Volume Title: Federal Lending: Its Growth and Impact

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estate credit programs was not unduly severe, and in fact compared well with the Land Bank or the Land Bank Commissioner loans.

Because of improved general economic conditions since the beginning of their operations, credit experience of federal agencies lending to *business* has been much better than would otherwise have been the case, though less favorable than that of commercial lenders. It is estimated that the RFC, from 1934 through 1951, suffered a loss of about 2 cents on every dollar lent to businesses. Federal Reserve Bank loans showed a somewhat smaller loss, though high by conventional standards. Losses by the Maritime Administration and the Export-Import Bank have been negligible. Maritime, of course, extends and renews loans freely. To June 30, 1954, losses of the Export-Import Bank were 0.01 per cent of credit advanced.

In *housing,* the experience was more favorable on loans secured by small, medium-priced owner-occupied homes than on loans secured by income-producing structures such as apartment houses. Through 1953, the Federal National Mortgage Association, an agency empowered to purchase VA-guaranteed and FHA-insured loans, terminated less than 1 per cent of home loans by foreclosure; but at the same date, fully 10 per cent of FHA-insured housing project loans had been foreclosed. The low risk associated with financing small owner-occupied houses is illustrated also by the exceedingly favorable loan insurance and guarantee history of the Federal Housing Administration and the Veterans' Administration. From 1934 to 1953, FHA paid claims equal to only 2 per cent of the net proceeds of loans insured for modernization and improvement – and recoveries amounted to 40.9 per cent of claims paid. On home mortgage loans insured by FHA, foreclosures represented about 0.5 per cent of the original amount of the loans. Under the VA home mortgage guarantee program, claim payments through 1953 were made on only 0.6 per cent of the loans.

Have Federal Credit Programs Been Self-Supporting?

Difficult as analyses of costs and revenues of federal credit agencies proved to be, the investigators examined each program and arrived at approximate answers. Most of the agencies lending to agriculture have managed at least to strike rough balances in their operations (the Farmers Home Administration being the principal exception). Lending programs in the business field showed varying degrees of self-sufficiency. The Export-Import Bank has shown a sizable net income. The RFC long operated under a concealed subsidy (interest-free Treasury funds); in its final years it earned a small net profit over all, but the records do not show the results of the business loan program separately. Though the Federal Reserve Banks also profited somewhat on their recent industrial loans, experience in their most active period (to 1941) was unfavorable. Business loans to small enterprises cost the Veterans' Administration about $25 million from 1945 to 1952, but this program was never intended to be self-supporting.

The agencies concerned with housing credit have been generally self-sufficient, the Federal Housing Administration showing modest earnings. As no premiums were charged, the loan guarantee and insurance program of the VA required a subsidy, for its administrative costs, estimated at about $430 million through December 1952.

The authors conclude this section of their study with the following observation:

"Surveying the major areas of federal credit programs – agriculture, business, and housing – it is found that most of the programs have been self-supporting, at least from a long-range point of view. An element of subsidy has been present only in those programs which served a particular class of borrower such as low-income farmers, veterans, or small business firms. On the other hand, it is clear that no program, except possibly that of the Export-Import Bank, has realized profits at a level which would be considered satisfactory by the conventional standards of the private financial system."

The Economic Significance of Federal Lending and Loan Insurance

What have been the effects on the American economy of the large and growing volume of federal credit? These credit aids have grown faster than the value of gross national product or the credit activities of private financial institutions. Cumulatively from 1917 through 1953, the gross volume of direct and insured or guaranteed loans *totaled $138.7 billion.* The annual volume for 1953 was a new high, $14 billion. Outstandings at the end of 1953 were $43 billion, also a new high. This vast pool of obligations