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the war, construction costs rose significantly more than costs of other types of output; and rose more for home construction than for commercial and factory construction. The main cause lay in more rapid increases in prices of building materials, particularly of lumber, than of semi-manufactured goods generally. The result was that the prices of houses increased more rapidly than the prices of consumer goods generally, and certainly of consumer durable goods. Thus, a considerable part of the impact of the federal housing credit programs after 1946 was raising the costs of residential construction and the prices of homes above what would otherwise have prevailed.

Some other effects of federal credit aids to housing from the thirties to the fifties were: promotion of a decrease in the average size of homes and in the number of rooms per home, a trend in keeping with urbanization and the decline in average family size up to World War II; second, stimulation of multi-unit projects developed on a cooperative ownership basis; and third, increases in the scale of operation of home building enterprises, which raised production efficiency.

Effects on Credit Markets and Lending Practices

Federal credit aids have modified the markets, practices, and economic functions of the private financial system in profound and enduring ways. Indeed, it seems probable that the institutional effects of federal credit programs have been more important than their effect either on aggregate economic activity or on allocation of resources.

In *agriculture*, federal credit aids lengthened maturities, liberalized terms of credit, and tended to increase the size of the average farm mortgage loan. They also worked toward greater uniformity in both mortgage and production credit costs throughout the nation, bringing the largest relative reductions in the costs of farm credit in the South and West. Federal Land Banks functioned as leaders in farm mortgage markets, setting terms and conditions that private lenders were compelled to meet if they were to retain their positions in the market. To a lesser degree, the production credit associations have likewise been aggressive market leaders in the field of production credit, encroaching upon the markets formerly served exclusively by nongovernmental lenders. In part, commercial banks and life insurance companies have yielded market position to the publicly sponsored agencies; in part, however, they have met the increasingly liberal terms with loans carrying lower interest charges and longer maturities. These effects of federal lending on farm credit markets occurred mainly during a long period of decline in the structure of interest

rates. In an economic environment marked by a stable or rising structure of investment returns, the results might have been quite different.

In the sector of *finance*, federal credit programs performed dramatic rescue operations in the 1930's. They were used to maintain and strengthen commercial banks and life insurance companies during periods of severe economic strain. Notable in this role was the RFC bank loan and capital programs of 1932-34. These loans were of two types: "confidence" loans to active banks to enable them to keep open; and liquidation loans to closed banks to facilitate an early discharge of their depositor claims. In the year following February 1932, RFC authorized 10,178 to 6,100 banks and trust companies, disbursing \$1 billion during this period, and investing another \$1.2 billion in the preferred stock of 6,104 banks.

Federal credit programs exerted a net expansive influence on the markets for private institutions, thereby increasing their earning power, equity investment, and financial strength. Federal credit agencies helped private financing institutions through direct loans and by relieving them of undesirable or illiquid assets. By injecting credit into the economy at numerous points, federal agencies raised the level of production and the demand for private credit. Federal assistance to agriculture and housing indirectly created new demands for loans by business firms from private financial companies. For example, federal financing of farmers enlarged the credit demands of food processors; and federal credit for home construction created needs for private bank loans among building contractors and building material and equipment manufacturers.

But it is also true that federal credit activities in certain respects competed with and restricted the markets of banks and other private financial institutions. In the field of *business* credit, they made relatively high-risk loans at rates less than those necessary to cover the full costs of such operations. Credit is a highly differentiated commodity, and borrowers are not influenced to select one rather than another lender merely by comparing nominal rates of interest. Competition in credit consists not only in the lower interest rates, but in more favorable repayment terms, longer maturities, and in ancillary services offered to borrowers.

Public agencies tend to standardize their charges, irrespective of the size, term to maturity, risk, or administrative cost involved in a business loan. Standard terms tend to make federal agencies the most attractive sources of credit to borrowers to whom private institutions can advance funds only at comparatively high interest rates and on closely restricted terms. It is in the high-risk segment of the credit market that federal loan

agencies have cut most deeply into the potential loan markets of banks. To minimize this kind of competition would require (1) changes in public policy permitting banks to take longer risks and to charge commensurately higher interest rates; and (2) closer gearing of federal loan and loan guarantee charges to actual risks and costs, with abandonment of a standard loan rate.

Federal business credit programs have used amortized term loans extensively, thus promoting the use of this kind of credit by commercial banks in place of the traditional short-term, single payment, promissory note that was often paid up annually and renewed by the business borrower. This change stemmed largely from participation loan programs in the mid-thirties, in which commercial banks made term loans jointly with the RFC or with Federal Reserve Banks.

Medium and long-term export credits, first introduced by the Export-Import Bank, have now filtered into the private credit pattern.

The Veterans' Administration pioneered in sponsoring the use of amortized term loans for new and very small enterprises. Many commercial bankers learned how to make these small business term loans safely and profitably.

The authors add: "Federal agencies have performed in the field of business credit an economic function similar to that discharged by them in the field of housing credit. They have tended to lengthen the maturities of loans and to broaden the use of the amortized loan. In this respect, they fostered an adjustment in the nature of business credit responsive to the increasing use of durable producers goods by business enterprise in the American economy. The term-lending principle has brought commercial banks new problems of portfolio management and of liquidity maintenance; but undoubtedly it has helped business enterprises by relating repayments to earning power."

In *housing*, federal agencies seem to have achieved their objective of reducing the costs of home mortgage credit by exerting a persistent downward pressure on mortgage loan rates charged on conventional financing. Yet on closer examination it appears that the major influence may have been the long-term decline of the whole interest rate structure.

Home mortgage debt grew only moderately in the years 1934 through 1951 and at a lesser rate than consumer credit. But the insured portion of the home mortgage debt increased substantially, to about 43 per cent of the total at the end of 1953. When the influence of federal guarantees and insurance on the *volume* of nonfarm home mortgage debt is tested by comparing the movement of such debt with the movement of consumer installment sales credit, it is found that between 1935 and 1941, and

again in the postwar years, uninsured installment sales credit rose more rapidly. Further, federal loan insurance has not much influenced the distribution of mortgage lending among types of institutions. This is demonstrated by the rather minor shifts since 1935 in the relative positions of commercial banks, mutual savings banks, life insurance companies, and savings and loan associations.

In conclusion, federal housing credit programs have displayed, during a long period of falling interest rates, a pervasive tendency to reduce the costs of credit to borrowers, to decrease regional differences in mortgage loan rates, to increase the ratio of debt to equity, to lengthen the final maturities of loans, and to promote the principle of periodic amortization of loans (Table 10). Thus, they have tended on the whole to cause private lending agencies to liberalize their credit terms and to readjust their credit practices.

TABLE 10

Distribution of Conventional Nonfarm Mortgage Loans Made by Life Insurance Companies, Commercial Banks, and Savings and Loan Associations by Type of Loan within Indicated Periods, 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.

^aIncludes 219 loans (about 5 per cent 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.

^bSavings and loan association loans made during 1925-1929 are included with those made in 1920-1924.

^cFor savings and loan associations the distribution refers to loans made during 1942-1947.