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The Housing Expansion of 1953-1954: A Classic Response to Easy Credit

Between late 1953 and the end of 1954, the seasonally adjusted annual rate of privately financed housing starts increased from a little over one million dwelling units to more than 1.4 million units. Construction expenditures for new privately financed dwelling units rose from an annual rate of about $10.5 billion in early 1954 to a rate of more than $15 billion in the spring and summer of 1955, or by nearly 50 per cent (Table 6). The expansion occurred wholly in the government-assisted sector of the market. Total starts during the year 1954, for example, increased by about 133,000 units over 1953; starts under the FHA and V.A. programs increased by nearly 175,000 units, while conventionally financed starts declined (Table 1).

To isolate the forces producing this vigorous rise in housing starts and expenditures within a short span of time, this chapter examines the three main factors to which the expansion may conceivably be attributed. First, it investigates whether the upsurge of residential building was associated with income or demographic changes. Second, it examines the response of the mortgage and housing markets to the general policy of credit ease initiated in May 1953. Third, it analyzes specific housing credit policies to determine to what extent legislative changes or discretionary actions of government agencies stimulated activity in this sector.

Income and Demographic Changes

Changes in personal income after taxes during this period offer little support for attributing the upturn in housing production to rising demand. Between the second quarter of 1953 and the second quarter of 1954, personal disposable income fluctuated within narrow limits at a level of $253 to $255 billion (seasonally adjusted annual rates); and the subsequent increase to the first quarter of 1955, when housing starts ceased to expand, was about 3 per cent. The stability of consumer income during the recession of 1953-1954 was an impressive performance in view of greatly reduced federal spending and substantial liquidation of business inventories. But the expansion of housing starts was so marked that it cannot be attributed to stable consumer income or the moderate gain in disposable income during the first phase of economic recovery in late 1954; nor do the changes in income distribution reveal an increase in the number of families in the income brackets with the greatest demand for new housing.[1] The income tax reduction of 1954, however, may have strengthened consumer confidence and the willingness of potential home buyers to undertake the long-term debt commitments involved in the purchase of a house.

Activation of deferred demand might have been a factor to the extent that restraints on home building during the Korean War had prevented gains in personal disposable income from exerting their full impact on the demand for residential construction. This view, in other words, would relate the 1954-1955 expansion in home building to past rather than current increases in consumer incomes, and to the associated improvement in income expectations or in asset holdings of consumers. But the control of real-estate credit through Regulation X had already been substantially relaxed as early as June 1952 and suspended in September of that year. The accompanying restraints on government-underwritten residential mortgages had also been tempered and were fully withdrawn in April 1953. Yet, housing starts showed little response to these relaxations. They fluctuated within a narrow range at the annual rate of about 1.1 million units throughout the winter of 1952-1953; and when the general credit restraint of early 1953 followed the selective housing credit regulations, the rate of housing starts declined to about one million units in August of that year. Moreover, real per capita disposable income between 1950 and 1953 showed only moderate improvement, and the liquidity position of households was not changed markedly.[2]

The effect of demographic changes on short-term fluctuations in residential construction is much less thoroughly explored than their influence on long swings. Moreover, there are no adequate annual data for observing increases in the number of households or changes in their composition.

[1] The number of families and unattached individuals with an income of $5,000 or over (before income taxes) increased from 21.3 million in 1953 to 21.4 million in 1954. In relation to all families and unattached individuals, the units in this income group declined from 42.2 per cent in 1953 to 41.8 per cent in 1954. *Economic Report of the President,* January 1957, Table D-8.

[2] Cf. Warren L. Smith, "The Impact of Monetary Policy on Residential Construction, 1948-58," *Study of Mortgage Credit,* Subcommittee on Housing of the Senate Banking and Currency Committee, 85th Congress, 2nd Session, December 22, 1958, Table 104.

TABLE 6

Annual Rates of Private Housing Starts and Construction Expenditures for New Dwelling Units, Monthly, 1953-1958
(seasonally adjusted)

Year and Month	Housing Starts (thousand dwelling units)	Construction Expenditures[a] (million dollars)	Year and Month	Housing Starts (thousand dwelling units)	Construction Expenditures[a] (million dollars)	Year and Month	Housing Starts (thousand dwelling units)	Construction Expenditures[a] (million dollars)
1953 Jan.	1,104	10,500	1955 Jan.	1,410	14,712	1957 Jan.	962	12,996
Feb.	1,092	10,524	Feb.	1,324	14,964	Feb.	935	12,696
Mar.	1,128	10,740	Mar.	1,349	15,144	Mar.	933	12,624
Apr.	1,134	10,848	Apr.	1,363	15,192	Apr.	962	12,324
May	1,083	10,512	May	1,381	15,084	May	994	12,120
June	1,071	10,896	June	1,372	15,192	June	995	12,168
July	1,036	10,512	July	1,316	15,180	July	1,015	12,264
Aug.	1,007	10,320	Aug.	1,311	15,108	Aug.	1,056	12,420
Sept.	1,029	10,248	Sept.	1,285	14,976	Sept.	1,012	12,636
Oct.	1,034	10,464	Oct.	1,214	14,976	Oct.	1,020	12,996
Nov.	1,068	10,560	Nov.	1,176	14,772	Nov.	1,009	13,152
Dec.	1,039	10,620	Dec.	1,174	14,496	Dec.	1,000	13,128

1954 Jan.	1,051	10,428	1956 Jan.	1,195	14,004	1958 Jan.	1,020	12,780
Feb.	1,100	10,528	Feb.	1,127	13,944	Feb.	915	12,696
Mar.	1,103	10,740	Mar.	1,094	13,956	Mar.	918	12,420
Apr.	1,116	10,980	Apr.	1,157	13,920	Apr.	983	12,060
May	1,102	11,520	May	1,146	13,668	May	1,039	12,060
June	1,180	11,556	June	1,091	13,596	June	1,057	12,384
July	1,220	11,952	July	1,070	13,380	July	1,174	12,792
Aug.	1,226	12,372	Aug.	1,136	13,260	Aug.	1,228	13,416
Sept.	1,273	12,696	Sept.	1,008	13,164	Sept.	1,255	13,956
Oct.	1,275	13,152	Oct.	1,052	13,212	Oct.	1,303	14,753
Nov.	1,376	13,560	Nov.	1,027	13,334	Nov.	1,427	15,348
Dec.	1,443	14,376	Dec.	1,020	13,380	Dec.	1,432	15,744

SOURCE: Bureau of Labor Statistics.

[a] To afford closer comparison of starts and expenditures, the latter show only the amount spent on new dwelling units, excluding additions and alterations and nonhousekeeping units such as hotels, which are included in the commonly used series on new residential construction: For the seasonal indexes for expenditures on new dwelling units, see *Construction Volume and Costs*, 1915-1956, *A Statistical Supplement to Construction Review*.

TABLE 7

Index of Residential Construction Costs, 1946-1957
(1947-1949 = 100)

Year	Annual Average	Month	1952	1953	1954	1955	1956	1957
1946	77.0	Jan.	117.7	120.1	120.4	121.5	126.4	130.5
1947	93.2	Feb.	117.6	120.1	119.5	121.5	127.5	130.6
1948	104.8	March	117.6	120.3	119.6	121.9	128.0	130.7
1949	102.1	April	118.0	120.4	119.1	122.6	128.9	130.9
1950	107.7	May	118.3	120.8	119.5	123.3	129.8	131.6
1951	116.0	June	119.4	121.5	120.0	124.2	130.1	132.2
1952	119.1	July	119.8	122.4	120.7	124.6	130.3	132.8
1953	121.2	Aug.	120.2	122.1	120.7	124.9	130.5	132.9
1954	120.3	Sept.	120.4	121.9	120.8	125.2	130.3	132.8
1955	123.9	Oct.	120.2	121.4	121.0	125.5	130.2	132.2
1956	129.3	Nov.	119.9	121.5	121.0	125.7	130.3	132.2
1957	131.8	Dec.	119.8	121.3	121.1	126.0	130.4	132.3

SOURCE: Boeckh Index of Dwelling Unit Construction Cost, U.S. Department of Commerce, *Construction Review.*

Nevertheless, the available evidence indicates that net household formation was declining rather than growing. The average annual increase in the number of households in urban and rural nonfarm areas from April 1953 to April 1955 is estimated at 870,000 compared to more than one million for 1950-1953, which included the Korean War period. The number of families with two, three, or more children, however, and especially those with children over six years of age, increased markedly, and this change tended to raise the demand for larger dwelling units with more bedrooms.[3] As builders responded to the shift in demand, the construction expenditure per dwelling unit rose and total construction expenditures were increased correspondingly. The effect of this kind of demand shift on the total *number* of dwelling units built is less clear. In any event, the growth in the demand for larger homes by families with two or more children has been a gradual and continuous one and can hardly explain much of the burst of residential building in a single year such as 1954. There is also no indication of generally increased utilization of the housing inventory that could have sparked

[3] For households, see *Current Population Reports,* Bureau of the Census, Series P-20, No. 76, July 5, 1957. For number of children, cf. *ibid.,* Nos. 53 and 67, April 11, 1954 and May 2, 1956. The census estimates are based on sample surveys involving substantial margins of error in year-to-year changes, which are somewhat reduced by comparing groups of years.

an upswing of new construction. On the contrary, the over-all vacancy rate was probably rising slightly.[4]

In conclusion, it appears that demand forces operating through income or demographic changes had an altogether minor influence on the great upsurge of home building in the 1953-1954 period. The movement of construction costs, the closest equivalent of the more relevant but unavailable final prices of dwellings, also offers no clue to the expansion. Residential building costs during 1953 and 1954 were quite stable after the sharp rise in 1950 and more moderate increases in 1951 and 1952 (Table 7). In fact, between July 1953 and April 1954, they declined by 2.8 per cent. Geographic variations in the cost reduction were altogether minor. Even when allowance is made for advances in efficiency which may not be reflected in the cost index, the cost decline was scarcely of sufficient magnitude either to generate increased effective demand for new homes or to cause deferral of demand in anticipation of further price recession—two market reactions that often follow substantial price declines. The relative stability of costs was probably favorable to an expansion but, on the basis of the record of previous fluctuations in residential construction, it was neither a necessary nor a sufficient condition.

The Rush into Mortgage Investment

While the sharp increase in home building in 1953 and 1954 was apparently not associated with major changes in basic demand for housing, demand responded readily to the growing availability of mortgage funds on more liberal credit terms. And easier mortgage terms in turn reflected the decline in other demands for funds and an extraordinary response of the financial system to the policy of credit ease initiated in May 1953. It is instructive to trace the ways in which the easing of credit transmitted itself to residential mortgage lending and construction.

Although vigorous Federal Reserve actions to ease credit were taken in rapid succession over a relatively short period of time—with reduction of bank reserve requirements in July 1953 following the first open-market purchases in May, and additional open-market purchases in August and September, their first effects on the residential mortgage market were not felt before the fall. In June a prominent home builder stated in Congressional testimony that "the basic industry of the country, building construction, is . . . about to go into a coma because it has no finances."[5] In late summer, the

[4] The first nation-wide vacancy sample survey by the Bureau of the Census following the Housing Census of 1950 was taken in the second quarter of 1955. It showed a vacancy ratio of 2.3 per cent (units available for rent or sale), as against 1.6 per cent in April 1950. (See Table 17.)

[5] *Housing Act Amendments of 1953*, Hearings before the Committee on Banking and Currency, U.S. Senate, 83rd Congress, First Session, June 15-18, 1953, p. 90.

mortgage market was still reported to be in a "state of disorganization and paralysis." The National Association of Home Builders had just warned its members against starting projects without a lender's firm commitment for mortgage loans, as builders proceeding without it had been forced to obtain mortgages at excessive discounts from par.[6] A survey of mortgage lenders by Federal Reserve Banks in September showed that mortgage terms were still about the same as in the first half of the year. Even in October, builders were reported to be trimming their plans for 1954 as well as their current production.[7] At about this time, however, major financial institutions began to increase their commitments [8] for residential mortgage loans, as revealed in data for life insurance companies (Chart 1) and mutual savings banks in New York (Table 8). In November 1953, yields on FHA loans in the secondary mortgage market showed their first decline, lagging by four months behind the first drop in the yields on high-grade corporate bonds (Chart 2).

Only in early 1954 did housing starts show any marked response of these manifestations of greater availability of mortgage funds. The annual rate of starts increased moderately from 1,007,000 dwelling units in August 1953 to 1,068,000 units in November, but fell back to a somewhat lower level around the turn of the year. This initial upward movement was so weak and irregular and, considering the quality of the underlying data, so uncertain that it seems more realistic for analytical purposes to place the first substantial upturn of housing starts in early 1954.[9] For that matter, the initial easing of the mortgage market was of moderate proportions. Between the fall of 1953 and the spring of 1954, outstanding residential mortgage commitments of life insurance companies increased by more than 50 per cent but had completed only one-third of their total upward movement, which continued to late 1954. The decline in yields on FHA home loans purchased in the secondary mortgage market did not reach its halfway mark before March 1954. A marked upturn in financing applications to FHA and V.A. for new construction occurred only in the first few months of that year. In early 1954 also, mortgage recordings began to increase (Table 9), and a rising percentage of veterans' home loans made without down payment or for the

[6] *House and Home*, September 1953, p. 38.

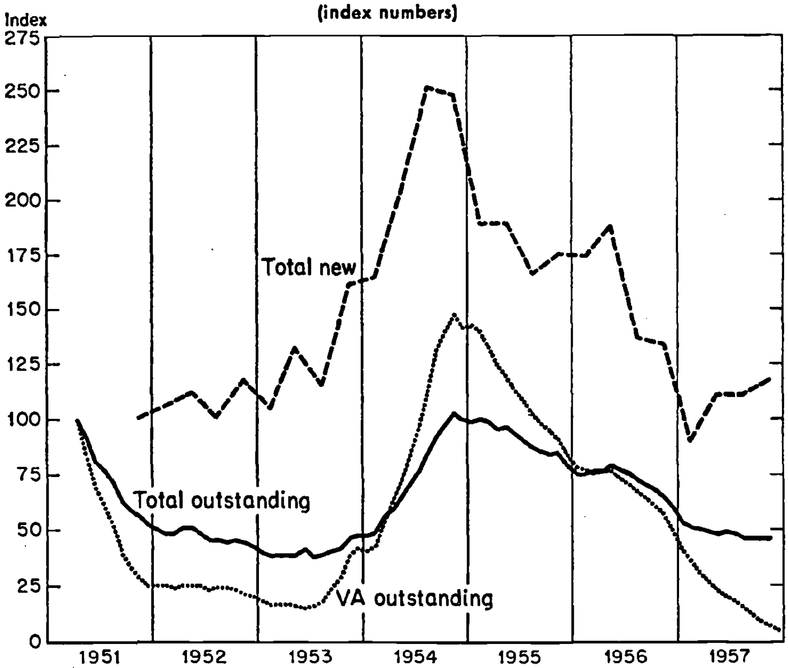
[7] *House and Home*, September 1953, p. 45.

[8] For an extensive discussion of the practice and procedures of making mortgage loan commitments, see Saul B. Klaman, *The Postwar Residential Mortgage Market*, Chapters 6 and 7 (Princeton for National Bureau of Economic Research, in press). Cf. also James J. O'Leary, "Forward Investment Commitments of Life Insurance Companies," *The Quality and Economic Significance of Anticipations Data*, Special Conference Series 10 (Princeton for National Bureau of Economic Research, in press).

[9] This interpretation is consistent with the cautious statement in the *Economic Report of the President* of January 1954 (p. 63) that "housing construction . . . may be expected to continue at a level close to that of 1953."

CHART 1

Outstanding and New Commitments of Life Insurance Companies for Nonfarm Residential Mortgages, 1951-1957
(index numbers)



Monthly data for outstanding commitments, April 1951 = 100.
Quarterly data for new commitments, fourth quarter of 1951 = 100.
Source: Table 24.

TABLE 8

Outstanding Commitments of Savings Banks in New York State for Government-Underwritten Mortgages, 1951-1957

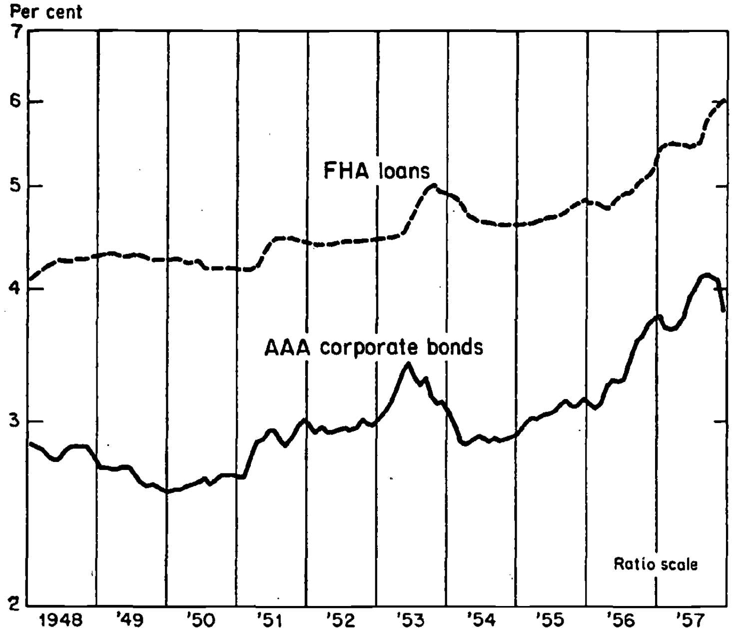
(thousand dollars)

Period (September 30)	FHA	V.A.	Total
1951	445,739	122,717	568,456
1952	278,502	315,723	594,225
1953	207,567	409,701	617,268
1954	337,628	812,681	1,150,309
1955	207,153	1,065,509	1,272,662
1956	139,264	947,093	1,086,357
1957	158,642	379,284	537,926

SOURCE: New York State Banking Department.

CHART 2

Average Yields on FHA Home Loans Purchased in the Secondary Mortgage Market and on High-Grade Corporate Bonds, Monthly, 1948-1957



Source: Yields on FHA loans, Table 25.
Yields on corporate bonds, Moody's (AAA bonds).

longest permissible maturity gave evidence of the first substantial liberalization of mortgage terms (Chart 3 and Table 26).

In the spring, as the policy of easy credit was intensified, activity in the mortgage market increased sharply. Life insurance companies accelerated their mortgage commitments markedly. Financing applications to FHA and V.A. rose at such a pace that field offices were ordered to work overtime. A "flood of money" was reported in trade journals, and there was even talk of reducing the maximum interest rate on FHA and V.A. loans. The percentage of V.A. loans made on the most liberal terms rose rapidly. Mortgage bankers observed that builders were willing to pay discounts of 2.5 to 3 per cent to obtain veterans' home loans without down payment, and they were beginning to warn against "overbuilding." In mid-year, the first large-scale cases were reported of "no-no" down-payment loans which relieved veterans of the necessity to put up cash for loan closing costs as well as for any down payment on the house.[10]

[10] Cf. *House and Home,* June 1954, p. 37, and July 1954, p. 43.

TABLE 9

Estimated Amount of Nonfarm Mortgage Recordings of $20,000 or Less, Monthly, 1952-1957

(seasonally adjusted 3-month moving averages)

(million dollars)

Month	1952	1953	1954	1955	1956	1957
Jan.	1,412	1,583	1,610	2,277	2,294	2,056
Feb.	1,444	1,610	1,669	2,345	2,324	2,050
Mar.	1,455	1,660	1,755	2,376	2,312	2,011
Apr.	1,462	1,678	1,794	2,432	2,325	2,042
May	1,473	1,692	1,826	2,443	2,326	2,031
June	1,479	1,690	1,866	2,430	2,313	2,046
July	1,492	1,675	1,937	2,475	2,330	2,047
Aug.	1,523	1,670	1,989	2,451	2,257	2,056
Sept.	1,545	1,628	2,001	2,392	2,250	2,032
Oct.	1,556	1,625	2,080	2,338	2,174	1,983
Nov.	1,560	1,607	2,147	2,252	2,104	1,946
Dec.	1,552	1,585	2,247	2,291	2,078	1,924

SOURCE: Federal Home Loan Bank Board. Seasonal adjustment: Board of Governors, Federal Reserve System.

In the second half of 1954, the mortgage market reached the zenith of credit ease, although there was a notable change of tone in financial markets generally. The downward movement of long-term bond yields had halted in mid-year. The decline in yields on FHA loans in the secondary market terminated in the fall. New commitments for residential mortgage loans by life insurance companies ceased to expand in the last quarter. Toward the close of the year, their outstanding commitments were more than two and a half times as large as in August 1953; commitments of New York savings banks for government-underwritten loans had almost doubled within a year. Some of these forward commitments were reported to be made for as long a period as two years, far in excess of the usual 6 to 12 months. One of the largest life insurance companies had commitments outstanding about equal to the amount of funds anticipated to be available for total mortgage investment during the entire year of 1955.[11] The hectic commitment activity of 1954 was to tax the ability of major financial institutions to absorb the mortgages when they were ready for delivery, and it was a prime factor in the later growth in demand for bank credit by mortgage lenders, which came at a time of rapidly increasing demand for credit from many other sources.

Final lending also rose substantially although much of the stepped-up

[11] Klaman, *The Postwar Residential Mortgage Market*, Chapter 6.

commitment activity of 1954 was not reflected in loan acquisitions until 1955 and even 1956. Mortgage recordings in 1954 increased by $3.2 billion over 1953, as against only $1.7 billion in the preceding year. The net flow of funds into residential mortgages totaled more than $10 billion compared to a little over $8 billion the year before. Paralleling the expansion of housing starts under the government-sponsored programs, about 40 per cent of this increase occurred in the holding of FHA and V.A. mortgages. The rising volume of lending was accompanied by widespread liberalization of credit terms. In the veterans' home loan program, over 28 per cent of all loans closed in 1954 were without down payment as against 8.4 per cent in 1953, and there was a similar rise in the percentage of mortgages with the longest permissible maturities (Table 26). In fact, all of the increase in the number of veterans' home loans made in 1954 was accounted for by no-down-payment loans. Even though the general capital market had begun in mid-year to shift gears, credit terms available to home purchasers continued to be increasingly liberal, reflecting the lapse of time between mortgage commitments or originations and the final closing of loans.[12]

Waiving the question of whether the Federal Reserve policy of credit ease in 1953-1954 was overdosed (which is outside the purview of this essay), what explains the extraordinary response in the mortgage market? The response was partly rooted in the financial conditions accompanying the mild recession of 1953-1954 and was partly due to special circumstances. The net flow of savings into major financial institutions increased sharply (Table 10). On the other hand, the demand for funds by business slackened as investment in plant and equipment declined and business inventories were liquidated. Corporate security issues for new money, which totaled nearly $8 billion in 1953, were only $6.8 billion in 1954. The federal government, after the large issue of long-term bonds in April 1953, refrained in 1954 from making further net demands on the long-term capital market, and its total net borrowings were much lower than the year before. Business loans by commercial banks were also reduced. Consumer credit outstanding, which had increased by $3.7 billion in 1953, gained less than $600 million the next year. These declines in the demand for funds, in the face of an increased net flow of savings, large debt repayments, and comercial bank reserves kept ample after mid-1953, made investment in mortgages (as well as in state and municipal obligations) increasingly attractive. The penetration of credit ease into the mortgage market was also associated with the large proportion of government securities in total holdings of bank and nonbank financial insti-

[12] For these and other time lags, see Marvin Wilkerson and Dorothy K. Newman, "FHA and VA Housing Statistics and the Housing Market," *Construction Review*, June 1957. For the lapse of time between easing of credit and effects on home building, cf. also Thomas Mayer, "The Inflexibility of Monetary Policy," *Review of Economics and Statistics*, November 1958.

TABLE 10

Net Flow of Savings into Major Financial Institutions, 1952-1957
(million dollars)

Year	Life Insurance Companies[a]	Savings and Loan Assoc.[b]	Commercial Banks[c]	Mutual Savings Banks[d]	Total
1952	4,008	3,088	2,739	1,698	11,533
1953	4,005	3,651	2,670	1,767	12,093
1954	4,148	4,488	2,735	1,940	13,311
1955	4,438	4,858	1,595	1,828	12,719
1956	4,341	4,956	2,194	1,872	13,363
1957	4,117	4,764	5,226	1,667	15,774
Annual Change over Preceding Year					
1953	−3	+563	−69	+69	+560
1954	+143	+837	+65	+173	+1,218
1955	+290	+370	−1,140	−112	−592
1956	−97	+98	+599	+44	+644
1957[p]	−224	−192	+3,032	−205	+2,411

[a] Accumulations in U.S. legal reserve life insurance companies including reserves plus dividends left to accumulate minus premium notes and policy loans. *Source:* Institute of Life Insurance.

[b] Investments in savings and loan associations including share accounts, deposits, and investment certificates. Does not include shares pledged against mortgage loans or investments by U.S. Government. *Source:* Federal Home Loan Bank Board.

[c] Time deposits of individuals, partnerships, and corporations. *Source:* Federal Deposit Insurance Corporation.

[d] Time deposits of individuals, partnerships, and corporations. *Source:* Federal Deposit Insurance Corporation.

tutions, which in 1954 could generally be converted without loss into higher-yield mortgage loans or interim loans to mortgage lenders.[13]

Among the special circumstances was the desire of major lending institutions to increase their mortgage holdings in the interest of more balanced investment portfolios, coupled with apprehension that opportunities for mortgage investment might be less favorable in future years. In spite of the expansion of their mortgage holdings throughout the postwar period, some institutional lenders had not yet reached the level of mortgage investment

[13] Throughout the postwar period, shifts into mortgage investment were facilitated by the progressive integration of the mortgage and general capital markets through the more standardized government-underwritten loans which can be acquired in a nation-wide secondary market.

that they considered an operational optimum. And as the veterans' home loan program was at that time scheduled to expire in 1957, even institutions that had previously been reluctant to participate vigorously in this program channeled their mortgage investments increasingly into G.I. loans. This shift in investment preferences was stimulated in part by government actions in 1953 and 1954, which will be reviewed later: the progressive removal of doubt about the legality of discounts for government-underwritten mortgages, the withdrawal of controls on discounts, and the increase in maximum interest rates on FHA and V.A. loans.

The rush into mortgage investment emphasized one of the difficulties of a stabilization policy stated in the *Economic Report of the President* of January 1954 (p. 51): "... the makers of policy cannot predict with scientific closeness the strength of the responses which their actions may generate." Just as the credit restraints of early 1953 produced an unanticipated exaggerated reaction in the financial community,[14] the reversal of this policy met with an unexpected strong response of financial institutions in the residential mortgage market. But this response also raises a question about the conduct of major financial intermediaries. Reacting as they did to changing investment opportunities, yield differentials, risk expectations, and considerations of balance in investment portfolios, financial institutions on the whole acted in a manner consistent with their role in a competitive economic system and with their responsibilities toward those who own the funds entrusted to them. Yet, the massive adjustment in their lending policies, which was a tribute to the flexibility of the financial system, tended at the same time to accentuate the housing boom. Moreover, as will be shown later, the great eagerness to invest in mortgages led to overcommitments in individual cases. Because of the gigantic amount of funds available for investment, even relatively small changes in the share of residential mortgage lending in the total investments of financial institutions can result in very large changes in the absolute volume of mortgage financing. Thus, overly zealous investment shifts by financial institutions can intensify both upward and downward fluctuations in the housing sector and help create imbalances which have adverse effects on general economic stability. The experience of 1953-1954 demonstrated once more that the resolution of this problem is as yet highly imperfect.

Governmental Housing Credit Policies

Legislative and administrative actions affecting housing credit specifically were relatively minor factors in the expansion of home building in 1953-1954. There was no deliberate effort by the executive branch to use the

[14] Cf. Arthur F. Burns, *Prosperity Without Inflation*, Fordham, 1957, p. 56.

governmental programs to stimulate residential construction as a means of cushioning the business recession.

As was mentioned earlier, the maximum interest rate on government-underwritten home mortgage loans was raised in May 1953—from 4 to 4.5 per cent for V.A. loans and from 4.25 to 4.5 per cent for FHA loans. In view of the generally increased level of interest rates, the action helped improve the competitive position of these loans, but it had no substantial effects on loan volume as long as financial markets remained tight. Despite the rise in permissible interest rates, discounts on government-underwritten loans kept on increasing until October, as is evident from the estimated mortgage yields presented in Chart 2. Similarly, the relaxation of discount controls in the Housing Amendments of June 1953, followed by complete withdrawal of controls in August 1954, served to remove road blocks to the flow of funds into government-underwritten loans (see Appendix A for a discussion of discounts and their functions, and of the confused history of discount controls). But the discount issue was resolved only in late 1953 when the supply of mortgage funds increased markedly, interest rates declined, and mortgage discounts began to narrow. Thus, these measures merely helped create conditions favorable to an expansion of home building when the general easing of credit allowed them to become effective.

The Housing Amendments of June 30, 1953 gave the President discretionary authority to reduce the down payment and extend the maturity on FHA loans for homes valued at $12,000 or less, but this authority remained unused; nor was the similar authority granted in the Housing Act of 1954 ever invoked.

Contrary to widespread impressions, the liberalization of maximum terms for FHA loans in the Housing Act of 1954 also had but a minor impact on the home building boom. The act became effective on August 2. By that time, the rate of total private housing starts had already risen by more than 20 per cent from its previous low. More than half of the total increase in the rate of FHA starts from late 1953 to early 1955 occurred before August 1954. Moreover, the liberalization, particularly the reduction of down-payment requirements, was greater for loans on existing homes than for loans on new homes (Appendix B), and, indeed, insurance applications for existing houses rose much faster than those for new ones.[15] The number of new dwelling units under the FHA program increased only moderately, from 252,000 in 1953 to 276,000 in 1954, and remained at this level in 1955; and their share in total starts declined from 23 or 24 per cent in 1953 and

[15] During the six months after August 1954, applications on existing construction were for 160,764 dwelling units as against 66,530 units during the corresponding 6-month period of 1953-1954. The comparable figures for loans on new construction are 169,331 and 95,497, respectively.

1954 to 21 per cent in 1955. In contrast, the number of new units under the V.A. home loan program, whose maximum terms remained unchanged, leaped from 157,000 in 1953 to 307,000 in 1954 and increased again to 393,000 in 1955; and their share in aggregate starts rose from 15 to 30 per cent (Table 1). Thus, the expansion was almost wholly in the G.I. sector which, with the exception of the *pro forma* removal of discount controls, was not affected by the Housing Act of 1954.

The 1954 liberalization of FHA terms may have slightly accentuated the boom in its late phase. By facilitating the sale of existing houses on the part of home owners who were potential new house purchasers, it may have indirectly helped stimulate the sale of new houses. But it certainly did not spark the upswing in housing starts and was no major factor in determining its course. The same is true for another liberalizing provision of the Housing Act of 1954, which allowed federal savings and loan associations to make home loans up to a maximum of $35,000 instead of $20,000, and for the Federal Home Loan Bank Board's rule of December 1953 authorizing the associations to lengthen the maximum maturity for conventional loans from 20 to 25 years.

Transactions of the Federal National Mortgage Association during the 1953-1954 period helped spark the initial upturn in housing starts, but they were a minor factor in sustaining or accelerating the expansion. Activities of the Association in this period were controlled by the so-called one-for-one program enacted in June 1953 (though not sponsored by the administration). The program authorized and, in fact, instructed FNMA to make agreements with purchasers of its mortgage loans to buy an equal amount of loans within one year and to enter into commitments for this purpose. Because commitments were difficult to obtain from private lenders until late 1953 or early 1954, the FNMA commitments enabled builders to secure construction financing that otherwise would not have been available and to initiate or enlarge their projects at once.[16] The actual sales and purchases by FNMA of loans stimulated by this program, however, had a somewhat unstabilizing effect on the mortgage market. In the initial phase of the housing expansion, FNMA was a net seller of mortgages on a small scale, with an excess of sales over purchases amounting to $162 million from October 1953 to mid-1954 (Table 11). Between mid-1954 and mid-1955, the Association purchased $409 million of loans (net). Thus, it gave support to the mortgage market when, in view of the large flow of private funds into mortgages, support was unnecessary and, on the contrary, net sales by FNMA would have been desirable to help sop up some of the funds so

[16] To obtain FNMA commitments, builders were willing to pay for the costs that mortgage companies and other mortgage loan originators incurred by buying loans from the association and selling it new loans.

eagerly offered for investment in mortgages. The result was that FNMA transactions tended to increase fluctuations in the mortgage market, and this effect was only somewhat mitigated by the relatively small amount of purchases involved. Net purchases continued through 1955 but on a greatly reduced scale. The whole episode suggests caution in mobilizing the Federal National Mortgage Association for commitment purposes. Because of the time lapse between commitments and actual disbursement of funds, commitments are not so readily adjustable to current and prospective conditions in the mortgage market as the Association's over-the-counter purchases and sales.

Search for Flexible Terms in Federal Housing Programs

In conclusion, the housing boom of 1953-1954 owed its origin and vigor mainly to the general easing of credit and to an unusually strong response by the financial system to that policy;[17] specific housing credit policies gave only minor and largely unintended support to the boom. While no deliberate attempt was made to use the governmental credit programs for stimulation of residential building, a concerted effort was nevertheless made during this period to obtain greater administrative discretion in the management of the programs as an added tool to deal with problems of economic instability. The Economic Reports of the President for 1953 to 1956 emphasize the need for flexible stabilization policies, and the development of additional means to execute such policies was a matter of major concern during these years.

As for the federal housing programs, the first step was taken in 1953 when the administration requested presidential authority to liberalize the terms for certain classes of FHA loans. This stand-by authority was enacted in the Housing Amendments of 1953[18] but, as previously mentioned, it remained unused. Still broader discretionary authority was requested in presidential messages to Congress in early 1954. Presidential authority within certain statutory limits was sought not only for liberalization of maximum terms but

[17] This conclusion furnishes another case in support of the view that short-term fluctuations in building construction, and especially in residential construction, are caused mainly by changes in the availability and costs of funds. Cf. William H. Newman, *The Building Industry and Business Cycles,* University of Chicago, 1953, and Jack M. Guttentag, "Some Studies of the Post-World War II Residential Construction and Mortgage Markets" (unpublished doctoral dissertation, Columbia University, 1958). However, no systematic association has been found between long-term variations in the level of residential construction and long-term changes in interest rates. Cf. Leo Grebler, David Blank, and Louis Winnick, *Capital Formation in Residential Real Estate,* Princeton for National Bureau of Economic Research, 1956, pp. 224-226.

[18] *Public Law 94,* 83rd Congress, 1st Session, approved June 30, 1953. Section 3 allowed the President to reduce the down payment on new single-family homes bought with an FHA mortgage to 5 per cent and to lengthen the maturity of the mortgage to 30 years provided that the principal amount of the loan did not exceed $12,000. In using this authority, the President was to take into account the general effect of such action "upon conditions in the building industry and upon the general economy."

TABLE 11

Purchases, Sales, and Holdings of Mortgages by the Federal National Mortgage Association, 1946-1958 (First Quarter)
(million dollars)

Year and Quarter	Purchases during Period			Sales during Period			Holdings at End of Period		
	Total	FHA	V.A.	Total	FHA	V.A.	Total	FHA	V.A.
				A. Combined Operations[a]					
1946	[b]	[b]	[b]	[b]	[b]	—	5.6	5.6	—
1947	.1	.1	—	—	—	—	4.4	4.4	—
1948	197.9	186.8	11.1	—	—	—	199.3	188.2	11.1
1949	672.2	252.7	419.5	19.8	19.4	.4	828.4	403.3	425.1
1950	1,044.3	49.3	995.0	469.4	261.4	208.0	1,346.7	169.2	1,177.5
1951	677.3	74.4	602.9	111.1	28.1	83.0	1,849.5	203.7	1,645.8
1952	537.9	167.7	370.2	55.9	35.7	20.2	2,241.7	319.8	1,921.9
1953– I	195.0	91.6	103.4	20.0	12.7	7.3	2,393.9	394.9	1,999.0
II	139.1	91.2	47.0	7.4	2.3	5.1	2,497.7	477.5	2,020.2
III	98.0	86.1	11.9	30.0	1.7	28.3	2,539.8	555.9	1,983.9
IV	110.4	86.3	24.1	163.7	16.0	147.7	2,461.7	621.1	1,840.6
1954– I	133.4	99.7	33.7	205.5	61.9	143.6	2,366.0	653.1	1,712.9
II	139.0	96.5	42.5	175.7	39.9	135.8	2,301.1	700.3	1,600.8
III	188.6	77.9	110.9	94.6	22.1	72.5	2,363.7	745.2	1,618.5
IV	153.4	79.7	73.7	49.4	11.7	37.7	2,433.7	802.2	1,631.5

1955– I	150.3	60.6	89.7	35.4	9.5	25.9	2,511.7	839.2	1,672.5
II	118.1	46.1	72.0	21.9	3.8	18.1	2,567.2	867.1	1,700.1
III	44.4	25.1	19.3	2.9	.6	2.3	2,564.4	870.9	1,693.5
IV	98.6	52.6	46.0	1.6	.1	1.5	2,615.2	901.1	1,714.1
1956– I	84.3	27.1	57.2	1.1	—	1.1	2,656.9	909.0	1,747.9
II	87.7	20.6	67.1	1.8	1.2	.6	2,703.8	914.6	1,789.2
III	129.2	31.4	97.8	1.6	b	1.6	2,781.3	920.0	1,861.3
IV	307.5	74.2	233.3	.5	—	.5	3,047.2	978.4	2,068.8
1957– I	402.2	89.8	312.4	.5	.5	b	3,408.7	1,053.2	2,355.5
II	239.3	60.3	179.0	2.2	1.5	.7	3,604.9	1,099.9	2,505.0
III	220.5	65.7	154.8	.1	.1	b	3,783.5	1,152.2	2,631.3
IV	234.0	97.5	136.5	.1	b	.1	3,974.2	1,237.2	2,737.0
1958– I	178.1	132.0	46.1	37.9	10.9	27.0	4,072.6	1,346.4	2,726.2

B. Secondary Market Operations[c]

1954–IV	b	b	b	—	—	—	b	b	b
1955– I	1.1	.5	.6	—	—	—	1.1	.5	.6
II	8.4	2.6	5.8	—	—	—	9.4	3.1	6.3
III	20.3	4.5	15.8	—	—	—	29.6	7.6	22.0
IV	56.3	12.3	44.0	—	—	—	85.7	19.8	65.9
1956– I	72.0	15.8	56.2	1.1	—	1.1	155.9	35.5	120.4
II	80.4	14.2	66.2	1.8	1.2	.6	233.4	48.2	185.2
III	121.9	24.3	97.6	1.6	b	1.6	351.9	72.0	279.9
IV	300.3	67.3	233.0	.5	—	.5	648.7	138.6	510.1
1957– I	387.7	75.4	312.3	.5	.5	b	1,030.8	212.2	818.6
II	226.9	48.0	178.9	2.2	1.5	.7	1,248.1	256.9	991.2
III	205.7	51.1	154.6	.1	.1	b	1,445.4	306.0	1,139.4
IV	200.7	64.2	136.5	.1	b	.1	1,635.8	367.5	1,268.3
1958– I	130.9	85.4	45.5	37.9	10.9	27.0	1,717.9	439.1	1,278.8

TABLE 11 (*Continued*)

Year and Quarter	Purchases during Period			Sales during Period			Holdings at End of Period		
	Total	FHA	V.A.	Total	FHA	V.A.	Total	FHA	V.A.
				C. Special Assistance Functions [d]					
1956– I	.3	.3	[b]	—	—	—	.3	.3	[b]
II	.1	.1	—	—	—	—	.4	.4	[b]
III	1.7	1.7	—	—	—	—	2.1	2.1	[b]
IV	3.5	3.5	—	—	—	—	5.6	5.6	[b]
1957– I	8.2	8.2	—	—	—	—	13.7	13.7	[b]
II	11.0	11.0	[b]	—	—	—	24.6	24.6	[b]
III	14.5	14.4	.1	—	—	—	39.0	38.9	.1
IV	33.4	33.3	.1	—	—	—	72.2	72.0	.2
1958– I	47.1	46.5	.6	—	—	—	118.8	118.0	.8

SOURCE: Federal National Mortgage Association.

[a] Does not include Defense Homes Corporation notes ($41.5 million) or direct loans of the RFC Mortgage Company ($2.2 million) transferred by Reorganization Plan No. 2 of 1954 to FNMA.

[b] Less than $0.05 million.

[c] These began in the last quarter of 1954. Figures include stand-by purchases.

[d] These began in the last quarter of 1954, but there were no actual purchases before the first quarter of 1956.

NOTE: For the sake of brevity, FNMA transactions under the "Management and Liquidation Program" since the fourth quarter of 1954 are not shown separately, but they are included in "Combined Operations." Changes in the amount of holdings are determined not only by purchases and sales but also by repayments on loans in the FNMA portfolio.

also for their tightening—that is, for requiring higher down payments and shorter loan maturities—and for setting interest rates. Moreover, these stand-by powers were requested for V.A. loans as well as for FHA loans. And it was stated explicitly that the discretionary authority was to be used in the interest of maintaining economic stability.[19]

The administration's housing bill of 1954[20] filled in the details. It proposed that the President be empowered to establish the interest rate on FHA and V.A. loans at any level subject to a ceiling of 6 per cent (the existing statutory ceiling on FHA loans) provided that it was not more than 2.5 per cent above the going rate on long-term U.S. bonds. It authorized the President to alter loan maturities subject to a maximum of 30 years (the existing statutory limit on V.A. loans, but in excess of most of the varying limits on FHA loans). And it permitted the President to raise the down payments on homes bought with FHA or V.A. mortgages over and above the minimum amounts required by law.

This was not the first legislation allowing flexible use of certain federal housing programs. The Housing Act of 1949 had given the President authority to accelerate the public housing and the urban redevelopment programs if conditions in the building industry and the national economy made such action advisable. But flexibility was allowed only for acceleration, not for deceleration, and the programs were relatively small. Moreover, extremely long lead times make it difficult to use these programs for short-run economic stabilization policies. The discretionary powers requested in 1954, in contrast, would have permitted both deceleration and acceleration, and they would have applied to programs that exert an important influence on the volume of residential construction and involve shorter lead times. Consequently, this was the first time in about 20 years of housing legislation that the principle of administering major federal credit programs in such a manner as to help maintain economic stability was clearly enunciated as governmental policy.[21]

[19] See the general statement in the *Economic Report of the President,* January 1954, p. 84, and the more specific recommendations in the *President's Housing Message* of January 25, 1954.

[20] *H.R. 7839,* 83rd Congress, 2nd Session. The applicable provisions are in Title II of the bill. See also *Housing Act of 1954,* Hearings before the House Committee on Banking and Currency, 83rd Congress, 2nd Session, March 1954.

[21] Such a policy had been recommended earlier by students in this field. Cf. the following writings of the author: "Housing Policy and the Building Cycle," *Review of Economic Statistics,* May 1942; "Stabilization of Construction Employment—A Step toward Over-all Stabilization," in *The Winning Plans in The Pabst Postwar Employment Awards,* 1944; and "Stabilizing Residential Construction—A Review of the Postwar Test," *American Economic Review,* September 1949. The present paper represents, it is hoped, an improved extension of this earlier work on the basis of new experience and further reflection.

Most of the discretionary powers requested in 1954 were not granted. The only vestige remaining in the Housing Act of 1954 was a minor presidential authority to liberalize slightly the down payment on homes bought with FHA loans by applying the minimum of 5 per cent to the first $10,000 instead of $9,000 of appraised value. This stand-by authority was not used, and it was removed in later amendments.

But although most of the discretionary powers were denied to the Executive, the principle of using the federal housing credit programs in a manner calculated to aid economic stability had received definite executive sanction. In the following year, when the principle was realized by exercise of the regulatory authority vested in the Federal Housing Administration and the Veterans Administration, one of the major housing issues in economic stabilization policy was clearly drawn.