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Chapter Title: Relative Importance of Federal Lending

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in 1932 to \$2.1 billion at the close of 1935 (additional to \$0.8 billion outstanding on farm mortgage loans made by the Land Bank Commissioner as a direct agent of the government under emergency powers).

During World War II there was some decrease in total federal credit, both the holdings of federally sponsored agencies such as the Land Banks and those of direct governmental agencies, chiefly due to the agricultural prosperity which permitted farmers to pay off mortgages, and to decreased activity in housing.

After 1945, lending from federally sponsored agencies increased; outstandings totaled \$3.1 billion by 1953. Direct federal lending also increased substantially. Commodity Credit Corporation loans for farm price support at no time have been more than a small part of total government credit, but in some years have been important in the total of federal credit to agriculture. They increased rapidly in the late 1930's, decreased sharply during the war to a record low in 1946 and shot up again beginning in 1947.

The most spectacular postwar increase has been in federal insurance and guarantee commitments on privately made loans. These did not exist before 1934, but now dominate the entire picture of government credit activities. The amounts underwritten have risen continually, with only a slight dip at the end of World War II, from \$1 billion in the middle thirties to \$19 billion in 1950 and about \$30 billion at the end of 1953.

In short, the postwar record (1946 through 1953) shows slow but steady increase in outstanding loans of federally sponsored agencies, an even stronger rise in loans of federal agencies, and a continued sharp rise in the curve of federal insurance and guarantees.

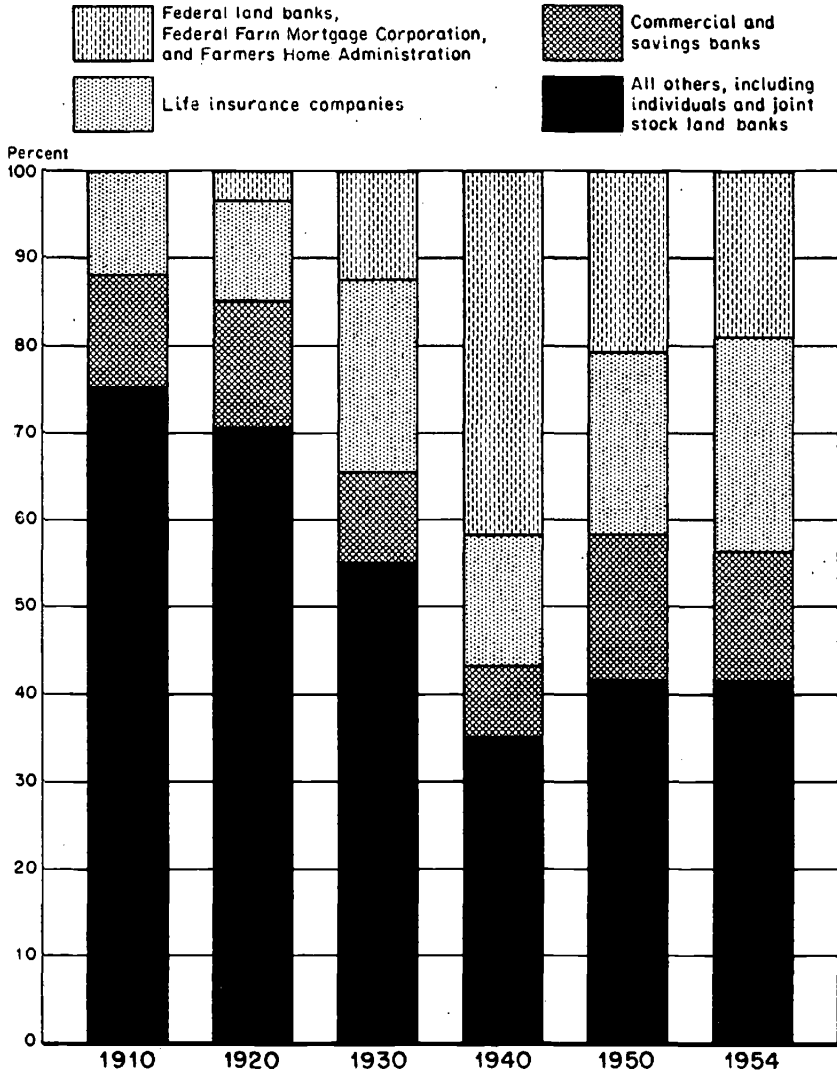
Relative Importance of Federal Lending

Compared to total net debt of the nation (the net amount owed by individuals, business, state and local governments), federal lending reached a high of 7 per cent in 1940. (Here only direct loans, and not loan guarantees or insurance, enter the comparison.) In 1920 it was 1.2 per cent, and in 1950, 5.4 per cent. The recent decline is due, not to a shrinkage of federal credit, but to the relatively more rapid growth of private lending.

Detailed observations show significant differences in the importance of federal credit in various sectors of the economy. In lending to agriculture and to private financial institutions, the federal government has been an

CHART 2

Distribution of Farm Mortgage Debt among Principal Public and Private Lenders, Selected Years, 1910-1954



Data as of January 1 each year, from *Agricultural Finance Review* (Department of Agriculture, Agricultural Research Service), Vol. 17, November 1954, Table 1, p. 83.

TABLE 3
Farm Mortgage Holdings of the Principal Public and Private Lenders, 1909-1953
(in thousands)

END OF YEAR	Total ^a	Farmers						Banks & Trust Companies ^c	Life Insurance Companies
		Federal Land Banks	Federal Farm Mortgage Corporation ^b	Home Administrations	Joint Stock Land Banks ^d	Individuals & Miscellaneous			
1909	\$ 3,207,863	..	..	..	..	..	\$ 2,414,654	\$ 406,248	\$ 386,961
1910	3,522,121	..	..	..	..	..	2,621,099	477,568	423,454
1911	3,929,758	..	..	..	..	..	2,869,805	580,300	479,653
1912	4,347,679	..	..	..	..	..	3,123,769	673,752	550,158
1913	4,707,358	..	..	..	..	..	3,386,109	723,787	597,462
1914	4,990,785	..	..	..	..	..	3,574,690	746,111	669,984
1915	5,256,425	..	..	..	..	..	3,714,585	776,269	765,571
1916	5,825,851	..	..	..	..	..	4,030,717	933,990	861,144
1917	6,536,860	\$ 39,112	..	..	\$ 1,888	..	4,531,777	1,008,492	955,591
1918	7,137,365	156,214	..	..	8,384	..	4,924,364	1,030,240	1,018,163
1919	8,448,772	293,595	..	..	60,038	..	5,915,930	1,204,383	974,826
1920	10,221,126	349,679	..	..	77,959	..	7,140,227	1,447,483	1,205,778
1921	10,702,257	432,523	..	..	85,017	..	7,212,345	1,540,005	1,432,367
1922	10,785,621	639,486	..	..	218,775	..	6,864,690	1,506,467	1,556,203
1923	10,664,919	797,785	..	..	392,639	..	6,294,244	1,388,106	1,792,145
1924	9,912,650	923,077	..	..	446,429	..	5,400,064	1,200,456	1,942,624
1925	9,713,213	998,552	..	..	545,559	..	4,960,341	1,178,460	2,030,301
1926	9,658,422	1,068,642	..	..	632,476	..	4,690,045	1,143,595	2,123,664
1927	9,756,957	1,144,984	..	..	669,798	..	4,672,227	1,097,085	2,172,863
1928	9,756,559	1,182,813	..	..	656,516	..	4,731,626	1,046,624	2,138,980
1929	9,630,768	1,201,732	..	..	637,789	..	4,675,340	997,468	2,118,439
1930	9,398,088	1,197,063	..	..	605,858	..	4,561,244	946,876	2,087,047
1931	9,093,983	1,180,992	..	..	552,180	..	4,384,062	940,135	2,036,614
1932	8,466,418	1,147,014	..	..	474,954	..	4,057,049	889,083	1,898,318
1933	7,685,203	1,257,825	\$ 70,738	..	412,346	..	3,535,644	710,863	1,697,787
1934	7,584,459	1,947,442	616,737	..	277,020	..	2,942,856	498,842	1,301,562

1935	7,422,701	2,113,502	794,147	200,617	2,714,641	487,505	1,112,289
1936	7,153,963	2,147,768	841,251	162,786	2,499,009	487,534	1,015,615
1937	6,954,884	2,126,610	824,151	133,554	2,380,562	501,450	988,557
1938	6,779,318	2,088,478	774,377	114,992	2,289,038	519,276	982,939
1939	6,586,399	2,009,820	713,290	31,927	2,221,176	534,170	984,290
1940	6,493,327	1,957,184	685,149	65,294	2,152,558	543,408	1,016,479
1941	6,376,080	1,880,784	634,885	114,533	2,091,581	535,212	1,063,166
1942	5,956,458	1,718,240	543,895	157,463	1,980,230	476,676	1,042,939
1943	5,395,671	1,452,886	429,751	171,763	1,896,080	448,433	986,661
1944	4,940,915	1,209,676	347,307	193,377	1,797,243	449,582	938,275
1945	4,760,464	1,078,952	239,365	181,861	1,588,517	507,298	891,263
1946	4,896,970	976,748	146,621	189,300	2,010,766	683,229	888,665
1947	5,064,245	888,933	107,066	195,069	2,072,170	840,647	959,715
1948	5,288,331	868,156	77,920	188,893	2,215,674	900,843	1,036,383
1949	5,579,278	906,077	58,650	188,855	2,315,956	937,144	1,172,326
1950	6,071,345	947,431	44,008	214,047	2,501,734	1,008,359	1,355,766
1951	6,588,270	994,128	32,778	233,374	2,740,026	1,046,923	1,541,041
1952	7,154,038	1,071,358	23,899	257,936	2,980,585	1,105,096	1,715,164
1953	7,656,186	1,169,418	17,628	268,060	3,177,223	1,131,214	1,892,643

From *Agricultural Statistics, 1952* (Department of Agriculture), Table 727, p. 721, and *Agricultural Finance Review* (Agricultural Research Service), Vol. 17, November 1954, Table 1, p. 83. U.S. possessions not included.

^aData for federal land banks, Federal Farm Mortgage Corporation, joint stock land banks and life insurance companies in 1929-1953 include regular mortgages, purchase-money mortgages, and sales contracts; before 1929, regular mortgages only. Federal land banks and FFMC mortgages in process of foreclosure were estimated for 1950 and 1951.

^bLoans held by the Federal Farm Mortgage Corporation were made on its behalf by the Land Bank Commissioner. Authority to make new loans expired July 1, 1947.

^cBefore 1941, covers tenant purchase loans only. Beginning with 1941, also includes farm development (special real estate) loans; beginning with 1943, farm enlargement loans; beginning with 1944, project liquidation loans; and beginning with 1950, farm housing loans. Loans made for these purposes from state corporation trust funds are also included. Loans insured by Farmers Home Administration are not included.

^dLiquidation of the joint stock land banks began May 12, 1933, and was completed April 26, 1951. Data for banks in receivership are also included.

^eData for 1934-1946 refer to insured commercial banks, before 1934, to open state and national banks and from 1947 to date, to all operating commercial and savings banks.

important factor compared with private lenders. For business, for minor governmental units, and for urban housing, outright federal lending has been minor in size compared with private financing.

In *agriculture*, federal credit became a major factor, though it has declined in relative importance since 1940. In that year, the holdings of federal and federally sponsored agencies exceeded those of private institutional lending agencies — the ratio was higher than 3 to 2. In 1950, federal loans to agriculture outstanding were about \$4 billion; private institutional loans about \$4.9 billion.

Taking farm mortgage loans alone, federal and federally sponsored agencies held 19 per cent of the total outstanding debt (\$7.7 billion) at the beginning of 1954, whereas they had held more than 40 per cent in 1940 (Chart 2 and Table 3). This reduction of the federal share was due both to a decline in federal holdings and to increased private lending on farm mortgages. Interesting regional differences were discovered. In 1954 federal lending was most important in Alabama, Mississippi, and Louisiana, accounting for 32 per cent of the farm mortgage debt (Table 4). It was also important in other southern areas and the Great Plains; less important in New England; and least significant in the southern part of the Far West, where it represented about 11 per cent of the total farm mortgage debt.

In short-term, non-real-estate farm credits (such as crop loans), federal support was not significant up to the end of 1929 — only about 2 per cent of the total. But after the introduction of emergency relief programs in 1932 and 1933, expansion of the disaster loan programs, and creation of production credit associations and the Commodity Credit Corporation, credit supplied directly by federal and federally sponsored agencies represented 30 per cent of the total by January 1935. Two years later, federal credit amounted to over 50 per cent of the total outstanding. Subsequently, the publicly held share of short-term credits declined to 27 per cent (in January 1954), but with another 28 per cent federally protected (through CCC guarantees of bank loans).

The important role of federal credit in financing cooperatives, both for marketing crops and for rural electrification, is also shown in the study.

Altogether, the authors conclude, "federal lending in the agricultural sector has tended since the thirties to approach and even surpass the amounts advanced by private lending institutions." Competition between private and federal finance has been sharpest in this sector of the economy.

In *private business*, government loans have been comparatively unimportant quantitatively. They amounted to only 2.8 per cent of the volume

TABLE 4

Distribution of Farm Mortgage Debt as of January 1, 1954
among Principal Public and Private Lenders,
by Farm Credit District

FARM CREDIT DISTRICT ^a	Federal and Federalty Sponsored Agencies ^b	Life Insurance Companies	All Operating Banks	Others ^c
Springfield	15.6%	6.8%	21.5%	56.1%
Baltimore	12.4	7.2	32.0	48.4
Columbia	21.9	16.4	15.6	46.1
Louisville	12.7	23.2	27.6	36.5
New Orleans	32.3	19.5	15.1	33.1
St. Louis	20.1	38.4	14.5	27.0
St. Paul	19.6	14.0	17.4	49.0
Omaha	24.8	42.3	8.2	24.7
Wichita	19.3	36.3	6.4	38.0
Houston	25.3	42.2	5.5	27.0
Berkeley	11.1	15.9	12.1	60.9
Spokane	18.8	20.2	5.9	55.1

Computed from data in *Agricultural Finance Review* (Department of Agriculture, Agricultural Research Service), Vol. 17, November 1954, Table 3, p. 84. Bank loans are classified according to location of bank and are not strictly comparable with the data for other lenders, where the classification is by location of mortgaged farms.

^aStates included in the farm credit districts are as follows: *Springfield* — Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, New York, and New Jersey; *Baltimore* — Pennsylvania, Maryland and the District of Columbia, Delaware, Virginia, and West Virginia; *Columbia* — North and South Carolina, Georgia, and Florida; *Louisville* — Indiana, Ohio, Kentucky, and Tennessee; *New Orleans* — Alabama, Mississippi, and Louisiana; *St. Louis* — Illinois, Missouri, and Arkansas; *St. Paul* — Michigan, Wisconsin, Minnesota, and North Dakota; *Omaha* — Iowa, Nebraska, South Dakota, and Wyoming; *Wichita* — Kansas, Oklahoma, Colorado, and New Mexico; *Houston* — Texas; *Berkeley* — Utah, Arizona, Nevada, and California; *Spokane* — Montana, Idaho, Washington, and Oregon.

^bCovers the federal land banks, the Federal Farm Mortgage Corporation, and the Farmers Home Administration.

^cRefers to individuals and miscellaneous institutions.

of loans held by private financial institutions in 1920, shrank to 0.4 per cent in 1930, and thereafter increased steadily to about 5 per cent in 1950. Tables 5 and 6 show similarly small percentage ratios of federal credit to total net business debt outstanding and to net corporate debt.

TABLE 5
Outstanding Amounts of Federally Supplied Credit to Business
as Percentages of Outstanding Net Business Debt,
1929-1953
(dollar figures in billions)

END OF YEAR	NET BUSINESS DEBT ^a	FEDERAL CREDIT AS % OF NET BUSINESS DEBT	
		<i>Direct Loans^b</i>	<i>Direct Loans, Loan Insurance and Guarantees^c</i>
1929	\$111	0.1%	0.1%
1930	112	0.1	0.1
1931	104	0.1	0.1
1932	96	0.5	0.5
1933	90	0.6	0.6
1934	87	0.8	0.8
1935	85	0.9	0.9
1936	85	0.8	0.8
1937	85	0.8	0.8
1938	82	0.9	0.9
1939	81	0.9	1.0
1940	81	1.1	1.1
1941	84	1.1	1.1
1942	81	1.4	2.3
1943	81	1.5	3.6
1944	82	1.4	3.3
1945	83	1.1	1.8
1946	89	2.0	2.5
1947	101	2.6	2.9
1948	110	2.8	3.1
1949	115	2.8	3.0
1950	132	2.4	2.6
1951	147	2.3	2.8
1952	161	2.2	2.7
1953	169	2.2	2.7

Outstanding amounts of federally supplied credit are from *Federal Lending*, Table A-5, and outstanding net business debt was estimated from the *Survey of Current Business* (Department of Commerce), September 1953, pp. 17-19, and the October 1954 issue, pp. 18 and 19.

^aRefers to net corporate long-term debt (excluding home mortgages), net corporate notes and accounts payable, and nonfarm debt owed by individual and noncorporate borrowers, other than consumer installment debt and mortgage debt on one- to four-family homes. Current estimates of total residential and commercial nonfarm mortgage debt of corporate borrowers were reduced by the yearly percentage relationship between home mortgage and total mortgage debt owed by corporations as shown by data published in the July 1944 and September 1945 issues of the *Survey*.

^bCovers outstandings on direct loans made by the Director General of the Railroads

The absolute figure of federal loans to business outstanding in 1950 was not far below the loans to agriculture, being \$3.2 billion (Table 2). But during the past twenty years hardly more than 280,000 firms — say 5 per cent of all business enterprises — are estimated to have borrowed money from federal sources.

In *housing*, although direct federal credit has not been a large part of the total, loan insurance and guarantees have been of great importance. From the end of World War II through 1953, about two-fifths of the new homes built were financed with federally protected loans; and for multi-unit residences the proportion was about two-thirds through 1951, dropping to one-fourth in 1953 (Table 7). Dollarwise, federally underwritten loans accounted for about 30 per cent of home mortgage recordings \$20,000 and under, including transfers of existing homes as well as construction of new ones. In all years since 1939, FFHA insured loans for home modernization and repairs have accounted for at least 40 per cent of the total; in some years much more.

As the authors put it: "It is no exaggeration . . . to say that at the present time the insured or guaranteed loan plays a leading role in the mortgage financing of residential properties and that through these government programs the entire structure of housing credit has been brought under federal influence."

Assistance to *minor government units*, including states, was small compared to private credit extended to such agencies: about 7 per cent in 1940 and about 4½ per cent in 1950.

Federal help to *private financial institutions*, such as Federal Home Loan Bank advances to savings and loan associations and Reconstruction Finance Corporation credit to banks had been small in absolute figures but much greater than private credit to these institutions. (As noted earlier, Federal Reserve Bank lending to member banks was excluded from this study.)

and the Interstate Commerce Commission, the Maritime Administration and its predecessors, the War Finance Corporation, the Reconstruction Finance Corporation, the Public Works Administration, the Export-Import Bank of Washington, the Smaller War Plants Corporation, the Departments of Army and Navy, the Housing and Home Finance Agency, and the Virgin Islands Corporation, and by the federally sponsored Federal Reserve Banks.

°In addition to the outstandings on loans made by agencies listed in note b, this series includes outstanding commitments of the RFC for deferred participations, and the outstanding amounts of guarantees or insurance on loans guaranteed or insured by the Maritime Administration and the Veterans' Administration or under the World War II Regulation V and the Defense Production Act of 1950 loan guarantee programs.

TABLE 6

Outstanding Amounts of Federal Loans and Loan Guarantees to Business, of Life Insurance Company Business Investments, of Commercial Bank Business Loans and Securities, and Net Corporate Debt, 1918-1953

(dollar figures in millions)

END OF YEAR	NET CORPORATE DEBT ^a	OUTSTANDING BUSINESS LOANS OR INVESTMENTS			AS PERCENTAGES OF NET CORPORATE DEBT		
		Federal Agencies ^b	Life Insurance Companies	Commercial Banks ^c	Federal Agencies	Life Insurance Companies	Commercial Banks
1918	\$ 47,000	\$ 30	\$ 2,039	\$13,900	0.1%	4.3%	29.6%
1919	53,300	94	2,044	16,400	0.2	3.8	30.8
1920	57,700	680	2,024	18,500	1.2	3.5	32.1
1921	57,000	740	2,030	17,400	1.3	3.6	30.5
1922	58,600	506	2,189	17,700	0.9	3.7	30.2
1923	62,600	508	2,408	18,900	0.8	3.8	30.2
1924	67,200	442	2,747	19,800	0.7	4.1	29.5
1925	72,700	353	3,103	20,900	0.5	4.3	28.7
1926	76,200	321	3,565	21,600	0.4	4.7	28.3
1927	81,200	204	4,043	22,100	0.3	5.0	27.2
1928	86,100	113	4,642	21,800	0.1	5.4	25.3
1929	88,900	120	4,995	20,700	0.1	5.6	23.3
1930	89,300	125	5,448	19,500	0.1	6.1	21.8
1931	83,500	140	5,663	16,300	0.2	6.8	19.5
1932	80,000	450	5,580	12,000	0.6	7.0	15.0
1933	76,900	533	5,388	9,800	0.7	7.0	12.7
1934	75,500	704	5,510	9,800	0.9	7.3	13.0
1935	74,800	773	5,897	10,600	1.0	7.9	14.2
1936	76,100	646	6,593	12,000	0.8	8.7	15.8
1937	75,800	642	7,111	12,200	0.8	9.4	16.1
1938	73,300	762	7,895	10,800	1.0	10.8	14.7
1939	73,500	815	8,538	10,300	1.1	11.6	14.0

1940	75,600	886	9,250	11,100	1.2	12.2	14.7
1941	83,400	950	10,174	13,200	1.1	12.2	15.8
1942	91,600	1,823	10,315	11,800	2.0	11.3	12.9
1943	95,500	2,885	10,494	11,900	3.0	11.0	12.5
1944	94,100	2,711	10,715	12,900	2.9	11.4	13.7
1945	85,300	1,456	11,059	15,800	1.7	13.0	18.5
1946	93,500	2,191	13,024	19,100	2.3	13.9	20.4
1947	108,900	2,964	16,144	22,400	2.7	14.8	20.6
1948	117,800	3,402	20,322	23,500	2.9	17.3	19.9
1949	118,000	3,490	23,179	22,200	3.0	19.6	18.8
1950	142,100	3,393	25,403	27,700	2.4	17.9	19.5
1951	163,600	4,061	28,204	31,300	2.5	17.2	19.1
1952	171,700	4,410	31,646	28,500	2.6	18.4	16.6
1953	179,400	4,522	34,570	33,100	2.5	19.3	18.5

^aNet corporate debt (both long- and short-term) as defined by the Department of Commerce, from *Survey of Current Business*, September 1953, Table 1, p. 14, and October 1954, Table 1, p. 14.

^bRefers to direct loans and loan guarantees and insurance by federal agencies and direct loans to business by the Federal Reserve Banks. Data are from *Federal Lending*, Table A-5.

^cRepresents investment of all United States life insurance companies in business and industrial bonds and stocks, from *Life Insurance Fact Book 1954* (Institute of Life Insurance), p. 67.

^dData for 1918-1941 were estimated by inflating National Bureau of Economic Research estimates of national bank business loan and security holdings by annual ratios of total assets of national banks to total assets of commercial banks in continental United States and converting midyear figures (1918-1938) to end-of-year figures by linear interpolation. Data for 1942-1953 were compiled from *Annual Reports of the Comptroller of the Currency, Federal Reserve Bulletins*, and *Trends in the Savings and Loan Field, 1953* (Home Loan Bank Board), p. 5, and reflect the following types of loans or securities held by commercial banks in continental United States: commercial and industrial loans (including open market paper), adjusted to exclude loans to savings and loan associations by deduction of "other borrowed money" reported in *Trends*; loans to brokers and dealers in securities; and all bonds, notes, debentures, and securities other than those of the United States government and of state and political subdivisions, with Federal Reserve Bank stock eliminated by deduction of FRB paid-in capital reported in *Federal Reserve Bulletins*.

TABLE 7

Relative Importance of FHA-Insured and of VA-Guaranteed Loans in Nonfarm Residential Construction and Financing, 1935-1953

YEAR	PERCENTAGE OF DWELLING UNITS IN PRIVATE NONFARM STARTS FINANCED WITH:				PERCENTAGE DISTRIBUTION OF DOLLAR VOLUME OF NONFARM HOME MORTGAGE RECORDINGS OF \$20,000 OR LESS		
	VA-Guaranteed Loans ^a		FHA-Insured Loans ^b		FHA-Insured	VA-Guaranteed	Conventional
	1- and 2-Family Houses	Total	1- and 2-Family Houses ^d	Multi-family Dwellings ^c				Total
1935	..	..	7%	5%	f	..	f
1936	..	..	18	5	f	..	f
1937	..	..	19	11	f	..	f
1938	..	..	32	19	f	..	f
1939	..	..	37	21	20%	..	80%
1940	..	..	37	9	19	..	81
1941	..	..	38	10	19	..	81
1942	..	..	56	46	25	..	75
1943	..	..	76	98	20	..	80
1944	..	..	65	89	15	..	85
1945	3%	3%	20	15	8	3% ^e	88
1946	14	13	11	6	4	22	74
1947	27	25	23	63	8	28	64
1948	13	12	28	68	18	16	66
1949	13	11	32	62	19	12	69
1950	17	15	31	76	15	19	66
1951	16	15	22	65	12	22	66
1952	14	13	25	37	11	15	74
1953	16	15	23	26	12	16	73

Compiled from *Housing Statistics*, Housing and Home Finance Agency, January 1954, pp. 24 and 26, the *Sixth Annual Report of the Housing and Home Finance Agency*, 1952, Table 4, p. 221, and *Annual Reports* and specially supplied data of the Federal Housing Administration. The Bureau of Labor Statistics series on total starts divides structures by size into one- and two-family homes, and all others. The VA data, and the FHA data after partial adjustment, have slightly different coverage, as noted under c, d, and e below.

^aThe underlying data were estimated by HHFA on the basis of dwelling units in homes securing first mortgages guaranteed by the VA through 1950; thereafter they represent units in houses meeting VA first compliance inspection.

^bThe underlying data represent dwelling units in houses and housing projects meeting FHA first compliance inspection.

^cRepresents dwelling units in total VA starts as a percentage of units in privately financed one- and two-family houses. However, the proportion of VA guarantees for multifamily structures, being restricted to dwelling units owned and occupied by a veteran, has been very small.

^dData were supplied by the FHA and cover units in one- and two-family houses financed under Sections 2, 8, 203, 603, and 903 of the National Housing Act, and in one-family houses financed under Sections 207, 213, 608, 611, 803, and 908. Two-family houses of the project type are excluded for lack of information.

^eData were supplied by the FHA and cover three- to four-family houses insured under Sections 203 and 603, and structures of two-family size or larger in rental and cooperative projects insured under Sections 207, 213, 608, 803, and 908.

^fNot available.

^gIncludes recordings made during 1944.