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Scope of the Paper

Federal credit aids occupy a strategic position in residential construction. Introduced only 17 years ago, they are today deeply imbedded in the processes of capital formation and financing in residential real estate. Although the objectives, methods, and intensity of aids have changed markedly since their advent in the depression years, the aids themselves have become widely accepted as essential parts of the institutional framework in which new housing is produced and financed. The programs set up for administering them have profoundly affected not only the structure of the housebuilding industry and the sources, amount, and cost of residential mortgage funds, but even the character of the housing product.

This paper undertakes to measure the size of this new force and to trace some of its effects on housebuilding. While these can probably be said to range from the greatly increased proportion of home owners in the United States to the emergence of the large-scale "merchant" builder, this examination is focused on the effects most revealing of broad, long-term changes in capital formation and financing.

This paper also attempts to suggest what the future role of the federal government may be in the field of private residential construction. Federal credit aids express a public policy: it is in the general interest to maintain capital formation in residential real estate at a high volume. Although conceived in the depression, this policy has grown to its present dominant role over a period of rising incomes and full use of national resources. It has yet to be tested against the increasing vacancy rates, declining rents, and mounting foreclosures that in the past have signaled a shut-down of housebuilding activity. How firm a prop would credit aids prove to be in a market weakened by a large supply of housing offered at distress rentals and sale prices? Some of the facts disclosed by this study suggest that a major contraction in residential building might precipitate public demand for new financial tools, less respectful of the existing institutional pattern of mortgage finance than the present system of credit aids.

If the government's present influential role in housebuilding finance is increased, investment in residential construction may in the future become less sensitive to the competition of other potential investment uses of savings. This direct fiscal door to high-level housebuilding has already been opened wide enough to suggest that government support for new residential construction needs to be more carefully balanced against policies to maintain over-all economic stability. Some of the reasons why these two objectives may be in conflict are also discussed in this paper.

The federal programs reviewed here are the insurance of residential mortgage loans by the Federal Housing Administration, the guaranty of veterans' home loans by the Veterans Administration,[1] and the operations of the Federal National Mortgage Association in the so-called secondary mortgage market. These programs have provided assistance in financing both existing and new construction, but the analysis here is focused on their importance to the volume and financing of *new* housing. The paper is also limited to federal programs pertaining to private, nonfarm residential construction as distinguished from farm housing and public housing.[2]

Continuing government aids relevant to the future course of

[1] While there are legal and financial differences between the "insurance" of loans by FHA and the "guaranty" of loans by VA, the generic term "insurance" will sometimes be applied for convenience when the combined importance of the two programs is discussed.

[2] Discussion of the public housing and urban redevelopment programs would involve many issues and forms of government assistance greatly dissimilar to those treated here, such as direct government loans and subsidies to public agencies. With the intensification of government aids to housing, it is becoming more difficult to draw the boundary lines between private and public construction. In accordance with common usage, the distinction between private and public construction is here drawn on the basis of ownership. When title to new residential facilities is vested in private individuals or corporations or

capital formation and financing in residential construction are investigated, as distinguished from liquidated operations such as the Home Owners' Loan Corporation and RFC Mortgage Company. There is no need here for a review of all of the many activities of the federal government in this field, and of their origin and evolution.[3] Finally, the geographic distribution of government aids is outside the purview of the paper, and short-run fluctuations of residential building and mortgage lending activity that may be associated with changes in federal legislation and administrative policies are treated lightly and only to the extent that they are believed to illuminate basic and continuing issues.[4]

This paper is part of a broader study of capital formation and financing in residential real estate, which will be published as a monograph. The complete study will measure and analyze the formation and financing of capital in new private residential construction from 1890 to 1950 as part of long-term economic growth. It will also attempt to identify factors that have influenced the volume and financing of residential building activity and to assess the effect these forces will have on the future course of capital formation and financing.

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institutions, construction is designated as private, although mortgage loans insured by a federal agency or real estate tax benefits may have been used. When title is held by a public agency, construction is designated as public, although the funds may have been raised by selling bonds to private investors. This definition is almost identical with one that uses the direct source of funds as criterion, except for the small direct home mortgage lending program of the Veterans Administration and similar small programs in various states. In these cases the owners of the real estate are private but the funds are public.

[3] Cf. for such a review Miles L. Colean, *The Impact of Government on Real Estate Finance in the United States* (National Bureau of Economic Research, 1950), particularly Chapters 5 through 8. R. J. Saulnier, "The Growth of Federal Lending, Loan Insurance and Guarantees" (National Bureau of Economic Research, Manuscript, 1952), presents comprehensive basic data on housing and other programs as well as a resume of the programs. This manuscript shows also the important position of housing in aggregate federal lending and loan insurance activities. See also C. Lowell Harriss, *History and Policies of the Home Owners' Loan Corporation* (National Bureau of Economic Research, 1950).

[4] For example, no analysis is made of year-to-year changes in the proportion of new residential construction financed by FHA-insured loans to total residential construction as they related to changes in legislation and regulation, although such an analysis would have been interesting.