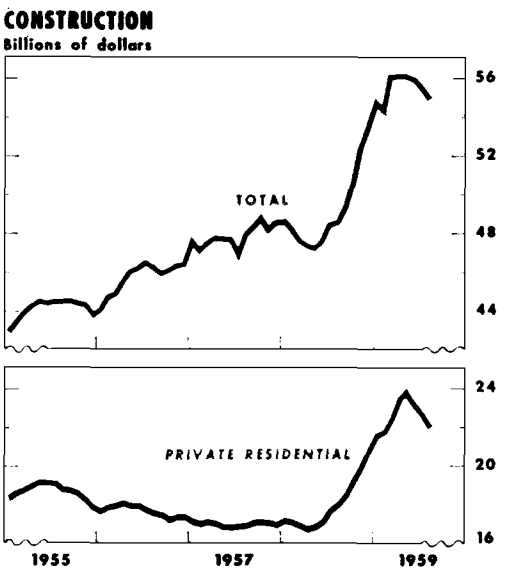
# Construction and Mortgage Credit

CONSTRUCTION ACTIVITY has increased somewhat less than seasonally in recent months but has remained well above the level of any previous year. Reflecting greater over-all demands for labor and materials, construction costs have advanced since the recession reached its lowest point last year. The rate of rise has been almost as rapid as in the comparable period following the 1954 recession low, and costs are now at new highs.

Housing demand has been sustained in most nonfarm areas as consumer incomes have continued upward. Vacancies have increased, however, even though the rate at which new households have been formed has changed little over recent years and the frequency with which two or more married couples share the same dwelling has declined further.

Mortgage markets have recently been under increasing demand pressure, and mortgage yields have been rising. Lenders appear to be more cautious in making commitments for future mortgage lending. Mortgage loans closed, which reflect in part loan commitments made earlier, have nevertheless been in record volume, and mortgage debt outstanding has expanded sharply.




NOTE.—Bureau of the Census data at seasonally adjusted annual rates. Private residential excludes farm. Figures for recent months subject to revision. Latest figures shown, August.

### CONSTRUCTION

Construction activity rebounded rapidly after its recession low in May 1958. The total value of new construction put in place increased nearly one-fifth to a record seasonally adjusted annual rate of $56 billion in March, April, and May of this year. Larger outlays were stimulated in part by emergency housing legislation enacted early in 1958, and three-fourths of the $9 billion rise in total construction was accounted for by greater expenditures for building private nonfarm residences.

Stepped-up activity in the construction of highways and streets, encouraged to some extent by special grants from the U. S. Government to various States, also contributed to the advance in total construction. The building of commercial facilities rose somewhat from May 1958 through April 1959 as increases in store, restaurant, and garage construction slightly exceeded decreases in outlays for office buildings and warehouses. Industrial construction, however, declined further, and in April 1959 reached the lowest level in eight years.

After rising almost continuously for a year after its recession low, total construc-

tion outlays, seasonally adjusted, turned down beginning in June, according to preliminary estimates. Even so, the August rate was 13 per cent above the level a year earlier. The downturn that started in June has reflected a less than seasonal increase in private nonfarm residential construction. Total construction contracts, which precede actual outlays, have been at about the same high level in the past few months as they were a year earlier.

Commercial construction activity, supported mainly by larger outlays for store buildings, has advanced further. According to estimates by *Chain Store Age,* at least 900 shopping centers may be added this year to the 2,800 or so in operation at the end of 1958. This compares with 600 openings last year. Activity in industrial construction turned up in May and further recovery is suggested by sharp year-to-year increases in construction contracts.

Most of the recent advance in the dollar volume of construction activity has reflected rising real output rather than higher costs. Estimated construction outlays in the first seven months of 1959 were 15 per cent larger than in the corresponding 1958 period, and the physical volume of construction was 13 per cent larger. Costs of residential, commercial, and industrial building, which changed little in 1957 and early 1958, have since reportedly advanced about 5 per cent each. This somewhat exceeds the average rise for all other types of construction costs.

### FACTORS IN RESIDENTIAL CONSTRUCTION

The upsurge of construction activity in 1958 and early 1959 reflected in large part a marked increase in starts of nonfarm dwelling units for private ownership. After February 1958 private dwellings placed under construction rose nearly every month and in April of this year reached a seasonally adjusted annual rate of 1,434,000 units. This was the highest level in more than four years. Starts then declined somewhat, but even so the August rate was the second highest for that month on record.

Construction of privately owned apartment houses has increased. Dwelling units started in 3-or-more-family structures in 1958 were the largest in number (170,000) in 30 years and the largest part (one-sixth) of total private starts since 1949. These trends appear to have been maintained this year.

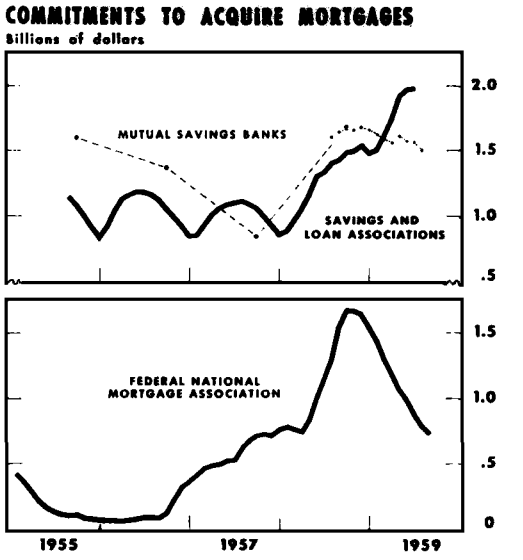
Other types of new accommodations have added to the supply of privately owned living quarters. Shipments of mobile homes in 1958 were estimated by the Mobile Homes Manufacturers Association at 102,988 units, the third highest on record. In terms of space provided, the largest mobile homes were only one-fourth smaller than the typical apartment unit started. Construction contracts for motels and motor courts with some units suited to nontransient occupancy were more than one-half higher in the first seven months of 1959 than in the same period of the preceding active year.

Increases in the supply of new privately owned living quarters have been supplemented by community development programs. Public housing starts, including Federal, State, and local government programs as well as armed services housing, totaled 26,600 units through the first eight months of this year, down one-half from the unusually high level in the corresponding period of 1958.

Beginning of work was approved on 76 urban renewal projects through August of this year, compared with 92 in all of 1958.

Some further action has also been taken under the college housing, school construction, and public facilities Federal loan programs and the program for Federal advances for public works planning.

Growth in the nation's housing stock has continued to exceed increases in the number of occupied units, and vacancies have risen further. Vacancy rates in rental dwellings in the second quarter of this year, according to a sample survey, were the highest in more than two decades. Many vacant rental units represented comparatively adequate living accommodations, but a larger proportion lacked full plumbing facilities than was the case for tenant-occupied properties.




NOTE.—Commitments outstanding to buy or originate mortgages, for immediate or future delivery, as reported by the Federal Home Loan Bank Board for savings and loan associations; by the Superintendent of Banks, State of New York (September 30 data, 1955-58) and by Savings Banks Association of the State of New York (beginning with July 1958) for mutual savings banks in that State; and by the Federal National Mortgage Association (Federally underwritten residential mortgages only under its secondary market and special assistance programs). Latest figures shown, savings and loan associations (June); mutual savings banks (July); FNMA (August).

## MORTGAGE MARKET CONDITIONS

Rising demands for credit from other sectors of the economy have put mortgage markets under increasing pressure. Lenders have been screening mortgage loan applications with greater care, and the cost of borrowing has increased. Outstanding mortgage commitments by private lenders, after advancing sharply when over-all credit demands were smaller, have recently leveled off at an unusually high volume. Nevertheless, loan closings, partly reflecting past commitments, have continued in record volume and at relatively long maturities and liberal loan-value ratios.

Toward the end of 1957, residential mortgages became more attractive to investors when their yields declined less than average returns on alternative investments. With some liberalization in mortgage lending practices and receding demands in the capital market from other sources, residential mortgage credit became increasingly available early in 1958. Easing was evidenced by a drop in mortgage offerings for purchase by the Federal National Mortgage Association under its secondary market operations, and a step-up in FNMA sales. Outstanding commitments of savings and loan associations and reporting mutual savings banks increased substantially during 1958 for the first time in three years, as shown on the accompanying chart.

Pressures on residential mortgage markets intensified toward mid-1958. With the broad recovery in construction and other economic activity, demands for mortgage funds increased along with other needs for capital and credit.

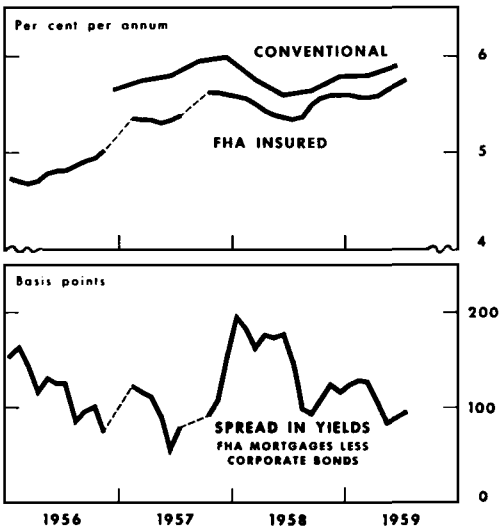
By the end of 1958, residential mortgage yields had advanced noticeably in response to these pressures. Interest rates on conventional first mortgages on new and existing houses in metropolitan areas, as re-

ported by the Federal Housing Administration, averaged about 5.80 per cent, 20 basis points over midyear. Average estimated yields on certain FHA-insured 5¼ per cent new-house mortgages available for immediate delivery in the private secondary market had risen 25 basis points to approximately 5.60 per cent.

Returns on alternative capital market investments advanced even more during the latter part of 1958. The gross spread between average yields on FHA-insured mortgages and new issues of high-grade corporate bonds narrowed sharply, as shown in the chart.

As the spread narrowed, investor interest in new residential mortgages diminished to some extent. Offerings to the Federal National Mortgage Association increased, sales by FNMA dropped markedly, and this institution became a net buyer of mortgages under its secondary market operations. The upward trend in outstanding commitments of mutual savings banks leveled off toward the end of 1958, as indicated in the chart on page 1093, as did that for reporting life insurance companies. Savings and loan associations, however, continued to add to their outstanding commitments, reflecting the fact that these institutions place most of their funds in mortgages and are less influenced by alternative investment opportunities.

**MORTGAGE YIELDS**




NOTE.—Mortgage yield data based on FHA field office opinions regarding market areas of insuring office cities. For conventional, average interest rates on first mortgages on new and existing houses. For FHA insured, weighted average bid prices in private secondary market for certain new-house mortgages for immediate delivery, converted to annual yield by Federal Reserve.

Spread is gross (exclusive of servicing costs, which are higher for mortgages than for bonds) and is difference between FHA-insured series (shown in upper section of chart) and weighted average yields of new corporate issues publicly offered, adjusted to a Aaa basis, as computed by First National City Bank of New York.

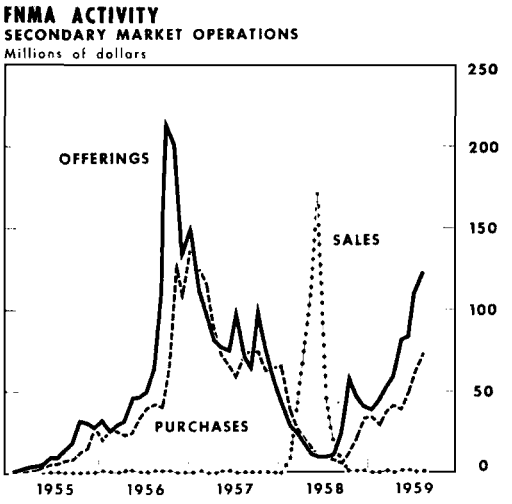
Dashed lines indicate periods of adjustment to changes in the contractual interest rate on FHA-insured loans. Latest figures shown, conventional (June); others (July).

Pressures on residential mortgage markets continued to increase in 1959. Mortgage yields, after changing little late last year and early this year, have since advanced to levels at or near postwar highs, but the gross spread between mortgage and bond yields was lower in July than at the beginning of 1959. By June, estimated conventional first mortgage interest rates on new and existing houses had reached an average of 5.90 per cent, and in July yields on selected FHA-insured new-house mortgages were at a record 5.75 per cent.

## VOLUME OF CREDIT

With construction activity near record levels, mortgage financing has reached new highs. Mortgage debt outstanding increased more in the first half of 1959 than in the corresponding period of any other year. By June it attained an estimated $181 billion on all types of properties.

Mortgage lending, based partly on commitments made earlier, ended a three-year decline early in 1958 and then climbed sharply. From a seasonally adjusted annual rate of $23.7 billion in February 1958,




NOTE.—Unpaid principal on outstanding mortgages, exclusive of premiums, discounts, and other charges. Offerings cover applications from sellers proposing that FNMA execute purchase contracts. Latest figures shown, August.

recordings of nonfarm mortgages for $20,000 or less, chiefly on 1- to 4-family houses, advanced nearly every month to a $33.4 billion rate in June of this year. This was a new high and one-fourth above a year earlier.

Lending on conventional mortgages has come to the fore more than in 1955 or 1950, and savings and loan associations, which specialize in these loans, have extended a larger share of total mortgage credit than earlier in the decade. Mortgage recordings of savings and loan associations through July of this year represented 41 per cent of total recordings, compared with 37 per cent in 1955 and 31 per cent in 1950. As in the corresponding period of the preceding two years, residential mortgage acquisitions by savings and loan associations through June this year amounted to more than three-fifths of net acquisitions of all major private financial institutions, including banks, life insurance companies, and savings and loan associations.

Lending on Federally underwritten mortgages has nevertheless remained extensive, and FHA insurance of loans has set new records. The proportion of VA-guaranteed loans closed with 30-year maturities, or for which no downpayment was required, reached an all-time high toward mid-1959.

As market pressures intensified this year, purchases by the Federal National Mortgage Association in the secondary market increased. In the first half of the year, FNMA mortgage acquisitions exceeded $225 million, three times the volume in the preceding six months, while its sales dropped to less than 5 per cent of the amount in the last half of 1958. This year, FNMA has been the largest single institutional buyer of FHA and VA mortgages, with combined purchases under secondary market operations and special assistance functions exceeding $1 billion. These acquisitions sharply reduced the level of FNMA

CHANGES IN INSTITUTIONAL HOLDINGS OF NONFARM RESIDENTIAL MORTGAGES FIRST HALF, 1955-59

[In billions of dollars]

| Type of institution or mortgage | 1955 | 1956 | 1957 | 1958 | 1959 |
|---|---|---|---|---|---|
| Total | 6.2 | 5.3 | 3.9 | 3.7 | 6.7 |
| **Institution** | | | | | |
| Savings and loan associations | 2.8 | 2.2 | 2.1 | 2.3 | 3.7 |
| Commercial banks | 1.0 | .6 | −.1 | .3 | 1.0 |
| Mutual savings banks | 1.1 | 1.1 | .7 | .9 | .7 |
| Life insurance companies | 1.2 | 1.3 | .7 | .4 | .4 |
| Federal National Mortgage Association | .1 | .1 | .6 | −.2 | .9 |
| **Mortgage** | | | | | |
| Conventional | 3.3 | 2.8 | 2.5 | 2.8 | 4.2 |
| FHA-insured | .7 | .5 | .2 | 1.1 | 2.2 |
| VA-guaranteed | 2.2 | 2.0 | 1.2 | −.2 | .3 |

NOTE.—Federal Reserve estimates based on data from Federal and private agencies. Figures for 1959 reflect a bank absorption that transferred $142 million from mutual savings banks to commercial banks. Details may not add to totals because of rounding.

mortgage commitments outstanding, as the chart on page 1093 shows.

Total mortgage debt outstanding increased in the first half of 1959 by a record $9.6 billion despite a large volume of mortgage repayments. Seven-tenths of the rise was accounted for by mortgages on 1- to 4-family houses. Of the $124.7 billion in 1- to 4-family mortgage debt outstanding, the Federal Government had underwritten two-fifths.

Recent increases in mortgage debt outstanding have reflected a rise in both the number of properties being financed and the average amount of credit extended on each property. Compared with the first seven months of 1958, the number of nonfarm mortgages of $20,000 or less recorded through July of this year was about one-sixth larger and the average amount was approximately one-tenth larger.

Recorded mortgage loans of $20,000 or less averaged about $8,520 in the first seven months of 1959. This was about 17 per cent more credit than was granted in the average recorded mortgage during 1955, and 60 per cent more than during 1950. The larger average amount of loan reflects higher housing prices and larger loan-value ratios than were typical in earlier years.