foreclosure rates on vendee loans was slight, but on refinancing loans, marked, with foreclosures running as high as 40 percent, or thereabouts, in New York, New Jersey, and Massachusetts.

Though HOLC made its loans under conditions less favorable than those under which private mortgage lenders normally operate, its foreclosure experience conformed closely to that of private lenders. For example, 20.9 percent of the one- to four-family home mortgage loans made by major life insurance companies during the years 1925–1929, which are comparable with loans refinanced by HOLC at least in the sense that they were originated in about the same period, went to default before 1946 whereas only 1.8 percent of those made by the same companies in the years 1935–1939, when HOLC made most of its vendee loans, had gone to default and foreclosure by the end of 1946.[33] Even the exceptionally high rates which HOLC encountered in New York, Massachusetts, and New Jersey

[32] A full account of HOLC operations is given in Harriss, *op.cit.* The present discussion draws particularly on Chapters 6, 7, and 8 of that volume.

[33] Saulnier, *op.cit.*, Table 22, p. 84.

had their counterpart in the experience of private lenders, for it was in the New England and Middle Atlantic states that the life insurance companies experienced their highest foreclosure rates.

HOLC's studies reveal that although economic adversity was a major factor in its foreclosures—roughly 4,500 per month occurred during the contraction period extending from May 1937 to June 1938—moral factors were predominant. Thus, HOLC agents responsible for making foreclosure recommendations judged that in 45 percent of the foreclosures completed through mid-1944 the borrower had a reasonable chance to avoid default but lacked the determination to do so, and that in 22 percent of the cases properties were foreclosed because of the mortgagee's "obstinate refusal to pay." In only 18 percent of the cases were homes foreclosed because of "total inability to pay," though economic stringency doubtless played a part in the 11 percent of the cases foreclosed because of "abandonment of the property." Similar records for private lenders are not available, but it is perhaps reasonable to expect that economic rather than moral factors played the more important role in their case.

Much light is thrown on the question whether HOLC was a self-supporting undertaking from the financial viewpoint by published HOLC accounts, but not all that is needed to formulate a definitive answer. HOLC reported gross income through March 31, 1951 of $1,417 million and expenses (exclusive of losses) of $1,065 million. The $352 million difference was almost totally absorbed by HOLC's $338 million of recorded losses on loans (arising mainly from the sale of foreclosed properties); and the small indicated net profit was probably offset by costs of HOLC's operations borne by other agencies of government. For example, capital advances of $200 million were furnished by the Treasury, without interest charge; in addition, HOLC enjoyed free use of the mails and exemption from social security taxes.

In other words, a full-cost accounting would doubtless indicate a small over-all loss for the corporation. It should be borne in mind, in interpreting this result, that HOLC's losses were much affected by the directives it received from Congress; for example, on the policy to be followed in the disposition of foreclosed properties. A profit-seeking enterprise would presumably have conducted its affairs differently, and might in fact have turned what would appear to be a small loss (on a full-cost basis) into a modest profit. But these are

highly speculative matters, and one is perhaps unjustified in saying more than that HOLC conducted its affairs so that at the end its over-all expenses and income were approximately in balance.

RFC MORTGAGE COMPANY

Unlike the HOLC, whose facilities were available only to distressed mortgagors, the RFC Mortgage Company[34] was constrained by Congress to lend only where the credit was financially sound, though unobtainable from private sources. The varied nature of the company's programs makes it difficult to describe its lending experience fairly, but the broad outlines can be indicated with some confidence.

The largest part, about $393 million, of the funds disbursed by the RFC Mortgage Company went for purchases of FHA-insured and VA-guaranteed loans—mainly home loans. Table 53 gives data

TABLE 53

RFC Mortgage Company Purchases of FHA- and VA-Protected Loans, Cumulative through September 30, 1952
(*in thousands*)

	VA-Guaranteed	*FHA-Insured*
Authorized	$148,538	$332,088
Canceled	7,778	79,843
Purchased	140,759	252,245[a]
Repaid	33,560	27,649[b]
Sold	30,373	211,996[c]
Foreclosed	3,480	12,391
Other credits	96	..
Outstanding	73,250	209

Based on data made available by the RFC Mortgage Company.

[a] Also includes some loans and participations in loans on low-cost housing projects.

[b] Inferred from the difference between reported sales (through December 31, 1950) and the reported total of repayments and sales (through September 30, 1952).

[c] Sales through December 31, 1950.

of repayments, sales, and foreclosures on such loans through September 1952. Measured against the gross amount of loan purchases, the foreclosure rate on FHA-insured mortgages was about 5 percent; on VA-guaranteed, about 2.5 percent. Measured against net pur-

[34] This summary is based in large part on an unpublished National Bureau of Economic Research memorandum on the RFC Mortgage Company prepared by Donald T. Wood.

chases (loans purchased less loans sold), the foreclosure rate on VA loans was 3.2 percent, and on FHA loans nearly 31 percent—reflecting the greater proportion of FHA loans sold.

The second largest activity was lending and the purchasing of loans to finance new or existing income-producing properties. The record through June 1946 shows foreclosures and charge-offs amounting to about 9 percent of the $100 million advanced on commercial properties,[35] a figure not to be interpreted as a loss rate, but comparable in a rough way with the foregoing foreclosure rates on gross purchases, and indicating poorer experience with mortgages on business than on home properties.

Published materials on the financial outcome of RFC Mortgage Company operations are too fragmentary to form anything but the most tentative judgment as to whether the agency was self-supporting. It reported a net profit of $416,000 from March 1935 through the first half of 1939 (although operating at a net loss of $426,000 in 1935)[36] and a net profit of $1.7 million through March 31, 1943.[37] It seems not unreasonable, therefore, to interpret the $3.8 million of earned surplus reported on the March 31, 1947 balance sheet as the cumulative net profit of the company's operations to that date (Table 54). In a full accounting from the standpoint of the public, however, that figure would be reduced because of costs borne by other agencies. The company enjoyed tax exemption as well as a franking privilege, and presumably paid no return to the RFC on its capital stock (though interest—of unknown amount—was paid on funds borrowed from the RFC). If capital had been borrowed even at the rate of 1 percent per annum, its cost over the company's history would have nearly equaled the earned surplus at termination. Perhaps it can be said that this agency, like the HOLC, struck an approximate balance between income and expense over its whole period of operations.

FEDERAL NATIONAL MORTGAGE ASSOCIATION

The experience record of FNMA, in operations which have been

[35] *Federal Lending 1934–1948*, report of the Joint Committee on Reduction of Nonessential Federal Expenditures (S. Doc. 103, 80th Cong., 1st sess., July 1947), Table II, pp. 6ff.

[36] *Financial Statements of Certain Government Agencies, Letter from the Secretary of the Treasury . . . in response to Senate Resolution 150*, S. Doc. 172, 76th Cong., 3rd sess., Part 1, February 1940, p. 83.

[37] U.S. Congress, *Hearings* before the Joint Committee on Reduction of Nonessential Federal Expenditures pursuant to Section 601 of the Revenue Act of 1941, 78th Cong., 1st sess., Part 7, June 1943, pp. 2282 and 2305.

TABLE 54

Balance Sheet of the RFC Mortgage Company
as of March 31, 1947

ASSETS	
Deposits with the U.S. Treasury, etc.	$ 433,561
Loans	32,923,128
FHA debentures	8,925,950
Acquired security or collateral	1,869,966
Other assets[a]	7,383,345
Total assets	$51,535,950
LIABILITIES	
Bonds, notes, and debentures	$21,072,071
Other liabilities	1,649,358
CAPITAL	
Capital stock	$25,000,000
Earned surplus	3,814,521
Total liabilities and capital	$51,535,950

From the *Daily Statement of the United States Treasury*, May 15, 1947, p. 13.
[a] Includes real estate valued at $6,757,229, net of depreciation.

restricted to the purchase and sale of federally protected mortgages, is depicted in Tables 55 and 56. Through December 31, 1953, 1.1 percent of the amount of all mortgages purchased by the association and 1.5 percent of its net purchases (that is, purchases less sales) had been foreclosed. At no time since FNMA's inception has its cumulative foreclosure rate exceeded 1.1 percent of gross purchases or 2.8 percent of net purchases. This is a considerably better record than that reported through September 30, 1952 for the RFC Mortgage Company, but this is to be expected in view of the heavy concentration of FNMA activities in the more recent, favorable years.

There have been substantial differences in FNMA's foreclosure record, however, among various types of mortgages. As Table 56 shows, the cumulative record through December 31, 1953 has been very much better on VA than on FHA mortgages, 0.6 percent of the former and 2.1 percent of the latter having ended in foreclosure. Within the VA program, however, foreclosure experience has been very unfavorable on Section 505 (a) loans (small second mortgages taken in combination with an FHA loan), and within the FHA program, on Sections 210 (rental) and 608 (war housing) projects. In the latter case, FNMA has had to foreclose on 15.9 percent of its gross, and 36.5 percent of its net, purchases of mortgages.

TABLE 55

Federal National Mortgage Association: Mortgage Purchases, Repayments, Sales, Foreclosures, and Outstanding Portfolio, 1938-1953
(*dollar figures in thousands*)

YEAR	PURCHASES	REPAYMENTS	SALES	FORECLOSURES & ASSIGNMENTS	OUTSTANDING (*year end*)	FORECLOSURES AS PERCENTAGE OF: *Purchases* (*cumulative*)	FORECLOSURES AS PERCENTAGE OF: *Purchases Less Sales* (*cumulative*)
1938	$ 82,166	$ 1,900	..	..	$ 80,266	0 %	0 %.
1939	74,081	6,731	$ 351	$ 505	146,760	0.3	0.3
1940	48,041	12,614	6	1,081	181,100	0.8	0.8
1941	42,321	15,671	3	907	206,840	1.0	1.0
1942	23,179	18,779	..	311	210,929	1.0	1.0
1943	1,502	21,202	126,646	96	64,487	1.1	2.0
1944	200	12,238	11	15	52,423	1.1	2.0
1945	58	6,416	38,623	..	7,442	1.1	2.8
1946	32	1,881	2	..	5,591	1.1	2.8
1947	60	1,226	..	5	4,420	1.1	2.8
1948	197,945	3,071	..	..	199,294	0.6	1.0
1949	672,213	21,199	19,753	2,201	828,354	0.5	0.5
1950	1,044,294	44,279	469,382	12,323	1,346,664	0.8	1.1
1951	677,309	55,472	111,115	7,852	1,849,534	0.9	1.2
1952	537,872	78,891	55,921	10,927	2,241,667	1.1	1.4
1953	542,457	93,714	221,126	7,646	2,461,637	1.1	1.5
1938-53	3,943,730	395,284	1,042,939	43,869		1.1	1.5

Source: Covers FHA-insured and VA-guaranteed mortgages as detailed in Table 46. Data for 1938–1950 were supplied by FNMA and for 1951–1953 are from its *Semi-Annual Reports*.

TABLE 56

Federal National Mortgage Association: Purchases, Repayments, Sales, Foreclosures, 1938–1953, and Outstanding Portfolio as of December 31, 1953, for FHA-Insured and VA-Guaranteed Mortgages
(*dollar figures in thousands*)

TYPE OF MORTGAGE	PURCHASES	REPAYMENTS	SALES	FORECLOSURES & ASSIGNMENTS	OUTSTANDING	FORECLOSURES AS PERCENTAGE OF: Purchases	FORECLOSURES AS PERCENTAGE OF: Purchases Less Sales
FHA-Insured	*$1,357,629*	*$165,437*	*$ 542,990*	*$28,167*	*$ 621,035*	*2.1%*	*3.5%*
Title I							
Sec. 8	28,661	1,417	311	5	26,926	b	b
Title II							
Sec. 203	549,038	115,340	284,178	4,028	145,494	0.7	1.5
Sec. 207	23,233	4,932	413	1,292	16,597	5.6	5.7
Sec. 210	277	230	..	46	..	16.6	16.6
Sec. 213	16,273	289	..	..	15,984	0	0
Title VI							
Sec. 603	839,549	38,072	209,791	12,056	79,628	3.6	9.3
Sec. 608	66,311	794	37,330	10,564[a]	17,624	15.9	36.5
Title VIII							
Sec. 803	53,467	276	10,427	..	42,765	0	0
Title IX							
Sec. 903	268,194	4,059	540	176	263,419	0.1	0.1
Sec. 908	12,626	28	..	..	12,598	0	0
VA-Guaranteed	*2,586,101*	*229,847*	*499,949*	*15,703*	*1,840,602*	*0.6*	*0.8*
Sec. 501 (home)	2,552,813	226,530	484,321	15,447	1,826,512	0.6	0.7
Sec. 501 (multi)	9,076	832	743	..	7,501	0	0
Sec. 502	1,905	330	6	2	1,568	0.1	0.1
Sec. 505 (a)	22,307	2,155	14,879	254	5,021	1.1	3.4
Total	$3,943,730	$395,284	$1,042,939	$43,869	$2,461,637	1.1%	1.5%

(*continued on next page*)

TABLE 56 (*continued*)

Data for 1938–1950 were supplied by FNMA and for 1951–1953 are from the *Semi-Annual Reports* of FNMA. Amounts will not always add to totals due to rounding. See text footnote 41, below, for types of mortgages insurable by FHA under particular sections of the law. For VA, Section 502 relates to farm housing, and 505(a) to VA-guaranteed second mortgages, junior to an FHA-insured first mortgage.

[a] Includes four mortgages aggregating $520,000 assigned to FHA in lieu of foreclosure.

[b] Less than 0.05 percent.

The published records of FNMA indicate a substantial profit over its entire history. The balance sheet of FNMA on December 31, 1953 (Table 57) indicated an earned surplus of roughly $48 million; the net income earned to that date was reported as $140.4 million (Table 58), of which $91.0 million was paid out in dividends to the RFC or

TABLE 57

Balance Sheet of the Federal National Mortgage Association, December 31, 1953
(*in thousands*)

ASSETS	
Mortgages and related receivables	$2,470,978
Assets acquired through foreclosure	1,133
Claims in process	2,385
Other assets	4,261
Total	$2,478,758
LIABILITIES	
Accounts payable and accrued liabilities	$ 1,492
Trust and deposit liabilities	8,227
INVESTMENT OF THE U.S. GOVERNMENT	
Notes payable to Administrator, HHFA	$2,375,000
Accrued interest	25,408
Capital stock held by Administrator, HHFA	20,000
Paid-in surplus	1,000
Retained earnings	47,630
Total liabilities and U.S. government investment	$2,478,758

From the *Semi-Annual Report* of the Federal National Mortgage Association, December 31, 1953, p. 1.

the Treasury. On that basis the association would seem to have been self-supporting, although at the end of 1953 its reserves for losses and its accumulated earned surplus (although improved over 1951) were still low by conventional standards. Reserves and earned surplus

TABLE 58

Income and Expense Statement of the Federal National Mortgage Association, Cumulative through December 31, 1953
(in thousands)

Income	
Interest earned	$358,449
Commitment fees earned, acquisition and service fees	16,073
Premiums earned	10,661
Other income	91
Total	$385,274
Expenses and Losses	
Interest expense	$164,092
Administrative expense	28,639
Mortgage servicing fees	44,266
Other expenses and losses	430
Sales discounts	7,440
Total	$244,867
Net Income	$140,407
ANALYSIS OF ACCUMULATED NET INCOME	
Dividends paid to RFC	$ 30,500
Dividends paid to U.S. Treasury	60,500
Interest on government investment in capital structure	1,358
Reserves for losses	35,682
Undistributed earned surplus	11,948
Other reserves	419
	$140,407

From the *Semi-Annual Report* of the Federal National Mortgage Association, December 31, 1953, p. 2.

amply covered the amount of assets held as a result of foreclosure and of "claims in process," but amounted to only less than 2 percent of FNMA's mortgage portfolio of $2.5 billion. It must be borne in mind, however, that the agency's portfolio consists altogether of insured or guaranteed credits.

DIRECT LENDING BY THE FEDERAL HOUSING ADMINISTRATION AND THE VETERANS' ADMINISTRATION

Credit has been extended by the Federal Housing Administration to finance the sale of properties acquired under the terms of its insurance when loans defaulted. The agency reported about $40

million of such advances were outstanding at the end of 1953. It has also held notes and mortgages (at the end of 1953 the amount outstanding was about $108 million) acquired as collateral when insured loans defaulted. Experience data are not available separately for those parts of FHA's operations; such losses as were sustained enter into the experience record of its various insurance programs, to be dealt with in the next section.

The record of the program under which the Veterans' Administration advanced nearly $290 million from 1950 through 1953 in home loans to veterans unable to obtain a VA-guaranteed loan from private institutions in the community is summarized in Table 59. Experience

TABLE 59

Status of the Direct Housing Loan Program of the Veterans' Administration, through December 31, 1953
(dollar figures in thousands)

	Number	*Amount*
Loans closed and fully disbursed	42,102	$289,390
Loans terminated (all types)	2,198	14,706
By sale	1,658	11,339
By repayment in full	486	3,077
By foreclosure	25	138
By voluntary conveyance	29	152
Loans outstanding	39,904	274,684
Loans in default		
Total	1,284	[a]
Four or more installments	158	[a]

From *Loan Guaranty*, Veterans' Administration, December 1953, p. 75.
[a] Not available.

on terminated loans has so far been good, as would be expected from the favorable economic circumstances of the years covered. Most of the credit—$275 million of it—was still outstanding at the end of 1953.

PROGRAMS OF LOAN INSURANCE AND GUARANTEES

FHA insurance of loans for home modernization and repair. Title I (Classes 1a and 1b) insurance of loans for the alteration, repair, improvement, or conversion of existing structures was explicitly regarded at its inception in 1934 as a device for stimulating the building industry, and in order to gain its maximum effect no

charge was made, either to the homeowner or to the insured lending institution, for the protection which it provided. Furthermore, the selection of risks was left largely to the discretion of the lender; it was expected that the risk-sharing principle of the program—under which the lender was originally insured up to 20 percent of the credit extended—would hold lending institutions to a sufficiently high standard of credit quality to protect the Federal Housing Administration from undue losses. The basis of the insurance has been changed from time to time, but its underlying character has not been altered. The first major change came in 1936 when protection was lowered to 10 percent of the aggregate net amount of loans insured; the second, in 1939 when FHA was empowered to charge fees; and the third in 1954 when the insured lender was required to assume 10 percent of the loss on defaulted loans.

Experience under the Title I program is summarized briefly in Table 60: claims paid since 1934 have been 2.0 percent of the net proceeds of the notes insured, and 40.9 percent of the amount of the claims paid has been subsequently recovered. This places the overall losses incurred (net of recoveries and notes in process of collection) at less than 1.0 percent of notes insured,[38] though at times the cumulative loss rate has been considerably higher.

Available data fail to reveal any particular type of Title I note, or notes originating from any particular source, that have had a distinctly better or worse experience than others. There has been little regional spread in ratios of claims paid to notes insured (1934–1953); most states have had ratios of from 1.5 to 3.0 percent and with the exception of Alaska, Hawaii, and Guam, where the percentages were 1.1 or less, and of Vermont, where it was 6.0, all ratios fell between 1.47 and 3.75 percent.[39]

There has been some variation also in claims ratios according to the source of the notes: commercial banks, which financed 76 percent of the net proceeds of all notes insured in 1934–1953, had a ratio of 1.7 percent; finance companies, on the other hand, show a significantly worse figure—3.4 percent—and savings and loan associations the highly favorable ratio of 1.0 percent.[40] Little variation is found—probably none of significant amount—in the experience record of loans classified according to the proposed uses of the funds.

[38] *Seventh Annual Report*, Housing and Home Finance Agency, 1953, p. 323.
[39] *Ibid.*, Table 64, p. 302.
[40] *Sixth Annual Report*, Housing and Home Finance Agency, 1952, Tables 63 and 64, pp. 337f., and *Seventh Annual Report*, Tables 66 and 67, pp. 304f.

TABLE 60

Selected Experience Data, FHA Title I, Property Improvement Loans, 1934–1953
(dollar figures in millions)

YEAR	NOTES INSURED (NET PROCEEDS)	CLAIMS PAID	RECOVERIES	PERCENTAGE RATIO OF: *Claims Paid to Notes Insured (cumulative)*	PERCENTAGE RATIO OF: *Recoveries to Claims Paid (cumulative)*
1934	$ 27.4	..	..	0 %	..
1935	201.3	$ 0.4	[a]	0.2	2.2%
1936	221.5	5.9	$ 0.3	1.4	4.8
1937	54.3	6.9	0.9	2.6	9.1
1938	150.7	6.0	1.6	2.9	14.6
1939	204.0	4.7	1.9	2.8	19.7
1940	241.7	6.5	1.9	2.8	21.7
1941	248.6	7.3	2.5	2.8	24.1
1942	141.2	7.1	2.8	3.0	26.6
1943	87.2	3.7	4.2	3.1	33.2
1944	113.9	1.9	3.6	3.0	39.1
1945	170.8	1.6	2.9	2.8	43.5
1946	320.6	2.4	3.1	2.5	47.2
1947	533.6	5.8	2.3	2.2	46.5
1948	621.6	14.3	2.5	2.2	40.9
1949	607.0	17.5	3.4	2.3	36.9
1950	700.2	18.2	5.2	2.4	35.5
1951	707.0	12.2	6.7	2.3	37.4
1952	848.3	11.5	7.5	2.2	39.8
1953	1,334.3	15.0	7.6	2.0	40.9
Total	$7,535.4	$149.1	$60.9	2.0%	40.9%

Based on Statement 3, p. 322, of the *Seventh Annual Report* of the Housing and Home Finance Agency, 1953. Amounts will not always add to totals due to rounding.

[a] Less than $50,000.

FHA insurance of home and project mortgages. FHA experience with the insurance of residential mortgage loans—which is customarily considered separately for mortgages of the "home" (1 to 4 dwelling units) and "project" (5 or more units) type—is summarized in Table 61 for the years 1934–1953.[41] Roughly 3.4 million

[41] Home mortgages include those made under Section 8 (new, one-family dwellings for low and moderate income families), Section 203 (new and existing 1–4 unit structures), Section 213 (single dwelling units in cooperative apartment projects released from blanket mortgages), Sections 603 and 603–610 (1–4 unit structures built under the War Housing and Veterans' Emergency Housing Pro-

home mortgages with an original amount of $20.8 billion were insured; just over 20,000 (0.6 percent), having an original amount of roughly $113 million (0.5 percent), were foreclosed by the mortgagees. Over the same period, 8,167 project mortgages, having an original amount slightly in excess of $4.6 billion, were insured; 3.7 percent of the number and 3.0 percent of the original amount of those loans, however, were foreclosed. In the home mortgage field, experience was much more favorable on Section 203 (nonwar) than on Section 603 (war housing) loans. The Section 207 program in the project mortgage field produced the worst record, with a foreclosure rate of 5.9 percent.

Some states have had a substantially better, and some a substantially worse, record than others in Section 203 loans, under which the bulk of FHA's nonwar home mortgage insurance has been written: for Massachusetts, New Hampshire, and Vermont, ratios of titles acquired to mortgages insured were over 1 percent, whereas for the District of Columbia, Nevada, and New Mexico they were under 0.1 percent.[42] State experience with Section 603 home mortgages was even more variable: ratios of title acquisitions to mortgages insured have varied from as high as 20 percent or more (Connecticut and West Virginia) to less than 1 percent (twenty other states and the District of Columbia).

Another aspect of FHA experience may be mentioned, namely the losses (through December 31, 1953) incurred on the disposition of properties and mortgage notes acquired as collateral in connection with defaults. Net losses on the insurance handled under the combined Title I Housing Insurance Fund, Mutual Mortgage Insurance Fund, War Housing Insurance Fund, and Housing Insurance Fund[43]

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grams or permanent housing sold by the government), Section 611 (single units released from blanket mortgages on projects of 25 or more new, single family dwelling units produced under the Site Fabrication Program), and Section 903 (1–2 family dwellings in critical defense areas).

Project mortgages include those originated under Section 207 (rental projects of 12 or more dwelling units), Section 213 (cooperative housing projects), Sections 608 and 608–610 (housing produced under the War Housing and Veterans' Emergency Housing Programs, and government-built permanent housing sold to private owners), Section 611 (projects of 25 or more single family units produced under the Site Fabrication Program), Section 803 (military housing built under the Maybank-Wherry bill), and Section 908 (multifamily rental housing in critical defense areas).

[42] *Seventh Annual Report*, Housing and Home Finance Agency, 1953, Table 14, p. 211.

[43] See Table 62 and footnote 41 of this chapter for the programs to which the various funds relate.

TABLE 61

Number and Original Amount of Home and Project Mortgages Insured by FHA, 1934–1953, Terminated through Foreclosure, and Outstanding, December 31, 1953, by Section
(*dollar figures in thousands*)

TITLE AND SECTION OF NATIONAL HOUSING ACT	MORTGAGES INSURED, 1934–1953		MORTGAGES FORECLOSED[a]				MORTGAGES IN FORCE DECEMBER 31, 1953	
					In Percent of Loans Insured			
	Number	*Original Amount*	*Number*	*Amount*	*Number*	*Original Amount*	*Number*	*Original Amount*
			HOME MORTGAGES					
I, 8	16,582	$ 81,854	61	$ 263	0.4%	0.3%	16,298	$ 80,577
II, 203	2,690,459	16,651,963	8,299	44,062	0.3	0.3	1,540,975	11,093,614
II, 213	6,237	59,881	..	..	0	0	6,226	59,780
VI, 603	624,652	3,645,260	11,759	68,922	1.9	1.9	323,630	2,147,264
VI, 603–610	3,362	16,103	13	42	0.4	0.3	2,979	14,590
VI, 611	75	556	..	..	0	0	72	534
IX, 903	35,466	310,621	3	36	b	b	35,305	309,116
Total	3,376,833	$20,766,238	20,135	$113,325	0.6%	0.5%	1,925,485	$13,705,474
			RENTAL AND COOPERATIVE PROJECT MORTGAGES					
II, 207	618	$ 315,233	29	$ 18,659	4.7%	5.9%	266	$ 164,526
II, 213	145	242,192	3	3,284	2.1	1.4	103	182,924
VI, 608	7,046	3,439,679	269	117,921	3.8	3.4	6,522	3,234,424
VI, 608–610	23	8,360	..	..	0	0	18	6,617
VI, 611	25	11,991	..	..	0	0	6	2,686
VIII, 803	230	577,175	..	..	0	0	230	577,175
IX, 908	80	52,683	..	..	0	0	80	52,683
Total	8,167	$ 4,647,313	301	$139,863	3.7%	3.0%	7,225	$ 4,221,035

Data are from Tables 12 and 46 of the *Seventh Annual Report*, Housing and Home Finance Agency, 1953, pp. 207 and 275. See text footnote 41 of this chapter for types of mortgages insurable under particular sections of the law.

[a] Covers foreclosures in which properties are retained by the mortgagees or transferred to FHA, and also mortgages assigned to FHA in lieu of foreclosure.

[b] Less than 0.05 percent.

have totaled approximately $5.4 million, stemming mainly from, and divided about equally between, the Mutual Mortgage and the War Housing Funds: these losses have been under 10 percent of the amounts disbursed (in debentures, cash adjustments, liquidation profits, and other expenses) in connection with Title II properties (primarily Section 203) and less than 4 percent for Title VI projects (primarily Section 603 properties).[44]

Published summary reports permit only a limited analysis of the financial outcome of FHA operations. The basic statement in this connection is the income account of the various funds under which insurance is written, which shows that there was a net income through June 30, 1953 of $354 million for all funds combined (Table 62). The bulk of this was accounted for by the Mutual Mortgage, War Housing, and Title I Insurance Funds, whereas very small net incomes or deficits have been reported by the other, and smaller, funds. Losses and charge-offs have been highest in the Title I Insurance Fund for property improvement loans, where they equaled 20.2 percent of total income through mid-1953; it should be recalled that no fees were charged under that program until mid-1939. For all funds combined, losses and charge-offs equaled 3.3 percent of the total income earned to mid-1953, and they were 1.2 and 0.6 percent, respectively, for the War Housing and Mutual Mortgage Insurance Funds. Recoveries equal to 0.5 percent of total income were realized on the Housing Insurance Fund. In general, this confirms the observations based on foreclosure rates: experience has been least favorable in the war emergency housing programs and most favorable in those programs under which insurance has been provided for small, nonwar home mortgages, with the various apartment or project programs showing an intermediate record.

The disposition of FHA fund income is shown in Table 63. The bulk of the earnings have been retained in various funds as additions to capital—$146 million in earned surplus (after interfund transfers of $12 million) and $148 million in statutory reserves. The remainder—$47 million—was returned to mortgagors as participations in mutual fund earnings.

The retentions of income, along with the investment made in the several insurance programs by the United States government (either as allocations from the Treasury or as appropriations for salaries,

[44] See Statements 9, 14, 17, and 20 (pp. 331, 339, 346, and 352, respectively) of the report cited in footnote 42, above.

TABLE 62

Income and Expenses of Combined FHA Insurance Funds and of Component Funds, through June 30, 1953
(*in thousands*)

Income and Expenses	*All FHA Funds*	*Title I Ins. Fund (property improvement)*	*Title I Housing Ins. Fund (Title I Sec. 8)*	*Mutual Mortgage Ins. Fund (Title II Secs. 203 and 207)*[a]	*Housing Ins. Fund (Title II Secs. 207, 210, & 213)*[a]	*War Housing Ins. Fund (Title VI Secs. 603, 608, 609 610, & 611)*	*Housing Inv. Ins. Fund (Title VII Sec. 710)*	*Military Housing Ins. Fund (Title VIII Sec. 803)*	*National Defense Housing Ins. Fund (Title IX Secs. 903 and 908)*
INCOME									
Interest and dividends	$ 58,153	$ 3,079	$ 64	$ 41,055	$ 1,050	$ 12,075	$ 50	$ 653	$ 127
Ins. premiums and fees	708,374	96,740	1,152	381,679	12,121	204,219	..	9,660	2,804
Other	1,845	8	..	1,599	89	154	..	..	..
Total	768,372	99,822	1,216	424,333	13,260	216,448	50	10,313	2,931
EXPENSES									
Interest on debentures and Treas. funds	24,479	..	..	21,216	1,369	1,374	106	414	..
Adm. expense	306,397	21,086	1,186	198,759	11,472	68,054	41	3,164	2,634
Other expense	1,945	370	6	1,111	71	359	b	16	13
Losses and charge-offs	25,402	20,148	b	2,742	—72	2,585	b	—1	c
Total	358,223	41,604	1,192	223,829	12,840	72,372	147	3,593	2,647
Net increase (—) or decrease in valuation res.	—56,300	—35,241	—3	—267	—310	—20,477	..	..	..
Net income	353,849	22,977	20	200,237	109	123,599	—97	6,720	284

(*continued on next page*)

TABLE 62 (*continued*)

Statements in each case cover fund operations from their inception to June 30, 1953. Data are from the *Seventh Annual Report*, Housing and Home Finance Agency, 1953, pp. 320, 325, 330, 336, 344, 350, 356, 360, and 363. Negative loss indicates profit. Amounts will not always add to totals because of rounding. See footnote 41 of this chapter for types of mortgages insurable under particular sections of the law.

[a] Section 207 insurance was handled under the Mutual Mortgage Fund until February 1938, and afterward under the Housing Fund.

[b] Less than $500.

[c] Less than $500 profit.

TABLE 63

Disposition of Net Income of Combined FHA Insurance Funds, through June 30, 1953

Net income available for distribution	$353,849,212
Participations of mortgagors in mutual earnings	47,288,201
Allocations to statutory reserves	148,268,198
Earned surplus (gross)	158,297,813
(net)[a]	146,297,813

Based on Statement 2, p. 321, of the *Seventh Annual Report* of the Housing and Home Finance Agency, 1953.

[a] Adjustments are for allocations of $1 million to the Housing Insurance Fund from the general reinsurance reserve fund of the Mutual Mortgage Insurance Fund and of a similar amount to the Title I Housing Insurance Fund from the insurance reserve fund of the Title I Insurance Fund, and of $10 million to the National Defense Housing Insurance Fund from the insurance reserve fund of the War Housing Insurance Fund.

claims, and other expenses) and with liabilities of $250 million (including outstanding debentures of $79 million), yielded resources of $556 million for all FHA funds combined on June 30, 1953 as shown in the fund balance sheets in Table 64. The table understates the amount of the federal government's contributions to FHA programs, however, since it excludes additional allocations of $38.2 million made to FHA during the period of subsidized Title I operations ($19.1 million of which has been returned to the Treasury) and subsequent allocations to this and other funds amounting to $65.5 million ($43.9 million of which has been repaid). Adding the amount not repaid, $40.7 million, to the $12.0 million government investment recorded in Table 64 places the federal investment in the programs (disregarding any accrual of interest) at $53 million

TABLE 64

Assets, Capital, and Liabilities of Combined FHA Funds and of Component Funds, June 30, 1953
(*in thousands*)

Assets and Liabilities	*All FHA Funds*[a]	*Title I Ins. Fund*	*Title I Housing Ins. Fund*	*Mutual Mortgage Ins. Fund*	*Housing Ins. Fund*	*War Housing Ins. Fund*	*Housing Inv. Ins. Fund*	*Military Housing Ins. Fund*	*National Defense Housing Ins. Fund*
ASSETS									
Cash with U.S. Treasury	$ 55,870	$36,662	$ 310	$ 6,963	$ 650	$ 6,806	$ 57	$ 712	$ 472
Investments	344,093	..	957	234,304	5,028	78,640	952	12,768	11,443
Acquired collateral or security (net of reserves for losses)	107,663	14,766	21	1,217	1,600	90,058	..	..	..
Other assets	48,445[b]	8,694	7	7,775	2,584	29,232	1	76	15
Total	556,070	60,122	1,296	250,260	9,863	204,737	1,011	13,555	11,930
CAPITAL AND LIABILITIES									
Statutory reserves	148,268	..	..	148,268	..	..	..	..	..
Investment of U.S. govt.	12,000	..	1,000	..	1,000	..	..	..	10,000
Earned surplus	146,298	21,977	20	3,686	109	113,599	—96	6,720	284
Liabilities	249,504[c]	38,145	275	98,306	8,753	91,138	1,107	6,835	1,646
Total	556,070	60,122	1,296	250,260	9,863	204,737	1,011	13,555	11,930

Data are from the statements of financial condition given in the *Seventh Annual Report* of the Housing and Home Finance Agency, 1953, pp. 317, 324, 329, 335, 343, 348, 356, 359, and 362.

[a] Total assets and liabilities for all FHA funds exceed the sum of assets and liabilities for the component funds shown, by $3,296,575, because of interfund receivables and payables of $1,021,307 that should be eliminated from the separate fund accounts and because of $4,317,882 of assets and liabilities under an account not shown—the Administrative Expense Account.

[b] Includes loans receivable (net of reserves), $36.8 million; accounts and notes receivable, $9.9 million; accrued interest on U.S. government securities, $0.7 million; net fixed assets, $1.0 million; and a small amount of other assets held for mortgagors.

[c] Includes accounts payable, $4.9 million; accrued liabilities, $20.9 million; trust and deposit liabilities, $9.2 million; deferred and undistributed credits, $70 million; debentures, $79 million; and other liabilities, $66 million.

and indicates for all FHA funds combined a net income of $301 million in excess of federal contributions.[45]

This $0.3 billion excess of net income over federal contributions may be compared with the roughly $33 billion of insurance that has been written under all FHA programs combined since 1934. The fact that the programs have been self-sustaining on this accounting is commendable, but measured against the vast amount of insurance written and the amount of risks still outstanding, the margin—approximately 0.91 percent of the insurance written through the end of 1953 and 1.72 percent of the net balance of insured loans estimated by FHA to be outstanding on December 31, 1953—has been a narrow one.

VA guaranty of home mortgage loans. The outcome of the VA's program of home loan guarantees, which from its beginning to December 25, 1953 has guaranteed 3,196,355 home mortgage loans, is summarized in Table 65. Claims have been paid on 0.6 percent

TABLE 65

Status of VA-Guaranteed or -Insured Home Loans, through December 25, 1953
(*dollar figures in millions*)

	Number	*Original Principal Amount*	*Original Guaranty Amount*
Loans closed	3,196,355	$21,544	$11,534
First mortgages	2,783,536	[a]	[a]
Second mortgages	412,819	[a]	[a]
Loans extinguished	473,349	[a]	1,220
By repayment in full	455,734	2,428	1,177
By payment of claim to mortgagee	17,615	[a]	43[b]
Loans outstanding	2,723,006	[a]	[a]
In default	28,301	[a]	[a]
Ratio of claims paid to loans closed	0.55%	[a]	0.37%
Ratio of loans in default to total outstanding	1.04%	[a]	[a]

Data from *Loan Guaranty*, Veterans' Administration, December 1953, p. 69.
[a] Not available.
[b] Represents amount of the claim paid to a mortgagee (i.e. the guaranteed portion of the unpaid loan balance, plus accrued interest and other admissible costs at time of filing claim).

[45] An accounting of transactions during the subsidized Title I period is given in Statement 6, p. 327 of the *Seventh Annual Report* of the Housing and Home Finance Agency, 1953.

of all loans closed under the program, and cumulative claim payments equaled 0.4 percent—but after refunds and recoveries from the liquidation of collateral, 0.07 percent—of the total amount closed through the end of 1953.[46] The number of loans in default as a percentage of total loans outstanding was somewhat larger, of course, but it stood on December 25, 1953 at the unusually favorable level of 1.04 percent. The program has not been self-sustaining and was not intended to be. The cost of the program to the federal government through December 1952 has been estimated at just under $430 million, of which $343 million consisted of gratuities paid to veterans.[47]

Impact on Housing Production, Prices, and Financing

Because urban real estate markets are affected by a variety of factors other than the federal government's credit programs, definitive results cannot be expected in an attempt to measure the unique impact of these programs in the combined result. At a number of points, however, their impact can be determined, and it is possible in any case to test the leading aims or expectations that have been expressed. These concern mainly the effects of federal credit programs on the physical volume of production and construction costs, on the prices of new and existing structures, and on the financing of real estate purchases. The following sections are devoted to an analysis of those problems.

EFFECTS ON THE VOLUME OF CONSTRUCTION

Since 1934, the principal objective of federal housing credit programs has been to increase the volume of construction. The months following October 1950, when Regulation X and related FHA and VA restrictions were in effect, are an exception; in the main, the object has been to induce a higher rate of construction than would otherwise have prevailed. How successful has this effort been?

Federal credit programs may stimulate construction in a number of ways, of which the three most important may be mentioned. First, the availability of loan insurance may increase the willingness of

[46] Based on data in *Loan Guaranty*, Veterans' Administration, December 1953, p. 69.

[47] Estimated from information supplied by the Veterans' Administration. Up to September 1, 1953, an amount equal to 4 percent of the guaranteed or insured portion of the loan, but not exceeding $160, was applied by VA to each veteran-borrower's loan account as an outright gift. The gratuities were discontinued by Public Law 149 (83rd Cong.) in 1953.

builders to undertake construction by reducing the equity they are required to invest in projects, and by raising their expectations as to the salability of the final product. Other things equal, the higher loan-to-value ratios of insured mortgages mean lower equity investment requirements. In some circumstances they could make equity investment altogether unnecessary, enabling a builder to "borrow out"—that is, to obtain by means of, say, an 80 percent loan an amount fully covering his out-of-pocket construction expense. When a loan was negotiated before, not after, construction, the maximum insurable mortgage might be determined according to the expected value of the land after improvement (rather than the amount paid for it) and according to estimated construction costs. If the value of the site with the physical improvement in place proved to be appreciably above its cost of acquisition and preparation, as it should, and if the builder was able to complete construction at less than the projected costs (without, of course, violating the insuring agency's construction standards), this increment in value and saving in cost might suffice as an equity; in some cases, apparently, the builder's permitted borrowing actually exceeded out-of-pocket costs. Naturally, the higher the permitted loan-to-value ratio, the greater the possibility that no equity would be required and the greater, other things equal, the willingness of builders to undertake construction projects.

Second, other things equal, one would expect the willingness of lenders to invest in mortgages, and thus to supply the necessary investment funds, to be increased by loan insurance. A complicating factor is that the maximum contractual interest rate may be fixed by the insuring or guaranteeing agency; where the rate is set below that available on alternative investments of equal or greater attractiveness, and especially if the loans can be sold at a discount only on terms onerous to the builder, the effect is to repel investible funds and to discourage construction. However, barring this possibility, which is not an essential feature of mortgage insurance, loan insurance should increase the availability of permanent mortgage financing and, what is especially important in the larger projects, indirectly increase the availability of construction credit. Even if these circumstances are not reflected in lower interest rates, and more especially if they are, one would expect them to stimulate building activity.

Finally, potential property owners, whether prospective owner-

occupants of small dwellings or investors in multi-unit projects, are better able, other things equal, to make their demand effective if the available mortgage financing requires only a relatively small down payment and if carrying charges are low. By widening the market, loan insurance tends, of course, to produce higher levels of construction.

Two periods seem especially important for a study of whether the stimulative tendencies have actually been effective, namely the years immediately following the enactment of the National Housing Act in 1934, when a determined effort was made to revive the construction industry through credit programs, and the years following World War II, when a no less determined effort was made to increase construction by the provision of liberal mortgage credit.

Experience during recovery in the 1930's. The first of FHA's operations to get under way during the early thirties was the insurance of repair and modernization loans, which began on a small scale in 1934.

It is impossible to ascertain directly whether the Title I program caused a greater volume of repair and modernization credits to be extended, and thus of expenditures to be made, than would otherwise have occurred, but clearly the program was not an initiating factor in the recovery which, as measured by National Bureau reference dates, began in March 1933. In any case, other credit areas recovered earlier: total consumer installment sales credit began to rise as early as 1933,[48] and flotations of new corporate securities passed their low point in 1933, rose moderately in 1934 and fairly sharply in 1935, the first year of full-scale Title I operations.[49] Still other credit areas registered recovery concurrently with the expansion of repair and modernization loans, notably commercial bank lending as a whole. No data are available on the total volume of credit advanced by commercial banks, but the net change over six-month periods in the loan outstandings of all commercial banks turned from a decline to an increase in the second half of 1935, and increased at a rising rate until the second half of 1937.[50]

Nor can it be said that repair and modernization expenditures increased more rapidly than types of construction expenditures that lacked governmental aid. In fact, taking 1935 as a base, the opposite

[48] *Federal Reserve Bulletin*, December 1943, p. 1192.

[49] *Federal Reserve Bulletin*, January 1943, p. 68.

[50] *Banking and Monetary Statistics*, Board of Governors of the Federal Reserve System, 1943, Table 3, p. 19.

is the case. By 1937, average monthly expenditures on additions and alterations to private nonfarm residential properties stood at an index of 129, as compared with 208 for construction expenditures on new dwellings and 231 for private, nonresidential construction expenditures.[51] The output of construction materials, which would reflect construction activity generally, rose very little more than manufacturing output as a whole. Again on a 1935 base, the latter stood at 130 in 1937, as compared with 133 for lumber and lumber products production.

In short, one cannot say that the repair and modernization loan insurance program initiated either the general recovery of the economy or even the specific recovery of the construction industry, or that the rate of increase of repair and modernization expenditures, however much they were influenced by loan insurance, was any greater than that of expenditures not aided by federal credit programs. An earlier appraisal of the program concluded that increases in the mid-thirties in repair and modernization expenditures reflected the general recovery of the period, and could not be attributed wholly to the unique effect of Title I insurance.[52] This may be true, but it cannot be conclusively determined that expenditures might not have been lower without the program, and there is a strong presumption that they would have been. It seems fair to conclude, then, that while the program had little if any initiating influence on recovery, it contributed to some degree to the recovery movement once expansion was under way.

Turning now to the mortgage loan insurance program, and more specifically to the influence of home mortgage insurance under Section 203 of the National Housing Act, it is again clear that no initiating influence toward recovery was exerted, since the program did not reach significant dimensions until 1936. The question, then, is whether mortgage loan insurance produced a higher rate of mortgage lending, and thus of new construction, after 1935 than would otherwise have occurred.

Several facts suggest that it had some such stimulative effect, though probably a modest one. In the first place, as Table 66 shows, insured mortgage lending increased in 1935 against the trend in the volume of all mortgages made on one- to four family structures, increased in 1936 by more than all such lending combined, accounted

[51] *Survey of Current Business, Business Statistics Supplement, 1951*, Department of Commerce, p. 30.

[52] Coppock, *op.cit.*, p. 4.

TABLE 66

Volume of Home Mortgage Loans Made and of Section 203 Home Mortgages Insured, 1934–1941
(*in millions*)

YEAR	MORTGAGE LOANS MADE ON 1- TO 4-FAMILY HOMES—TOTAL		SECTION 203 HOME MORTGAGES INSURED	
	Amount	*Net Change*	*Amount*	*Net Change*
1934	$3,170	..	$ 0.0	..
1935	2,259	$—911	93.9	$ 93.9
1936	2,302	43	308.9	215.0
1937	2,588	286	424.4	115.5
1938	2,437	—151	473.2	48.8
1939	2,912	475	669.4	196.2
1940	3,510	598	736.5	67.1
1941	3,931	421	876.7	140.2

From *Estimated Home Mortgage Debt and Lending Activity 1950* (Home Loan Bank Board), July 1951, p. 8, and *Housing Statistics* (Housing and Home Finance Agency), January 1954, p. 35.

for about four-tenths of the combined rise in 1937, increased in 1938 while the total of home mortgages made was declining, and made up substantial percentages of the volume increases in the years 1939–1941.

Second, the growth in the volume of home mortgage credit granted, of which insured loans were so important a part, was less affected by the 1937–1938 recession than the volume of consumer installment sales credit granted,[53] where no direct benefit of federal loan insurance was felt.

It is impossible to determine whether the loans made on an insured basis would have been made in any case (that is, whether insured lending merely substituted for conventional loans), but there is a strong presumption that this would have been true in only a minority of cases; and even if it had been true in as many as half of the cases, the stimulative effect of insurance would have been substantial. It seems reasonable to conclude, therefore, that home mortgage insurance was an expansive factor in the recovery movement, but the strength of its effect cannot be ascertained precisely.

[53] See *Factors Affecting the Demand for Consumer Instalment Sales Credit*, by Avram Kisselgoff (Technical Paper 7, National Bureau of Economic Research, Financial Research Program, 1952), p. 61.

Experience after World War II. A more complex problem is whether the liberal home mortgage terms induced by loan insurance and guarantees after World War II produced a higher level of housing output than would otherwise have been achieved, or whether the force of the effort was spent mainly in raising construction costs and the prices of houses.

Perhaps the most effective way to get at this question is to compare residential building activity after World War II with the building boom of the 1920's, when special federal credit aids were absent. Specifically, was building activity greater in 1948–1950 than in 1923–1925, when measured against the underlying forces making for an expansion of residential construction—namely, changes in population and rates of family formation? This is admittedly an indirect test of the effect of federal credit aids on construction but is, perhaps, as direct a test as can be made.[54]

Though subject to many reservations, arising mainly from the data that must be employed, the analysis in terms of demographic changes clearly suggests that the building boom following World War II proceeded at a considerably lower rate, relatively, than the boom of the twenties. The salient facts are presented in Table 67. Referring first to the peak years, the ratios of new permanent housing starts to net family formation and to population increase were substantially higher in 1925 than in 1950; and they were higher in the full period 1923–1925 than for 1948–1950. Also, expenditures on new private residential construction (in 1929 dollars) per unit of increased population and per unit of family formation were substantially higher in 1925 than in 1950, and in 1923–1925 than in 1948–1950. However much the government-induced liberalization of mortgage financing stimulated building activity in the late forties, the fact is that it failed to produce a level of housing output even in the peak year 1950 which, considering the population factors at work, was as high as that achieved in the twenties without benefit of federal financing aids.

Two other relationships afford comparisons: the amount of build-

[54] Among available measures of building activity, none is altogether satisfactory for our purposes: the series used here are (a) new permanent nonfarm dwelling units started in the United States, and (b) the amount expended (in 1929 dollars) on privately financed nonfarm housekeeping units put in place in the United States. Measures of the demographic factors having the most immediate effect on housing demand, such as first births, are lacking, but rates of population increase and of net family formation will perhaps suffice, for comparison of residential building activity in the two periods.

TABLE 67

Selected Data Comparing Residential Building Activity with Population Changes and Net Family Formation in Nonfarm Areas, 1923–1925 and 1948–1950

(number of units in thousands; dollar figures in millions)

	1925	*1923–25*	*1950*	*1948–50*
Nonfarm dwelling units in housing stock, April 1[a]	22,100	..	39,075	..
New privately financed nonfarm residential construction				
Dwelling units started[b]	937	2,701	1,352	3,255
Expenditures for housekeeping units (1929 dollars)[c]	$5,104	$13,853	$5,346	$12,461
Nonfarm population[d]				
12-month increase to April 1	1,816	..	3,433	..
36-month increase to April 1	..	6,645	..	9,718
Nonfarm family groups[e]				
12-month increase to April 1	536	..	1,858	..
36-month increase to April 1	..	1,767	..	4,527
Ratio of nonfarm housing starts to:				
Housing stock	4.2%	12.2%[f]	3.5%	8.3%[g]
Increase in nonfarm population	51.6%	40.6%	39.4%	33.5%
Increase in nonfarm families	174.8%	152.9%	72.8%	71.9%
Expenditures for housekeeping units (1929 dollars) per unit of:				
Increase in nonfarm population	$2,811	$2,085	$1,557	$1,282
Increase in nonfarm family groups	$9,522	$7,840	$2,877	$2,753

[a] The estimate for 1925 was derived by backward projection and interpolation of decennial figures, from data on nonfarm dwelling units standing at the end of 1920–1929 in *American Housing*, by Miles L. Colean (Twentieth Century Fund, 1944; Table 35, p. 410), and from data on dwelling units built, converted, or demolished during 1920–1929 in *Residential Real Estate*, by David L. Wickens (National Bureau of Economic Research, 1941; Tables EM 5 and EM 9, pp. 54 and 60). The estimate for 1950 is a downward adjustment of the census figure (1950 *Census of Housing*, Vol. 1, General Characteristics, Part 1, Table F, p. xxv) by 550,000 units to correct for the broader definition of nonfarm residence as compared with that used in earlier censuses.

[b] Data are based on number of building permits issued for single family dwellings, supplemented for 1923–1925, by data of change in number of families; for 1948–1950, supplemented by BLS field surveys in non-permit-issuing places and adjusted for lapsed permits and for lag between permit issuance and start of construction. Source for the earlier period is *Non-Farm Residential Construction, 1920–1936*, by David L. Wickens and Ray R. Foster (National Bureau of Economic Research, Bulletin 65, September 1937), Table 1, p. 2; for the later years, *Handbook of Labor Statistics, 1950* (Bureau of Labor Statistics), Table I-1, p. 211.

(continued on next page)

TABLE 67 (*continued*)

[c] Represents value of new nonfarm residential housekeeping units put in place, deflated to 1929 price level by the Department of Commerce over-all average (converted to 1929 = 100) of the individual indexes of construction costs for various types of residential structures as prepared by E. H. Boeckh and Associates. Basic data are from *Construction and Building Materials*, Statistical Supplement May 1951 (Department of Commerce), Table 3, p. 6, and cost deflators (index of residential construction costs) from the same source, Table 10, p. 40; details of composition are given on pp. 1f. and 84.

[d] Data are as of April 1, from "Revised Estimates of the Farm Population of the United States, 1910 to 1950" (Bureau of the Census and Bureau of Agricultural Economics), Series Census-BAE, No. 16, March 1953, Table 1, p. 3, and include estimates of the armed forces overseas except for the period 1923–1925.

[e] Change during 1923–1925 is derived by linear interpolation from calendar year data in *Residential Building*, by Lowell J. Chawner (Industrial Committee of the National Resources Committee, Housing Monograph Series No. 1, 1939), Table 1, p. 2, which is also the source of the 1925 figure. Change during 1948–1950 is derived from estimates based on sample surveys conducted by the Bureau of the Census and published in the following series entitled "Current Population Reports," Population Characteristics, Series P-20: No. 11, February 1948; No. 17, May 1948; No. 21, December 1948; No. 26, January 1950; and No. 33, February 1951. Change from April 1, 1949 to April 1, 1950 is derived by inflating the eleven-month change to March 1950 (adjusted for revised definition of nonfarm residence in the 1950 census) by one-eleventh.

To provide comparability with the definition of family group used in 1923–1925, annual changes in "family groups" (i.e. families plus subfamilies as tabulated by the census) have been adjusted upward to make the sum of the yearly changes during 1947–1950 equal to the sum of the changes in "household groups" for that period.

[f] Expressed as a percent of the number of dwelling units in the housing stock as of April 1, 1925.

[g] Expressed as a percent of the number of dwelling units in the housing stock as of April 1, 1950.

ing relative to the stock of housing units, and building activity relative to the internal movement of population. With respect to the former, estimates place the stock of housing for 1925 and 1950 at 22.1 and 39.1 million units, respectively. Comparing these figures with the number of dwelling units started in 1925 and in 1950, and in the years 1923–1925 and 1948–1950, it is again apparent that the building boom after World War II was low compared to that following World War I (Table 67). In other words, if one takes into account the fact that our housing stock was very much greater in 1950 than in 1925, and that other things equal this would suggest a higher rate of new building, the boom of the late forties proves to be low in comparison with that of the twenties, despite the intervention in the former period of federal programs of credit aid.

Direct information on the internal migration of population is not available, but a derived measure may be constructed from state rates of population growth in the periods 1915–1925 and 1940–

1950.[55] The facts show that although the average rate of population growth was higher in 1915–1925 than in 1940–1950, differences in the rates of growth among the various states were somewhat greater in the recent than in the earlier period.[56] This is, of course, only presumptive evidence of a high degree of internal redistribution of population, but it does indicate a demographic factor favorable to the increase of housing demand and a further reason for having expected what actually was never realized, namely a higher relative rate of building activity in the post-World War II boom than in the twenties.

The results all suggest that despite efforts to promote building activity through easing mortgage credit terms, residential construction was actually less in the boom years following World War II than might have been expected in view of the trends in population and family formation. This is by no means conclusive proof, however, that the credit aids had no influence on the level of housing output; it may simply indicate that limitations on available labor and materials produced a lower response of housing output to differences in credit terms than characterized the twenties. In fact, in terms of credit expansion the two periods were roughly similar. Net nonfarm mortgage debt owed by individuals and noncorporate borrowers increased in 1923–1925 by $7.2 billion (51 percent) and in 1948–1950 by $20.6 billion (53.2 percent).[57] The somewhat greater relative increase in mortgage debt in the post-World War II boom than in the expansion of the twenties, compared with the lesser expansion that took place in housing output, suggests that the primary manifestation of the credit liberalization program must be found in con-

[55] Taking the forty-eight states and the District of Columbia as subdivisions, the percentage growth of population in the preceding decade is computed for each subdivision; then, the deviation of the growth rate for each subdivision from that for the nation as a whole (in percentage points) is weighted by the mean of the relative proportion of that subdivision's population in the total population at the initial and terminal dates of the decade, and weighted average deviations are computed for the two periods. The higher the weighted average deviation, the higher the presumed "turbulence" of the population, and the greater the presumed demand for new housing units.

[56] National population growth was 15.2 and 14.5 percent for the periods 1915–1925 and 1940–1950, respectively, while the weighted average deviation of state rates of growth from the national rate was 7.6 percent in 1915–1925 and 9.2 percent in 1940–1950. Data for 1915–1925 are intercensal estimates of the total population as of July 1 given in *Population Special Reports*, Series P-45, No. 9 (Bureau of the Census, October 1945). Data for 1940–1950 are actual enumerations of the total population as of April 1 given in the *1950 Census of Population*, Vol. 1.

[57] *Survey of Current Business* (Department of Commerce), September 1953, Table 1, p. 14, and October 1954, Table 1, p. 14.

struction costs and housing prices, which are examined in the following section.

EFFECTS ON CONSTRUCTION COSTS AND HOUSING PRICES

It will be observed in Table 68 that construction costs moved roughly parallel with costs generally up to our entrance into World War II, and that the two continued to rise together without marked divergence through the war period. However, after the war and during the period of highest construction activity, construction costs rose significantly more than the costs of other types of output. It is evident, too, that the upward tendency of costs was more marked in residential construction than in total construction activity or in the more limited area of commercial and factory construction.

This cost trend was not due, apparently, to a tendency for average hourly earnings in building to outstrip those in manufacturing—actually, the reverse was the case; rather, the phenomenon seems to have been due to a more rapid rise in the prices of building materials, particularly of lumber, than of semimanufactured goods generally. The result was that the prices of houses increased more rapidly than the prices of consumer goods generally, and certainly of the prices of consumer durable goods. Thus, a considerable part of the effect of the federal housing credit programs during the post-World War II period would seem to have been to raise the costs of residential construction and the prices of homes above what would otherwise have prevailed.[58]

Experience during the twenties was quite different: with the low point of post-World War I prices and costs in 1922 taken as 100, the Department of Commerce composite index of construction costs stood at 107 in 1925 and at 109 in 1929; the Boeckh indexes of the cost of residential and commercial and factory construction both stood at 110 in 1925, and rose moderately further, to 114 and 113, respectively, in 1929. In short, there was an increase of only 10 percent, more or less in construction costs from trough to peak. Similarly, the prices of houses—using the same Washington, D.C. index—rose only 9 percent in 1922–1925, and in 1929 fell back to only 1 percent above the 1922 level. One cannot escape the sharp contrast between the two postwar periods: the period after World

[58] Compare the similar conclusion reached by Ernest M. Fisher in *Urban Real Estate Markets: Characteristics and Financing* (National Bureau of Economic Research, Financial Research Program, 1951), pp. 79–90.

TABLE 68

Indexes of Construction Costs and Selected Price Movements, 1934–1950, Selected Years
(1934 = 100)

Index	*1934*	*1937*	*1941*	*1946*	*1950*
Index of construction costs					
Composite[a]	100	107	119	169	232
Boeckh—residential[b]	100	113	132	188	260
Boeckh—commercial and factory buildings[b]	100	114	127	172	239
Index of wholesale prices[c]					
Manufactured goods	100	112	114	149	201
Building materials	100	110	120	154	239
Semimanufactured articles	100	117	119	152	214
Lumber	100	118	145	211	387
Index of average hourly earnings[d]					
Building construction	100	114	127	186	255
Manufacturing	100	117	137	204	275
Index of prices of consumer durable goods[e]	100	104	114	166	196
Index of median asking price of existing single family houses—Washington, D.C.[f]	100	111	116	212	237

[a] Computed from the Department of Commerce composite index of construction costs (1939 = 100) given in *Construction and Building Materials*, Statistical Supplement May 1951, Table 10, p. 40; for details of composition, see p. 36.

[b] Computed from the Department of Commerce unweighted arithmetic average (1939 base = 100) of individual indexes for twenty cities for each of ten types of buildings, further consolidated into unweighted averages for three types of buildings, i.e. (1) residential, (2) commercial and factory buildings, and (3) apartments, hotels, and office buildings, given in the supplement just cited, Table 10, p. 40; see also p. 37. The individual indexes are prepared by E. H. Boeckh and Associates.

[c] Computed from Department of Labor indexes (1926 = 100) given in the *Business Statistics Supplement, 1951* of the *Survey of Current Business* (Department of Commerce), pp. 26f., and in the 1942 Supplement, p. 18. For details of composition, see the 1951 source, pp. 201f. (footnotes 1 and 3 of pp. 26 and 27), and the 1942 source, pp. 180f. (footnote 1, p. 18).

[d] Computed from data on average hourly earnings of all manufacturing industries and of the contract building construction industry compiled by the Department of Labor and given in *Handbook of Labor Statistics, 1947* (Bureau of Labor Statistics), Table C-1, pp. 54 and 84, and the handbook for 1950, Table C-1, pp. 57–59. For details of composition, see the latter, pp. 52–53.

[e] Computed from the Department of Commerce price index (1939 = 100) as given in *National Income Supplement, 1951, Survey of Current Business*, Table B, p. 146, where details of composition are also given.

[f] Computed from data on the median asking prices for existing single family houses in Washington, D.C. presented in *Prices of Single-Family Houses*, a special release of the National Housing Agency, Construction and Housing Division, Washington, D.C. area study, except that the index for 1950 was supplied by the Housing and Home Finance Agency.

War I, lacking the urgent stimulation of liberalized home mortgage credit, not only produced relatively more housing but did so virtually without cost and price inflation, though building costs rose slightly in what was a period of sagging price levels for the economy generally; the post-World War II expansion, on the other hand, which was relatively modest as compared with the demographic trends of the period, was characterized by a marked inflation of building costs and housing prices.

OTHER EFFECTS ON CONSTRUCTION

It would be interesting to know whether loan insurance has affected the character and quality of housing produced since 1934, but no reliable basis for judgment exists. It is known, however, that average construction cost per dwelling unit started—in constant dollars—has fallen since the beginning of the century, except for relatively brief periods, and that there has been no noticeable change in the general downward trend since the introduction of loan insurance in 1934.[59] Thus, average construction expenditures per dwelling unit started, deflated to a 1929 dollar level, were over $6,000 in the late 1890's, around $5,800 in the late twenties, and around $4,000 in 1950. This may be due in part to improvements in productivity, but the primary factor has doubtless been a change in the character of the construction. This does not necessarily mean a decline in quality; on the contrary, the standards of construction and land use imposed on builders who propose to use insured mortgage financing have probably resulted in higher quality. A more likely explanation is that the average size and room count of dwelling units have fallen, changes which can probably be attributed in large part to urbanization and to the decline in average family size.

It is possible also that the terms of loan insurance, which differ somewhat according to the type and character of the dwelling units involved, may have given special encouragement to the production of certain types of housing and to housing in certain price classes. An example is the FHA program which offers more liberal financing terms for multi-unit projects developed on a cooperative ownership basis than for those sold under a normal leasehold arrangement. It is still too early to judge how substantial the effect of the difference in terms will be, but present indications are that it will cause

[59] David M. Blank, *The Volume of Residential Construction, 1889–1950* (National Bureau of Economic Research, Technical Paper 9, 1954), Chart E, p. 18, and Table 19, p. 70.

more resources to be pulled into the cooperative type of development than would otherwise be the case.

Finally, the availability of advance commitments to insure mortgages has probably had an important effect on the organization of the construction industry. By giving the builder assurance that the mortgages he generates will (provided all standards of construction, land use, credit, etc., are satisfied) be insured, and thus virtually guaranteeing the financing (except where there is a general shortage of mortgage money), this system encourages the planning and construction of very large developments on a "speculative" basis; that is, without prior assurance of sale. Large projects, in turn, have made possible the application of methods of production organization that have doubtless lowered costs in the building industry.

EFFECTS ON CREDIT TERMS

The cost of borrowing. We may turn now to the effects of federal programs of credit aid on urban mortgage financing; first, to their effect on the costs of borrowing. One of the avowed objects of federal housing credit programs has been to lower borrowing costs, and in general one would expect loan insurance to produce a somewhat lower level of interest rates than would otherwise prevail. This would certainly be true if the insurance premium charged were less than the risk premium that private lenders would, on the average, incorporate in the financing cost of an uninsured loan. Such a differential would almost certainly exist if the insurance premium failed to cover a reasonable estimate of the full cost of the service, but it might also exist, without pricing on a partial-cost basis, if the cost of carrying the risks were lower for the federal agency than it would be for a private lender, which is a reasonable expectation in view of the wider diversification of risks and greater volume of activity of the insuring agency. Quite apart from that effect, one would expect loan insurance to lower interest rates by attracting investment funds that would not otherwise be available and also by improving competitive lending conditions through reducing rate differentials vis-à-vis other parts of the money market. It is of interest to inquire whether such cost-reducing effects can be detected.

By setting maximum rates on the mortgages eligible for insurance, and by making only downward adjustments in the rates from the beginning of loan insurance in 1934 until the upward adjustment in 1953, federal agencies exerted a more or less persistent downward

pressure on the interest rates charged on conventional financing. However, money market conditions were being eased during much of the period to 1953, and the reduction in interest rates on conventionally financed mortgage loans may have been due in part to that development. It is pertinent, therefore, to compare the movement in the rates charged on conventional loans with the yields on corporate bonds and the rates charged for business loans at commercial banks.

The requisite data for the years 1934 to 1946 are presented in Table 69; unfortunately, the analysis cannot be carried beyond that date for lack of information on conventional loans. It will be observed that the percentage decline in interest rates charged on conventional loans was actually less than that registered by Aaa and Baa corporate bonds and in the rates charged on business loans made by commercial banks. To isolate the elements in the changed money-cost situation that should be attributed to the federal housing credit programs as distinct from the changes in money market conditions generally is not possible, but it would seem fair to conclude from the given evidence that the fall in mortgage interest rates must be attributed in large part to the latter. In any event, the historical relationship between mortgage rates and bond yields has not changed, namely, that the two tend to move in the same direction, but with mortgage rates varying somewhat less than bond yields.

The regional pattern of interest rates. One would expect insurance to reduce regional differentials in interest rates, if not to eliminate them altogether, by making the residential mortgage loan a more fungible investment medium and giving it greater liquidity through a broader market. This question is illuminated in Table 70, where the average interest rates charged by various mortgage lending institutions—life insurance companies, commercial banks, and savings and loan associations—on conventional loans secured by one- to four-family dwellings in three broad (though overlapping) regions of the United States are compared with the business loan rates charged by commercial banks in cities in the same general regions.

A number of observations may be made from the table. First, it is evident that regional differentials in home mortgage interest rates have always been of minor importance in loans made by the major life insurance companies. Interestingly enough, the differentials are

TABLE 69

Contract Interest Rates on Conventional Nonfarm Mortgage Loans of Life Insurance Companies, Commercial Banks, and Savings and Loan Associations, Compared with Corporate Bond Yields and Commercial Bank Interest Rates on Business Loans, 1934–1946

YEAR	CONVENTIONAL NONFARM MORTGAGE LOANS[a]					CORPORATE BONDS[b]		COMMERCIAL BANK BUSINESS LOANS[c]
	1- to 4-Family Dwellings			*All Other Property*				
	Life Insurance Companies	*Commercial Banks*	*Savings and Loan Associations*	*Life Insurance Companies*	*Commercial Banks*	*Aaa*	*Baa*	
1934	5.7%	6.1%	6.4%	5.1%	4.2%	4.00%	6.32%	3.45%
1935	5.4	5.8	6.4	4.8	4.3	3.60	5.75	2.93
1936	5.2	5.6	6.3	5.0	4.1	3.24	4.77	2.68
1937	5.2	5.4	6.2	4.9	5.1	3.26	5.03	2.59
1938	5.1	5.3	6.1	5.0	5.1	3.19	5.80	2.53
1939	5.0	5.2	5.9	4.5	4.2	3.01	4.96	2.78
1940	4.8	5.0	5.8	4.4	4.1	2.84	4.75	2.63
1941	4.7	4.9	5.7	4.4	3.9	2.77	4.33	2.54
1942	4.6	4.8	5.7	4.4	4.3	2.83	4.28	2.61
1943	4.6	4.7	5.5	4.2	4.1	2.73	3.91	2.72
1944	4.4	4.6	5.4	4.0	4.1	2.72	3.61	2.59
1945	4.3	4.6	5.3	4.2	4.0	2.62	3.29	2.39
1946	4.2	4.6	5.2	4.3	4.0	2.53	3.05	2.34

(*continued on next page*)

TABLE 69 (*continued*)

[a] Based on NBER sample surveys of loans made after January 1, 1920 by 24 leading life insurance companies, 116 commercial banks, and 92 savings and loan associations. Represents three-year moving average of original contract interest rates weighted by original loan amounts. Includes only straight mortgage loans; excludes loans for which requisite data were unavailable.

[b] Data for 1934–1941 are from *Banking and Monetary Statistics* (Board of Governors of the Federal Reserve System) 1943, Table 128, p. 468; for 1942–1946, from *Federal Reserve Bulletin*, May 1945, p. 457, and October 1947, p. 1279. The yields represent unweighted arithmetic averages of yield for individual bonds based on closing prices, as compiled by Moody's Investor Service. Each rating grade originally included 30 bonds divided equally among industrial, railroad, and public utility bond groups. In 1941 Aaa grade includes 4 industrial, 5 railroad, and 10 public utility bonds; in 1942–43, it includes 5 industrial, 5 railroad, and 10 public utility bonds, and in 1944–1946, it includes 5 industrial, 6 railroad, and 10 public utility bonds.

[c] Data for 1934–1938 are from *Banking and Monetary Statistics* (cited above), Table 125, p. 464; for 1939–1946, from *Federal Reserve Bulletin*, July 1948, p. 839. The percentages represent averages of rates charged customers by banks in New York City, seven other northern and eastern cities, and eleven southern and western cities. Before 1939 averages were computed from monthly data; thereafter, from quarterly data reported on a basis not strictly comparable with the method used for the monthly series.

almost identical for the three periods, 1920–1924, 1930–1934, and 1940–1947. This merely reflects the fact that a national lending institution follows a policy of nearly standard rates for all sections of the country and that the principal development since 1920 has been a lowering of the entire structure of rates, with little change in the regional pattern.

Second, regional differences in mortgage interest rates have, in each of the periods studied, been greater among loans made by savings and loan associations than among those made by commercial banks. This reflects a widely recognized fact, namely, that the savings and loan group is the most narrowly localized of all institutional mortgage lenders.

Third, regional differentials in the rates charged on home mortgage loans by commercial banks and by savings and loan associations were substantially less in 1940–1947 than in 1920–1924. Indeed, they were not appreciably greater in 1940–1947 than those for the leading life insurance companies. The picture that emerges in the period 1930–1934 is a somewhat different one: its main features, especially as concerns commercial bank loans, are perhaps best explained by the unsettled credit conditions of the time.

These facts clearly indicate the emergence of a more uniform national pattern of home mortgage rates; and to know whether the change is attributable to federal loan insurance, one must determine

TABLE 70

Regional Comparison of Average Interest Rates on Conventional Nonfarm Home Mortgage Loans and on Commercial Bank Business Loans, Selected Periods, 1920–1947

REGION OR CITY[a]	MORTGAGE LOANS			COMMERCIAL BANK BUSINESS LOANS
	Life Insurance Companies	*Commercial Banks*	*Savings and Loan Associations*	
1920–1924				
Eastern states	5.87%	5.97%	6.00%	..
Northern and eastern states	5.92	6.05	6.55	..
Southern and western states	6.04	6.41	8.78	..
New York City	..	..	..	5.49%
7 other northern and eastern cities	..	..	..	5.92
11 southern and western cities	..	..	..	6.31
1930–1934				
Eastern states	5.88	5.32	5.87	..
Northern and eastern states	5.93	5.79	6.27	..
Southern and western states	6.05	6.44	7.68	..
New York City	..	..	..	3.66
7 other northern and eastern cities	..	..	..	4.42
11 southern and western cities	..	..	..	4.97
1940–1947				
Eastern states	4.45	4.87	5.09	..
Northern and eastern states	4.67	4.67	5.23	..
Southern and western states	4.63	4.63	5.65	..
New York City	..	..	..	2.01
7 other northern and eastern cities	..	..	..	2.55
11 southern and western cities	..	..	..	3.04

Average interest rates on mortgage loans are based on National Bureau of Economic Research sample surveys of loans made after January 1, 1920 by 24 leading life insurance companies, 116 commercial banks, and 92 savings and loan associations, and represent rates for conventional straight mortgage loans secured by one- to four-family dwellings, exclusive of loans for which year made or geographic region was not available or for which data necessary for the calculation of rates were inadequate. Rates are weighted by original loan amounts.

Business loan interest rates are simple arithmetic averages of annual weighted averages computed by the Board of Governors of the Federal Reserve System. For 1920–1934 they were compiled from *Banking and Monetary Statistics* (published by the board in 1943), Tables 124 and 125, pp. 463f.; for 1940–1947, from the *Federal Reserve Bulletin*, July 1948, p. 839. Before 1928 the business loan classification includes, besides commercial loans, other types of customer loans. The

(*continued on next page*)

TABLE 70 (*continued*)

average rates for 1940–1947 were derived from quarterly data and are not strictly comparable with the earlier averages, which were compiled from monthly statistics.

[a] Regional classification is based on census divisions, regrouped to approximate a similarity with the areas used in the survey of commercial bank business loan rates. The divisions are grouped as follows: *Eastern states*—Middle Atlantic (New York, New Jersey, and Pennsylvania); *northern and eastern states*—Middle Atlantic, New England (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont), and East North Central (Illinois, Indiana, Michigan, Ohio, and Wisconsin); *southern and western states*—South Atlantic (Delaware, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia, and District of Columbia), West North Central (Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South Dakota), West South Central (Arkansas, Louisiana, Oklahoma, and Texas), and Pacific (California, Oregon, and Washington).

The areas covered by the Federal Reserve Board survey of business loan rates include banks in the following cities: *seven other northern and eastern cities*—Boston, Buffalo, Chicago, Cleveland, Detroit, Philadelphia, and Pittsburgh; *eleven southern and western cities*—Atlanta, Baltimore, Dallas, Kansas City, Missouri, Los Angeles, Minneapolis, New Orleans, Richmond, St. Louis, San Francisco, and Seattle.

whether it is a development unique to the home mortgage market or one that has characterized the money market generally. A general test of the question is not easily made; but it would appear from the data in Table 70 that the regional pattern of commercial bank business loan rates is not more uniform now than it was in the period 1920–1924. This would suggest that the standardizing trend has made greater progress in the mortgage market than elsewhere and is therefore perhaps largely attributable to the federal programs of loan insurance.

Other terms of borrowing. One of the principal avowed purposes of federal housing credit programs has been to improve lending practices by discouraging the short-maturity loan, by substituting a more liberal first mortgage for a combination of conservative first mortgage and costly secondary financing, and by encouraging the regular retirement of debt through prescheduled amortization payments. We should examine, therefore, changes in the average maturity or contract length of loans made, the ratio of the amount loaned to the appraised value of the property, and the requirement that the loan be fully repaid by maturity. Again the effects of the federal credit programs are difficult to determine, but one can trace the changes in terms that have occurred in the insured mortgage field and can compare them with developments in the area of conventional lending.

Information bearing on this range of questions is brought together in Table 71. It will be seen there that the average duration

TABLE 71

Average Contract Length (in Years) of FHA-Insured Loans and of Conventional Nonfarm Mortgage Loans Made by Private Lending Institutions, 1935–1946

YEAR	FHA-INSURED LOANS[a]		CONVENTIONAL NONFARM MORTGAGE LOANS[b]				
			1- to 4-Family Dwellings			*All Other Property*	
	New Homes	*Existing Homes*	*Life Insurance Companies*	*Commercial Banks*	*Savings and Loan Associations*	*Life Insurance Companies*	*Commercial Banks*
1935	17.6	16.0	12.6	4.4	11.6	9.6	[c]
1936	17.7	16.2	15.2	3.8	11.0	10.6	6.2
1937	18.4	16.5	15.5	5.3	12.2	12.2	4.2
1938	21.4	16.3	16.3	5.4	12.7	10.8	4.5
1939	22.0	16.9	16.0	6.2	12.4	12.1	7.8
1940	23.0	17.5	17.3	6.3	14.2	13.9	8.5
1941	23.3	17.8	17.5	6.4	13.2	13.6	6.2
1942	23.5	18.1	16.5	5.3	12.7	13.2	7.7
1943	24.6	18.3	15.8	5.2	12.1	13.5	6.6
1944	24.7	18.0	14.9	5.5	12.4	12.1	5.8
1945	24.6	18.3	15.9	6.5	13.2	11.7	8.8
1946	21.0	18.9	17.2	7.4	12.3	16.7	4.7

[a] Data for 1935–1939 are annual averages for mortgages on one- to four-family homes accepted for insurance under Section 203, from the *Seventh Annual Report* of the Federal Housing Administration, December 31, 1940, Table 33, p. 68. For 1940–1946, only single family home mortgages insured under Section 203 (or under Section 603 as noted below) are included; the data are from the *Thirteenth Annual Report* of the FHA, 1946, Tables 11 and 33, pp. 36 and 61. (During 1940–1946 single family homes accounted for nearly all Section 203 insured mortgage loans made on new homes, and for 93 percent or more of those on existing homes.) The 1943–1945 averages for new homes refer to mortgages insured under Section 603; virtually all Section 203 mortgages in those years were secured by existing homes, and as a result no statistical information was compiled by the FHA for new-home mortgages insured under Section 203; see page 35 of the *Thirteenth Annual Report.*

[b] Based on National Bureau of Economic sample surveys of loans made after January 1, 1920 by 24 leading life insurance companies, 116 commercial banks, and 92 savings and loan associations. Represents average contract lengths on conventional straight mortgage loans for which requisite data were available. Averages are weighted by original loan amounts.

[c] Less than ten loans included.

of FHA-insured mortgages secured by new dwellings has increased from 17.6 years in 1935 to 21.0 years in 1946. The increase for loans secured by existing homes was from 16.0 years to 18.9 years. In contrast, conventional loans made by life insurance companies in 1935 on one- to four-family dwellings had an average duration of 12.6 years, and by 1946 the average had increased to 17.2 years. The average length of comparable loans made by commercial banks was substantially less, but increased, possibly owing to the competition of the insured mortgage market, from 4.4 to 7.4 years over the period. Conventional mortgage loans made by life insurance companies on the security of other than one- to four-family properties showed a marked increase of average contract length between 1935 and 1946. The comparable loans of commercial banks have traditionally been made for shorter terms, but even they increased in average duration.

Savings and loan associations are shown to have undergone less change in lending policy than the other lenders. The average length of the home mortgage loans made by such associations increased very little between 1935 and 1946; indeed the 1946 average was not much greater than that for 1921 (12.3 as against 10.6 years.)[60]

The facts are not easily interpreted. They show that at least as regards lending by life insurance companies the period since 1934 had witnessed a substantial lengthening in the maturities of home mortgage loans; because the change followed a period during which average maturities were roughly constant,[61] it seems reasonable to attribute it in large part to the competition of insured mortgage lending. Yet the general liberalization of credit which took place during the period may also have had a prominent part in producing the result.

As will be seen in Table 72, there has been some liberalization in loan-to-value ratios since 1935, though the change has not been very great. The fact that it occurred to some degree even with loans secured by income-producing properties (commercial structures, and dwellings larger than four-family size), an area in which the direct competition of insured lending has been somewhat less intense than in the financing of single family homes, suggests that the change can be traced in part to factors other than loan insurance.

[60] J. E. Morton, *Urban Mortgage Lending: Comparative Markets and Experience* (Princeton University Press for the National Bureau of Economic Research, 1956), Table C-6, p. 174.

[61] *Loc.cit.*

TABLE 72

Average Loan-to-Value Ratios of FHA-Insured Loans and of Conventional Nonfarm Mortgage Loans Made by Private Lending Institutions, 1935–1946

YEAR	FHA-INSURED LOANS[a]		CONVENTIONAL NONFARM MORTGAGE LOANS[b]				
			1- to 4-Family Dwellings			*All Other Property*	
	New Homes	*Existing Homes*	*Life Insurance Companies*	*Commercial Banks*	*Savings and Loan Associations*	*Life Insurance Companies*	*Commercial Banks*
1935	73.0%	69.0%	51.2%	53.3%	58.9%	48.2%	[c]
1936	73.9	70.4	56.0	54.6	61.4	45.9	52.0%
1937	75.3	73.7	58.4	52.9	60.7	56.0	33.1
1938	82.4	73.9	59.5	46.7	62.5	46.2	40.8
1939	83.7	74.4	59.1	53.2	63.8	48.4	43.1
1940	84.8	75.3	60.1	52.7	67.2	57.2	54.6
1941	85.8	75.9	61.2	51.3	66.5	53.5	46.5
1942	86.7	77.9	61.5	53.4	66.5	57.3	50.0
1943	89.8	78.2	57.9	53.3	67.2	52.9	50.6
1944	89.7	78.9	59.7	53.7	70.6	52.6	52.0
1945	89.3	79.1	59.6	55.1	69.2	59.5	49.6
1946	84.1	78.6	59.3	54.5	67.5	55.3	62.8

[a] Data for 1935–1939 are annual averages for mortgages on one- to four-family homes accepted for insurance under Section 203, from the *Seventh Annual Report* of the Federal Housing Administration, December 31, 1940, Table 34, p. 69, and Table 66. For 1940–1946, only single family home mortgages insured under Section 203 (or under Section 603 as noted below) are included; the data are from the *Thirteenth Annual Report* of the FHA, 1946, Tables 11 and 33, pp. 36 and 61. (During 1940–1946 single family homes accounted for nearly all Section 203 insured mortgage loans made on new homes, and for 93 percent or more of those on existing homes.) The 1943–1945 averages for new homes refer to mortgages insured under Section 603; virtually all Section 203 mortgages in those years were secured by existing homes, and as a result no statistical information was compiled by the FHA for new-home mortgages insured under Section 203; see page 35 of the *Thirteenth Annual Report*.

[b] Based on National Bureau of Economic Research sample surveys of loans made after January 1, 1920 by 24 leading life insurance companies, 116 commercial banks, and 92 savings and loan associations. Represents average loan-to-value ratios on conventional straight mortgage loans for which requisite data were available. Averages are weighted by original loan amounts.

[c] Less than ten loans included.

Finally, there can be no doubt that one of the effects of the federal credit programs in the housing field has been to encourage the practice of regular and full amortization. It would be a mistake, however, to conclude that this was an innovation of the federal programs; as will be seen in Table 73, savings and loan associations have always made the bulk of their loans on an amortized basis, and even as early as 1920–1924 more than three-quarters of the urban mortgage loans made by life insurance companies were either partially or fully amortized—mainly partially. Commercial banks made a much higher percentage of their loans without amortization, and they too used partial oftener than full amortization.

Nonamortized loans seem to have been somewhat more frequent in 1925–1929 than before, and then to have become relatively less frequent in 1930–1934 than in the late twenties. The 1930–1934 period also shows some tendency for a lesser frequency of partially amortized loans relative to the fully amortized type. By the period 1940–1947, however, very considerable changes had become evident: for both commercial banks and life insurance companies, the nonamortized loan had declined in relative importance and fully amortized loans had become markedly more widespread, particularly among the home loans of life insurance companies. The practice of writing home mortgage loans on a regularly amortized basis doubtless would have increased in any case after the heavy foreclosure experience of the early thirties, but it seems not unreasonable to attribute a considerable share of the responsibility for the rapid spread of the practice after 1934 to the example set by the federal loan insurance program.

EFFECTS ON THE VOLUME OF MORTGAGE DEBT AND ITS INSTITUTIONAL DISTRIBUTION

Since 1935 there has been a great transformation in the composition of the nonfarm mortgage debt. By the end of 1953, FHA-insured and VA-guaranteed loans constituted about 43 percent of the home mortgage debt and 34 percent of the mortgage debt on all types of properties, reflecting the fact that since 1935 the volume of insured lending has grown more rapidly than the volume of mortgage lending as a whole.[62] But the influence of federal loan insurance on the size of the nonfarm mortgage debt is more difficult to determine. One test of it is to compare the movement of home mortgage debt

[62] *Op.cit.*, Table 6, p. 25.

TABLE 73

Distribution of Conventional Nonfarm Mortgage Loans Made by Life Insurance Companies, Commercial Banks, and Savings and Loan Associations by Type of Loan within Indicated Period, 1920–1947

TYPE OF LOAN	1- TO 4-FAMILY DWELLINGS			ALL OTHER PROPERTY	
	Life Insurance Companies	*Commercial Banks*	*Savings and Loan Associations*[a]	*Life Insurance Companies*	*Commercial Banks*
1920–1924[b]					
Fully amortized	27.5%	15.5%	94.4%	1.7%	5.8%
Partially amortized	56.2	42.4		77.6	40.7
Nonamortized	16.2	42.1	5.6	20.7	53.5
Total	100.0	100.0	100.0	100.0	100.0
1925–1929					
Fully amortized	18.9	16.2	[b]	6.3	10.7
Partially amortized	58.9	37.9	[b]	66.1	43.4
Nonamortized	22.2	45.9	[b]	27.6	45.9
Total	100.0	100.0	[b]	100.0	100.0
1930–1934					
Fully amortized	33.4	17.1	94.1	3.8	10.3
Partially amortized	50.4	38.1		69.8	39.7
Nonamortized	16.2	44.8	5.9	26.4	50.0
Total	100.0	100.0	100.0	100.0	100.0
1940–1947[c]					
Fully amortized	90.6	48.8	99.8	53.1	51.9
Partially amortized	8.4	41.3		44.1	37.3
Nonamortized	1.0	9.8	0.2	2.8	10.8
Total	100.0	100.0	100.0	100.0	100.0

Based on National Bureau of Economic Research sample surveys of loans made after January 1, 1920 by 24 leading life insurance companies, 116 commercial banks, and 92 savings and loan associations. Excludes loans for which requisite information was not available.

[a] Includes 219 loans (about 5 percent of the total) secured by other than one- to four-family urban dwellings. Amortized loans include direct reduction loans as well as loans made under share accumulation and cancel and endorse plans.

[b] Savings and loan association loans made during 1925–1929 are included with those made in 1920–1924.

[c] For savings and loan associations the distribution refers to loans made during 1942–1947.

(where the insured component bulks largest) with debt totals in areas of the economy where no loan insurance facilities have been available.

Perhaps the most direct and significant comparison is between consumer installment sales credit and home mortgage credit extended annually. The former increased by about 50 percent between 1935 and 1937 and the latter by about 15 percent; FHA insurance, on the other hand, increased by around four and one-half times.[63] The FHA figure is of dubious significance, however, since it represents growth from the beginning of the program and because to whatever degree the insured credit would have been forthcoming without insurance it would not represent an increase in the over-all volume of mortgage lending.

Similarly, the amount of FHA-insured loans outstanding rose more rapidly from 1935 until 1941, and also during 1946–1953, than home mortgage debt as a whole, or all nonfarm mortgage debt, reflecting the rising importance of the insured loan in the total. However, the urban mortgage debt, whether defined in the limited sense of debt on small dwellings or on urban properties generally, did not increase as rapidly as consumer nonmortgage debt.[64] It must be concluded, therefore, that, while the availability of federal loan insurance tended to cause urban mortgage debt to be cast in insured form, it did not exert a sufficiently stimulative effect on mortgage credit to cause the total amount outstanding to rise as rapidly as the mainly uninsured credit extended to consumers on a non-real-estate basis.

The tendency for home mortgage debt to grow only moderately over the period 1935–1941, and at a lesser rate than consumer credit, was probably affected by trends in the frequency and intensity of use of mortgage credit. Census data reveal that the percentage of owner-occupied nonfarm dwellings that were mortgaged increased from 28 in 1890 to 45 in 1940 and fell back very slightly to 44 in 1950.[65] However, the percentage mortgaged had already risen to 40 by 1920, and no very marked increase in the frequency of recourse to mortgage financing took place during the thirty years from then to 1950.

[63] Kisselgoff, *op.cit.*, p. 61; and Table 61, above.

[64] For FHA-insured outstandings, see Appendix Table A-17; for nonfarm mortgage debt and consumer nonmortgage debt, *Survey of Current Business* (Department of Commerce, September 1953), Tables 6 and 7, pp. 18f.

[65] Morton, *op.cit.*, Table 4, p. 22.

On the intensity with which homeowners utilize mortgage financing, census data indicate that the average ratio of debt to value on owner-occupied nonfarm homes was 39.8 percent in 1890, 42.6 percent in 1920, and 52.4 in 1940,[66] and that in 1950 the median ratio was about 43 percent and the average (judging by the frequency distribution) about 45 percent. The following table shows the situation as of 1950 in more detail; it will be observed that the debt-to-value ratio is very much higher on properties carrying a federally insured or guaranteed loan than on properties financed conventionally, and that the ratio is highest where VA-guaranteed second mortgages have been used.

	Total Outstanding Debt on Owner-Occupied, One-Family Dwellings as a Percentage of Market Value, 1950[a] *(medians)*
Total mortgaged properties	43%
No second mortgage	40
Second mortgage	77
FHA-insured first mortgage	62
No second mortgage	49
VA-guaranteed second mortgage	87
Conventional second mortgage	75
VA-guaranteed first mortgage	70
No second mortgage	70
Conventional second mortgage	77
Conventional first mortgage	35
No second mortgage	34
Conventional second mortgage	57

[a] Data are from the *1950 Census of Housing*, Vol. 4, Residential Financing, Part 1, Chapter 3, Table 3, p. 163.

The over-all ratio of outstanding mortgage debt to the value of the mortgaged properties is affected, through time, by changes in the rate of repayments and in current real estate values. In the period of rising incomes reflected in the 1950 data, both factors—high repayments and inflated property values—were operating to lower the debt-value ratio. Thus while the influence of the federal insurance and guaranty programs has been to encourage higher ratios of original loan amounts to the value of the mortgaged properties, so far it has not raised average debt-to-value ratios substantially above what they were thirty years ago. At the same time, there has been no substantial change in the frequency of use of mortgage credit.

[66] Fisher, *op.cit.*, Table 9, p. 63.

Participation in insured mortgage lending varies in some degree from one type of lending institution to another; savings and loan associations, for example, are notable for their relatively minor participation in the FHA program, whereas insurance companies and mortgage companies have placed an increasing and relatively high proportion of their mortgage holdings on an FHA-insured or VA-guaranteed basis. Accordingly, if there were some special advantage to the insured loan one might expect the latter agencies to have grown as mortgage lenders, relatively more than others. This seems not to have been the case. The proportion of home mortgage debt held by savings and loan associations has remained roughly constant since 1935.[67] There have been shifts in the relative importance of mutual savings banks, commercial banks, and life insurance companies, but consisting of little more than an increase in the proportion held by the last two named, at the expense of that held by mutual savings banks. Broadly speaking, it would appear that federal programs of loan insurance have exerted little, if any, influence on the institutional distribution of home mortgage debt. The shift in the relative position of mutual savings banks, which is also but less strikingly evident when one considers mortgage debt on multi-family dwellings and commercial properties, seems to be due more to the decrease in the share of those institutions in total investible resources than to any changes induced by the federal credit programs.

Furthermore, there is no evidence that the major private lending institutions have committed a larger proportion of their total resources to mortgage lending than they did before the inauguration of the federal insurance programs. In fact, the proportion of resources so committed by the major lender groups is somewhat lower now than it was in the late twenties (only for commercial banks about the same), a shift that reflects mainly the increasing importance of federal debt as an outlet for institutional funds in the period following 1940 and not necessarily a decline in the interest of lenders in the mortgage as an investment medium.[68]

In general, therefore, the influence of the loan insurance and guarantee programs on the volume and institutional distribution of home mortgage debt would seem to have been slight, though the programs have succeeded in causing an increasing proportion of such debt to be cast in the insured or guaranteed form. In the financial

[67] Morton, *op.cit.*, Chart 3, Panel B, p. 44.
[68] *Ibid.*, Table 21, p. 55.

sphere, their effect is evident in such matters as the wider practice of full amortization and the liberalization of lending terms; but even in those areas the influence of generally easier credit conditions, more or less characteristic of all money markets after 1934, must be credited with responsibility for part of the observed results.