I

Survey of Housing and Mortgage Finance

THE fiscal year 1940 was overshadowed by the armed conflict in Europe that came to have effects of varying intensity on economic conditions in the United States. The fields in which the Federal Home Loan Bank Board operates were not directly influenced by the war during the reporting period. Investment of funds in home mortgages, the construction of new homes, activity in the real-estate market, and operations of home-financing institutions continued in much the same manner as might have been expected had there been no war in Europe.

Upon the outbreak of the war, there was a widespread inclination to look for analogies with the last World War in which housing and real-estate financing had been progressively handicapped even before the United States became a belligerent. When the fiscal year 1940 drew to a close, neither the fears nor the hopes derived from such analogies had come to pass. The flow of savings into financial institutions continued unabated. A brief flurry of withdrawals in some areas during the first few weeks of the war was quickly reversed. Lending activity on home mortgages by private institutions and individuals reached a nine-year high, and financing costs of home ownership dropped further. Residential construction remained on a reasonably high level and exceeded even the substantial volume of the preceding fiscal year.

On the other hand, optimistic expectations of a marked rise in real-estate values because of war psychology failed to materialize; prices for old properties were stable at best or continued to decline. The only direct and continuing effect of the war was a sharp increase in many building-material prices during the latter half of 1939—a dislocation which unfortunately was little corrected in subsequent months.

Inasmuch as war orders and increased exports to neutral countries helped to sustain the improvement of domestic business that appeared to be in the offing in the summer of 1939, they aided in the rise of national income which is one of the factors determining the volume of home purchase and home building. Toward the end of the reporting

period, moreover, the American defense program added a new stimulus.

The absence of marked repercussions on housing and mortgage finance in the first twelve months of the European war through September 1940 (when this report goes to press) does not, of course, preclude substantial interferences in the future should the war be protracted. In any evaluation of war effects, the time element is a most potent factor. In addition, the defense program may raise new problems in the fields in which the Federal Home Loan Bank Board operates.

Whatever the future may bring, the home-financing structure today is better prepared to face an emergency than ever before. The member institutions of the Federal Home Loan Bank System can draw on the resources of the Bank System to obtain funds for the payment of withdrawals or for making mortgage loans. Certain Government agencies are especially equipped to provide a market for mortgage loans insured by the Federal Housing Administration. Commercial banks are permitted to obtain advances on the security of mortgages as well as other acceptable collateral. Insurance of accounts in savings and loan associations has a beneficial effect on investors' confidence. The preponderance of long-term amortized mortgages in the present home-mortgage structure reduces hazards that would result from large-scale maturities of straight loans calling for renewal.

1. RESIDENTIAL CONSTRUCTION AND THE REAL-ESTATE MARKET

Continued Increase of Residential Building

General business conditions were highly erratic throughout the fiscal year 1940. A hectic buying wave upon the outbreak of the war generated a steep rise in industrial production which resulted, however, in inventory accumulations rather than in a concomitant increase of consumption. This was followed by a sharp reduction in output from January to April, which brought the level of industrial activity back to that of the fall of 1939, and by a subsequent recovery engendered mainly by defense orders or their anticipation. Nonagricultural income as a whole moved less irregularly and rose from $61,541,000,000 in the fiscal year 1939 to $64,938,000,000 in the fiscal year 1940, or by 6 percent. Since the cost of living during the past fiscal year remained fairly stable, there was an approximately equal increase in real income—a condition favorable to the building and purchase of homes.

Taking the fiscal year 1940 as a whole, residential construction continued the major upswing that has been under way since 1935, but the expansion was at a much lower rate than during the previous

CHART I

INDICES OF RESIDENTIAL CONSTRUCTION AND INDUSTRIAL PRODUCTION

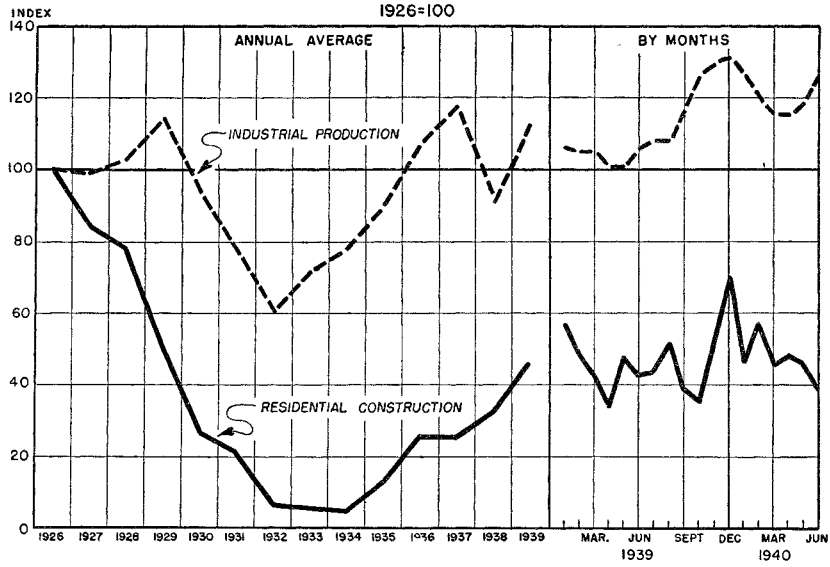

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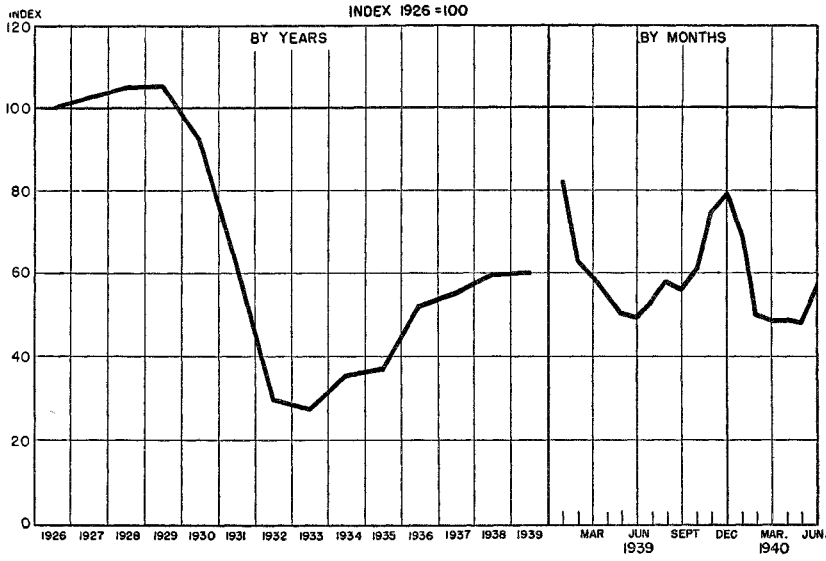
CHART II

CONSTRUCTION OTHER THAN RESIDENTIAL

CONSTRUCTION CONTRACTS AWARDED



Source Board of Governors of the Federal Reserve System, based on reports of the F W Dodge Corporation

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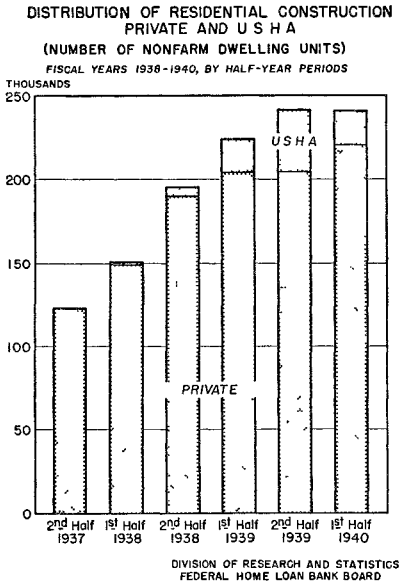
fiscal year. As evidenced by building permits, construction was started on 482,804 nonfarm dwelling units as compared with 419,539 in the fiscal year 1939, and the dollar cost of these units was estimated at $1,639,270,000 as against $1,483,148,000 in the preceding fiscal year. This was an increase of 15.1 percent in the number of units and of 10.5 percent in dollar volume, as compared with increases of 53.3 and 41.1 percent, respectively, in the previous year.

The larger volume of residential building operated to offset, to a certain extent, a decline in nonresidential construction during the year.

Private nonresidential building, especially factory construction, reflected some increase over the fiscal year 1939. On the other hand, public nonresidential construction, which looms very large in total nonresidential construction, showed a substantial decrease due to the completion of the Public Works Program of 1938. As a result, nonresidential construction as a whole was lower than in the preceding fiscal year.

CHART III



Private Versus Public Construction

During the fiscal year 1940, publicly financed building was an important factor in total residential construction. The number of dwelling units provided under the slum clearance provisions of the United States Housing Act of 1937 was 58,716 as compared with 25,505 in the preceding year. This rise was augmented by some State and locally sponsored projects such as those undertaken under the New York Public Housing Law of 1939.

All in all, it is estimated that over 12 percent of the nonfarm dwelling units on which construction was started in the fiscal year 1940 was provided by projects financed through the United States Housing Authority. The bulk of this activity was concentrated in the period from July to December 1939. In the first few months of 1940, the volume of publicly financed building declined.

The following table compares the expansion of USHA-financed construction with the increase in private building activity in nonfarm areas:

Comparison of private residential construction with USHA-financed construction

Fiscal-year period	Total construction		Private construction		USHA construction	
	Dwelling units started	Increase over preceding year	Dwelling units started	Increase over preceding year	Dwelling units started	Increase over preceding year
	Number	*Percent*	*Number*	*Percent*	*Number*	*Percent*
1938	273,742	----------	273,022	----------	720	----------
1939	419,539	53.3	394,034	44.3	25,505	3,442.4
1940	482,804	15.1	424,088	7.6	58,716	130.2

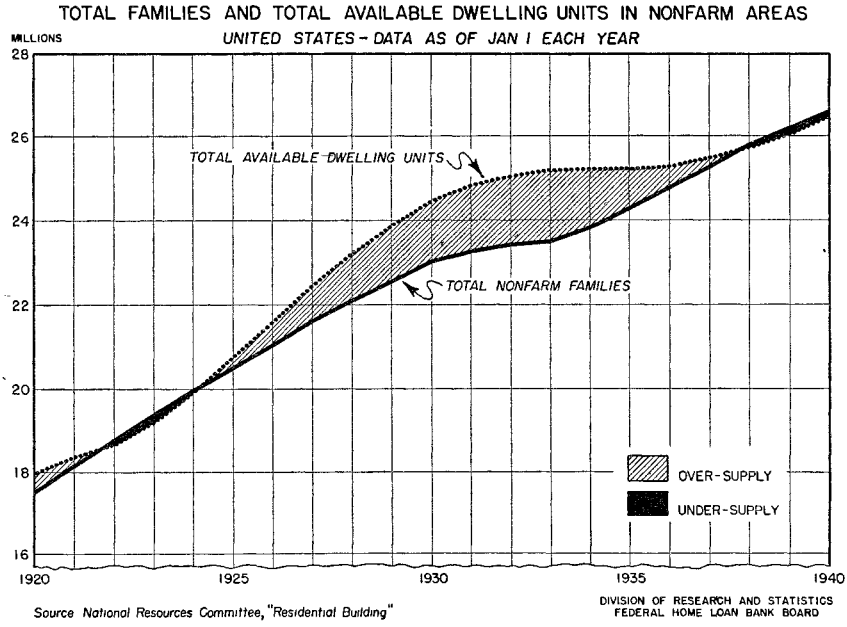
These figures indicate that more than one-half of the 1940 increase of total residential construction was accounted for by projects financed through the United States Housing Authority. Private building rose only by 30,054 dwelling units, or as little as 7.6 percent.

The relatively small expansion of private building activity during the fiscal year 1940 raises the question whether new private construction is not approaching a period of relative stability. It is true of course that the effects of the defense program may change the present relationships between the supply and demand for housing. However, it appears that at the present level of family incomes and building costs, an annual supply of approximately 450,000 dwelling units is about all the effective demand, resulting from normal replacements and increases in the number of families, can absorb. Further expansion of private building seems to be predicated upon (1) a material rise in national income, without corresponding increase in building costs, (2) a marked reduction of building costs, or (3) a further decrease of financing costs. For a number of years, private home building has been supported by an ample supply of funds and a continuous lowering of financing costs through reduced interest rates. Amortization periods have been extended and down payments reduced. The 1940 experience may indicate that this impetus has spent its force, and it is an open question whether substantial general reductions of financing costs from the present low level will be forthcoming.

Essentially, however, and barring unforeseen events, the situation remains favorable to private building. The following chart indicates that the oversupply of nonfarm dwelling units in relation to the number of nonfarm families, accumulating since 1925, had been

absorbed by 1938. Since then, the number of total available housing units has been moving closely parallel to the number of nonfarm families, with an indicated slight shortage of dwelling units in 1939 and 1940. In fact, 1938 was the first year showing a deficiency in available family units since 1924.[1]

CHART IV



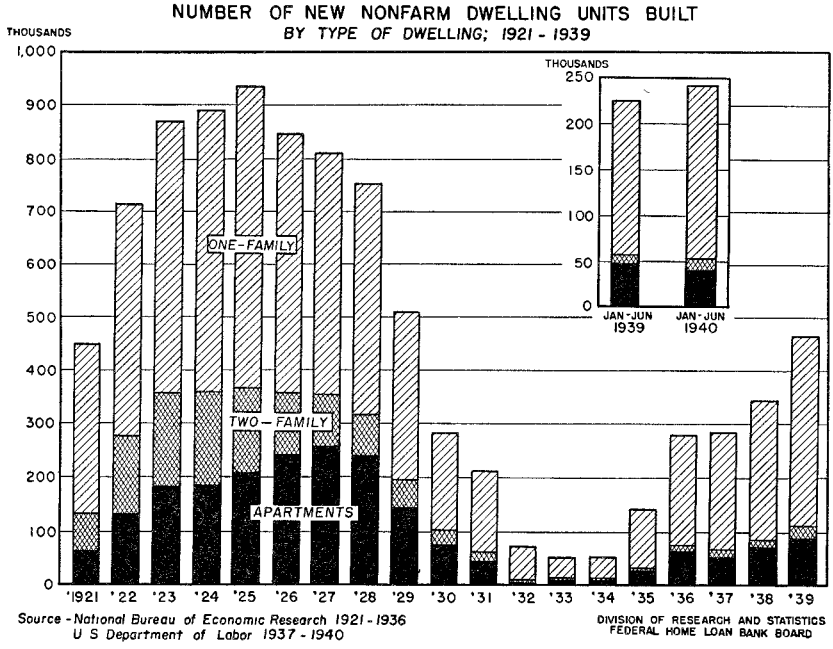
Predominant Position of Single-Family Houses

The single-family dwelling continues to hold a predominant position in new construction. This is not only indicative of the strength of traditional preferences of the average American, but should also be an encouragement to local savings and loan associations which from the very beginning have specialized in financing this type of dwelling.

[1] Chart IV measures the total number of available dwelling units and the total number of families. The fact that an oversupply of dwelling units is revealed for the period from 1925 to 1938, and that the undersupply thereafter is only small, does not preclude serious local shortages; nor does it preclude shortages for certain income groups. In addition, the number of available housing units includes substandard dwellings as well as others. The doubling up of a large number of families also influenced these trends. The two curves in the chart are based on: National Resources Committee, Housing Monograph Series, No. 1, Residential Building, Table VI. The underlying estimates of the number of nonfarm families and the number of nonfarm dwelling units were brought up to date by the Construction and Real Property Section of the Bureau of Foreign and Domestic Commerce.

In past building cycles, an upswing was usually accompanied by a disproportionate increase in the erection of apartment houses, attendant upon the growth of our cities. In the Twenties, for example, the proportion of new dwelling units in apartment houses to total dwelling units built rose from 18.6 percent in 1922 to 22.2 percent in 1925 and to 31.7 percent in 1928, with both an absolute and relative decrease in the construction of one- and two-family houses. In fact, the boom in apartment-house building came into full swing from 1926 to 1928 when total residential construction was already on the decline. The present building recovery thus far has distinguished itself by a consistently high share of single-family dwellings in total construction, and a large proportion of these dwellings is designed for owner-occupancy rather than rent. Cities still grow in population, but the expansion is mainly in outlying metropolitan areas where there is enough open space for the desired single homes, rather than in the congested central districts where apartment-house building previously was concentrated. Improved highway facilities and increasing per capita ownership of automobiles have accelerated this movement toward suburban single-family homes.

CHART V



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In contrast to the steady decrease in single-family home construction during the Twenties, dwellings of this type, including row houses, constituted between 73 and 79 percent of all units built from 1933 to 1940. Even the recent increase in publicly financed construction, which is concentrated in the larger cities, did little to change this picture. Approximately 56 percent of the dwelling units in USHA-financed public projects started during the calendar year 1939 were in one- and two-family houses, including row houses.

Another significant long-term trend in residential building is the declining importance of two-family dwellings. In the early Twenties, two-family homes represented from 15 to 20 percent of all newly constructed units. The Census of 1930 still showed 15 percent of existing homes in this type of dwelling. In the last few years, the share of two-family homes in total new construction has decreased to less than 5 percent. Coupled with the difficulties of financial institutions in disposing of old properties of this type, this indicates clearly that the demand generally has turned away from two-family houses. Exhibit 1 shows the actual figures underlying Chart V.

Changing Frontiers

In last year's Annual Report, the Federal Home Loan Bank Board called attention to the unequal distribution of new residential building over the country. In the fiscal year 1940, construction of dwellings remained "spotty," depending on widely varying local conditions.

In fact, the upswing of residential building activity in the last few years seems to have been the combined result of predominantly local needs, reflecting in part changing frontiers. In past decades, the extension of our external frontiers and the settlement of new territories led, of course, to great regional variations in home building. This pushing forward of our external frontiers has long since come to a close, but our regional and local frontiers are still in flux due to migrations of peoples and industries, to new technical developments, and changes in the age structure of the population. As a result, certain areas and cities show phenomenal growth, while others decline or remain stagnant. Preliminary findings of the 1940 Census show, for example, the following changes in population of selected cities from 1930 to 1940, in the face of a 5.1 percent increase in total population of the 405 cities for which Census data had been released through September 13, 1940.

Changes in city population,[1] 1930–40

30 cities with growing population				30 cities with declining population			
City	Population		Percent increase	City	Population		Percent decline
	1930	1940			1930	1940	
Corpus Christi, Tex	27,741	57,443	107.1	Bayonne, N. J	88,979	78,905	11.3
Austin, Tex	53,120	87,878	65.4	Hamtramck, Mich	56,268	50,160	10.9
Miami, Fla	110,637	170,877	54.4	Schenectady, N. Y	95,692	86,226	9.9
St. Petersburg, Fla	40,425	59,178	46.4	St. Joseph, Mo	80,935	75,642	6.5
Santa Monica, Calif	37,146	52,828	42.2	El Paso, Tex	102,421	96,677	5.6
San Diego, Calif	147,995	202,038	36.5	Holyoke, Mass	56,537	53,569	5.2
Washington, D. C	486,869	663,153	36.2	Jersey City, N. J	316,715	301,012	5.0
Phoenix, Ariz	48,118	65,434	36.0	Covington, Ky	65,252	62,014	5.0
Jacksonville, Fla	129,549	174,336	34.6	Akron, Ohio	255,040	243,130	4.7
Houston, Tex	292,352	386,150	32 1	Union City, N. J	58,659	55,947	4.6
Glendale, Calif	62,736	81,744	30.3	Elizabeth, N. J	114,589	109,396	4.5
Jackson, Miss	48,282	61,965	28.3	Highland Park, Mich	52,959	50,727	4.2
Shreveport, La	76,655	97,964	27.8	Lynn, Mass	102,320	98,072	4.2
Dearborn, Mich	50,358	63,655	26.4	Atlantic City, N. J	66,198	63,787	3.6
Columbus, Ga	43,131	53,104	23.1	Troy, N. Y	72,763	70,117	3.6
Charlotte, N. C	82,675	100,327	21.4	Toledo, Ohio	290,718	281,096	3.3
Los Angeles, Calif	1,238,048	1,496,792	20.9	Flint, Mich	156,492	151,275	3.3
Amarillo, Tex	43,132	51,497	19.4	Newark, N. J	442,337	428,236	3.2
San Jose, Calif	57,651	68,298	18.5	Cicero, Ill	66,602	64,438	3.2
Montgomery, Ala	66,079	78,008	18.1	Irvington, N. J	56,733	54,955	3.1
Columbia, S. C	51,581	60,505	17.3	Hamilton, Ohio	52,176	50,632	3.0
Fresno, Calif	52,513	60,644	15.5	Grand Rapids, Mich	168,592	164,061	2.7
Madison, Wis	57,899	66,802	15.4	South Bend, Ind	104,193	101,410	2.7
Long Beach, Calif	142,032	163,441	15.1	Passaic, N. J	62,959	61,341	2.6
Memphis, Tenn	253,143	291,312	15.1	Brockton, Mass	63,797	62,262	2 4
Durham, N. C	52,037	59,731	14.8	Cleveland, Ohio	900,429	878,385	2.4
Mobile, Ala	68,202	78,324	14.8	Altoona, Pa	82,054	80,071	2.4
Galveston, Tex	52,938	60,334	14.0	Cambridge, Mass	113,643	111,120	2.2
Charleston, S. C	62,265	70,869	13.8	Pawtucket, R. I	77,149	75,449	2.2
Stockton, Calif	47,963	54,513	13.7	Scranton, Pa	143,433	140,393	2.1

[1] Includes cities with 50,000 population or more for which Census data had been released through Sept. 13, 1940.

Although final Census data are not yet available, it is noteworthy that with few exceptions the largest increases in city population were in the West and in the South, while declines in city population, again with few exceptions, were concentrated in the East and in the North Central sections.

In a number of cases, the decrease or stagnation of city population is, of course, due to shifts of residents to suburbs beyond corporate city limits and does not denote a population decline in metropolitan areas. At any rate, divergent population trends such as those revealed in the foregoing table naturally generate a widely varying demand for housing. As a result, mortgage lending more than ever before must be based on a careful analysis of regional and local market factors.

Continuing the trends observed over the last few years, the rate of private residential building during the first six months of 1940 was highest in the Pacific and Mountain States and in the South. The lowest rates of residential construction in terms of population were

found in New England, the Middle Atlantic States, and in the East North Central and West North Central regions.

Private residential construction in nonfarm areas during the first half of 1939 and 1940, by geographic divisions

[Rate per 100,000 population [1]]

Geographic division	First six months of—		Geographic division	First six months of—	
	1939	1940		1939	1940
New England	85.0	105.3	West South Central	318.0	305.2
Middle Atlantic	170.1	144.8	Mountain	299.1	352.7
East North Central	141.5	174.3	Pacific	594.3	664.4
West North Central	178.4	188.4			
South Atlantic	320 1	379.7	United States total	220.9	238.1
East South Central	180.2	212.6			

[1] In the compilation of this material, building-permit data collected by the U. S. Department of Labor have been used; publicly financed units are excluded. In order to provide a basis for comparison of residential building activity between various sections of the country, a ratio of the total number of new family dwelling units to existing population has been computed instead of the absolute number of dwelling units provided. Population estimates used in computing the rate of building are based on the U. S. Census of 1930, with adjustment for population increases since that time.

Closer analysis shows even more striking variations of building activity. Of the metropolitan areas throughout the country, Miami ranked first with 3,235 dwelling units built per 100,000 population in the calendar year 1939. Washington, D. C., was next with a rate of 2,000 dwelling units, and Los Angeles, where 1,581 dwelling units were constructed per 100,000 population, ranked third. On the other hand, the metropolitan districts of Altoona, Scranton, Wilkes-Barre, and Johnstown, Pennsylvania; and Kansas City, Missouri, showed abnormally low rates of residential construction, with less than 100 dwelling units per 100,000 population. If USHA housing is excluded, Utica and Syracuse, New York; Trenton, New Jersey; and Reading, Pennsylvania, ranked in the same group. As an example, private residential building in Miami was almost 100 times as large as in Utica, in terms of population.[2]

Under the impetus of the new defense program, regional and local shifts in residential building may become more accentuated.

Mixed Trends in the Real-Estate Market

The real-estate market still is in a stage of incomplete convalescence from the shock of the early Thirties. Real property by its very nature is a "slow moving" commodity, and liquidation in this field requires a longer period of time than for other commodities which can be more or less quickly consumed. In addition, the market at the beginning of the Thirties did not reflect the true extent of the real-estate depression. Values dropped, but there were relatively few sales on the lower price level from 1929 to 1934. Property owners

[2] For detailed data, see Exhibit 2.

generally held to their investments because of the very heavy sacrifice which would have been suffered in event of sale. When the market failed to rise, when foreclosures mounted and an accumulated overhang of real estate began to be liquidated, a growing volume of sales tended to reduce prices of old houses further. Consequently, we have today the phenomenon of increased real-estate transactions at continuously depressed prices.

Furthermore, it cannot be ignored that the real-estate market in the last few years has been influenced by Government activity to mitigate the after effects of the depression from 1929 to 1933. Moratorium laws in most of the States prevented or postponed foreclosures on many properties which otherwise would have been an immediate drug on the market. The Home Owners' Loan Corporation refinanced mortgaged loans on approximately one million homes, most of which otherwise would have passed into the hands of mortgagees and been placed on sale. The foreclosure policy of the HOLC, dictated primarily by efforts to salvage its borrowers, again reduced the potential number of distressed properties on the market. All this has alleviated conditions brought about by a crash of disastrous dimensions. Meanwhile, depreciation and obsolescence have exacted their toll.

Finally, the tax burden in many communities has become an obstacle to a complete recovery of the real-estate market. In the early Thirties, assessed values were not sufficiently adjusted to the declining real-estate values, and since 1934 they have remained practically constant, although the trend of market values continued to be downward. Tax rates, on the other hand, increased after 1933, although the rate of increase has been diminishing in the last two years.[3] Overvaluation of properties in terms of present prices and revenues, outmoded tax appraisal methods, high tax rates, excessive costs of tax collection through the 175,000 overlapping tax jurisdictions discourage owner-occupancy and investment in real estate alike. Existing properties are not only taxed out of proportion to other forms of investments, but in many cases bear a heavier burden of taxation than equivalent new houses which generally are in outlying districts and satellite communities enjoying lower tax rates than cities, and which do not carry inflated assessments of bygone days. Differences in tax burden alone, in fact, sometimes determine the home purchaser's preference for a new suburban house. The tax situation has thus become a factor in the competition between new and "second-hand" properties.

Taken together, these factors go far in explaining the belated and prolonged depression in the real-estate field when other sectors of our

[3] Based on comparative data for 287 cities; National Municipal Review, December 1939.

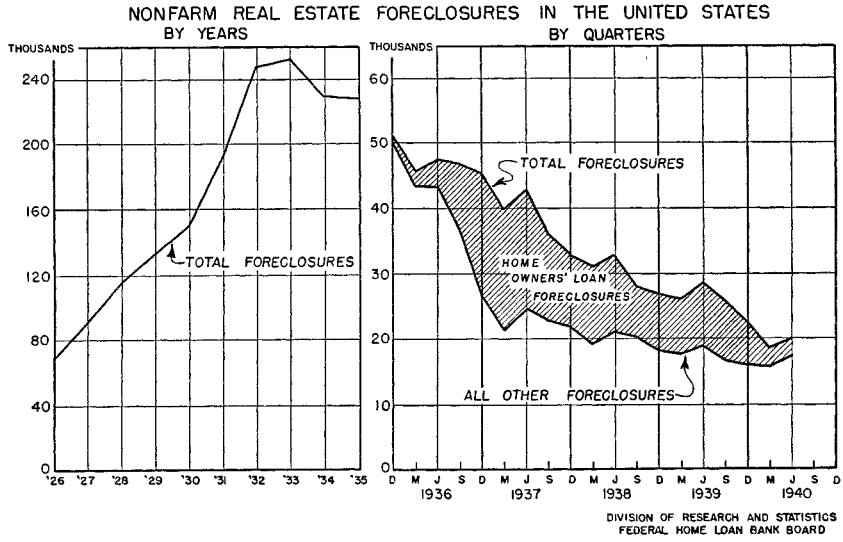
economy had more or less passed that stage. Under their influence, the real-estate market in the fiscal year 1940 continued to show mixed trends. On the one hand, there were predominantly declining prices for old properties, reflecting increased competition of new moderately priced homes sold on easy terms, the preference given by home purchasers to attractive new neighborhoods and modern designs and conveniences, and the above-mentioned tax differentials. Also, local overbuilding was indicated by difficulties that arose here and there in disposing of new houses built by real-estate operators.

On the other hand, sales activity in general was substantially higher than the year before, particularly in low-priced properties; the real-estate overhang held by financial institutions was reduced; and foreclosures dropped to the lowest level in thirteen years.

Decrease of Foreclosures

Nonfarm real-estate foreclosures continued the downward trend begun in 1934. However, the decline from the fiscal year 1939 to the fiscal year 1940 was in part accounted for by the drop in foreclosures brought by the Home Owners' Loan Corporation, attendant upon the latter's extension program,[4] and did not reflect regular market conditions. To disengage the effect of HOLC policy from the general trend of foreclosures, the following chart shows total estimated foreclosures as well as HOLC and other foreclosures separately:

CHART VI

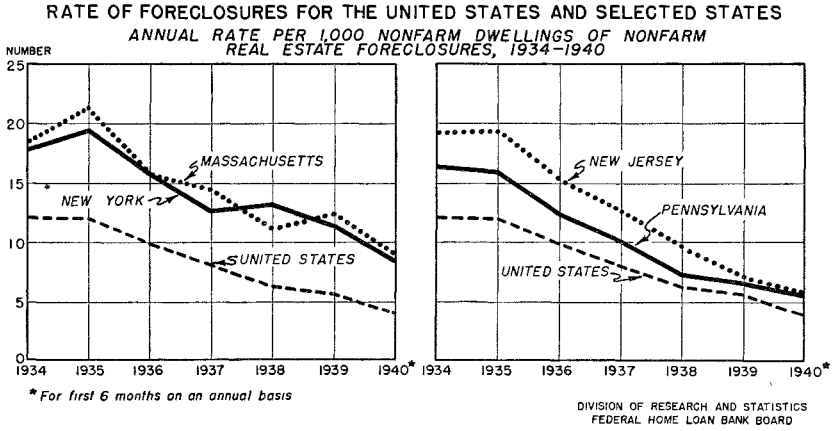


[4] See the report of the Home Owners' Loan Corporation, page 123 ff.

The chart indicates that foreclosures other than those instituted by the Home Owners' Loan Corporation levelled off during the fiscal year 1940 and that the decline of these foreclosures throughout the last two or three years had been at a very low rate. It appears that with a volume of foreclosures approaching the 1926 level a more "normal" foreclosure situation has been restored.

However, while nonfarm foreclosures for the country as a whole were back to more normal levels, this was not true for several States which, from the point of view of real estate, are "problem areas." The foreclosure rate for the States of Massachusetts, New York, New Jersey, and Pennsylvania is still much higher than the national rate. By and large, the States listed are those in which real-estate holdings of financial institutions are concentrated and where the situation of the market as a whole is still unsettled.

CHART VII



Exhibits 3 and 4 present data on nonfarm real-estate foreclosures for the United States and for each of the Federal Home Loan Bank Districts.

Reduction of Real-Estate Overhang

For the country as a whole, the decline in foreclosures and substantially increased property sales resulted in a reduction of the real-estate overhang—that is, in the volume of residential properties held by

financial institutions and other mortgagees. This is illustrated by the following figures:

Estimated overhang of residential properties held by selected financial institutions

Type of lending institution	Dec. 31, 1938 [1]	Dec. 31, 1939	Decrease	
			Dollars	*Percent*
Savings and loan associations [2]	$890, 320, 000	$684, 547, 000	205, 773, 000	23. 1
Mutual savings banks [3]	500, 000, 000	450, 000, 000	50, 000, 000	10. 0
Commercial banks [3]	290, 000, 000	245, 000, 000	45, 000, 000	15. 5
Life insurance companies [4]	576, 282, 000	563, 507, 000	12, 775, 000	2. 2
Private mortgage lenders	2, 256, 602, 000	1, 943, 054, 000	313, 548, 000	13. 9
Home Owners' Loan Corporation [5]	488, 997, 499	462, 229, 879	26, 767, 620	5. 5
Grand total	2, 745, 599, 499	2, 405, 283, 879	340, 315, 620	12. 4

[1] Revised.
[2] Estimate based on reports of operating associations received by the Federal Home Loan Bank Board.
[3] Estimates based on the reports of the Comptroller of the Currency and the Federal Deposit Insurance Corporation. The estimate for commercial banks excludes trust departments, but includes an allowance for investments and other assets indirectly representing bank premises or other real estate.
[4] Estimate of the Federal Home Loan Bank Board based on a questionnaire survey of the largest life insurance companies.
[5] Capital value.

In the calendar year 1939, estimated residential real-estate holdings of the above-listed institutions were reduced by $340,315,620, or 12.4 percent. All types of institutional lenders registered declines in real estate owned, but savings and loan associations showed the greatest dollar decrease and the greatest percentage reduction in holdings. It is true, of course, that the reduction in holdings of savings and loan associations is influenced to some extent by the number of State institutions placed in liquidation. Although these estimates do not include real estate owned by individuals and by closed banks and other financial institutions and remain, therefore, short of the total overhang, they probably indicate in a fair measure the declining trend of involuntary real-estate holdings. They illustrate, at the same time, the magnitude of the task of liquidation that still confronts mortgage-lending institutions.

In the past year, the disposition of real estate by financial institutions appears to have been larger in volume than at any time before. This was the result of changed policies rather than a reflection of improved market conditions. Belatedly, financial institutions have come to realize the danger of holding real estate indefinitely; a larger number of them have priced their properties realistically, have placed them in condition for sale by repair and modernization, and have instituted carefully planned sales programs.[5] However, any transfer of these holdings to a sound, more permanent ownership basis is wholesome in itself. Moreover, the absorption of a large volume of

[5] In one instance savings and loan associations have organized a central property bureau for that purpose; see Exhibit 49.

"overhang" properties in the low-price groups indicated a substantial demand for single-family houses by middle- and low-income families. This is demonstrated by the experience of the Home Owners' Loan Corporation which has been able to dispose of its low-priced properties at a faster rate than was possible for properties in the higher value groups. Through June 30, 1940, the Home Owners' Loan Corporation has sold 30,513 properties priced at $2,000 or less, equivalent to 29 percent of its total property sales. As the usual terms on properties sold by the Corporation include fifteen-year amortized loans at 4½ percent up to 90 percent of the sales price, it can readily be appreciated that the monthly payments on these low-priced homes are well within the reach of families with incomes of less than $1,000.[6]

The sale of "overhang" properties is of particular importance for housing large families of moderate income on an ownership basis. In an effort to cater to the modern small family and to reduce costs, new construction in the last few years has shown a preference for houses with five rooms or less. This leaves unsolved the problem of larger families which need suitable accommodation. In most cases, existing properties, if reconditioned, are better adapted to provide quarters for these families than small new houses.

Like so many elements in the real-estate market, the "institutional overhang" is largely a problem of specific regions and communities. To a very great extent, the institutional holdings of residential property remain concentrated in the northeastern section of the country.

Four States, New York, New Jersey, Pennsylvania, and Massachusetts, in approximately that order, show the most serious situations. At the end of 1939, these four States accounted for 62 percent of all HOLC holdings, for 70 percent of the residential properties owned by insured commercial banks, for 43 percent of the one- to four-family dwellings held by life insurance companies, and for approximately 54 percent of real estate owned by savings and loan associations. At the same time, the vast majority of residential property held by mutual savings banks is in these States. For the Home Owners' Loan Corporation, mutual savings banks and life insurance companies, the New York situation gives the most concern. Between one-quarter and one-half of the residential properties owned by these institutions are in New York State. For commercial banks, Pennsylvania appears to be the worst problem area; that State accounts for more than one-third of the residential real estate held by insured commercial banks. For savings and loan associations, the situation is most serious in New Jersey where about 30 percent of their total holdings are located.

[6] For further information, see page 141

Exhibit 5 shows data on residential real estate held by selected financial institutions, segregated by Federal Home Loan Bank Districts and by States.

Building Costs—Still a Problem

In the last few years, the demand for homes was supported by a continuous decrease in financing costs. Lower interest rates, smaller down-payments, and longer amortization periods together operated to make homes available at easier terms than at any other time in the history of American mortgage finance.[7]

In contrast, building costs have failed to show any appreciable reduction. On the down-grade of the business cycle, from 1929 to 1933, prices of building materials fell less than prices of most other commodities. Nevertheless, when prices generally turned upward after 1933, building materials rose more rapidly in price than other commodities. From 1935 to 1939, the index of building material prices fluctuated between 85 and 95 percent of the 1926 level, that is, about 10 points above the general wholesale price index. Following the outbreak of the war, prices again showed a rapid increase from this high level. The index of building material prices rose from 89.7 in July 1939 to 90.9 in September, 93.0 in November, and 93.4 in January 1940.

Although the war-created scramble for commodities had come to a halt as early as November 1939, prices for many building materials remained on a high level, and in June 1940 the index compiled by the Department of Labor still stood at 92.4, or 2.9 points above the index for June 1939. The price rise of some individual building materials was even more marked than the average, as evidenced by the following data reported by the Reconditioning Section of the Home Owners' Loan Corporation, beginning September 1939:

Prices of selected building materials [1]

First of month	Lime [2]	Crushed stone [3]	Siding [4]	Common boards [5]	Sheathing [6]
1939					
September	$0.49	$1.43	$67.01	$45.51	$1.17
October	.51	1.72	69.45	46.40	1.27
November	.57	2.00	70.45	47.16	1.33
December	.58	1.89	75.76	47.92	1.37
1940					
January	.58	1.91	76.52	48.61	1.38
February	.58	1.93	76.64	48.82	1.40
March	.59	1.93	78.21	48.51	1.39
April	.58	1.87	78.07	50.50	1.43
May	.57	1.91	77.29	48.11	1.41
June	.56	1.84	77.06	47.84	1.38

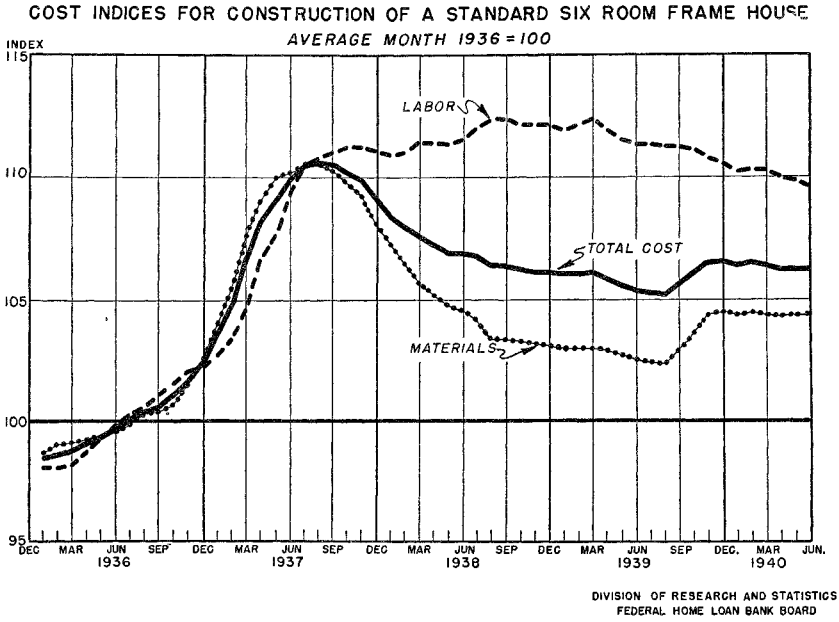
[1] National averages, based on prices paid by contractors for materials delivered on the job.
[2] Hydrated (finishing) 50-pound bag.
[3] ¾-inch trap rock or gravel, ton.
[4] B & B Beveled ¾-inch thick, 8 inches and 10 inches wide, 1,000 board feet
[5] No. 1, 1 x 6 S4S D & M—1,000 board feet.
[6] Rosin-sized, 40 pounds per roll of 5 squares each.

[7] For detailed info rmation on the trend of financing costs, see pages 35–38.

The only important building material showing a substantial price reduction in that period was window glass. Prices for window glass [8] fell from $6.33 in October 1939 to $4.78 in June 1940.

The following chart, which shows the FHLBB index of the cost of constructing a standard six-room frame house reflects the rise in building material prices only in part as dealers' prices (which form the basis for the price curve) increased less than manufacturers' prices. Nevertheless, the cost index for materials used in the standard house increased from 102.5 in June 1939 to 104.4 in June 1940. Labor

CHART VIII



costs moved downward from 111.3 to 109.7, or approximately 10 percent above the average of 1936. The index of total costs in June 1940 was slightly higher than in June 1939 and 6.2 percent above the level of 1936.

Exhibit 6 presents these cost indices from January 1936 through June 1940.

In the fiscal year 1940, the Anti-trust Division of the Department of Justice undertook various actions against local monopolistic practices in the building trades with the view to freeing the industry from price rigidities and restraints of competition. From the beginning of its investigation to June 30, 1940, according to reports of the

[8] 10 inches by 12 inches SSA—one box, 60 pieces

Department of Justice, 95 indictments involving 1,265 defendants, and 16 consent decrees involving 331 parties were effected. The investigations covered the whole range of the building industry: manufacturers, distributors, and dealers of building materials, contractors, subcontractors, and labor unions as well. As a result, local costs for specific materials and jobs in a number of communities were reduced, and although this failed to bring about a general decline in building costs, it may have prevented a further rise.

Despite some experimentation with technological improvements, new materials, and large-scale production, a real cost reduction which would bring new homes within the reach of families of average income has not yet materialized. Thus far the approach to the mass market for new homes—commendable in itself—has been mainly through the construction of homes of smaller size, less rooms, and simpler design. In some cases, cost reductions were accomplished at the expense of sound building standards—a false economy for which the home owner has to pay in the form of higher expenses for operation, maintenance, and repair.[9]

Stability of Rents and Vacancies

For the United States as a whole, available data indicate that rents and vacancies have remained practically unchanged over a period of almost three years—evidencing that the newly built dwelling units could be absorbed without inroads into the occupancy and rent structure. However, in 1939–40, a number of communities reported lower rents and higher vacancies for apartments—danger signals pointing to local oversupply in this type of dwelling, as measured by present effective demand.

As is demonstrated by the chart on the opposite page, rents on the average advanced from 1935 through the end of 1937 and have been moving sideways ever since.

Local statistics compiled by the Department of Labor for 32 individual cities by and large confirm the movement of national indices. However, a number of cities showed some drop in apartment rents due to local overbuilding in this type of dwelling and to the movement of families from apartments in central districts to single-family houses in suburbs.

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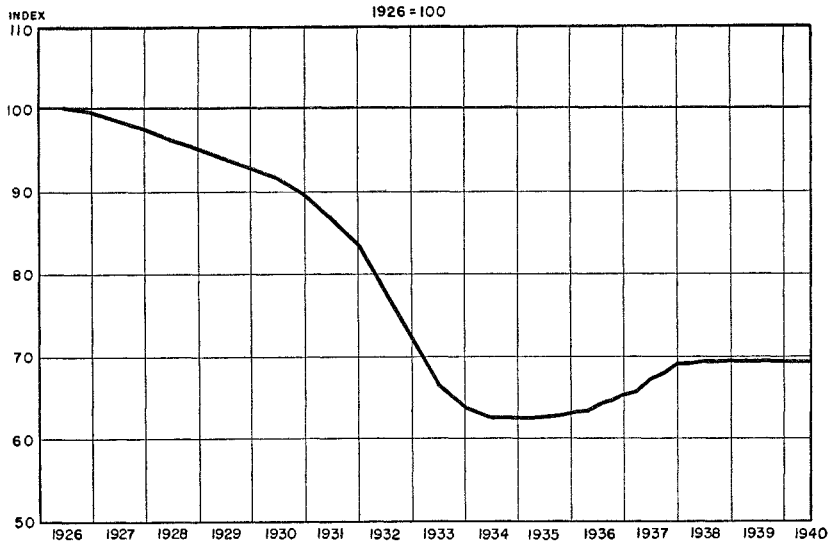
[9] The reduction in the number of rooms is well illustrated by the statistics for new single-family homes accepted for mortgage insurance by the Federal Housing Administration (FHA Sixth Annual Report, page 57):

Average number of rooms in new single-family houses

Calendar year	1936	1937	1938	1939
Number of rooms	5.8	5.5	5.3	5.2

CHART IX

INDEX OF RESIDENTIAL RENTALS



Source U S Department of Labor

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Likewise, the scattered vacancy data available at present indicate a remarkable degree of stability. The general decline in vacancies that began in 1933 came to a halt in 1936 and since that time changes upward or downward were small and determined apparently by local rather than national conditions. Of the 35 cities for which comparable surveys were made in 1939 and 1938, 20 reported a lower percentage of vacancies last year, 14 showed a higher percentage than in 1938, and one indicated no change. To judge from the few cities reporting vacancy data for different types of structures, vacancy ratios in apartment houses have been consistently higher than in single-family houses, and in 1939, there was a noticeable tendency for vacancies in apartments to increase, 10 communities out of 14 showing larger vacancies than the year before. This is in line with the decline in apartment rents registered in a number of cities. In contrast, vacancies in single-family houses were on a low level, ranging from 1 to 3 percent, and showed predominantly fractional decreases during the last year.

Neighborhood Conservation

The need for rehabilitation of our older urban neighborhoods, emphasized in the last two Annual Reports of the Federal Home Loan Bank Board, came to be more generally recognized in the fiscal year

1940. Private attempts to undertake large-scale rehabilitation on a profit basis increased in number and received wide publicity. As a result of the first comprehensive "Neighborhood Conservation Survey" for a residential section of Baltimore, Maryland, initiated by the Home Owners' Loan Corporation in cooperation with other Federal and local agencies and organizations, a cooperative neighborhood improvement plan was developed, the execution of which is now under way. Meanwhile, a similar survey has been started in the Woodlawn area of Chicago, Illinois. The Federal Housing Administration, on March 1, 1940, changed its regulations under Section 207 of the National Housing Act to liberalize insurance of mortgage loans for rehabilitation projects. The New York Public Housing Law of 1939 authorized municipalities to make loans for rehabilitation of multiple dwellings. In the spring of 1940, the Legislature of the State of New York passed an "Urban Redevelopment Corporations Act" (which, however, was vetoed by the Governor) providing for rehabilitation by private corporations equipped with special privileges and operating under public supervision. In several States, the adoption of Neighborhood Improvement Acts has been urged by organizations interested in the control of urban blight.

Naturally the agencies under the Federal Home Loan Bank Board have a vital interest in a program of urban neighborhood conservation. The Home Owners' Loan Corporation holds mortgages and properties of approximately $2,500,000,000, a large number of which are in districts undergoing various phases of blight. The member institutions of the Federal Home Loan Bank System possess outstanding mortgage loans and real estate in the amount of $3,900,000,000, a substantial portion of which is on properties in older neighborhoods. The Federal Savings and Loan Insurance Corporation has insured about $1,900,000,000 of investments in home-financing institutions, and the safety of these investments depends on the soundness of real-estate loans. Hence, the Federal Home Loan Bank Board has a tremendous stake in the whole fabric of residential real-estate values and has long sought a remedy for neighborhood decay.

More, however, is involved in the rehabilitation of urban districts than the salvage and maintenance of property values. Conservation of natural resources has become a recognized national policy. Far too long a similar program has been lacking as applied to those man-made resources which have been created in the past, particularly in urban neighborhoods which represent a considerable part of the total national wealth. As a result, in almost all American cities there have developed slums which are beyond cure and must be eradicated by a major surgical operation, and other districts diseased by incipient

blight which, if not halted, will transform them into slums. In the meantime, while the process of deterioration takes its toll and partly because of this very process, families move into outlying districts where new city and utility services have to be established: streets and sidewalks, sewers and water mains, gas and electrical equipment, schools, fire and police protection, and so forth. Many of the existing services in the central districts, on the other hand, cannot be reduced proportionately, with the result that increased overhead causes higher tax burdens. This has contributed in large measure to the increased total cost of local government.

The problem of neighborhood conservation thus is closely related to the progressive decentralization of our cities. It is true that many factors are responsible for decentralization. The reaction against modern city life, and the popularization of the automobile are among the most important. However, physical obsolescence of houses, changes in the character of neighborhoods, traffic hazards, lack of parks and playgrounds, encroachment by business uses, excessive tax burdens on old districts are also contributing causes. And yet, because of their location close to business centers, many of the blighted areas represent potentially desirable neighborhoods and can be salvaged by a determined cooperative effort, if the individual properties are structurally sound and not too obsolete.

Neighborhood deterioration and decentralization of cities move, indeed, in a vicious circle. Blight of central districts drives people into suburbs and this in turn fosters the progress of blight. Similarly, high taxes in city centers cause families to move toward the urban rim; as community services must nevertheless be maintained, this increases the per capita tax burden on the centers or is at least an obstacle to tax reduction. As a result, more families are induced to leave the centers. Unless these problems are solved, actual depopulation of central city districts will continue unchecked.

The problem is aggravated by the declining rate of population growth. Decentralization of cities in past decades was accompanied by a rapid influx of immigrants and an increase in total population with the result that families of lower income moved into the neighborhoods vacated by the original home owners. Also, the expansion of industry and commerce transformed widening zones of the city centers into business use. With few exceptions, this is no longer taking place, and industry shows a definite tendency toward decentralization.

These observations make it clear that urban neighborhood conservation is not only a matter of repairing groups of properties (although in some cases this may suffice), but touches upon the broader aspects of city planning and includes rezoning, street adjustments, parks and

playgrounds, and modifications of traffic. Based upon such broad concepts, a conservation program will not only maintain urban property values, but increase the social usefulness of our older neighborhoods and advance housing standards.

As an example, the plan for the Waverly area in Baltimore provides for two parallel but not necessarily integrated programs. The first program calls for the early physical restoration—by means of the minor repair and the major reconditioning, remodeling, modernizing, embellishment, and landscaping—of all depreciated housing within the area, supplemented by continued maintenance thereafter, at the level established for the neighborhood. The second program provides for the adjustment of zoning regulations and street patterns, as a parallel but separate step, requiring confirmation by the residents of the area and concurrence by the Plan Commission and the city. This part of the Plan is, therefore, to be developed over a considerable period of time.

Upon the preparation of the survey and master plan for the Waverly area,[10] a permanent neighborhood organization has been formed designed to inspire and supervise the completion of the physical rehabilitation of the area. Even before the program was fully launched, however, the volume of repair, reconditioning, and remodeling already undertaken throughout the area greatly exceeded that for any like period in former years. A considerable measure of this activity has been attributed to the interest aroused by the survey and planning stage of the project.

The Waverly survey, it is hoped, provides a pattern which can be applied to the treatment of similarly threatened, small home neighborhoods everywhere and will stimulate local leadership on which the attack on blight largely depends. In view of the vast amount of funds ready to be invested at reasonable return, financing problems should be no obstacle to an early execution of rehabilitation plans.

2. MORTGAGE FINANCE AND SAVINGS

Operations of home-financing institutions during the fiscal year 1940 were dominated by the same general trends at work during the past two or three years; and these trends became, if anything, more accentuated. The flow of savings into financial institutions and the piling up of surplus funds were unbroken, while home-mortgage loans continued to be one of the very few investment outlets utilized by lending institutions. In consequence, the home-mortgage market showed increased activity and greater intensity of competition. Interest rates on mortgage loans and the rate of return on savings declined further. A considerable net growth of the home-mortgage debt during three successive years furnished evidence that the abrupt cancellation of debt by foreclosure has come to a halt and that new loans now well exceed foreclosures and repayments of principal.

[10] The survey and master plan have been published under the title, "Waverly—A Study in Neighborhood Conservation." Copies may be obtained from the Superintendent of Documents, Washington, D. C. ($1.25).

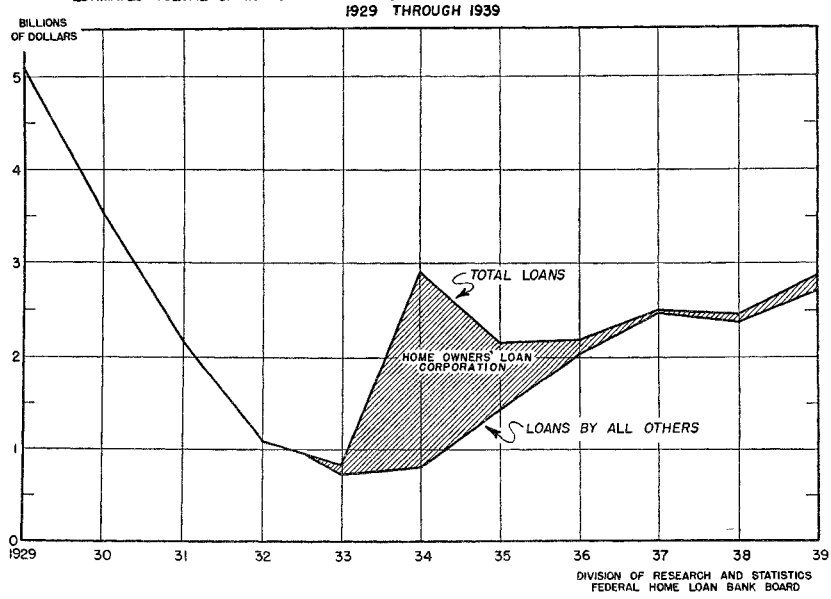
Increased Volume of Home-Mortgage Lending

Home-mortgage lending remained one of the most active segments of our otherwise sluggish capital market. The estimated volume of new mortgage loans made on one- to four-family dwellings during the calendar year 1939 was $2,871,000,000—an increase of $408,000,000, or 16.6 percent, over 1938 and an all-time peak since 1930 in private-lending activity.[11] As in the past few years, the volume of new home-mortgage loans exceeded the total amount of corporate financing. During 1939, corporate securities issued for new financing and refunding by railroads, utilities, and all other corporations aggregated $2,099,000,000, that is, 27 percent less than total home-mortgage lending in that year.

CHART X

HOME MORTGAGE LENDING ACTIVITY

ESTIMATED VOLUME OF MORTGAGE LOANS MADE ON NONFARM ONE TO FOUR-FAMILY DWELLINGS 1929 THROUGH 1939



All types of lenders increased their activity during 1939. Savings and loan associations originated new home-mortgage loans in the amount of $986,000,000—an increase of $188,000,000, or 23.5 percent, over 1938. Commercial banks and their trust departments loaned a total of $610,000,000, or 9.1 percent more than in the preceding year. Life insurance companies placed home-mortgage loans in the

[11] From 1933 to 1936 the total lending volume was inflated by the refinancing operations of the Home Owners' Loan Corporation.

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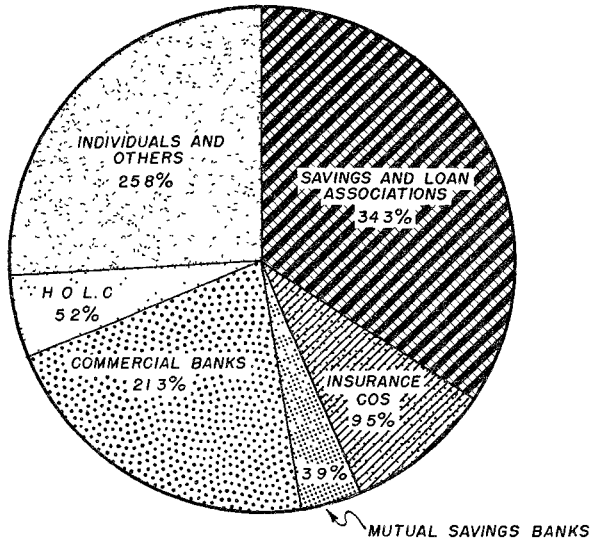
amount of $274,000,000 which was 13.2 percent above the 1938 level. The volume of new home-mortgage loans made by mutual savings banks was $112,000,000, as against $105,000,000 the year before. Individuals and others accounted for $740,000,000, or $71,000,000 more than in 1938. Loans originated by the Home Owners' Loan Corporation aggregated $149,000,000 as compared with $89,000,000 which reflects increased sales of properties against

CHART XI

ESTIMATED VOLUME OF MORTGAGE LOANS MADE ON NONFARM ONE TO FOUR-FAMILY DWELLINGS, BY TYPE OF LENDER

CALENDAR YEAR 1939



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purchase-money mortgages and advances made to HOLC borrowers. Exhibit 7 gives a complete survey of estimated home mortgage-lending activity from 1929 through 1939, by types of lenders.

Mortgage recording data, compiled since the close of 1938 by the Division of Research and Statistics of the Federal Home Loan Bank Board, reflect recent developments in mortgage-lending activity in greater detail. The coverage of these data has been extended gradually until in June 1940 actual reports (which serve as a basis for the estimated totals) were received from nearly 600 counties, containing

63 percent of the total nonfarm population and located in every State and the District of Columbia.[12]

Although mortgage recordings reflect not only new lending, but include mortgage registrations attendant upon alterations in the terms of existing contracts, their movement over a period of time is indicative of changes in the lending volume. The data are designed primarily to measure activity in the field of small and medium-sized mortgage loans and are, therefore, confined to loans of $20,000 or less on nonfarm property. Hence, mortgage recording data comprise not only home mortgages but mortgages on other types of properties which fall within the $20,000 limitation.[13]

In the following analysis of lending activity, these are the most conspicuous facts:

1. Within total nonfarm real-estate financing in the loan class of $20,000 or less, savings and loan associations represent the largest single group of lenders, accounting roughly for one-third of all mortgage recordings.

2. Lending activity in the first six months of 1940 was considerably above that of the corresponding period in 1939, and savings and loan associations have increased their share in the larger total volume.

3. With the expansion of home building in the last four or five years, loans for new construction have increased more rapidly than any other type of loan; in contrast, refinancing loans though still large in volume have declined in relative importance.

Savings and Loan Associations in Lead

During the fiscal year 1940, mortgage lenders throughout the country recorded 1,402,365 nonfarm mortgages, of $20,000 or less, in the total amount of $3,854,449,000. Institutional lenders were responsible for 76 percent of the number and 83 percent of the dollar amount of these mortgages, while the remainder was accounted for by individual mortgagees.

[12] Reports are received each month from field cooperators. Summaries of these reports are prepared for each State, by type of mortgagee, and from the totals of reported statistics, estimates representing total mortgages recorded in each State are developed on the basis of the relation of the nonfarm population in the sample to the total nonfarm population in the State. Adjustment factors are employed in the calculation to correct for the concentration of type of lenders and for the influence of metropolitan areas.

[13] Mortgage recording data are not directly comparable with the estimates on home-mortgage lending presented in Chart X and Exhibit 7. As pointed out in the text, recordings include mortgages on one- to four-family homes as well as mortgages on other types of properties within the $20,000 limitation. Moreover, the period covered by mortgages recorded and loans made is not necessarily the same. Lending statistics are reported as of the date of loan commitment, while recording figures reflect the actual date of loan registration. Finally, alterations in the terms of an existing contract may necessitate a new registration. In the case of refinancing an institution's own mortgage, for example, the face amount of the instrument would appear in the recording totals, whereas only that portion which represented an increase in funds loaned would be included in lending figures.

Total recordings of mortgages of $20,000 or less on nonfarm property, fiscal year 1940

Type of lender	Number	Percent	Amount	Percent
Savings and loan associations	484,670	34	$1,221,562,000	32
Insurance companies	64,641	5	325,936,000	8
Banks and trust companies	293,504	21	941,061,000	24
Mutual savings banks	43,004	3	157,637,000	4
Individuals	339,871	24	638,530,000	17
Others	176,675	13	569,723,000	15
Total	1,402,365	100	3,854,449,000	100

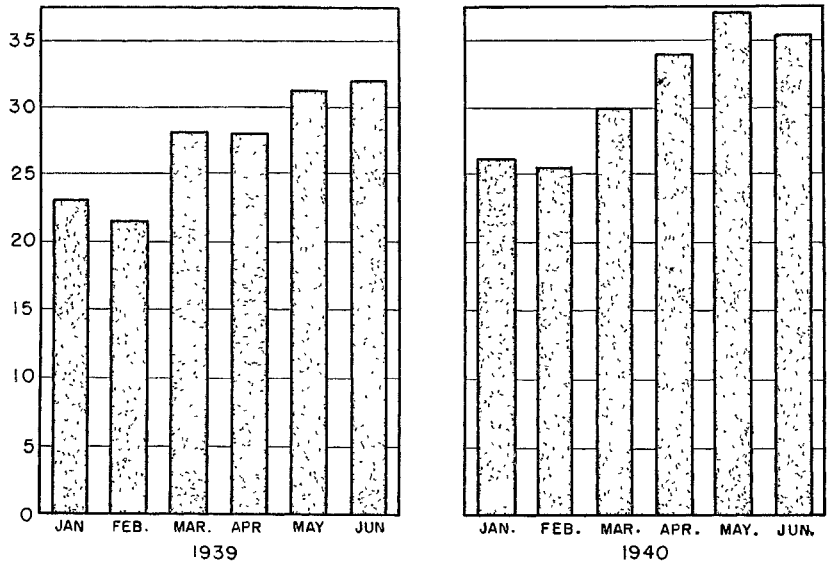
Savings and loan associations led all other types of lenders, with 484,670 mortgages recorded in the total amount of $1,221,562,000, or 34 percent of the number and 32 percent of the aggregate volume of all mortgages recorded. Banks and trust companies, which were responsible for 21 percent of the total number and 24 percent of the total dollar amount, ranked next, followed by the group "other mortgagees" which comprises miscellaneous lenders such as mortgage companies, estates, receivers or conservators of financial institutions, and the Home Owners' Loan Corporation. Life insurance companies and mutual savings banks were of relatively minor importance in the

CHART XII

ESTIMATED VOLUME OF MORTGAGE RECORDINGS ON NONFARM PROPERTY

(MORTGAGES OF $20,000 OR LESS)

FIRST HALF OF 1939 COMPARED WITH FIRST HALF OF 1940



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small-loan field; however, it should be remembered that life insurance companies have always been more active in the financing of larger projects, and that mutual savings banks operate but in a limited number of States.

Mortgage recordings by Federal Home Loan Bank Districts and by States during the fiscal year 1940 are given in Exhibit 8.

For the first time since the establishment of the mortgage recording service, data are available permitting a comparison over a year's time. They show that in each month, from January to June 1940, the volume of recordings exceeded that of the corresponding period in 1939. All together, nonfarm mortgages recorded from January to June 1940 numbered 689,338, in the amount of $1,886,998,000, a gain of 82,111 in number and of $246,147,000, or 15 percent, in amount over the same period in 1939. Although all types of mortgage lenders participated in this larger activity, they did so in varying degrees as will be seen from the following table and Chart XIII.

Recordings of nonfarm mortgage loans of $20,000 or less, first half of 1940 compared with first half of 1939

Type of lender	January to June		Increase	Percent of total January to June	
	1939	1940		1939	1940
	Number of mortgages recorded				
Savings and loan associations	198,049	238,672	40,623	32.6	34.6
Insurance companies	25,935	30,556	4,621	4.3	4.5
Banks and trust companies	133,296	147,651	14,355	22 0	21.4
Mutual savings banks	17,003	19,859	2,856	2.8	2.9
Individuals	154,953	164,867	9,914	25 5	23.9
Others	77,991	87,733	9,742	12.8	12.7
Total	607,227	689,338	82,111	100.0	100.0
	Dollar amount of mortgages recorded (in thousands of dollars)				
Savings and loan associations	$481,916	$598,766	$116,850	29.4	31.7
Insurance companies	130,523	151,498	20,975	7.9	8.0
Banks and trust companies	424,817	465,342	40,525	25.9	24.7
Mutual savings banks	60,674	75,557	14,883	3.7	4 0
Individuals	289,007	312,861	23,854	17.6	16.6
Others	253,914	282,974	29,060	15.5	15.0
Total	1,640,851	1,886,998	246,147	100.0	100.0

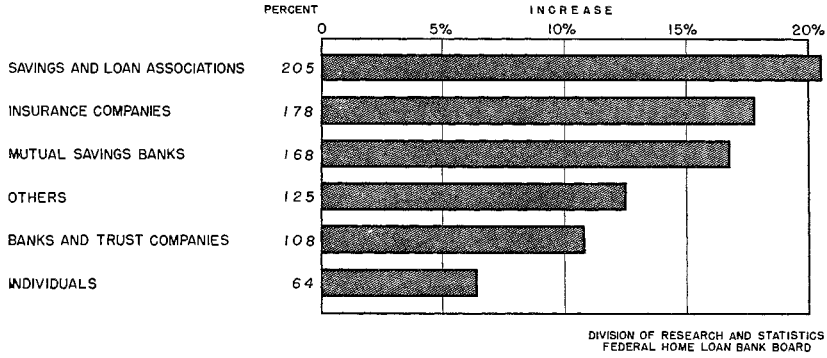
Savings and loan associations scored the largest gain in both number and dollar volume of mortgage recordings, with the result that their share in the total dollar volume of recordings rose from 29.4 percent in the first six months of 1939 to 31.7 percent in the first six monthe of 1940. Mutual savings banks and life insurance companies also

raised their positions slightly. Recordings of banks and trust companies, of individuals, and of "others" increased less than proportionately; consequently, their share in the total declined.

CHART XIII

PERCENT INCREASE IN THE NUMBER OF MORTGAGES RECORDED, BY TYPES OF LENDERS

FIRST 6 MONTHS OF 1940 COMPARED WITH FIRST 6 MONTHS OF 1939



Mortgage recordings for nonfarm loans of $20,000 or less as well as the estimates of home-mortgage lending proper demonstrate that savings and loan associations, despite the increased competition in the mortgage market during recent years, have been able to hold their position as the largest single group of lenders on residential mortgages, accounting for more than 30 percent of the total dollar volume and for 38 percent of the aggregate volume of institutional lending in the small-loan field. (See Chart XIV on opposite page.)

In line with the time-honored emphasis of savings and loan operations in the small loan field, the average mortgage loan made by savings and loan associations is lower than that of any other type of lender, except for individual mortgagees.

Average size of nonfarm mortgage loans recorded, January 1939 through June 1940

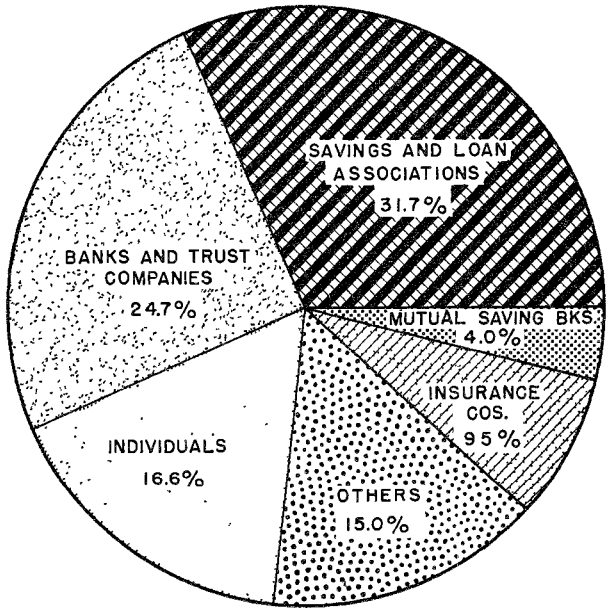
Type of lender	Average size of loan	Type of lender	Average size of loan
Individuals	$1,874	Other mortgagees	$3,234
Savings and loan associations	2,495	Mutual savings banks	3,638
Banks and trust companies	3,200	Insurance companies	5,040

It is interesting to note that the average loan registered by insurance companies was approximately twice as large as that made by savings and loan associations, and that the average loan recorded for banks and trust companies was almost 30 percent higher than the average savings and loan mortgage.

CHART XIV

DOLLAR DISTRIBUTION OF MORTGAGES RECORDED BY TYPE OF MORTGAGEE

JANUARY TO JUNE 1940



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Regional Variations of Mortgage-Lending Activity

Earlier in this report, it was emphasized that residential construction and real-estate conditions vary from region to region and from community to community. Likewise, mortgage-lending activity shows marked local differences. This is indicated in the following table presenting the number of mortgage recordings per 1,000 nonfarm dwellings, or, in brief, the rate of mortgage recordings in each of the Federal Home Loan Bank Districts and in the 48 States.

Rate of mortgage recordings by Federal Home Loan Bank Districts and by States

[Number of mortgages recorded per 1,000 nonfarm dwellings,[1] January to June 1940]

Bank District and State	Number of mortgages recorded	Rate per 1,000
United States	689,338	36
No. 1—Boston	51,324	39
Connecticut	9,792	37
Maine	5,092	38
Massachusetts	28,693	42
New Hampshire	2,698	31
Rhode Island	3,391	30
Vermont	1,658	30
No. 2—New York	55,674	25
New Jersey	21,639	31
New York	34,035	22
No. 3—Pittsburgh	46,682	22
Delaware	1,873	41
Pennsylvania	36,904	20
West Virginia	7,905	29
No. 4—Winston-Salem	96,169	44
Alabama	7,597	26
District of Columbia	6,739	79
Florida	15,262	52
Georgia	12,061	35
Maryland	11,372	38
North Carolina	20,180	60
South Carolina	7,995	43
Virginia	14,963	46
No. 5—Cincinnati	76,755	41
Kentucky	10,748	34
Ohio	54,612	43
Tennessee	11,395	36
No. 6—Indianapolis	50,153	34
Indiana	24,633	41
Michigan	25,520	30
No. 7—Chicago	46,306	28
Illinois	30,860	26
Wisconsin	15,446	35
No. 8—Des Moines	54,516	38
Iowa	12,297	32
Minnesota	15,142	42
Missouri	23,389	42
North Dakota	1,899	32
South Dakota	1,789	25
No. 9—Little Rock	47,423	33
Arkansas	4,645	26
Louisiana	9,905	33
Mississippi	3,880	28
New Mexico	2,168	35
Texas	26,825	34
No. 10—Topeka	35,252	35
Colorado	7,735	42
Kansas	8,522	29
Nebraska	6,060	31
Oklahoma	12,935	49
No. 11—Portland	32,496	43
Idaho	3,011	49
Montana	2,172	27
Oregon	7,647	40
Utah	3,727	47
Washington	14,586	47
Wyoming	1,353	36
No. 12—Los Angeles	96,588	70
Arizona	3,330	39
California	92,573	73
Nevada	685	33

[1] Based on 1930 Census.

It is no mere coincidence that the rate of mortgage recordings is highest in those areas and States where the rate of residential construction is highest, generally in the West and in the South.

Also, the share of the various types of lenders in total mortgage lending activity varies considerably in the different parts of the country. The position of each type of lending institution in a given State or region is determined by a large number of long-term and short-term factors. In many areas, savings and loan associations have traditionally been more numerous and stronger than other types of mortgage lenders. In a few areas, on the other hand, commercial banks have predominated in the mortgage-lending field. Mutual savings banks are concentrated in a few States, mostly in the Northeast. Mortgage lending by individuals may be related to local concentration of private

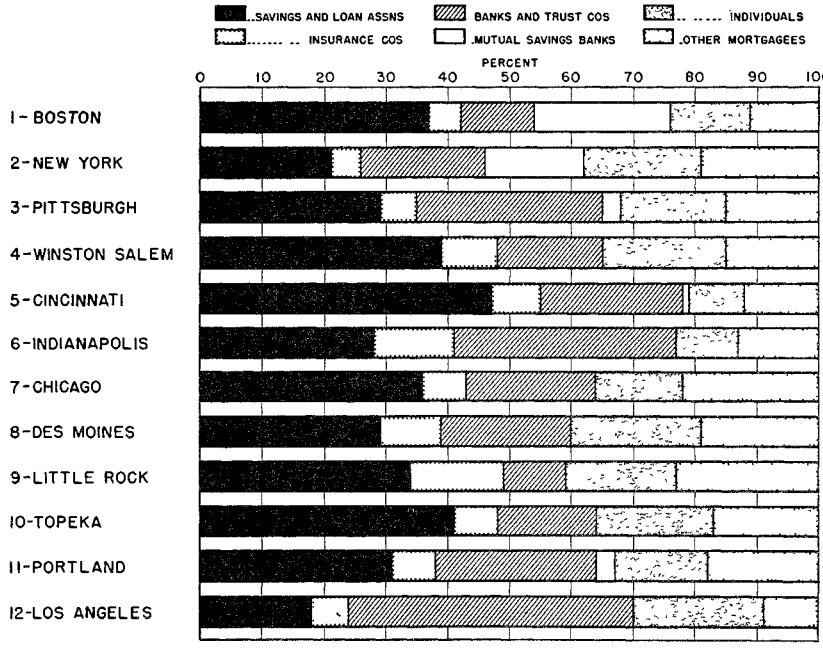
capitalists or the lack of financial institutions. In States with very large cities where apartment houses predominate, savings and loan associations naturally are less active than in States with a more equal distribution of population and wider home ownership. In each District and State, the different types of financial institutions have shown varying degrees of recovery from the depression. Finally, the extent to which banks and insurance companies have entered into the field of mortgage finance depends in many cases on local conditions and individual management.

The following chart shows the relative importance of the various types of lenders for each Federal Home Loan Bank District; Exhibit 9 presents the same classification, by Federal Home Loan Bank Districts and by States.

CHART XV

MORTGAGE RECORDINGS FROM JANUARY TO JUNE 1940, BY F. H. L. B. DISTRICTS

PERCENT OF TOTAL DOLLAR VOLUME, BY TYPE OF LENDER



DIVISION OF RESEARCH AND STATISTICS
FEDERAL HOME LOAN BANK BOARD

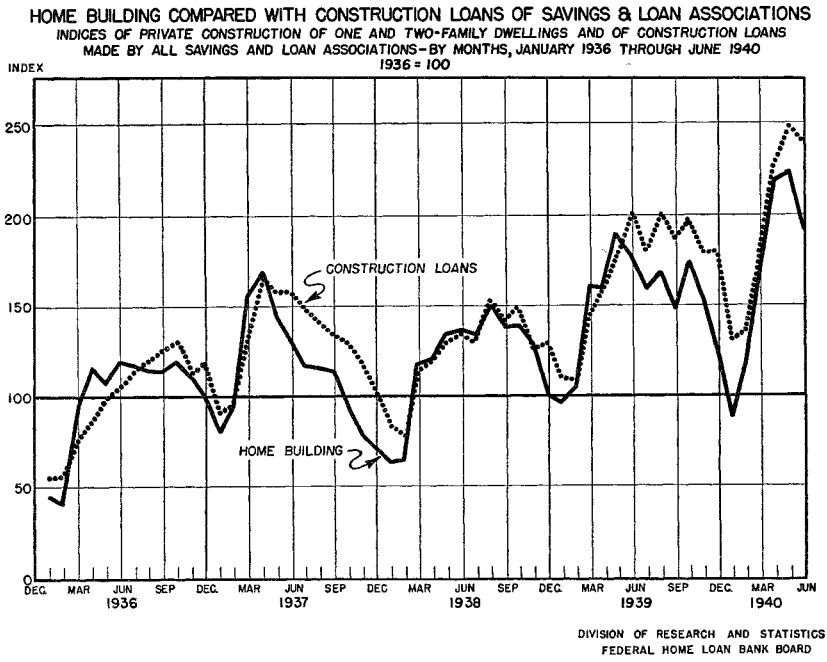
In all but three Federal Home Loan Bank Districts, savings and loan associations ranked first as lenders on residential mortgages of $20,000 or less. In the Pittsburgh, Indianapolis, and Los Angeles Districts, commercial banks were the most important lenders in this

field. As to States, savings and loan associations accounted for 50 percent or more of total mortgage recordings in Maryland, North Carolina, Kentucky, Ohio, Louisiana, and Nebraska. In Massachusetts, New Hampshire, Indiana, North Dakota, Kansas, Oklahoma, and the District of Columbia they were responsible for 40 to 50 percent of the total.

Increase of Construction Loans

During the last few years the emphasis in home-mortgage lending has changed greatly from refinancing loans to construction and home purchase loans. This shift was occasioned by the largely increased volume of new building, on the one hand, and by a decreasing demand for refinancing, on the other.

CHART XVI



The increase in construction loans is illustrated by the mortgage-lending data for savings and loan associations—the only type of institution for which current loan classifications by purpose are available. The volume of construction loans made by savings and loan associations was $298,628,000 in the fiscal year 1940, as against $219,726,000 in the preceding period.

The volume of construction loans made by savings and loan associations has increased with the gains in home building since 1936. As indicated by the above chart, savings and loan associations have not only been able to hold their own, but have expanded their activity in the financing of new home construction although competition in this field has been particularly keen.

Construction loans rose not only in dollar volume, but their proportion to total lending activity of savings and loan associations increased year by year from 1936.

Distribution of loans made by savings and loan associations, by purpose of loan

Purpose of loan	Amounts in millions of dollars					Percent distribution				
	1936	1937	1938	1939	1940 [1]	1936	1937	1938	1939	1940 [1]
Construction	$178.4	$234.1	$220.4	$301.1	$172.6	24	26	28	31	31
Home purchase	230.1	326.6	265.5	339.6	197.9	30	37	33	34	36
Refinancing	178.0	180.8	160.2	182.0	101.4	23	20	20	18	18
Reconditioning	65.4	62.2	58.6	59.5	30.2	9	7	7	6	5
Other	103.1	92.9	93.3	104.2	56.3	14	10	12	11	10
Total	755.0	896.6	798.0	986.4	558.4	100	100	100	100	100

[1] January to June.

In 1936, less than one-fourth of the total amount loaned was for newly built homes. In 1939–40, almost one-third of the aggregate loan volume went into new construction. The increased demand for owner-occupied homes is also reflected in the larger proportion of home-purchase loans to the total. From 1937 to 1940, between 33 and 36 percent of the aggregate loan amount was for home purchase as compared with 30 percent in 1936.[14] All together, in the first six months of 1940, construction and purchase loans, that is, loans for the acquisition of homes, accounted for 67 percent of the total volume of loans made as against 54 percent in 1936.

Decline in Refinancing

The above table reveals, at the same time, a continuous decline in the relative importance of refinancing loans made by savings and loan associations. While still large in dollar volume, refinancing loans in the first six months of 1940 constituted only 18 percent of total lending as compared with 23 percent in 1936. Although no comparable data are available for other types of institutions, the decline in loans

[14] It may be noted that a certain number of loans listed for home purchase were really for new construction; some reporting associations classify as purchase loans such mortgage loans that were made on homes erected by operative builders to be purchased and financed after completion, although such transactions in reality represent the first permanent financing of new construction. To that extent, the volume of construction loans is understated.

on existing properties insured by the Federal Housing Administration [15] would seem to corroborate the general observation that the period of wholesale refinancing in the home-mortgage field is approaching its end and that a more normal situation is about to be restored.

Since 1933, the volume and character of refinancing have been unusual in the history of American home-mortgage finance. It is true that in previous decades the proportion of refinancing to total mortgage-lending activitiy was high because of the predominance of short-term straight loans calling for frequent renewals. This, however, was far from being a refinancing "program" and rarely included a decisive improvement of loan terms for the borrower; in numerous cases it was a change for the worse. In contrast, refinancing in the last seven years was accompanied and prompted by an easing of the borrower's burden and has changed the whole structure of the home-mortgage debt.

Major refinancing activity was concentrated in the period from 1933 to 1936. In these three years, the Home Owners' Loan Corporation alone refinanced 13.6 percent of the total home-mortgage debt existing in 1932, at lower interest rates and on an amortized basis. In addition, private institutions refinanced some portion of the short-term loans which prior to the Thirties had normally been extended at maturity, and converted them from straight loans into amortized loans. Likewise, when second mortgages fell due, borrowers sought refinancing by consolidation of the senior and the junior lien. In many cases the mortgagee was faced with the granting of concessions to borrowers, involving refinancing or recasting of loans, as the only alternative to foreclosure. In more recent years the refinancing process was prolonged and fostered by the large amount of idle funds seeking investment and by the resulting intense competition of mortgage lenders and the sharp decline in interest rates. In the case of savings and loan associations, refinancing or recasting connoted frequently

[15] The following table shows the amount of home mortgages accepted for insurance by the Federal Housing Administration, distributed over new and existing homes:

Year	Amounts in millions of dollars		Percent distribution	
	New homes	Existing homes	New homes	Existing homes
1935	$60.2	$110.3	35.3	64.7
1936	212.3	226.2	48.4	51.6
1937	248.9	200.6	55.4	44.6
1938	451.0	199.2	69.4	30.6
1939	562.0	179.1	75.8	24.2

Source: Sixth Annual Report of the Federal Housing Administration, p. 48.

the transformation of loans made under the old sinking-fund plan into direct-reduction loans which are more advantageous to the borrower.

It may roughly be estimated that from 1933 through 1939, between five and six billion dollars of home owners' indebtedness was refinanced, including the $2,700,000,000 refinanced by the Home Owners' Loan Corporation.[16] In addition, where changes in ownership of properties occurred, the mortgage loan was frequently refinanced by the same or by other mortgagees. Finally, many existing loans were recast and numerous informal concessions made by mortgagees.

Nearly all of the loans outstanding in 1932 have either been paid off or have been recast or refinanced. Since 1933, new loans written total $16,000,000,000. It is therefore obvious that a substantial percentage of the $18,420,000,000 in home-mortgage debt outstanding at the end of 1939 has been contracted since 1933. The majority of these loans are written on the long-term amortized basis and carry interest rates lower than at any time before. Accordingly, the demand for refinancing has tapered off.

The large volume of home-mortgage refinancing throughout the Thirties had its parallel in many other sectors of the capital market. Billions of public bonds, including Federal, State, and municipal debt, have been refunded in the past decade. In the field of long-term farm finance, the Federal Land Banks and the Federal Farm Mortgage Corporation carried out a huge program of debt refinancing with Government assistance. In the field of corporate finance, more than two-thirds of the total amount of corporate securities issued by railroads, utilities, and other corporations from 1933 to 1939 was for refunding purposes, and less than one-third went into new financing.

Lowering of Financing Costs

The lowering of financing costs of home ownership during the past decade has been little short of a revolution in home-mortgage finance. Interest rates of first mortgages on homes have been reduced from a typical range of 6 to 8 percent at the beginning of the Thirties to a typical range of 4½ to 6 percent today. Further interest savings, not appearing in the contract rate, were effected by the more general application of the direct-reduction loan plan under which monthly interest is charged only on the constantly reducing balance instead of on the original principal of the loan. At the same time, loan limits for first

[16] The remainder of the approximately $3,000,000,000 loaned by the Home Owners' Loan Corporation in its original refinancing operations was applied to the payment of taxes, reconditioning expenditure, and appraisal and other fees.

mortgages have been extended to a point where junior financing is less necessary than before, and as interest rates on second and third mortgages in the past had been as high as 10 and 12 percent, the conversion of senior and junior liens into one single mortgage has resulted in far greater interest savings than is apparent from rate comparisons for first mortgages alone. Through longer amortization periods, the monthly amount of principal repayments has been diminished. All these factors have operated, in typical cases, to reduce total monthly financing charges on identical dwellings by one-third to one-half of the customary charges in the early Thirties. Likewise, discounts and charges incidental to the making of home-mortgage loans, such as commissions, fees, and bonuses, are now better fitted to services performed.

It is estimated that total savings to borrowers of the Home Owners' Loan Corporation alone represent an annual amount of approximately $100,000,000, including interest rate reductions, savings accruing from the average write-down of 7 percent on the principal indebtedness at the time of refinancing, and the elimination of second and third mortgages. The combined total of estimated savings to all home-mortgage borrowers throughout the country, due to lower interest rates and the reduction of second and third mortgages, is in the neighborhood of $300,000,000 a year, comparing financial charges in 1939 with those in 1933. Even more important than the actual amount of savings is the fact that lower charges to borrowers helped to preserve homes that otherwise would have been foreclosed.

During the fiscal year 1940, financing costs continued to decline. To an increasing extent, moreover, financial institutions in the quest for loan volume competed not only by interest rate reduction, but by extending the term of mortgage loans, by lowering down-payments, and by assuming some of the initial loan expenses. In localities where competition was particularly sharp, there was even some tendency to make concessions in the form of liberal appraisals.

As in previous years, the lowering of financing costs was the combined effect of keen competition in the mortgage market resulting from the abundance of investable funds, and of various actions by public agencies. In August 1939, the Federal Housing Administration reduced the maximum interest rate for all home mortgages insured under Section 203 of the National Housing Act from 5 to 4½ percent (plus ½ of 1 percent insurance premium). In October 1939, the Home Owners' Loan Corporation made provision to accept, until further notice, interest payments at the rate of 4½ percent instead of 5 percent.[17] Effective January 1, 1940, the Federal

[17] For details, see the report of the Home Owners' Loan Corporation, page 122.

Housing Administration liberalized its provisions for insurance of loans on new residential properties costing $2,500 or less, under Title I of the National Housing Act.

The following statistics of interest rates on mortgages recorded in Cook County are a fair illustration of the movement of interest rates from 1936 to 1939:

Interest rates on mortgages recorded in Cook County, Ill. [1]

[Percent distribution of the amount of mortgages recorded, by interest rates]

Interest rate	1936	1937	1938	1939
4 percent or less	4.8	4.8	5.1	7.6
4½ percent	11.8	14.2	13.2	23.5
5 percent	39.2	45.3	49.0	38.6
5½ percent	10.1	7.5	5.8	5.0
6 percent	30.3	25.6	23.5	18.2
6½ percent and higher	1.0	.4	.3	.7
Not reported	2.8	2.2	3.1	6.4
Total	100.0	100.0	100.0	100.0

[1] Nominal rates as listed in the mortgage instrument. Data underlying the table were compiled by the Recorder's Office of Cook County. Although the coverage varied from year to year, the percentage figures given in the table are believed to represent a fair approximation to the trend of interest rates.

The decreasing proportion of 6 percent loans over the four-year period, the increase of 5 percent loans from 1936 to 1938, and the growing importance of loans at 4½ percent or less in 1939 all point in the direction of lower financing costs. The above data indicate at the same time the large variety of existing interest rates. The pace is set by loans on newly built structures located in first-class neighborhoods of the larger cities where money is particularly plentiful. Even when the personal credit risk is equal, loans on properties in less desirable neighborhoods, or on older properties, or in small cities where the market generally is narrower, demand higher interest rates. Likewise, smaller loans which generally involve proportionately higher service costs justify somewhat higher rates. In a period of declining interest rates, moreover, existing unmatured loans for some time may carry higher interest rates than new loans. In fact, any such statement of general principles falls short of the multitude of factors determining rates, since money costs are the product of varying local conditions which persist in spite of the greater leveling of interest rates accomplished, in recent years, by the uniform rates of the Home Owners' Loan Corporation and the uniform maximum rates established by the Federal Housing Administration.

Of the many elements entering into home-financing costs, two over which financial institutions have little control have thus far resisted any change: title examination fees which are a direct part of mortgage loan expense, and foreclosure expense which is one of the risk factors

to be included in lending costs. Title examination in many States is still loaded with excessive expenses and cumbersome procedures. Likewise, exorbitant foreclosure costs in many States are a deterrent to liberal terms of mortgage loans.[18] Some further reduction in the cost of financing home ownership could be accomplished if title registration and foreclosure systems were thoroughly reformed.

Lending Policies in a Competitive Market

In the last few years, the Federal Home Loan Bank Board has attempted in various ways to aid in a realistic adjustment of interest rates. As a matter of general policy, the Board has advocated that savings and loan associations establish and maintain such interest rates as will enable them to attract and hold the best mortgage loans available in the community, since any other policy would result in inferior mortgage portfolios. It has recommended the adoption of variable interest rates for different classes of loans in order that associations may be able to compete for first-class loans and obtain a diversified portfolio. It suggests that equal treatment be given to old and new borrowers and that loans already held be refinanced at lower rates to preserve loan volume and good will. Because of the close relation between the cost of money and mortgage interest rates, the Board has urged associations to revise dividend rates where they are out of line with the generally decreased rate of return on savings. In these educational efforts, the Board has found the most gratifying support by the Presidents and the Boards of Directors of the twelve Federal Home Loan Banks who have devoted much time and energy to bringing these general principles home to the institutions in their respective Districts.

Moreover, the Board and the officers of the twelve Federal Home Loan Banks, in their supervisory capacity, have repeatedly taken steps to correct local situations. These measures were necessarily on a case basis. They were prompted by a desire to assure policies of "sound and economical home financing" as prescribed by Section 4 (a) of the Federal Home Loan Bank Act and Section 403 (c) of the National Housing Act, and in an attempt to forestall such difficulties for the associations themselves as result from the acceptance of poor risks at high interest rates.

Furthermore, the Board exerts considerable influence on interest rates and initial loan charges through the eligibility requirements for associations applying for insurance of accounts by the Federal Savings and Loan Insurance Corporation. The conditions for approval

[18] For details, see Seventh Annual Report, pp. 134–135.

of insurance include the requirement that the associations adopt lending policies, terms, and rates satisfactory to the Board. To clarify this requirement the Board, on July 18, 1939, adopted a resolution stating—

> that it is the policy of the Board to approve an application for insurance of accounts only when it is supported by evidence that the applicant association will establish and maintain such interest rates on loans as will enable it to attract and hold the best mortgage loans available in the territory it serves and that, consistent with its purpose of providing economical home financing, the association will continue to reduce interest rates and initial loan charges whenever feasible.

Last, but not least, the rules and regulations for Federal savings and loan associations which are under the direct supervision of the Federal Home Loan Bank Board, have done a great deal to reduce premiums and other initial loan charges which enter into the cost of home financing. As Federal associations account for over 40 percent of the total current lending volume of savings and loan associations throughout the country, these provisions have a considerable effect on lending practices, and in addition, they have to an increasing extent set the standard for progressive home-financing institutions.

The Board recognizes that as long as competition between the various types of local mortgage lenders prevails, this in itself will operate as a major safeguard for economical operations and reasonable charges to borrowers. Such competition is not lacking in the mortgage market. The fact that savings and loan associations as a group have maintained and improved their relative position in total home mortgage-lending activity—analyzed earlier in this report—is perhaps the most eloquent proof of their ability generally to meet the highly competitive situation. Under these circumstances, the proper realm of supervisory authorities seems to lie in the establishment of general policies designed to insure the soundest type of lending operations.

On the other hand, horizontal reductions of interest rates, or the establishment of over-all maximum rates would fix only one of the many conditions in the loan contract which determine real financing costs. The ratio of loan to property value, provisions for amortization, different loan types, commissions, and other elements of the contract are of equal importance. Hence, from a practical point of view, the direct regulation of mortgage interest rates would be extremely difficult. Moreover, home-mortgage lending is primarily a local activity and local money is its main source; interest rates are, therefore, subject to many local influences which cannot be ignored without tampering with the free flow of money into investments.

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Thus, uniform maximum rates throughout the United States might be inequitable and in some instances harmful; if they were too low, they would deprive those localities where money is scarce of mortgage investments which otherwise would be made at the prevailing local rates; if they were too high, they would fail to benefit those regions where the "natural" rate is below the maximum. To grade maximum rates by regions or size of communities, on the other hand, would introduce an element of unjustifiable arbitrariness. Furthermore, experience has shown that maximum prices, stamped with official approval, tend only too easily to become minimum prices.

Finally, mortgage loans are far from being a standardized product. The personal credit standing of the borrower, the age, location, and physical condition of the property securing the loan, the term of the loan, and the ratio of loan to property value are some of the many risk factors determining interest rates. The size of the loan is an important consideration as to the relative cost of servicing it. Maximum interest rates cannot possibly take all these factors into account unless they are restricted to loans of prime quality. Thus, borrowers who are not in this group but who are worthy credit risks would be excluded from the assumed benefits of controlled interest rates.

Continued Rise of Home-Mortgage Debt

During the calendar year 1939, the estimated private mortgage debt on nonfarm one- to four-family dwellings continued the increase begun in 1937. In fact, each of the last three years showed an increased rate of debt expansion. During 1937, the home-mortgage debt rose by only $55,000,000; in 1938, the increase was $317,000,000; and 1939 recorded a growth of $694,000,000, thus bringing the total debt to $18,415,000,000. If the Home Owners' Loan Corporation, which has been liquidating since 1936, is excluded, the expansion of home-mortgage holdings by all active types of mortgage lenders is even more conspicuous.

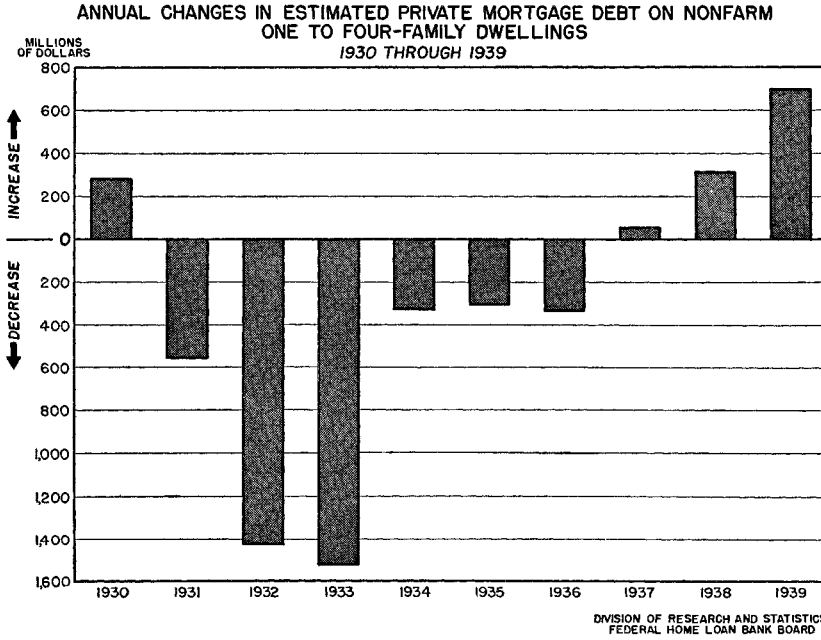
Estimated balance of outstanding mortgage loans on nonfarm one- to four-family dwellings

[Millions of dollars]

Classes of lenders	1936	1937	1938	1939	Increase or decrease			
					1937	1938	1939	1936 through 1939
Home Owners' Loan Corporation	$2,763	$2,398	$2,169	$2,038	−$365	−$229	−$131	−$725
All others (institutions and individuals)	14,586	15,006	15,552	16,377	+420	+546	+825	+1,791
Total	17,349	17,404	17,721	18,415	+55	+317	+694	+1,066

From the low of 1936, the mortgage portfolio of all lenders, excluding the Home Owners' Loan Corporation, increased by $1,791,000,000, or 12.3 percent, but since the holdings of the Home Owners' Loan Corporation in the same period declined by $715,000,000, the net gain of total debt was only $1,066,000,000, or 6.1 percent. Even so, the upward trend of the home-mortgage debt was in distinct contrast to all other types of private long-term debt which remained stagnant or continued to decline through 1939.

CHART XVII



The net growth of home-mortgage debt from 1936 has been due to a number of factors. One of them, of course, was the increased volume of home building which was financed mainly through mortgage debt, supplemented by low equity capital. Another factor was the substantial sale of real estate acquired by mortgagees in previous years through foreclosure or deed in lieu of foreclosure. The acquisition of such real estate from 1930 to 1936 had been accompanied by the extinction of mortgage debt, as creditor claims were exchanged against ownership rights, and this was one of the principal causes of debt liquidation. To the extent that financial institutions dispose of these properties, the process works in reverse. Real-estate holdings of financial institutions are normally sold for small down payments

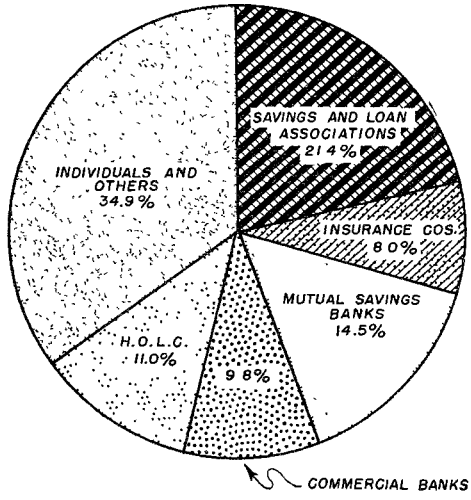
against purchase-money mortgages, and these mortgages enter the balance sheet as home-mortgage loans. At the same time, the abnormal debt liquidation of the depression years, through foreclosure and maturity of short-term loans, has come to an end, and liquidation is now more or less limited to the regular annual amortization of loans.

In the period from 1936 to 1939, savings and loan associations scored the largest dollar increase in home-mortgage holdings—from $3,361,000,000 to $3,957,000,000, or by approximately 18 percent. Commercial banks showed a similar growth in dollar amount, from $1,230,000,000 to $1,810,000,000, or an increase of 47 percent. Holdings of insurance companies rose by more than 19 percent during this three-year period, and amounted to $1,490,000,000 at the end of 1939. Holdings of mutual savings banks remained almost unchanged.

CHART XVIII

ESTIMATED BALANCE OF OUTSTANDING MORTGAGE LOANS ON NONFARM ONE TO FOUR-FAMILY DWELLINGS, BY TYPE OF LENDER

DECEMBER 31, 1939



DIVISION OF RESEARCH AND STATISTICS
FEDERAL HOME LOAN BANK BOARD

Among private institutional lenders, savings and loan associations continued to be the largest holders of home-mortgage loans, accounting for approximately 40 percent of the total home-mortgage portfolio of private financial institutions in 1939, and for 21.5 percent of the total balance of home mortgages outstanding. That the field of home-mortgage finance is far from monopolized by a few types of financial

institutions is indicated by the large share of the group "individuals and others" which represented 35 percent of the total balance of home-mortgage loans outstanding in 1939.

The relative importance of the Home Owners' Loan Corporation has declined from 1936 because of the progressing liquidation of HOLC loans; at the end of 1939, HOLC loans outstanding constituted only one-ninth of the total home-mortgage debt. A complete survey of the estimated home-mortgage debt from 1929 to 1939, by types of lenders, is presented in Exhibit 10.[19]

The increase in home-mortgage debt during the past few years is no cause for alarm. At the end of 1939, this increase had brought the debt volume back to the level of 1933, which was clearly a depression level. Under modern conditions, moreover, debt financing is the necessary companion of any expansion of economic activity although it raises, in the realm of real estate as well as in other investment fields, the question of a desirable balance between debt and equity financing. However, more important than the mere quantity of debt is the quality of the debt structure, and from this point of view, the debt increase in recent years may be held to be much sounder than in any comparable period in the past. The rapid debt expansion during the Twenties was occasioned and accompanied by a continuous stepping up of real-estate prices, by widespread speculation, and by superficial and defective appraisals; it was financed to a large extent by short-term or medium-term loans and by junior mortgages; it occurred in the face of serious weaknesses in the home-financing structure such as an almost complete absence of marketability for mortgages and lack of a credit reservoir for home-financing institutions. In the meantime, great strides have been made toward remedying these defects.

A more critical attitude toward real-estate values has evolved; the technique of appraisals has been improved; and most of the new loans

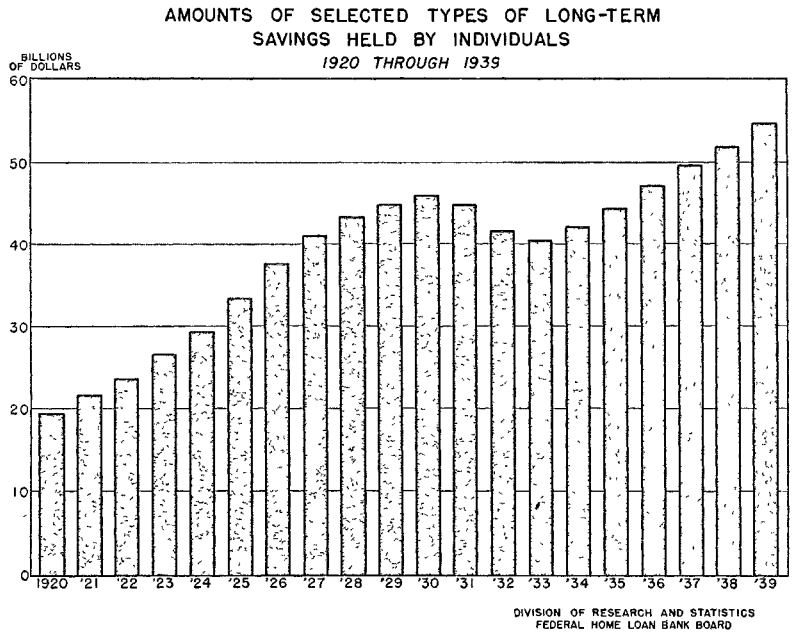
[19] In passing, it may be noted that the increase in home-mortgage holdings of savings and loan associations was really greater than appears in the available statistics. A large portion of their holdings has been transferred in recent years from the share-account sinking-fund plan to the direct-reduction loan plan. Under the share-account sinking-fund plan, the balance of the loan on the books of the associations was somewhat inflated. The borrower pledged shares against the loan and paid periodic installments toward the maturity of these shares; instead of applying each installment immediately to a reduction of the principal of the loan, the now outmoded plan provided for cancellation of the loan against the accumulated shares only as the latter matured. Thus, the balance of mortgage loans held by savings and loan associations in past years appears to be higher than it actually was. When loans based on the sinking-fund plan are transformed into direct-reduction loans under which the principal is reduced with each periodic payment, the amount of pledged shares, in one operation, is deducted from the principal amount of the loan. To the extent that such transformations took place in recent years, they tended to deflate the balance of mortgage holdings and to offset increases in these holdings. While no reliable figures are available on the total volume of such transfers, they have been substantial, running into several hundreds of millions of dollars from 1933 to 1939. As one indication of the trend, certain statistics compiled by the Massachusetts Cooperative Bank League are of interest. According to the League, the percentage of sinking-fund loans in Massachusetts cooperative banks declined from 81 percent of all loans in October 1938 to 30 percent in May 1940. (Cooperative Banker, July 1940.)

made during recent years are on a long-term amortized basis. In the Federal Home Loan Bank System, a credit reservoir has been provided to assure greater elasticity of credit for home-financing institutions. Opportunities for the marketing of home-mortgage loans have been created; and lending practices of home-financing institutions have been reformed. All these reforms, necessary in themselves after the collapse in 1929, have at the same time assured a sounder basis for recovery.

Abundance of Savings

The recovery of home-mortgage finance, reflected in the expanded home-mortgage debt, has been supported by a continued flow of savings into financial institutions. To an ever increasing extent, savings and loan associations have been facing the problem of surplus funds that has confronted other financial institutions for years.

CHART XIX



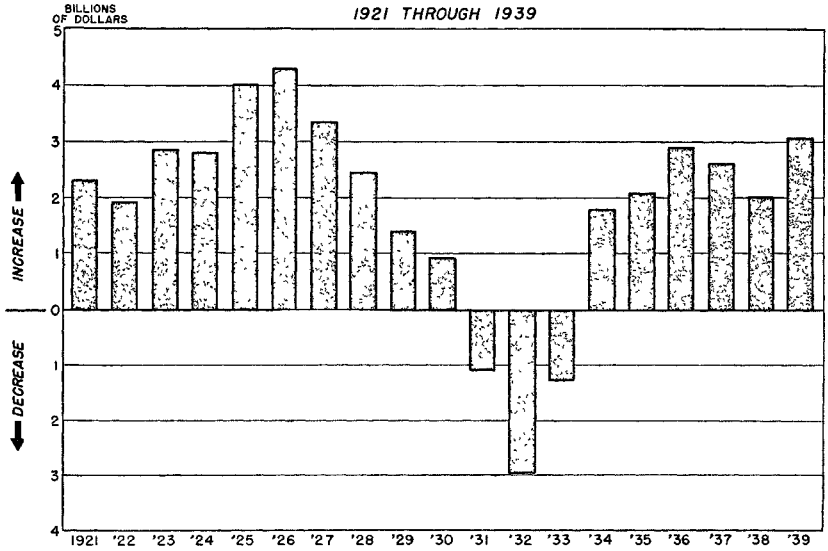
The above chart shows for the past two decades the quantitative changes in selected types of long-term savings which individuals have accumulated. Only such savings are included as are potentially available for investment in home mortgages or as are directly competitive to share investments in savings and loan associations: savings deposits

in banks, savings in life insurance companies, and savings and loan associations, postal savings, postal savings bonds, and United States savings bonds.

The growth of these individual long-term savings from 1921 to 1930, reflecting the prosperity of the Twenties, was followed by a period of decline from 1930 through 1933. Since then, a substantial recovery has taken place which carried the total volume of these types of savings far beyond the predepression peak of 1930. The increase of over $14,000,000,000 from 1933 to 1939 indicates not only the prevailing propensity to save, but probably denotes a shift of investment

CHART XX

ANNUAL NET CHANGES IN SELECTED TYPES OF LONG-TERM SAVINGS



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habits on the part of savers. In brief, savings are being institutionalized. In previous decades, a large portion of such funds had been invested by savers directly in enterprises, mortgages, commercial loans, or securities. The Thirties have witnessed a growing disinclination toward, or lack of opportunity for, such direct investments with the result that proportionately larger funds have been entrusted to banks, insurance companies, and savings and loan associations for investment by them; in addition, postal savings grew in popularity in the early Thirties, and the U. S. Savings Bonds, issued since 1935, have attracted substantial amounts of individual savings.

During the calendar year 1939, individual long-term savings of the above-mentioned types increased by $3,000,000,000 as compared with $2,000,000,000 the year before. The increase during 1939 represents a new post-depression high.

As in previous years, United States savings bonds showed the largest relative growth—53.2 percent. Savings in life insurance companies, represented largely by their legal reserves, made the largest dollar gain during the year—$1,523,000,000, or 7.0 percent. However, new life insurance sales were lower than in both 1938 and 1939 as evidenced by the following figures:

New paid-for life insurance[1]

[Excluding group insurance]

1936	$7, 344, 349, 000
1937	7, 533, 468, 000
1938	6, 526, 610, 000
1939	6, 425, 633, 000

[1] Face amount of policies. Life Insurance Sales Research Bureau.

Savings deposits in insured commercial banks increased by 3.5 percent during 1939 and in mutual savings banks by 2.4 percent. Postal savings gained by 2.2 percent. Private investments in all savings and loan associations rose by 0.6 percent. Exhibit 11 furnishes detailed information on the distribution of individual savings of the long-term variety over the various types of institutions and investments in 1938 and 1939.

Of the different classes of savings and loan associations, member institutions of the Federal Home Loan System showed an increase in private repurchasable capital by 11.2 percent during the calendar year 1939, whereas nonmembers experienced a decline of about 7 percent. Within the membership of the System, Federal savings and loan associations continued to record the largest growth—29.1 percent. State-chartered insured members registered a gain of 17.9 percent, while private repurchasable capital in State-chartered noninsured members declined 4.4 percent.

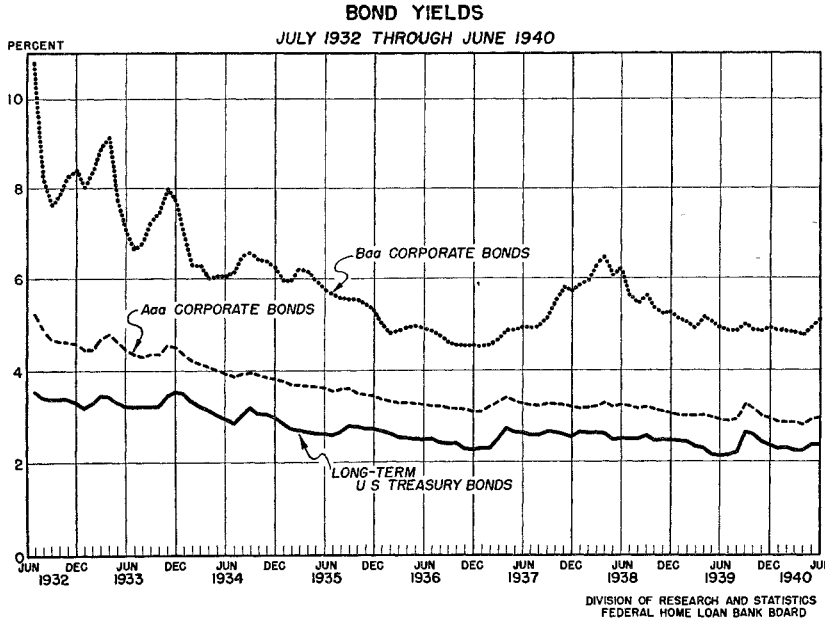
Declining Return on Savings

Easy money conditions in the fiscal year 1940 led to a further decline in the rate of return on savings. The average dividend rate paid by mutual savings banks (on a weighted basis) stood at 2.04 percent at the end of June 1940 as against 2.17 percent a year previous. A number of mutual savings banks in New York City revised their dividends to 1½ percent for the second quarter of 1940. In several instances, the return on savings deposits in commercial banks was

reduced by agreement among the institutions and is now in many cases substantially below the 2½ percent maximum permitted for members of the Federal Reserve System and nonmember insured banks. Further, less visible reductions were effected by "scaling," through which balances exceeding a stated maximum received declining rates of return. Operating ratios of member banks of the Federal Reserve System for 1939 showed an average interest payment of 1.6 percent on time deposits. In New Jersey, the Department of Banking and Insurance, on July 1, 1939, limited the maximum interest rate on savings deposits for banking institutions, including savings banks, to 1 percent, and the interest rate on postal savings in that State was likewise reduced from 2 to 1 percent—the first revision of the uniform rate of 2 percent which has been in effect since 1911 when the Postal Savings System was created. In not a few cases, financial institutions have actually limited the amount of individual savings accounts they are willing to accept. In the case of United States savings bonds, however, for which the return is 2.9 percent on ten-year maturities there has been no change since 1935 when this new type of Government bond was introduced.

Bond yields experienced a somewhat erratic movement during the reporting period. In the first few weeks of the European war, yields

CHART XXI



on long-term bonds turned upward but they reverted quickly to lower levels. In May 1940, when the war entered into a dramatic stage, a second upturn began which continued through June.

Whether the flurries in bond yields during the fiscal year 1940 presage a definite reversal of the downward trend of interest rates observed since 1932 depends on many unpredictable circumstances. Even a more permanent increase in bond yields, however, may not lead immediately to rising yields on other less flexible types of investments, just as the downward movement of bond yields in the early Thirties was slow in transmitting itself to other investment types.

Dividend Policy of Thrift- and Home-Financing Institutions

For a number of years, dividend rates paid by savings and loan associations have shown a tendency to decline, but the movement has not been uniform throughout the country. Many savings and loan managements have assumed that any reduction of dividend rates must be avoided lest confidence and the flow of money into home-financing institutions be impaired. They have been reluctant to concede the general and radical nature of the reduction in investment yields during the last five or six years. However, the downward adjustment of dividend rates has recently become more pronounced. As an example, the average annual dividend rate paid by Federal savings and loan associations was 3.39 percent for the calendar year 1939 as against 3.49 percent for 1938[20] and 3.69 percent for 1935.

The rate of return paid to savers in thrift- and home-financing institutions cannot, of course, be forced down to the point where thrift is discouraged. As mutual institutions, savings and loan associations are bound to pay a return to savings members which is as high as is consistent with sound business practices. The money placed in savings and loan associations and other savings institutions comes in small amounts from average working people. Since such funds make possible most of the home building in this country, a decrease in the flow of their savings into mortgage-lending institutions must inevitably have serious repercussions. It must not be overlooked that the function of the Federal Home Loan Bank System and of its member institutions is twofold—to encourage thrift and with the funds thus accumulated to develop home ownership.

Dividend rates which are uneconomically high, however, necessarily hamper associations in the present sharp competition for loans and may force institutions to make mortgage investments of the second or third class rather than first-grade loans which can be obtained only

[20] For more detailed data on dividends in 1938 and 1939, see Exhibit 46.

at low interest charges. Inasmuch as interest rates are being reduced as a result of competition in the mortgage market, high dividends tend to narrow the margin between cost of money and income. Consequently, they limit the amount that can be added to reserves. Moreover, the experience of associations which have reduced their dividend rates in recent years clearly indicates that such reductions have only a temporary adverse effect on the volume of funds invested in the associations, and that the generally sound condition of an institution and its competitive strength are more effective in maintaining investors' confidence than high dividend rates.

Within its supervisory authority, the Federal Home Loan Bank Board has corrected local situations in those cases where individual associations paying high dividend rates were pursuing questionable lending or reserve allocation policies. In addition, the Board and the Presidents of the twelve Federal Home Loan Banks have continuously called to the attention of the savings and loan industry the necessity of realistic revisions of dividend rates to conform with prevailing money conditions. In general, the Board advocates annual dividends at the present time at a rate of not more than 3 percent which would enable associations to meet loan competition, to pay operating expenses, and to strengthen reserves. In some regions, particularly in the New York City area, competitive conditions permit and require dividend rates of 2½ percent.

Finally, the Federal Home Loan Banks have supported the trend toward lower cost of money to savings and loan associations by reductions in the interest rate charged on Bank advances. In 1932, after the organization of the Federal Home Loan Bank System, interest rates on advances ranged from 4 to 5 percent; on July 1, 1940, they varied between 1½ and 3 percent, reflecting a series of reductions which continued through the fiscal year 1940.[21]

[21] For details, see page 73.

II

Survey of Housing and Mortgage Finance

THE fiscal year 1941 was a period of continued progress in the fields of activity in which the Federal Home Loan Bank Board is primarily concerned. Construction of new homes, investment of savings in home mortgages, and general operations of the real-estate market all showed substantial improvement during the reporting period.

A gain of 27 percent over the previous fiscal year brought residential construction in nonfarm areas back to the annual level of the late Twenties. Home mortgage lending by private financial institutions reached a new ten-year high. Except for a brief period during the fall of 1940, the flow of savings into financial institutions continued at an excellent rate. The real-estate market as a whole showed significant signs of improvement. Real estate owned by financial institutions declined to such an extent that the overhang of institutionally-acquired properties, which for the past several years has been a serious drag on the market, no longer represents a major problem except in a few scattered areas.

The accelerating tempo of the national defense program has at the same time raised new problems and uncertainties which are already affecting thrift and home financing operations. No business operates in a vacuum and the mobilization of economic resources in the interests of an all-out preparedness effort means readjustments in all business activity. Fortunately, the home financing structure is today better able to meet the challenge than at any time in the past.

Member home financing institutions of the Federal Home Loan Bank System are supported by a substantial reservoir of credit on which they can rely, when necessary, for the payment of withdrawals or the financing of mortgage loans. Insurance of accounts in savings and loan associations has created a high degree of confidence on the part of savers and investors. Activities of the Federal Government in providing a ready market for insured mortgages is a further important bulwark to the home financing industry. Finally, the home mortgage debt of the country is basically sounder than in former periods of emergency.

1. RESIDENTIAL CONSTRUCTION AND THE REAL-ESTATE MARKET

Increased Residential Building

The fiscal year 1941 witnessed profound changes in the national economy. By the beginning of the reporting period, the program for defense and all-out aid to the Democracies had reached the point where actual production was having measurable results in improved business conditions. Throughout the reporting period, the upward trends were maintained until by June 30, 1941, the various gauges of general business activity had reached the highest levels in many years. Thus, the index of industrial production was 157 for June 1941, a figure 30 percent higher than a year previous. Nonagricultural income rose from $66,616,000,000 during the 1940 fiscal year to $74,018,000,000 during the reporting period. Manufacturing payrolls increased $572,000,000, or 25.6 percent. Nonagricultural employment reached the record level of 32,647,000 in June 1941. Farm prices and cash income both enjoyed steady gains.

New residential construction was no exception to this general trend. During the fiscal year 1941, the total volume of residential construction reached the highest point since 1928. On the basis of building permit figures compiled by the Department of Labor, construction was started on approximately 616,000 nonfarm dwelling units, with an estimated permit valuation of $2,136,842,000. Compared with the previous fiscal year, these figures show a gain of 27 percent in number and 29 percent in dollar volume.

*Number of new dwelling units provided in nonfarm areas, by quarters, fiscal years 1940 and 1941**

Quarter	Fiscal year 1940	Fiscal year 1941	Percent increase
July–September	124,265	150,634	21.2
October–December	117,224	146,617	25.1
January–March	99,322	128,872	29.8
April–June	143,427	189,936	32.4

*Source: U. S. Department of Labor.

Even more indicative of the acceleration in the rate of residential construction is a tabulation by quarters during the last two fiscal-year periods. On this basis, the first quarter of the current fiscal year shows an increase of 21 percent over the corresponding period a year

CHART III

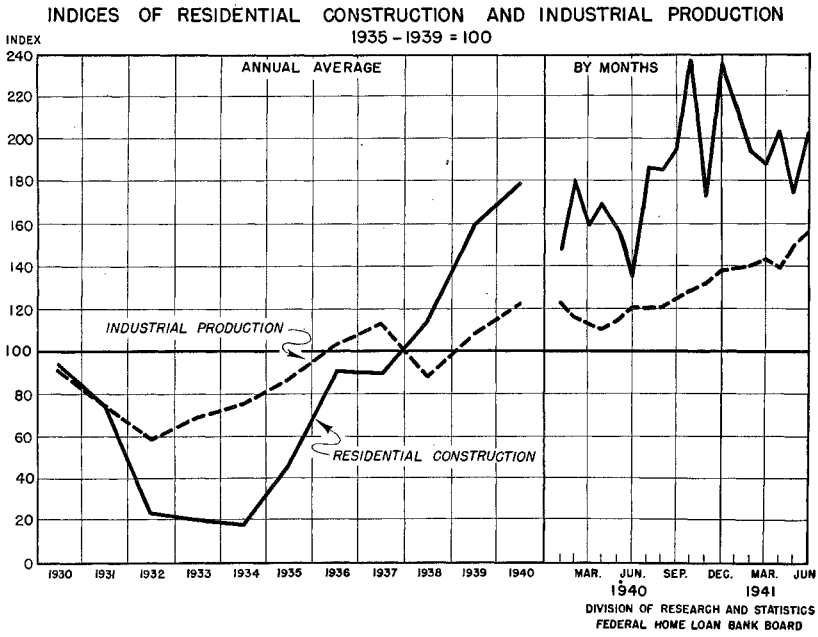
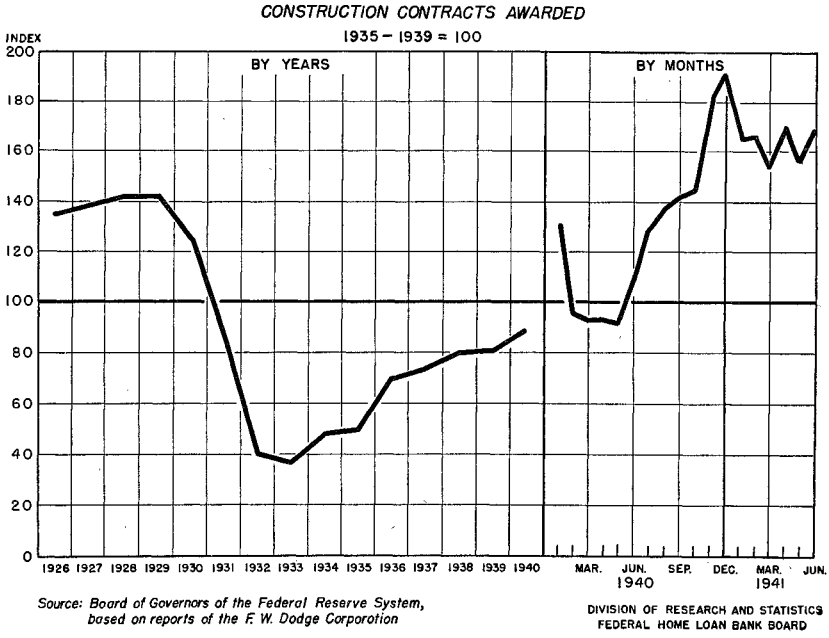


CHART IV



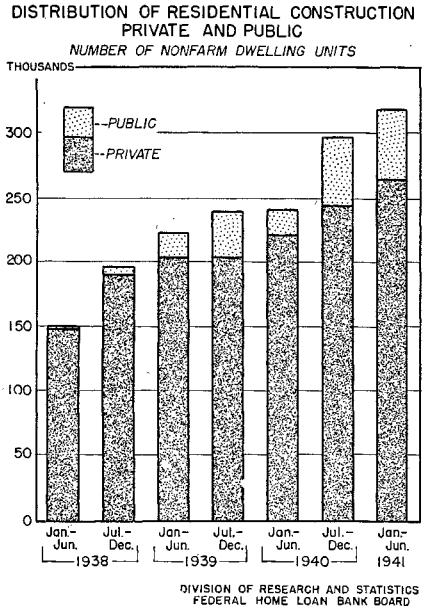
previous, while gains of 25, 30, and 32 percent were scored in the second, third, and fourth quarters.

Despite the increased volume during the fiscal year 1941, residential building failed to keep pace with nonresidential building because of the rapid expansion in plant facilities which has accompanied the defense program. Only a short time ago idle factories and equipment were commonplace. Today, the situation is completely changed. The staggering job of meeting within the shortest possible period of time the production demands of an all-out defense program has necessitated plant expansion on a huge scale.

The Defense Program and Residential Building

Like so many other fields of economic activity, residential construction during the fiscal year 1941 was greatly affected by the defense effort and, more particularly, by the program of defense housing. The necessity of providing adequate shelter in defense areas, so that no essential productive activity is hindered by the lack of housing accommodations for defense workers, is basic to the Nation's preparedness program.

CHART V



The stimulus given to the whole economic system by the program of national defense, as evidenced by rising industrial production, increased national income, decreased unemployment, rising wages, and so forth, has in itself undoubtedly accounted for a substantial amount of new residential building. In a sense then, it might be said that the general defense effort of the country has been the primary cause of the increase in residential construction activity during the current fiscal year.

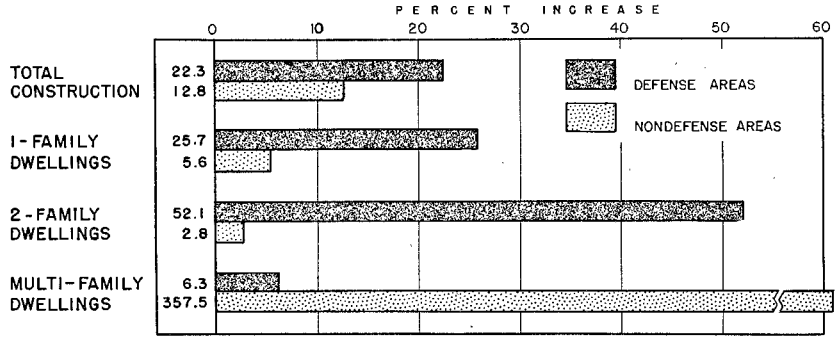
The effects of the defense program are most clearly visible in the public housing field. During the fiscal year 1941, the total number of dwelling units provided in nonfarm areas through public funds

amounted to 105,788, or nearly twice the previous record set during the 1940 reporting period. According to the United States Department of Labor, 63,767 units, or 60.3 percent of this total, represent defense housing placed under construction contract in localities where the preparedness program necessitated additional housing facilities. While these figures show the direct result of the defense emergency on public housing, they indicate only one part of the story. The substantial increase in the volume of housing provided by private resources, amounting to 84,454 units, was also brought about in substantial measure by the urgent need of additional housing facilities in defense localities.

CHART VI

INCREASE IN PRIVATE RESIDENTIAL CONSTRUCTION IN DEFENSE AND NONDEFENSE AREAS

COMPARISON OF FIRST 6 MONTHS OF 1940 AND 1941



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The concentration of private housing in defense areas is illustrated in the chart above. During the first six months of 1941, private residential construction in "defense localities," [1] which represented over 75 percent of all private residential building in incorporated places, expanded by 22 percent as compared with a growth of only 13 percent during the first six months of 1940. These percentage gains undoubtedly minimize the stimulating effect of the defense program on private building, for they have been restricted to residential construction activity within city and town limits and, therefore, fail to take into account the large volume of housing located immediately outside boom towns.

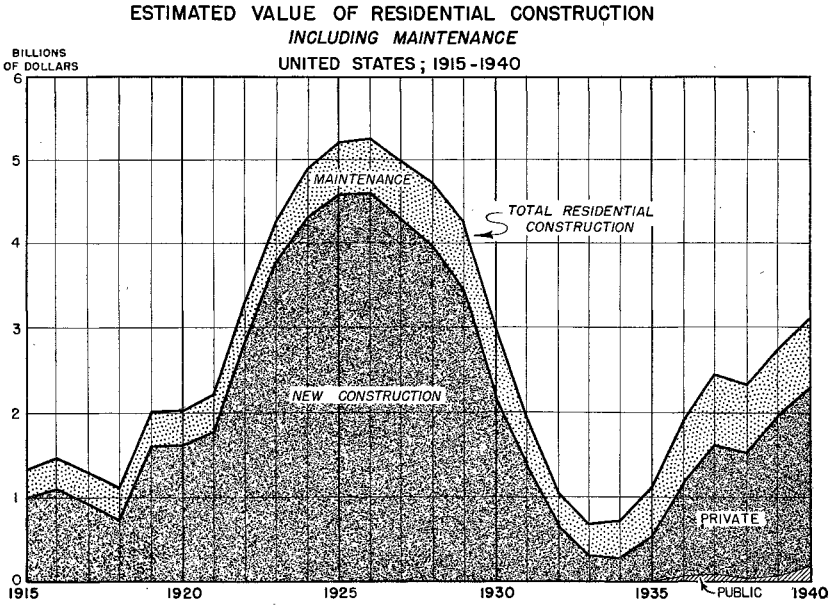
[1] "Defense localities" are defined as those areas for which public housing funds have either been allocated or where allocation is definitely under consideration as well as those which have been designated for FHA insurance under the new Title VI of the National Housing Act.

It must be recognized that a certain proportion of new private housing has undoubtedly been built to meet normal replacement requirements or to fill a demand divorced from any but the most indirect influence of the defense emergency. However, the substantial gains in private residential construction do signify that private housing is meeting a major portion of the demand for housing in defense areas. It should be noted in this connection that even where new home construction in defense areas is not specifically designed for occupancy by incoming defense workers, it does make available additional vacated units which may be used for this purpose. For this reason, any additional housing in defense areas helps in the execution of the armament program.

Growing Importance of Public Housing

As already stated, the number of publicly-financed nonfarm dwelling units on which construction was started in the 1941 fiscal year aggrer gated 105,788, an increase of 81 percent over the preceding fiscal yea.- This rise is directly reflected in the share of total residential construction attributed to public housing during the reporting period. Housing

CHART VII



Source: U.S. Department of Commerce

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financed with Government funds represented 17 percent of total new nonfarm units in the fiscal year 1941 as compared with 12 percent during the previous year.

The relationship between public and private housing in total residential construction activity is illustrated in Chart VII which indicates the volume of expenditures for new construction and maintenance, with a breakdown to show the relative amounts provided from private and public funds.

The factor almost solely responsible for the increase in public housing was, of course, the necessity of meeting the demand for additional housing accommodations in defense centers which could not for good reason be met with private resources. The volume of public housing provided under the United States Housing Act of 1937 and the New York Public Housing Law of 1939 amounted to 60,200 units during the fiscal year 1941 as compared with 58,421 during the previous year. Included in this total for 1941 are 18,179 units placed under construction contract which will be used to house defense workers for the duration of the emergency, but which will revert to their original function of slum clearance projects when they are no longer needed for this purpose. There was, therefore, relatively little increase in the volume of housing constructed for immediate or ultimate use as slum clearance projects.

The following table compares the expansion of publicly-financed construction with the increase in private building activity in nonfarm areas:

Comparison of private and public residential construction in nonfarm areas

Fiscal-year period	Total construction		Private		Public	
	Dwelling units started	Increase over preceding year	Dwelling units started	Increase over preceding year	Dwelling units started	Increase over preceding year
	Number	*Percent*	*Number*	*Percent*	*Number*	*Percent*
1938	273,742	----------	273,022	----------	720	----------
1939	419,539	53.3	394,034	44.3	25,505	3,442.4
1940	484,238	15.4	425,817	8.1	58,421	129.1
1941	616,059	27.2	510,271	19.8	[1] 105,788	81.1

[1] Of this total, 63,767 units were built in defense housing projects.

Direct construction of housing by Governmental agencies has resulted from two specific needs. The first is exemplified in the program of the United States Housing Authority—to replace submarginal housing by providing decent living quarters which are rented on a subsidized basis to slum dwellers. The second is the urgent problem of meeting housing needs in defense areas where private

industry cannot handle the job because of the temporary character of the demand or because the demand is for housing at uneconomic rent levels. Present trends would seem to indicate that public housing for defense will play an increasingly important role in total residential construction activity.

Where New Housing is Built

During the 1941 fiscal year, the rate of private residential construction in nonfarm areas showed gains ranging from 4.1 to 32.4 percent in the nine major geographical divisions of the country. The East North Central, South Atlantic, New England, and East South Central States led the other Districts with increases of 25 percent or more, while the Middle Atlantic and Mountain States at the other end of the list showed increases of slightly more than 4 percent.

The highest rates of private residential construction, continuing the trends of the last several years, were found in the Pacific, Mountain, and Southern States. The lowest rates of residential construction, in terms of population, were found in the New England and the Middle Atlantic States. It is interesting to note that the New England States, where the rate of construction is lower than for any of the other eight geographical divisions, experienced one of the highest percentage increases during the reporting period. On the other hand, the Mountain States, which ranked second in terms of rate alone, experienced a gain of only 4.4 percent as compared with the previous year.

Private residential construction in nonfarm areas, fiscal years 1940 and 1941

[Rate per 100,000 population] [1]

Geographic division	1940	1941	Percent increase	Geographic division	1940	1941	Percent increase
New England	206.7	270.3	30.8	West South Central	504.6	543.2	7.6
Middle Atlantic	282.2	293.7	4.1	Mountain	581.5	606.9	4.4
East North Central	331.4	438.9	32.4	Pacific	981.0	1,192.4	21.5
West North Central	351.1	382.9	9.1				
South Atlantic	597.8	791.0	32.3	United States total	419.4	502.6	19.8
East South Central	365.7	460.6	26.0				

[1] In the compilation of this material, building permit data collected by the U. S. Department of Labor have been used; publicly financed units are excluded. In order to provide a basis for comparison of residential building activity between various sections of the country, a ratio of the total number of new family dwelling units to existing nonfarm population has been computed instead of the absolute number of dwelling units provided. Population estimates used in computing the rate of building are based on the U. S. Census of 1940.

To complete the picture of where residential construction was carried on during the last fiscal year, the statistics have been expressed in the table below in terms of rate per 100,000 population in cities of varying size. Generally speaking, the highest rates were found in smaller communities and in rural nonfarm areas.

Rate of private residential construction, by size of community, fiscal year 1941

[Rate per 100,000 population]

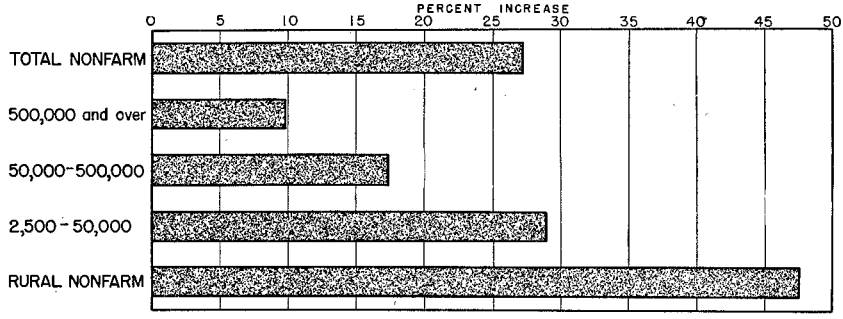
Population group	Fiscal year 1941	Population group	Fiscal year 1941
Total nonfarm	502	25,000–50,000	570
Total urban	488	10,000–25,000	579
500,000 and over	413	5,000–10,000	585
100,000–500,000	432	2,500–5,000	572
50,000–100,000	485	Rural nonfarm	542

The increasing rates of construction in smaller communities are particularly interesting in view of population trends disclosed by the 1940 Census. Briefly, the Census showed that during the Thirties,

CHART VIII

INCREASE IN RESIDENTIAL CONSTRUCTION BY SIZE OF COMMUNITY

FISCAL YEAR 1941



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the highest rates of population increase occurred in small communities. Thus, the percentage increase in the number of persons living in communities of 500,000 or over was 7.4 percent during the decade of the Thirties, 4.4 percent in cities of 50,000 to 500,000, and 13.7 percent in urban areas of 2,500 to 10,000. Rural nonfarm areas show an even higher gain of 14.5 percent. This trend was a direct reversal of the population curve of the Twenties.[2]

The above chart illustrates the higher percentage gains in total residential units provided during the fiscal year 1941 in smaller communities.

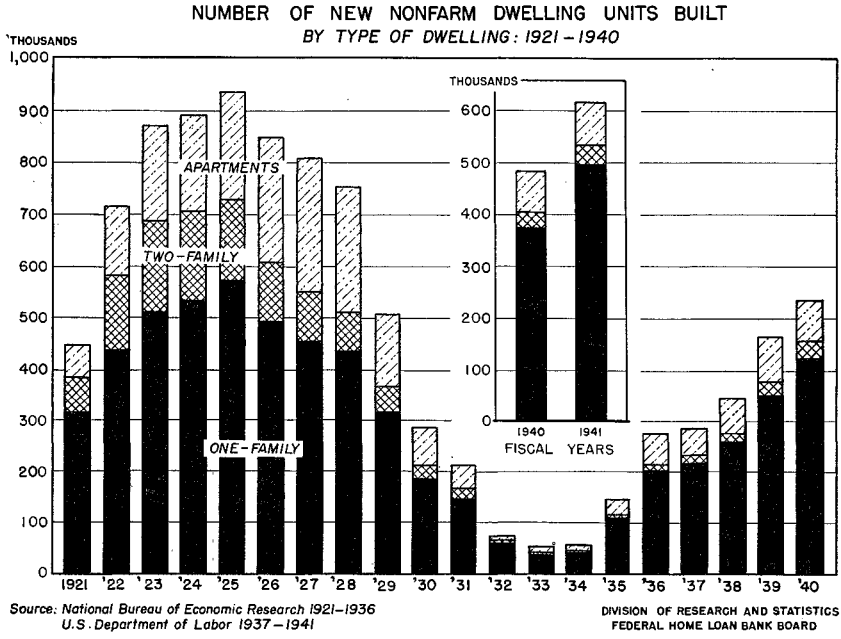
Continued Preference for Single-Family Houses

The Eighth Annual Report of the Federal Home Loan Bank Board emphasized the long-range trend toward an ever growing proportion

[2] For detailed information on population trends as disclosed by the 1940 Census, see pp. 35–38.

of single-family dwellings in the annual additions to the residential housing supply of the country. This development, which started with the recovery of residential construction in 1935, is contrary to our experience in the upswing of previous building cycles. During the Twenties, for example, the proportion of new dwelling units contained in apartment houses rose substantially during the period 1922 to 1928. During this same period, construction of one- and two-family houses remained relatively stable.

CHART IX



During the year under review, single-family houses assumed a position of even greater importance. Approximately 81 percent of total nonfarm units built are found in dwellings of this type as compared with 78 percent during the previous fiscal year. The gain in single-family home construction was made at the expense of multifamily housing developments as Exhibit 1 and the chart above indicate. The number of new single-family dwelling units provided during the fiscal year 1941 totaled 497,230, an increase of 32.4 percent over the previous fiscal year. The total volume of units provided in multifamily structures, on the other hand, amounted to 80,018 during the

reporting period, or a gain of only 1.8 percent. The number of units provided in two-family structures showed a good increase during the fiscal year 1941 from 30,162 to 38,811. However, the relative importance of this type of housing remained practically unchanged, the figures for each of the last two fiscal years representing but 6 percent of the total new housing constructed.

Undoubtedly one of the main explanations for the predominant position of single-family houses in the volume of new construction during recent years is the fact that our population is increasing at a much faster rate in smaller communities and suburban areas than in central cities where most apartment building is concentrated. The traditional preference of the average American for a single-family home of his own is much more easily satisfied if he lives in a community where there is no problem of crowded living. It is no mere coincidence that the 1940 Census shows population during the Thirties to have grown three times as rapidly in suburban areas as in the central sections of our metropolitan communities.

Improvement in the Real-Estate Market

Recent Annual Reports of the Federal Home Loan Bank Board have emphasized that the real-estate market in this country has made only an incomplete recovery from the depression of the early Thirties. Reasons why recovery has lagged in this field are not difficult to find. Real estate is by its nature a commodity which moves slowly. Prices at which properties have been offered for sale have only recently been adjusted to realistic levels since many property holders refused to incur the very heavy sacrifices which would have been inevitable had they disposed of their investments at the depth of the depression. The avalanche of foreclosures during the first depression years resulted in an institutionally-owned overhang of properties which further deflated prices. Depreciation and obsolescence have exacted a heavy toll on older properties remaining unsold.

The task of liquidation under these conditions has naturally been a difficult one. Until recently, the market has functioned under the influence of mixed and somewhat paradoxical trends. Thus, the sale prices of older and larger properties have steadily declined, reflecting competition with new low-priced homes and the common preference of prospective home purchasers for small new houses located in attractive neighborhoods. On the other hand, the institutionally-owned overhang of properties has been steadily if slowly reduced, foreclosures have dropped to near normal levels, and sales activity,

particularly in the lower price brackets, has been on the upgrade.

Compared with the slow recovery during the past few years, the real-estate market showed an accelerated improvement during the reporting period. The immediate return to boom conditions expected by a few optimists after the outbreak of the European war failed to occur, but all market factors, at least up to the present time, have been advancing in a positive direction.

Sales activity, which was already showing a good increase during the 1940 fiscal year, moved upward during the reporting period to a new post-depression peak. Reports on the volume of real-estate transfers and general market activity show a continuing improvement which is encouraging to those engaged in the field of housing and mortgage finance. In many localities, definite tendencies toward a stiffening of the prices at which older properties are sold have been noted, although the demand for this type of structure is still much slower than for small, new, single-family dwellings.

Member institutions of the Federal Home Loan Bank System, as well as other institutional holders of repossessed properties, also made excellent progress in liquidating their holdings during the current fiscal year. Prices have not only held up in most areas, but in some localities show a tendency to increase. As the defense program gathers greater momentum, it is having more and more noticeable effects on all sectors of the real-estate market. Thus, in a few localities where industrial activity has reached a new high pitch, there has been a concomitant upswing in real-estate activity. It is too early to draw any basic conclusions as to the long-run effects of the defense program on the real-estate market, but the few signs now available point toward increasing improvement.

The excessive tax burden borne by real estate in many communities remains one of the major bars to further recovery of the real-estate market. Property tax levies show little change since the Board stated in its Annual Report a year ago: "Overvaluation of properties in terms of present prices and revenues, outmoded tax-appraisal methods, high tax rates, and excessive costs of tax collection throughout the 175,000 overlapping tax jurisdictions discourage owner-occupancy and investment in real estate alike." Statistics for 252 cities collected by the Detroit Bureau of Governmental Research, Inc., show, for example, that there was an increase of 1.0 percent in the average adjusted tax rate per $1,000 during 1940, accompanied by a decline of 1.5 percent in average assessed values.

Comparisons of 1940 and 1939 average adjusted tax rates of 252 American cities[1]

Population group	Average adjusted rates per $1,000 of assessed value			Population group	Average adjusted rates per $1,000 of assessed value		
	1940	1939	Percent change		1940	1939	Percent change
500,000 and over	$28.87	$28.41	+1.6	30,000-50,000	$27.65	$27.51	+0.5
300,000-500,000	29.39	27.92	+5.3	All 252 cities	28.01	27.72	+1.0
100,000-300,000	29.08	29.21	−0.4				
50,000-100,000	27.14	26.64	+1.9				

[1] Source: *National Municipal Review*, December 1940, p. 795.

Although tax rates are still on the increase, there has been a noticeable deceleration in the rate during the last four years, indicating the possibility that rates are becoming more or less stationary. According to the Detroit Bureau, one explanation for this tendency may be that revenue from the taxation of real property may be approaching a point of diminishing returns—"further increase in tax rates may produce political reverberations and a migration of assessed values." [3]

Further Decline in Foreclosures

One of the most positive gauges of improving real-estate market conditions is the steady decline in foreclosure activity. During the fiscal year 1941, the total number of nonfarm real-estate foreclosures declined 20 percent from the previous year and represents the lowest annual volume since 1926. This latter year is generally considered to have been the low year of the previous foreclosure cycle.

Foreclosures brought by the Home Owners' Loan Corporation have a strong influence on the trend for the country as a whole. In order to show the most accurate relationship between foreclosures and the normal real-estate market, Chart X has been prepared to illustrate the volume of foreclosures for each year since the previous low point of 1926, with separate trend lines for the Home Owners' Loan Corporation and others. The chart shows clearly that the volume of "all other foreclosures" has been declining steadily for several years and is now at an encouraging low and stable level.

Improvement of the general foreclosure picture during the last fiscal year was widespread among the Federal Home Loan Bank Districts. Each District and all but one State show a reduction in the number of foreclosures initiated during the reporting period as compared with the previous fiscal year. However, there are still a

[3] *National Municipal Review*, December 1940, p. 793.

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CHART X

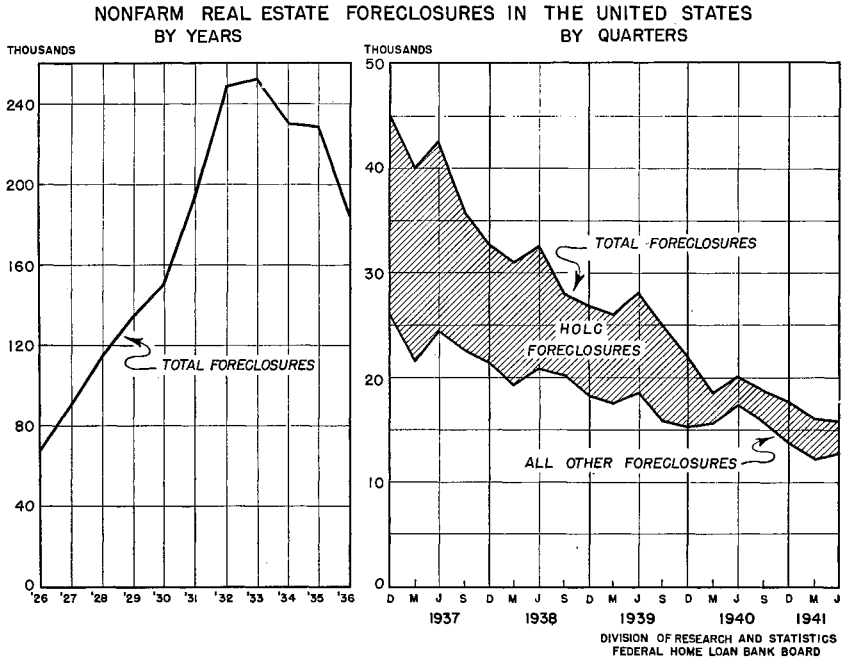
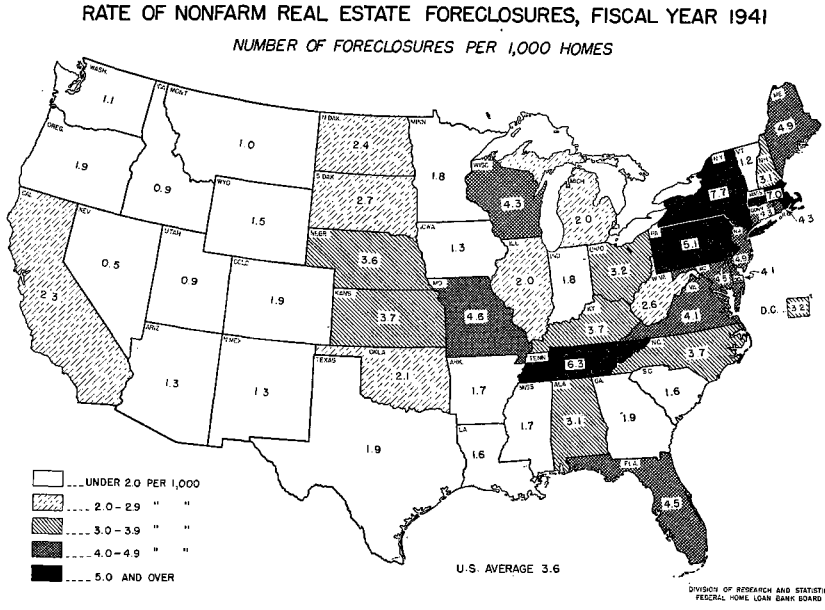


CHART XI



few States in which foreclosures are somewhat high. The map on the opposite page, which illustrates the foreclosure rate for each State during the fiscal year 1941, shows clearly that the States with the highest rates are concentrated along the Atlantic Coast and in New England. Four States in this region, New York, Massachusetts, Pennsylvania, and New Jersey, show a rate well above the national average of 3.6 per thousand nonfarm dwellings.

States west of the Mississippi, with the exception of Missouri and Kansas, all show a rate lower than the national average. It is no coincidence that the remaining problem areas as far as foreclosures are concerned are the same areas where the real-estate market suffered most severely and where recovery has been slowest. A further reason for the higher volume of foreclosures along the Eastern Seaboard is the fact that there are a large number of highly urbanized areas in this region. For many years, larger communities have shown the highest foreclosure rate. Although foreclosures can be expected to continue in some volume in these regions, the improvement so far shown, plus the fact that in most areas of the country foreclosures have once more reached a low level, would appear to indicate that foreclosures no longer constitute a major economic problem. Exhibits 2 and 3 present data on nonfarm real-estate foreclosures for the United States and for each Federal Home Loan Bank District.

Liquidation of Real-Estate Overhang

The declining rate at which financial institutions are acquiring residential properties, coupled with steadily increasing sales activity, is bringing about a substantial reduction in the real-estate overhang. During the calendar year 1940, the estimated book value of residential property owned by selected financial institutions, including savings and loan associations, mutual savings banks, commercial banks, life insurance companies, and the Home Owners' Loan Corporation, declined from $2,401,594,000 [1] to $1,863,879,000, or by 22.4 percent. The chart on page 28 illustrates the progress made during the last two years by each of the aforementioned institutions in disposing of owned properties.

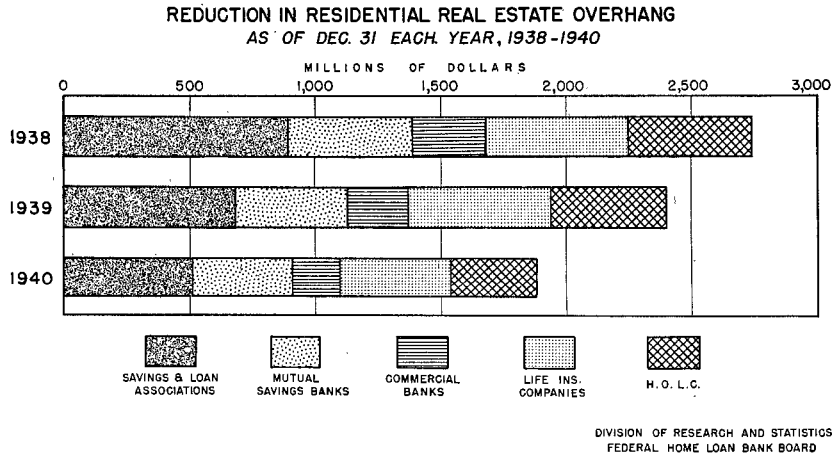
Savings and loan associations and the Home Owners' Loan Corporation led other institutions in liquidating their acquired real estate during 1940. Savings and loan associations are estimated to have decreased their holdings by $188,686,000, or 27.7 percent. Real estate owned by the Home Owners' Loan Corporation declined $123,953,202,

[1] Revision.

or 26.8 percent. Life insurance companies show a drop totaling $120,076,000, or 21.3 percent. The balance sheet of commercial banks shows a reduction in residential real estate of $55,000,000, or 22.4 percent, and the comparable figures for mutual savings banks were $50,000,000 and 11.1 percent.

Estimates of the real-estate overhang do not include such items as real estate owned by individuals, closed banks, and some other financing institutions, but they do show a fair picture of current trends in the liquidation of owned real estate. The volume of repossessed properties held by financial institutions—$1,863,879,000—is still substantial and in itself emphasizes that there remains a liquidation problem of some significance. However, the present real-estate

CHART XII



overhang is largely concentrated in a few States along the North Atlantic Seaboard and except for these areas no longer represents the basic threat to stability of the real-estate market which it did a few years ago. Provided another wave of foreclosures does not occur in the near future, it would appear that financial institutions throughout most of the country have made excellent progress in disposing of a particularly slow asset.

For the past few years the concentration of owned real estate has been most serious in the four States of New York, New Jersey, Pennsylvania, and Massachusetts. Despite a reduction in the dollar volume of holdings during 1940, these four States still account for 75 percent of HOLC holdings, for 70 percent of residential properties owned by insured commercial banks, for 44 percent of small homes

owned by life insurance companies, and for 55 percent of the real-estate holdings of savings and loan associations. In addition, about 87 percent of all real estate owned by mutual savings banks is located in these four States. Although the overhang problem is no longer as acute in this area as in the past, there still remains much to be done before institutions in this region can operate on a normal market.

There are two important reasons for the substantial improvement shown by lending institutions during 1940 in liquidating their property holdings. The first of these is the belated recognition that it is highly dangerous for financial institutions to hold real estate indefinitely in hope of recovery on a rising market. There has, therefore, been an increasing tendency for institutions to price their properties realistically and to make concerted drives to sell their properties at the best possible figure, taking whatever losses may be necessary. The second determining factor has undoubtedly been the revival in general business conditions attendant upon the defense program. In many localities where industrial activity has made rapid headway during the last year, financial institutions have found a vastly improved market for their properties.

A need for additional housing accommodations brought about by influxes of workers into industrial cities has also stimulated sales activity. Many financial institutions have engaged in extensive repair and rehabilitation programs in order to meet a demand for decent, adequate shelter in areas where shortages have arisen as a result of defense activity. The steadily mounting volume of employment and increasing income in the hands of industrial workers has in itself operated to broaden the market for existing residential properties. More and more individuals in this class are finding themselves with sufficient resources to acquire a home and in a large number of cases, particularly where there are large families involved, housing needs are best met by reconditioned older properties. Higher priced and smaller new homes are more often than not outside the reach and need of such individuals.

Exhibit 4 shows data on residential real estate owned by selected financial institutions, tabulated by Federal Home Loan Bank Districts and by States.

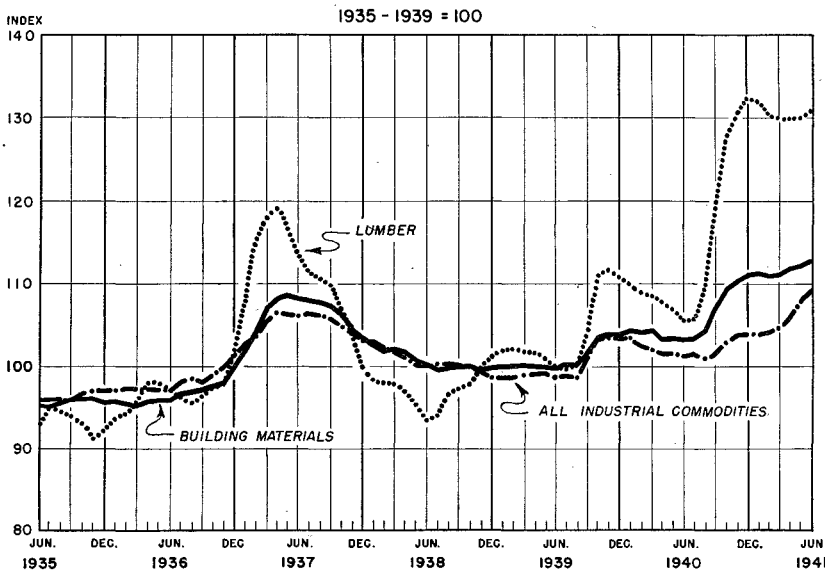
Building Costs—Danger Signals

In its Eighth Annual Report, the Federal Home Loan Bank Board pointed out that building costs, unlike financing costs, had failed to show any appreciable decline during the past several years. During the first depression years, from 1929 to 1933, the price of building materials declined less than did the prices of most other commodities.

Despite this fact, after 1933, the price of building materials rose at a rate substantially higher than that for other commodities. Following the outbreak of the European war in the fall of 1939, further increases resulted, and at the beginning of the 1941 fiscal year, the index of wholesale building material prices compiled by the Department of Labor stood at 103.2 as compared with a figure of 96.2 for all commodities (1935–1939=100).

CHART XIII

WHOLESALE PRICE INDICES OF LUMBER, ALL BUILDING MATERIALS AND ALL INDUSTRIAL COMMODITIES



Source: U. S. Department of Labor

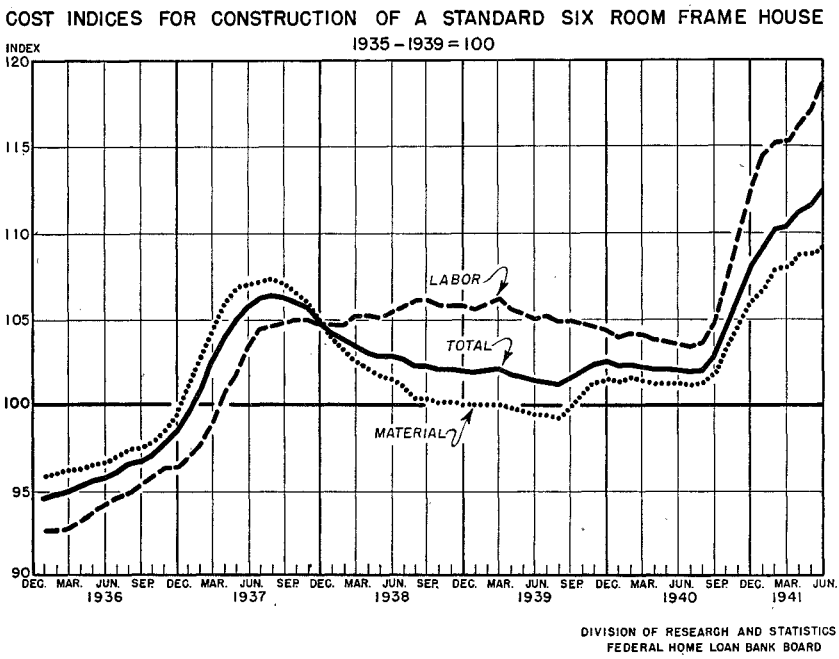
DIVISION OF RESEARCH AND STATISTICS
FEDERAL HOME LOAN BANK BOARD

During the first six months of the reporting period, when the defense program was going ahead at an ever accelerating rate, the index of wholesale building material prices advanced to a figure of 110.9 at the end of December 1940. During this same period, the index of all commodities rose to 99.3 During the second half of the fiscal year, building costs continued to increase, although at a somewhat declining pace. At the close of the fiscal year, in June 1941, the index stood at 112.8, or 9.3 percent above the figure for a year previous.

Although wholesale prices of all groups of building materials which are included in arriving at the composite building material index

showed increases during the year under review, the tremendous jump in lumber prices during the first half of the year was largely responsible for the rapid rise in the index as a whole. The behavior of lumber prices which increased 25 percent during the last six months of 1940 gave considerable concern to those engaged in the building and home financing fields. In September 1940, the National Defense Advisory Commission stated that "the defense program did not justify any increase in lumber prices . . ."

CHART XIV



During the second half of the fiscal year, when the cantonment building program of the Army had largely been completed, lumber prices remained relatively stable, and even showed slight declines in some months. Nevertheless, the index of lumber prices stood at 131 in June 1941, an increase of 24 percent over the figure for a year previous.

Rising building costs during the fiscal year 1941 are also indicated by the Federal Home Loan Bank Board's index of material and labor costs for constructing a standard six-room frame house in selected cities. Because it is based on dealers' prices, which usually lag behind

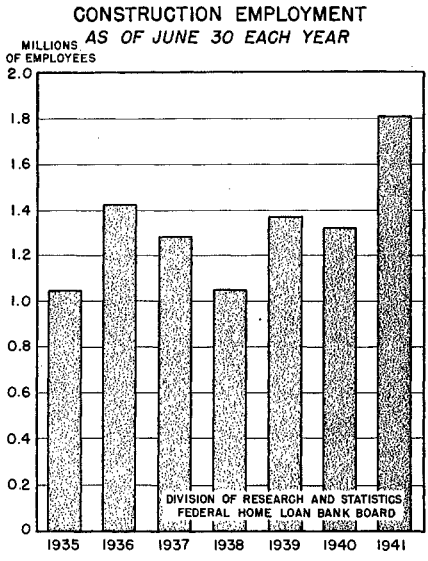
wholesale price quotations, this index does not reflect the substantial increases shown by the Department of Labor's statistics on wholesale prices. Nonetheless, the cost index of materials used in building the standard house increased from 101.3 to 109.2, and the labor index from 103.5 to 118.6 during the reporting period (1935–1939=100). As the chart on page 31 indicates, the rate of increase slackened somewhat after the beginning of 1941, but each month after January 1941 represented a new high for the index since it was started in 1936.

Exhibit 5 shows the cost indices from January 1936 through June 1941.

Labor Supply

The stimulus of the defense program has had very noticeable effects on the demand for construction workers. Rapid plant expansion, construction of Army cantonments, shipbuilding, defense housing, increased residential building—all have had a hand in creating more job opportunities than have existed since long before the depression years. As indicated in Chart XV, the number of construction workers employed on June 30, 1941, was higher by far than at the close of the six previous fiscal years.

CHART XV



Source: U. S. Department of Labor

There is no indication as yet that widespread shortages of construction labor have developed. However, surveys of the labor market, conducted by the Bureau of Employment Security of the Social Security Board, show that in numerous localities serious local shortages have already occurred. There are also some indications of secondary shortages in smaller communities because the normal labor supply has been drawn into nearby cities where large defense contracts have been let.

The defense program and rising industrial production may well raise serious problems in the construction field as far as the supply of labor is concerned. During the 1930's, when the volume of both residential and nonresidential construction remained at consistently

low levels as compared with the previous decade, there was a very natural decline in the number of skilled craftsmen in this field. Many workers were forced to enter employment in related or new fields, fewer younger men became apprentices in the various building trades, and the nucleus of trained specialists declined in size due to death, advancing age, and lack of replacements.

This development is clearly shown by reports from many areas of high industrial activity at the present time where serious local shortages, particularly of skilled workers, have been reported. Various industries have been forced to engage in extensive training programs to build up the available labor supply and to reorganize work activity in order that more and more of the load can be handled by relatively untrained and unskilled labor. It should also be noted that the Selective Service Program, while it has drawn few skilled professional laborers out of the market, has cut down in some degree the number of younger unskilled workers available for training.

Rents and Vacancies

In view of generally rising prices during the fiscal year 1941, over-all rent indices remained surprisingly stable. For the two fiscal years prior to the reporting period, the index of residential rentals compiled by the National Industrial Conference Board had shown only minor fluctuations. For most of the fiscal year 1941, as shown by the chart on page 34, the index remained fairly even, although there was some indication of a slight rise toward the close of the year.

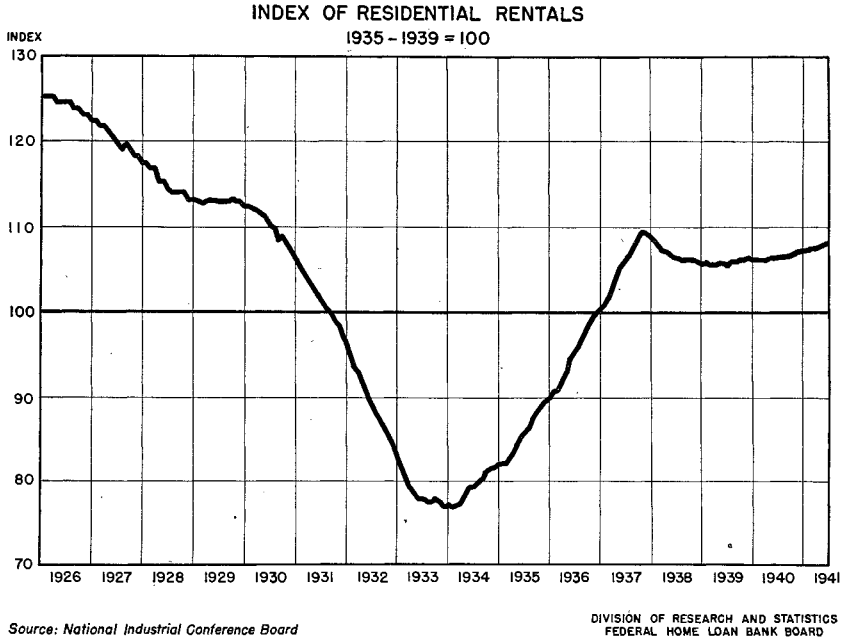
However, local studies, which have been conducted by the Department of Labor in defense communities from time to time during the fiscal year 1941, showed a more pronounced trend toward rising rents, particularly in units which rent for $30 or less per month. Up to the present time, these substantial increases in rentals have been confined to relatively few localities where concentrated armament orders and greatly expanded Army and Navy activity have created real boom conditions with nonexistent vacancies, rapidly rising rents, doubling up of occupants, and increased real-estate prices. Whether such conditions will become more widespread depends primarily upon the extent to which new construction is successful in meeting housing shortages.

Generally, the situation is made more acute by the lack of large reserves of unoccupied family dwelling units in most communities. As of April 1, 1940, the date on which the last decennial Census was taken, vacancies throughout the country were low. For the country

as a whole, the Bureau of the Census reported a vacancy ratio of 5.0 percent. In urban areas, the rate was only 4.3 percent and in rural, 6.1 percent. Since completion of the Census, numerous WPA surveys have been made in a large number of defense localities. Almost without exception, these surveys showed declines in vacancy ratios from the low figures disclosed at the time the Census was taken.

As in the case of rising rents, the lowest vacancy ratios and those showing the greatest declines are reported by communities in which

CHART XVI



the defense program has brought about immediate demands for new housing accommodations. Again, the extent to which this condition may become common throughout the country cannot be determined on the basis of information presently available. Where vacancies are low or nonexistent, it follows, of course, that there will be a tendency for rents and real-estate prices to increase substantially.

Long-range Market Factors

The real-estate market today is most vitally subject to the influences not of normal long-range trends, but to the swift day-to-day changes brought about by the defense program. If, as seems most likely,

the country finds it necessary to expand its defense preparations at an ever-increasing tempo, the real-estate market may necessarily be subjected to emergency action which will determine its entire course, at least for the duration. On June 29, 1941, a program for giving priority aid to defense housing was announced. It is possible that similar action may have to be taken to assure an adequate supply of construction labor on defense projects.

Heightened taxes, enforced savings, outright restriction of consumer purchases—any such development if it occurs, would mean a very sharp reduction in the output of housing just as it would mean belt tightening in many lines of economic activity not directly related to the preparedness program. In short, the Board recognizes that any discussion of real-estate market factors, whether it be from the standpoint of immediate conditions or long-range trends, must recognize first of all that the paramount defense effort of the country may require a reduction of residential building except in those areas where new accommodations are essential to house defense workers.

However, it is important to remember that such long-range factors as population trends, number and size of families, changing age structure of our population, degree of urbanization, and decentralization will always, over a period of time, play a heavy role in shaping housing demand.

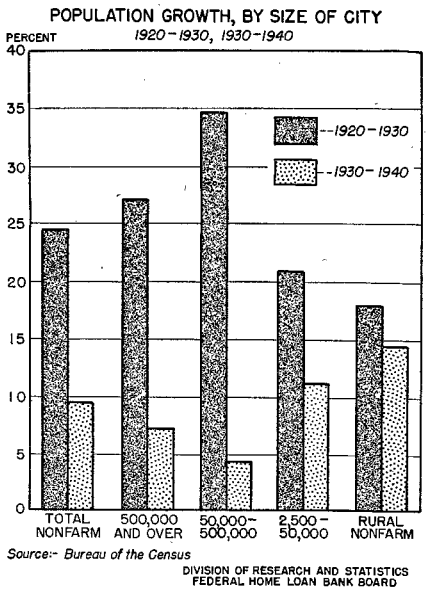
The over-all picture of current population trends is summarized in the comparative rates of increase during the last two decades. Thus, from 1920 to 1930, the total population of the United States increased from 105,710,620 to 122,775,046, or by 16.1 percent. During the decade of the Thirties, the number of individuals residing in this country reached the figure of 131,669,275, or an increase of only 7.2 percent. Even such unpicturesque over-all figures as these are a strong indication that we are approaching a stage of relative maturity in population growth.

The story of population trends during the 1930's is no less important however, merely because the rate of increase was substantially under that of preceding decades. The most revealing fact about current population trends yet shown by the 1940 Census is that present day developments must be measured in terms of local shifts and variations rather than in terms of over-all expansion. Internal movements and migrations of population are quite as important a determinant of housing need as were the over-all gains of previous years.

Census statistics on the growth of population during the Thirties in communities of varying size present a significant picture when compared with trends in the same localities during the preceding

decade. The chart below, for example, shows that from 1920 to 1930 the rate of population growth in larger cities was higher by a considerable margin than in smaller communities. During the Thirties, exactly the reverse was true with smaller communities and rural nonfarm areas showing far and away the largest percentage increase. During both decades, cities in the largest population group, however, show a contrary trend.

CHART XVII*



The analysis of urban population trends is incomplete without particular attention to movements within metropolitan districts. The 1940 Census lists 63,000,000 people who are residents of metropolitan districts, a gain of 15 percent during the Thirties. Total population increased only 7 percent during the same ten-year period. The growth in metropolitan districts is attributable in part at least to the addition of new districts on the Census list which in 1940 included 140 as compared with 96 in 1930 and 85 in 1920. A difference in definition of the term "metropolitan district" by the Census Bureau accounts for a number of the areas added in the 1940 Census.

More significant, perhaps, is the measurement of population growth in the 133 metropolitan districts for which information is available for both 1930 and 1940. Suburban areas in these districts show a gain of over 2,700,000 people during the Thirties, while central cities added only 2,000,000 to their population. On a percentage change basis, outlying districts were growing three times as rapidly as central cities.

Individual cities show variations of this over-all pattern, of course. In some instances, actual losses were registered in central cities, while suburbs grew rapidly. In other cases, the entire metropolitan district remained virtually static. In the majority of cities, however, there was a small gain in the central district and a rapid increase in the suburban area. Exhibit 7 gives a detailed breakdown showing population growth in individual metropolitan districts.

*Figures underlying Chart XVII will be found in Exhibit 6.

Population of 133 comparable metropolitan districts, inside and outside central cities, 1930–1940

Location	Total population		Increase, 1930–1940	
	1940	1930	Number	Percent
In central cities	42,350,996	40,343,442	2,007,554	5.0
Outside central cities	19,985,686	17,259,423	2,726,263	15.8
Total	62,336,682	57,602,865	4,733,817	8.2

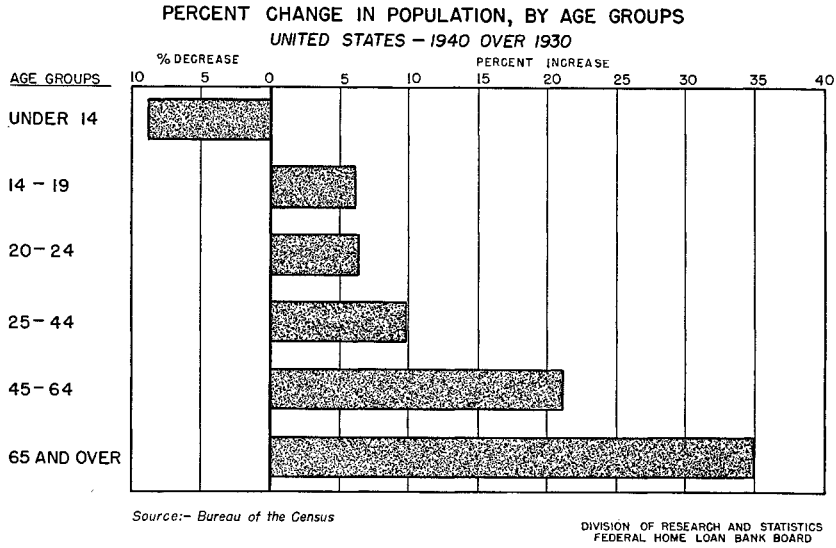
Causes for the steady shift out of central cities into surrounding suburban areas are not difficult to find. Decentralization results, among other causes, from congestion of central business districts, high tax rates in older sections of the cities, poor zoning and planning, restrictive building codes, ease of transportation resulting from widespread ownership of automobiles, and blighted areas which have been permitted to develop in many older communities. There is strong evidence that decentralization has already reached a point in a number of cities where the advantages to be obtained from a movement to newer and better planned developments are exacting an uneconomic toll from the community. Thus, as the radius of a city is expanded through the settlement and growth of suburban districts, the area which must be served by the municipality increases in geometric proportion and causes corresponding heavy increases in the cost of municipal services. Extension of public utility lines, police and fire protection, city paving, and transportation systems all mean increased cost to local taxpayers. Where these services include too wide an area because of excessive decentralization, the result is a heavily increased tax burden which bears particularly hard on older properties in static or declining central city areas.

Other significant population trends shown by the 1940 Census which have a direct bearing on the real-estate market include the "aging" of our population and a steady tendency toward smaller average size families. In April 1940, the number of persons aged 65 or over was 8,960,000, or 6.8 percent of total population, as compared with 6,630,000, or 5.4 percent in 1930. Statistics on younger age groups show that the number of persons approaching retirement will continue to increase in the future. Thus, in 1940 there were 25,947,000 persons, or 19.7 percent of total, in the age group from 45 to 64 years as compared with 21,415,000, or 17.4 percent, in 1930. Such changes as these in the age structure of our population have a direct influence on the need for housing. We may, for example, expect a greater demand for small, compact dwelling units to house older people.

Of all population trends, probably none has greater significance in relation to the housing market than those reflecting the number and size of families, for housing demand is determined to a considerable degree by these two factors. On April 1, 1940, the number of private households (which corresponds closely to the number of families) was 34,860,000. It is, therefore, estimated that during the Thirties, there was a net gain of some 5,000,000 families, or 16.6 percent, as compared with an increase in total population of only 7.2 percent.

Over half of the increase in the number of families during the Thirties resulted from a decrease in the average size of family from

CHART XVIII



4.1 to 3.8. A drop in family size has been revealed by each Census since 1890 and further declines are likely because of a steadily decreasing birth rate. Just as the number of families is a major determinant of the number of dwelling units needed, the number of persons in the average family decides, in the main, the size of units to be built. The increasing importance of smaller single-family houses in recent years in the total volume of residential construction is a direct reflection of this relationship. For example, the median number of rooms in new homes accepted for mortgage insurance by the Federal Housing Administration has dropped from 6.2 in 1936 to 5.6 in 1940.[4]

[4] Seventh Annual Report of the Federal Housing Administration, p. 66.

2. MORTGAGE FINANCE AND SAVINGS

For the thrift and home financing industry, the fiscal year 1941 was a period of marked success. Home mortgage loans written by private lending institutions reached a new peak. Savings of individuals showed the largest net increase for any year since 1926, and brought the aggregate volume of long-term savings to a record level more than three times the 1920 total. The home financing industry at the close of the reporting period faced an uncertain and difficult future, but the success with which problems are being met justifies confidence in the ability of the industry to meet whatever readjustments the present emergency may necessitate.

Continued Gains of Home Mortgage Lending

Home mortgage lending once again showed substantial gains during the calendar year 1940, when the estimated volume of new mortgage loans written on one- to four-family homes totaled $3,322,000,000, an increase of 16 percent over the previous year. The chart on page 40 which shows the trend in the volume of home mortgage lending, by years since 1929, reveals that substantial recovery from the low point of 1933 has already been achieved with activity in 1940 closely approaching the 1930 level. When current trends in home mortgage lending are compared with prior years, account must also be taken of the fact that in recent years real-estate prices have been considerably lower than in predepression periods. The 1940 dollar volume of lending activity, in other words, undoubtedly means more in terms of the number of houses financed than did the volume of new loans made in 1929.

All types of institutional lenders showed increased activity during 1940. Savings and loan associations again led the field by originating $1,200,000,000 in new loans, an increase of 22 percent over the previous calendar year. Commercial banks and their trust departments loaned $689,000,000, a figure 13 percent above the corresponding total during 1939. Home mortgage loans written by life insurance companies increased 18 percent to a total of $324,000,000. Mutual savings banks placed $133,000,000 in home mortgages as compared with $112,000,000 the previous year. Individuals and others accounted for $865,000,000, a gain of 17 percent. Lending activity of the Home Owners' Loan Corporation deserves special comment. The Corporation has, of course, made no new mortgage loans since June 12, 1936, when its statutory authority to refinance mortgages expired. Since that time,

however, the Corporation has sold a number of acquired properties against purchase-money mortgages and has made supplemental advances to both borrowers and vendees for such purposes as the payment of delinquent taxes or the financing of needed repair and modernization work (see pages 143–4). These two factors account for "lending activity" of the Home Owners' Loan Corporation in the chart below during the period subsequent to June 1936. Exhibit 8 gives the estimated figures on mortgage lending activity for the years 1929 through 1940, by type of lender.

CHART XIX

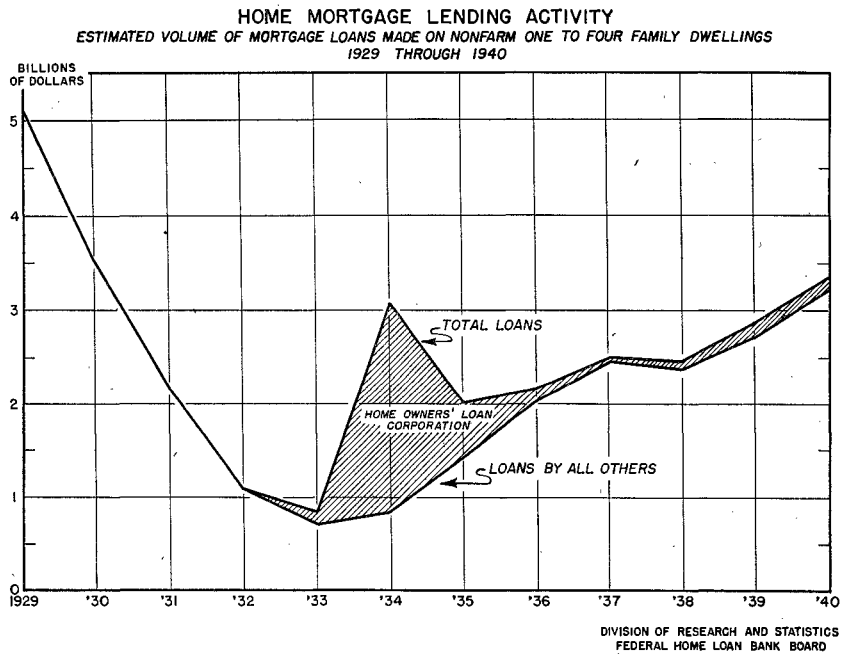


Chart XX on the facing page, illustrating the relative share of 1940 home mortgage lending accounted for by various lenders, shows that savings and loan associations continue to be the most important lending institutions in the small home field. The long experience of these institutions as specialists in the financing of homes has equipped them to maintain their predominant position, despite increasing competition from other lenders.

The steadily increasing volume of savings and loan lending is even more clearly shown by the chart on page 42. Based on monthly lending reports received over the past five years, the Division of Research

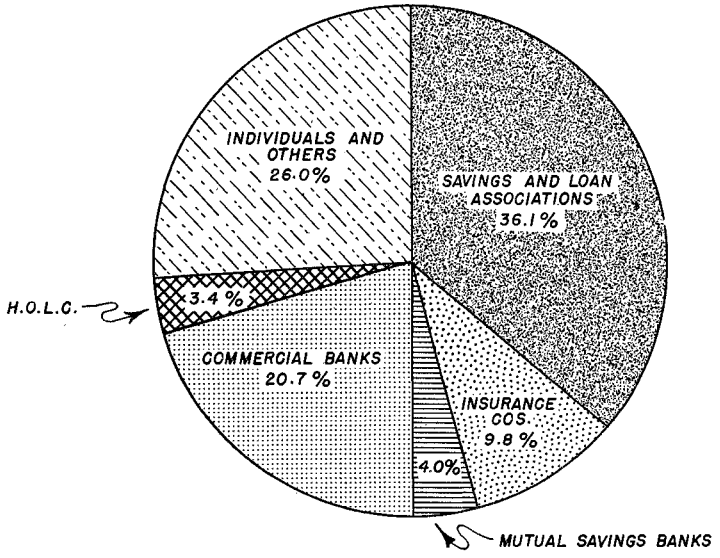
and Statistics of the Federal Home Loan Bank Board has developed an index of new lending activity, adjusted for seasonal variations. By removing certain obscurities resulting from normal seasonal fluctuations, the index shows with greater clarity than do monthly dollar statistics the upward trend of lending operations.

A closer analysis of trends in mortgage lending activity is made possible by monthly statistics on mortgage recordings which have been collected by the Division of Research and Statistics of the Federal

CHART XX

ESTIMATED VOLUME OF MORTGAGE LOANS MADE ON NONFARM ONE-TO FOUR-FAMILY DWELLINGS, BY TYPE OF LENDER

CALENDAR YEAR 1940



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Home Loan Bank Board since the end of 1938. This study is designed to measure activity in the field of small and medium-sized loans and information is, therefore, restricted to mortgages of $20,000 or less on nonfarm property. The data comprise not only home mortgages, but mortgages on other types of properties which fall within the $20,000 limitation. The geographical coverage included in the sample on which the statistics are based has steadily been expanded until by June of 1941, reports were being received from more than 700 counties

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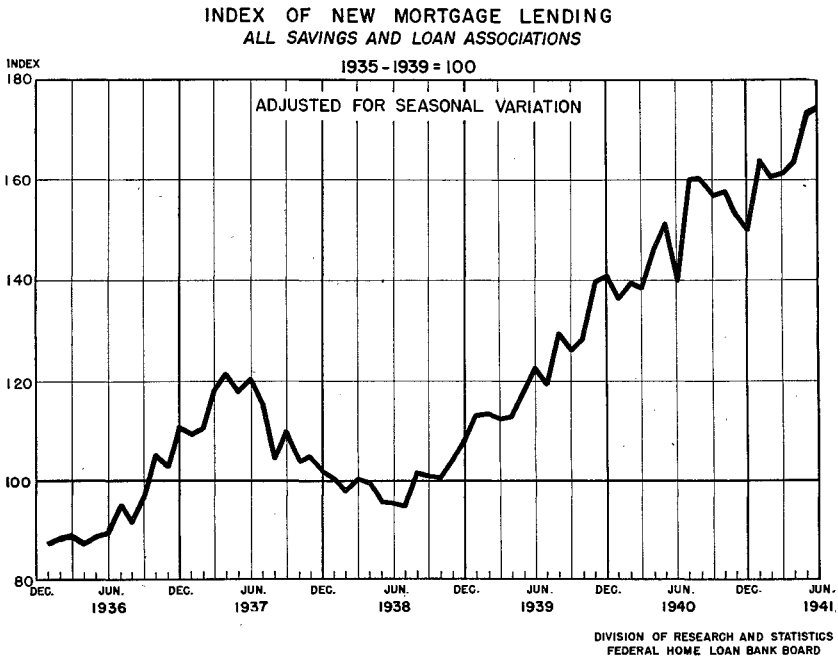
containing 68 percent of the total nonfarm population and located in every State and the District of Columbia.[5] Mortgage recording statistics, because they report not only new lending but registrations resulting from changes in existing contracts, cannot be taken as an absolute measure of the volume of new lending. Furthermore, recording statistics are not a completely accurate measure of the source of mortgage credit. Many lending institutions, particularly

CHART XXI



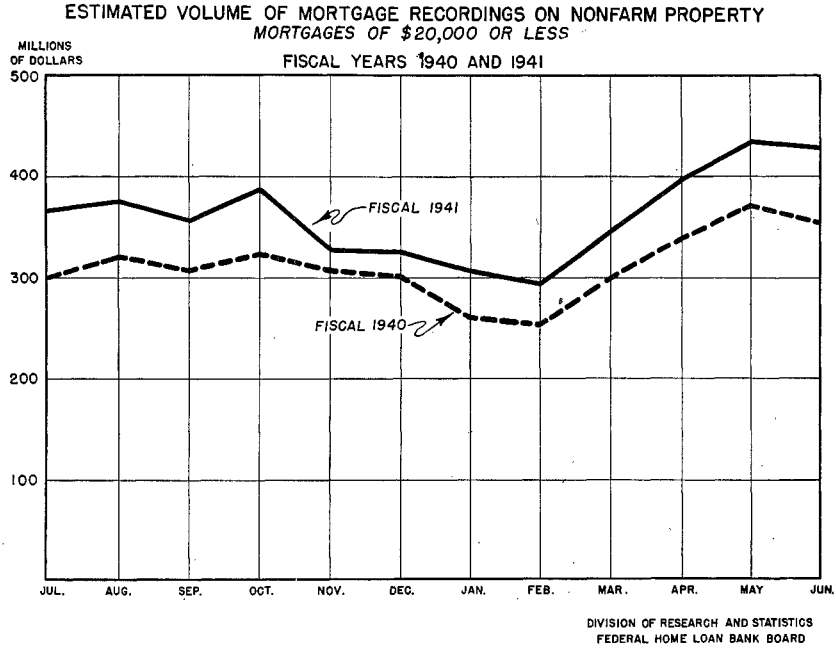
life insurance companies, operate through loan correspondents who record new mortgages in their own names. A fairly substantial

[5] Reports are received each month from field cooperators. Summaries of these reports are prepared for each State, by type of mortgagee, and from the totals of reported statistics, estimates representing total mortgages recorded in each State are developed on the basis of the relation of the nonfarm population in the sample to the total nonfarm population in the State. Adjustment factors are employed in the calculation to correct for the concentration of type of lenders and for the influence of metropolitan areas. Mortgage recording data are not directly comparable with the estimates on home mortgage lending presented in Chart XIX and Exhibit 8. As pointed out in the text, recordings include mortgages on one- to four-family homes as well as mortgages on other types of properties within the $20,000 limitation. Moreover, the period covered by mortgages recorded and loans made is not necessarily the same. Lending statistics are reported as of the date of loan commitment, while recording figures reflect the actual date of loan registration. Finally, alterations in the terms of an existing contract may necessitate a new registration. In the case of the refinancing of an institution's own mortgage, for example, the face amount of the instrument would appear in the recording totals, whereas only that portion which represented an increase in funds loaned would be included in lending figures.

volume of mortgages are, therefore, made with the intention of subsequent sale to other mortgagees. Such transfers, when consummated, are usually not apparent from mortgage records. However, the movement of recordings over a period of time does give an excellent picture of trends in lending activity and shifts among the various classes of lenders.

During the fiscal year 1941, total recordings of $20,000 or less numbered 1,545,000 in the amount of $4,362,000,000. Compared

CHART XXII



with the 1940 reporting period, these figures represent an increase of 12.8 percent in number and 16.2 percent in dollar volume.

Since the initiation of the mortgage recording studies, the data have consistently shown savings and loan associations leading all other institutional lenders, accounting roughly for one-third of the annual total. The fiscal year 1941 was no exception to this rule. Savings and loan recordings measured by number of mortgages represented 34 percent of total and on the basis of dollar volume, 32 percent. The relative position of other institutional lenders shows little change from the previous year. Banks and trust companies again ranked second, accounting for 22 percent by number and 25 percent by dollar volume

of all recordings. Individuals and miscellaneous lenders ranked next, with insurance companies and mutual savings banks occupying a relatively minor position in the home loan field. It is true, of course, that insurance companies have but recently reentered this particular activity and mutual savings banks operate almost entirely in a few States along the Eastern Seaboard. Mortgage recordings by Federal Home Loan Bank Districts and by States are given in Exhibit 9.

Total recordings of mortgages of $20,000 or less on nonfarm property, fiscal years 1940 and 1941

Type of lender	Total		Increase	Percent of total	
	Fiscal year 1940	Fiscal year 1941		Fiscal year 1940	Fiscal year 1941
	Number of mortgages recorded				
Savings and loan associations	469,578	527,602	58,024	34.3	34.2
Insurance companies	61,203	74,728	13,525	4.5	4.8
Banks and trust companies	292,496	338,316	45,820	21.3	21.9
Mutual savings banks	42,357	50,457	8,100	3.1	3.3
Individuals	327,875	365,225	37,350	23.9	23.6
Others	176,634	188,930	12,296	12.9	12.2
Total	1,370,143	1,545,258	175,115	100.0	100.0
	Dollar amount of mortgages recorded (in thousands of dollars)				
Savings and loan associations	$1,175,056	$1,392,379	$217,323	31.3	31.9
Insurance companies	308,179	366,795	58,616	8.2	8.4
Banks and trust companies	931,031	1,093,234	162,203	24.8	25.1
Mutual savings banks	157,816	190,107	32,291	4.2	4.3
Individuals	612,284	696,392	84,108	16.3	16.0
Others	568,344	623,328	54,984	15.2	14.3
Total	3,752,710	4,362,235	609,525	100.0	100.0

The explanation for the larger proportionate share attributed to savings and loan associations in the number of mortgages recorded than in the dollar volume of registrations is found in the fact that the average size of the loans made by these institutions is considerably smaller than the average for other institutions. Thus, as indicated by the table below, the average loan recorded by savings and loan associations was $2,639 as compared with an over-all average of $2,823.

Average size of nonfarm mortgage loans recorded, fiscal year 1941

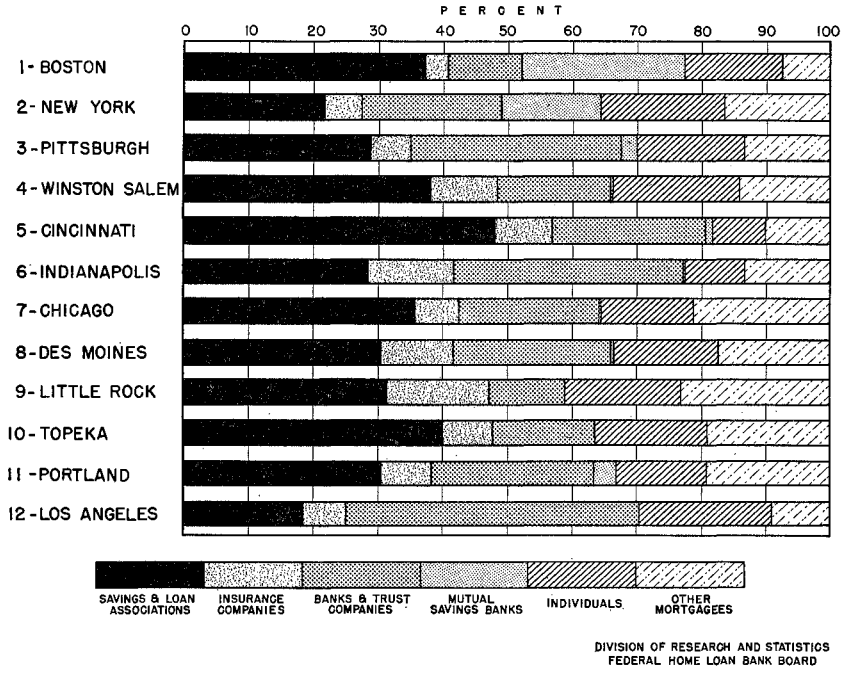
Type of lender	Average size of loan	Type of lender	Average size of loan
Individuals	$1,907	Mutual savings banks	$3,768
Savings and loan associations	2,639	Insurance companies	4,908
Banks and trust companies	3,231		
Other mortgagees	3,299	All mortgagees	2,823

The relative importance of the various types of mortgage lending institutions in different geographical areas is shown by the following chart. Explanations for the varying degrees of importance are not difficult to discover. Thus, in many localities savings and loan associations have traditionally been the major source of home financing funds. In other localities where the savings and loan movement has

CHART XXIII

MORTGAGE RECORDINGS DURING FISCAL YEAR 1941
BY FEDERAL HOME LOAN BANK DISTRICTS

PERCENT OF TOTAL DOLLAR VOLUME, BY TYPE OF LENDER



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not developed to a similar degree, other financial institutions are of greater significance. The impact of the depression on lending institutions and the degree of recovery so far attained are no respecters of geographical boundaries, and these factors have a direct influence on present business volume.

In nine of the twelve Federal Home Loan Bank Districts, savings and loan associations ranked first in the list of lenders on residential mortgages of $20,000 or less. In the remaining three Districts, Pittsburgh, Indianapolis, and Los Angeles, commercial banks were the most important lenders in this field.

Expansion of Construction Lending

For the past several years the volume of new loans made to finance the construction or purchase of homes has been assuming ever greater importance in the total lending picture. This trend has accompanied the steadily increasing amount of new residential construction and reflects, at the same time, a steady falling off in the demand for refinancing loans. A good illustration of this fact is found in the shifts among the various classifications of loans made by savings and loan associations in recent years. Unfortunately a similar breakdown on the lending activity of other financial institutions is not available, but since the same influences are at work throughout the financial community, it is highly probable that other lenders on residential real estate would show much the same experience.

During the fiscal year 1941, the total volume of loans written by savings and loan associations reached a new post-depression peak of $1,294,400,000. As indicated by the table below, practically all of the 1941 increase in total lending activity by savings and loan associations was accounted for by gains made in loans for the construction or purchase of homes. Thus, loans for new construction alone increased $96,300,000, or 28 percent. Home purchase loans which reflect an actual transfer of ownership increased $104,500,000, or 27 percent. Loans advanced for refinancing actually declined, while the figures for reconditioning and miscellaneous loans show only slight gains over the previous year.

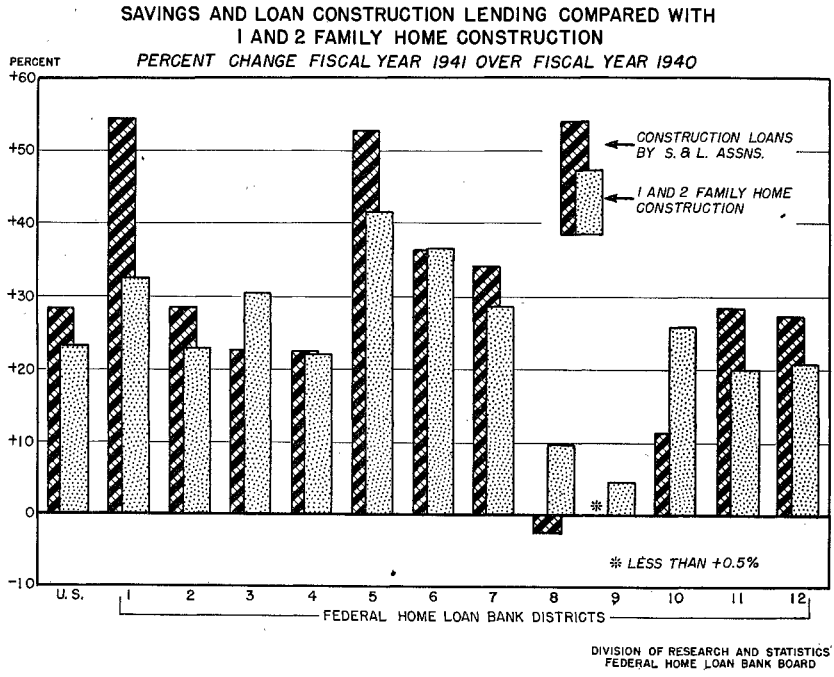
Distribution of loans made by all savings and loan associations, by purpose of loans, fiscal years 1937–1941

Purpose of loan	Amounts in millions of dollars					Percent distribution				
	1937	1938	1939	1940	1941	1937	1938	1939	1940	1941
Construction	$226.3	$213.2	$256.3	$340.0	$436.3	26	26	29	31	34
Home purchase	298.6	286.6	292.9	382.7	487.3	34	35	34	35	37
Refinancing	184.0	167.4	165.6	196.0	194.8	21	20	19	18	15
Reconditioning	65.5	59.4	58.3	61.7	63.4	8	7	7	6	5
Other	94.0	94.1	95.8	110.4	112.6	11	12	11	10	9
Total	868.4	820.7	868.9	1,090.8	1,294.4	100	100	100	100	100

During the fiscal year 1937, at a time when a substantial volume of mortgage debt was being refinanced, loans made on newly-built homes represented only 26 percent of total savings and loan advances. In the fiscal year 1941, over one-third of the aggregate loan volume went to finance new construction. Much the same trend though in lesser

degree is shown by home purchase loans. Where loans for the buying of existing houses constituted 37 percent of total during the reporting period, the corresponding figure five years previous was 34 percent. In short, approximately 71 percent of the current lending volume of savings and loan associations is going to finance the construction or purchase of dwellings, whereas the similar percentage in the 1937 fiscal year was 60 percent.

CHART XXIV



Further evidence of the fact that savings and loan associations are accounting for an increasing proportion of new construction financing is found in the above chart which compares gains made in construction loans of savings and loan associations with permits issued for one- and two-family homes—the type of dwelling on which most savings and loan funds are advanced. During the reporting period, the increase in association construction loans actually exceeded the gains in one- and two-family building in seven of the Federal Home Loan Bank Districts.

Increase in Home Mortgage Debt

The mortgage debt outstanding on nonfarm one- to four-family dwellings increased during 1940 for the fourth consecutive year. In dollar volume, the gain is estimated at $907,000,000, bringing the total debt to $19,123,000,000. This increase of 5 percent during 1940 compares with an increase of $570,000,000, or 3.2 percent during the previous year.

The recent growth in home mortgage debt is the result of a number of factors. The steady increase in residential construction and the sale of properties on a low equity and longer amortization basis explains the major share of the increase. Progress made by financial institutions in liquidating property previously acquired through foreclosure has also raised the volume of debt outstanding. The low level of foreclosures in recent years has removed one of the primary causes for cancellation of debt by transfer to ownership during the early depression period. Rising incomes and expanding industrial activity are undoubtedly contributing to a more active market.

Because the Home Owners' Loan Corporation has since June of 1936 been primarily engaged in liquidating the $3,000,000,000 mortgage debt which it refinanced during the three previous years, changes in the over-all home mortgage debt fail to show the increase attributable to expanded holdings of private mortgage lenders. As the table below indicates, operating mortgage lenders registered a net increase in mortgage holdings of $989,000,000 during 1940.

Estimated balance of outstanding mortgage loans on nonfarm one- to four-family dwellings

[Millions of dollars]

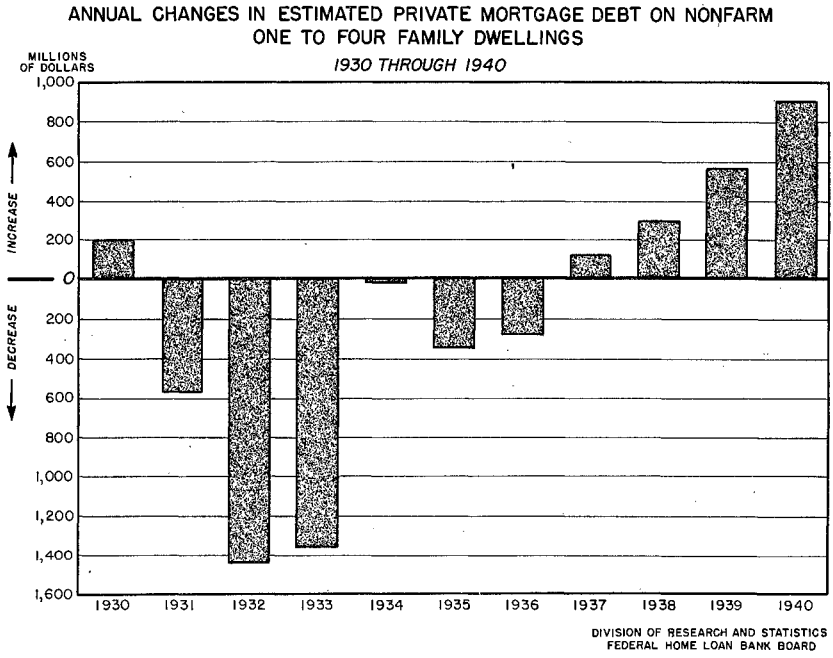
Classes of lenders	1936	1937	1938	1939	1940	Increase or decrease				1936 through 1940
						1937	1938	1939	1940	
Home Owners' Loan Corporation	$2,763	$2,398	$2,169	$2,038	$1,956	−$365	−$229	−$131	−$82	−$807
All others (institutions and individuals)	14,462	14,946	15,477	16,178	17,167	+484	+531	+701	+989	+2,705
Total	17,225	17,344	17,646	18,216	19,123	+119	+302	+570	+907	+1,898

The steady recovery of home mortgage debt, particularly during the past three years, is especially significant when compared with trends in other types of long-term private debt. Although home mortgage debt is still well below the 1929 total, the steady gain since 1937 has brought the debt back to the 1932 level. The volume of

mortgage indebtedness on farms is virtually stationary and private long-term debt as a whole has increased only slightly during the past several years.

Commercial banks and savings and loan associations have been responsible for the largest dollar increases in home mortgage debt since the turning point at the end of 1937. Loans held by commercial banks show a net gain of $695,000,000 during this period reaching a

CHART XXV



total of $2,095,000,000 at the end of 1940. Savings and loan associations show a similar growth of $684,000,000 resulting in a total portfolio of $4,104,000,000. Holdings of life insurance companies increased $512,000,000, mortgages held by individuals and "others" increased $330,000,000 while the liquidation of the HOLC brought about a decline of $442,000,000 in the volume of home mortgages held by that Corporation.

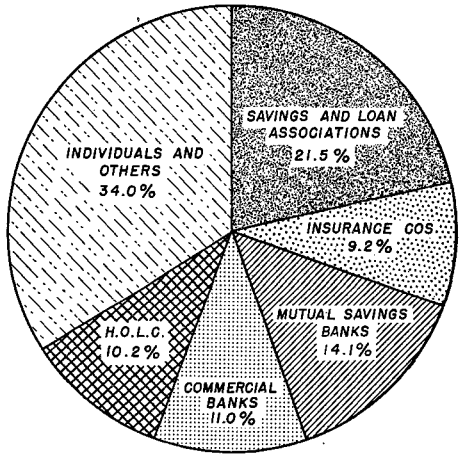
During the calendar year 1940 alone, savings and loan associations, commercial banks, and life insurance companies were responsible for practically all of the $907,000,000 increase in home mortgage debt. Mutual savings banks and individuals and others show only nominal

increases while the holdings of the Home Owners' Loan Corporation declined by some $82,000,000.

As indicated by the pie chart below, savings and loan associations continue to be the most important institutional holders of home mortgage debt. These institutions account for 21 percent of the total loans outstanding at the end of 1940 and are exceeded in importance only by the miscellaneous group, individuals and others. Exhibit 10 shows a detailed breakdown of the home mortgage debt

CHART XXVI

ESTIMATED BALANCE OF OUTSTANDING MORTGAGE LOANS ON NONFARM ONE-TO FOUR-FAMILY DWELLINGS, BY TYPE OF LENDER
DECEMBER 31, 1940



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structure by type of financial institution over a period of the last eleven years.

From a national viewpoint, the steady increase in the volume of debt on nonfarm one- to four-family houses gives no particular cause for concern. The purchase of a home represents the largest investment ever made by the majority of the consuming public and results from cash transactions only in rare instances. Without financial assistance from mortgage lending institutions, widespread home ownership would be a practical impossibility.

More important than the absolute volume of debt outstanding at any time is the relative soundness of the debt structure. A volume

of debt only half the size of that now outstanding, incurred without proper attention to property and credit risks, might well prove many times more hazardous than a debt half again the size of that now existing but incurred only after careful examination and selection of risk.

The debt structure of the Twenties was basically unsound in many respects as depression experience only too clearly emphasized. During the period of boom conditions after the last war, real estate was often overpriced, there was widespread and unsound speculation, inadequate attention was given to property appraisal and credit examination, and financing costs and loan terms were in many cases exorbitant and ill suited to the needs of borrowers. Many institutions overextended themselves or found themselves in an overextended position because of the lack of any reserve credit facilities.

Many of these defects have largely been eliminated and progress is steadily being made toward further improvement in the debt structure. Appraisals are made on a more careful scientific basis and the importance of credit analysis is more generally recognized. Long-term amortized loans with low down payments make expensive junior financing less necessary. Thrift and home financing institutions are bulwarked by a reserve credit system on which they can rely to avoid the credit shortages which formerly threw operations completely out of gear.

Lending Operations in the Present Emergency

Despite the improvement already noted in the character of the debt on urban homes today as compared with the Twenties there is still substantial room for improvement and, as a matter of general policy, the Federal Home Loan Bank Board is constantly encouraging the member institutions of the Federal Home Loan Bank System to maintain the high standards of operation which are the best defense against possible future trouble. The last depression proved the high cost of unsound and careless lending. A major aim in supervisory activities of the Board is to avoid similar difficulties in the future by encouraging the widespread adoption of lending terms which will enable member associations to attract and hold the best type of mortgage security in an increasingly competitive market.

Variable interest rates are recommended by the Board to enable institutions to gear their lending operations to market demands and obtain a diversified portfolio on which earnings are more closely related to the degree of risk involved. The Board has urged institutions to treat all borrowers equitably by refinancing old loans on more

realistic terms in order to maintain the good will of borrowers and protect portfolios against useless raiding. The direct relationship between the cost of money and mortgage interest rates has been emphasized and wherever dividend rates are uneconomically high, the Board seeks to influence associations to reduce rates to competitive levels. Experience has proved that the rate of return, provided it is not so low that thrift goes completely unrewarded, is of less importance to prospective savers than safety of principal.

In general, the policy advocated by the Board is the establishment of both dividend and interest rates at levels which will (1) enable institutions to secure an adequate flow of savings funds, (2) to invest those funds in sound mortgage security, and (3) leave a sufficient spread to meet normal business expenses and provide adequate reserves against future losses.[6]

The operations of mortgage lending institutions in the present market require the closest possible attention to risk analysis. Increasing competition, for example, although a healthy development, does give rise to the danger that some institutions, in their efforts to attract mortgage loans, may accept too many marginal risks for future safety. The steady trend during the past few years toward lower down payments and longer amortization periods has eased the burden of home ownership, but there is no denying the fact that this development has placed a greater responsibility on home financing institutions to make careful appraisals of the mortgage investments in which they are placing the savings funds entrusted to them.

Even more important than these general market factors, however, is the fact that "business as usual" is disappearing in the present emergency. All economic activity is rapidly being diverted, in greater or lesser degree, to the primary defense needs of the country. Mortgage lending, like other business activity, is directly subject to the influence of our all-out armament program. The present-day housing demand is defined first as the need for shelter in defense areas. If necessary to the preparedness program, residential construction activity may be directed into meeting only that need.

It is no easy task, then, which faces home financing institutions today. On the one hand, they are confronted with an emergent need for their facilities, a need which is not the result of normal market operations. On the other hand, there loom all the uncertainties as to the long-range character of the risks they are expected to assume, indeed uncertainty as to the whole future turn of events. Their

[6] More detailed comment on the supervisory activities of the Federal Home Loan Bank Board will be found in the Eighth Annual Report, pp. 38-40, 48-49.

task, then, is to cooperate to the greatest possible extent in fulfilling their share of the defense effort. The difficulty arises in trying to avoid that indefinable lending area where extension of credit will result in the creation of unsound debt and future collapse.

The Board is firmly of the opinion that although no hard and fast rules can be set up for the guidance of private lending institutions in this critical period, it is possible to avoid serious future consequences if proper attention is given to certain safeguards which should at this time more than ever be carefully followed by lending institutions. Thus, it is particularly important that every savings and loan association carefully inspect the type of construction which it intends to finance. The jerry-building of past decades has been the cause of substantial losses suffered by financial institutions in periods of deflated value. The urgent need of the present day is no excuse for shoddy and unsound construction which has always in the long run proved the most expensive type of building.

Careful, scientific appraisal will similarly ward off much future trouble. It is essential that the relationship between loan amount and appraised value of mortgage security be accurately determined. The credit rating of prospective borrowers should be carefully analyzed to avoid a repetition of the unsound lending which had such tragic effects both on overhoused borrowers and on financial institutions after the last real-estate collapse.

Attention should be given to neighborhood trends, for there is a growing realization that security values represented by investments in real estate are determined to a high degree by the character of the locality in which the property is situated. Real estate is by its nature an immovable commodity and many sound structures are today suffering from encroachments of blighted areas.

One of the best safeguards which any lending institution can employ is an adequate and systematic reserve policy. Too little attention has been paid in times past to the importance of reserves in the savings and loan industry. The Federal Home Loan Bank Board in cooperation with the Presidents of the Federal Home Loan Banks, State supervisory officials, and leaders of the industry have for some time urged in the strongest possible terms the necessity of providing now for losses which may have to be taken in the future. Statutory requirements for minimum reserve allocations should be considered the irreducible figure and wherever possible more substantial transfers should be made. The institutions which err on the side of generosity in their reserve policy have everything to gain and nothing to lose in the process; and the same is true for the individual investors in these

institutions. There is no problem of dividend payments on reserve accounts. If an amount equivalent to reserves is invested in convertible low-rate investments, the liquidity position of the association is considerably enhanced. There is no set rule for determining the amount which should be built up in reserves, but it is highly important that every financial institution weigh carefully the risks it is presently assuming and attempt in the most accurate manner possible to set aside in reserve accounts an amount sufficient to balance the degree of risk involved.

The job of lending, but lending on the soundest possible basis is particularly important to savings and loan associations. Because of the mutual character of these institutions, practically all of the investable funds in their possession have been entrusted to them in the form of small savings of average people. The trustee responsibility of safeguarding and protecting these savings is no less important in the managerial operations of savings and loan associations than is the extension of mortgage credit to prospective home owners. No institution is fulfilling its just obligations if it caters to the interests of either group to the exclusion of the other.

Growing Volume of Savings

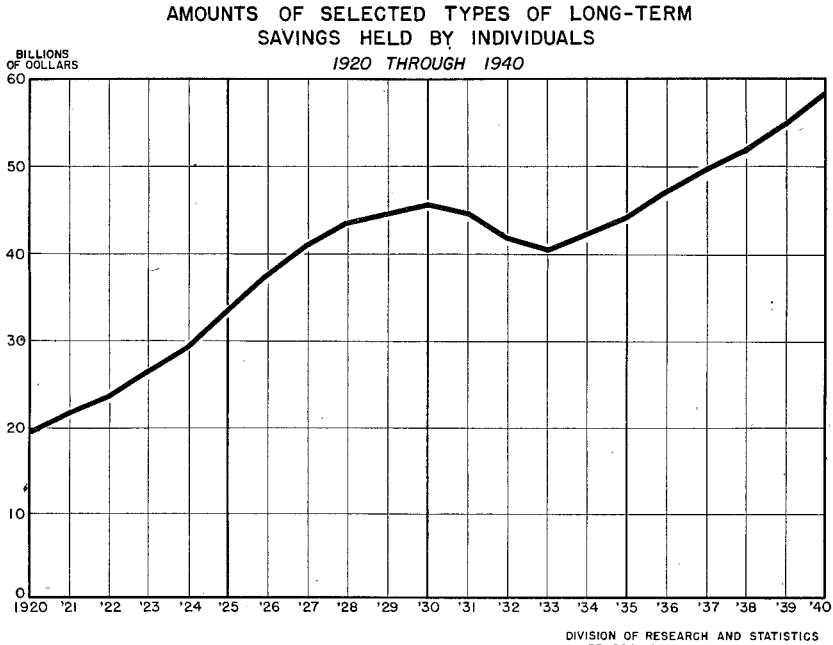
The volume of individual long-term savings again showed an overall gain during the calendar year 1940. Most financial institutions experienced a temporary slowing down in receipt of new money during the late summer and early fall, but shortly thereafter the rate was again stepped up. It is probable that developments on the European war front during the summer of 1940—the collapse of France, repeated British losses and a sudden realization of possible dangers to this hemisphere—were largely responsible for this short reversal of previous trends.

As indicated by Chart XXVII, savings funds dropped off during the first years of the depression, but since 1934 have shown a steady increase. The types of savings on which the chart is based include only such savings as are potentially available for investment in home mortgages or which are directly competitive with share investments in savings and loan associations. The figures include statistics on the volume of savings deposits in banks, savings in life insurance companies and savings and loan associations, postal savings, postal savings bonds, and United States savings bonds. The volume of these savings increased approximately $3,500,000,000 during 1940 to a new all-time high of $57,962,000,000. Detailed information on the

distribution of long-term savings from 1935 through 1940 will be found in Exhibit 11.

The importance of maintaining a steady flow of savings during an emergency period cannot be overestimated. One of the most imminent dangers faced by any country embarking on a period of rapid industrial expansion occasioned by a program of wholesale rearmament is that through the development of inevitable bottlenecks and shortages, accompanied by rapidly rising income, demand for con-

CHART XXVII



sumer purchases will outstrip productive effort and bring about a period of vicious inflation. The increasing volume of individual savings entrusted to long-term investment institutions is, therefore, encouraging, for it shows that at least some portion of enlarged income payments is not used for consumer purchases.

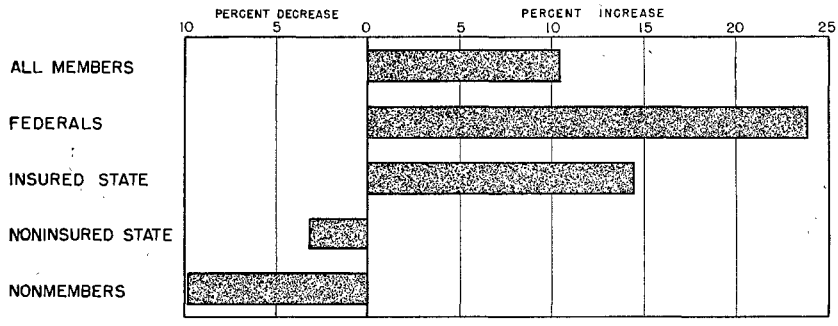
The comparative rates of increase among various classes of institutions and savings media remained relatively unchanged during 1940. Savings bonds again showed by far the largest percentage increase. The current redemption value of these bonds grew by almost $1,000,000,000 during the year, an increase of 44.6 percent. Life

insurance companies showed an even larger dollar gain in savings funds, $1,644,000,000—or a gain of 7.0 percent. Savings deposits in insured commercial banks, which represent virtually all savings deposits in commercial banks, show an increase of $440,000,000, while savings and loan associations and mutual savings banks reported gains of $221,000,000 and $137,000,000, respectively. Postal savings grew by only $27,000,000.

Although private capital, which is the measure of savings invested in savings and loan associations, increased by $221,000,000, or 5 percent, in all associations throughout the country, the picture is even more favorable if member institutions of the Federal Home Loan

CHART XXVIII

PERCENT CHANGE OF PRIVATE INVESTMENT IN SAVINGS AND LOAN ASSOCIATIONS
BY CLASS OF ASSOCIATION – CALENDAR YEAR 1940



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Bank System are considered alone. These institutions which include the large majority of active operating associations, increased their private resources by $341,000,000, or 10 percent during the year. The fact that savings invested in operating nonmember institutions declined by $120,000,000, or 10 percent, explains the relatively small increase for savings and loan associations as a whole. There are still many nonmember institutions which are inactive and gradually withdrawing from the savings field; trends in these institutions color statistics for the industry as a whole.

Among the member institutions of the Federal Home Loan Bank System, Federal savings and loan associations were far and away the most active group with regard to trends in private share capital. These institutions alone show a growth of $270,000,000, or 24 percent during the calendar year 1940. State-chartered insured associations

also show a good increase of 15 percent, while uninsured State member associations show a decline of 3 percent in private capital.

Despite the fact that the defense effort has brought about a new demand for additional funds to finance the armament program, there is no indication as yet that the consistent trend toward lower rates of return on invested funds has come to a halt. Bond yields, for example, which have remained at consistently low levels for the last several years declined even further during the fiscal year. The yield on long-term U. S. Treasury bonds was 1.91 on June 30, 1941, as compared with 2.39 a year previous. The return on both high-grade and low-grade corporate bonds also declined to a record low. The weighted average dividend rate paid by mutual savings banks declined to 1.90 percent at the end of June 1941 as compared with 2.04 percent a year previous. Rates paid by commercial banks on savings deposits have been reduced in many localities below legal maxima. The dividend rate paid by Federal savings and loan associations dropped for the third consecutive year to a figure of 3.25 percent.

Savings for Defense

The cost of financing the tremendous expenditures necessitated by the defense program has raised new problems in the field of government finance. In order to avoid an inflationary spiral, every effort is being made to pay for a substantial percentage of current outlays from taxation and savings funds. The Public Debt Act of 1941 authorized the issuance of modified savings bonds for the purpose of attracting surplus public savings to the Treasury. These bonds, which went on sale May 1, 1941, are of three types—Series E, which are quite similar to the so-called Baby Bonds and which are sold only to individuals, and Series F and G, which are designed to attract corporate and large individual savings. Defense bonds are being sold through the voluntary efforts of a number of private financial institutions, including members of the Federal Home Loan Bank System, commercial and mutual savings banks, as well as through post offices.

Member institutions of the Federal Home Loan Bank System were designated as issuing agents for the sale of defense bonds on April 15, 1941. Immediately thereafter, the Federal Home Loan Bank Board and the Presidents of the Federal Home Loan Banks actively endorsed and assisted in carrying out a program of participation by savings and loan associations. Federal associations, by virtue of the fact that they are agents of the Federal Government

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were authorized to make application directly to the Federal Reserve Bank of the District in which the institution is located. In a few cases it has been necessary for State legislatures and supervisory departments to revise either the statutes or the regulations under which State associations are operating, in order to permit them to act as issuing agents. No time was lost in any State in securing the necessary changes and by the close of the fiscal year, State-chartered member institutions of the Federal Home Loan Bank System in practically all States were permitted to apply.

Savings and loan associations are peculiarly suited to serve as sales agents for the Treasury in the defense bond campaign. Member institutions of the Federal Home Loan Bank System are widely scattered throughout the United States and practically no community is outside the area served by one or more savings and loan associations. The customers of savings and loan associations constitute that group which will provide the best market for the sale of Series E bonds. The average citizen who is able to save small amounts and who is interested in purchasing a modest home is the same citizen on whom the Government must rely as its most important purchaser of defense savings bonds.

Problems Ahead

The present national emergency has raised a host of new problems in the general field of thrift and home finance—some of which have been discussed briefly in this chapter. The not unlikely prospect that additional measures may be necessary to divert a greater volume of private savings into defense financing and the certainty of higher taxes may well slow down the flow of private investments into home financing institutions. The urgent need for defense housing, the prospect of further increases in building costs, the possibility of labor shortages or the exercise of priorities on labor and materials—these are but a few of the recent developments which complicate the outlook for the immediate future.

The home financing industry, like all private business, faces a major challenge in solving its problems, but fortunately the industry is better able today than ever before to meet the test. Activities of the Federal Government during the last few years have done much to strengthen our home financing structure. The Federal Home Loan Bank System alone is a stalwart bulwark sorely needed and lacked by home financing institutions in previous emergency periods. The elasticity of credit made possible by membership in this national

credit system makes the job of conducting business today on a sound financial basis a much easier one.

The Federal Savings and Loan Insurance Corporation, by insuring the safety of investments in savings and loan associations, has had considerable success in restoring public confidence in local home financing institutions and in maintaining a steady flow of private savings into the home mortgage lending field. The psychological advantages resulting from an insurance of the risk involved in investing the small savings of average people are hard to overestimate. Perhaps even more important than insurance itself, however, is the general improvement in operating standards and policies of insured savings and loan associations which must meet definite standards of eligibility before approval by the Corporation. The fact that insurance of accounts has been extended to 2,310 institutions holding 53 percent of the assets of all operating associations in the country has brought about a recognized improvement in the whole home financing structure.

Despite the importance of the various actions taken by the Government to strengthen and support home mortgage lending, its efforts would amount to little were they not accompanied by better lending techniques and generally higher standards of operation in private financial institutions. Success or failure of home mortgage lending depends, in the final analysis, upon the capabilities of local management and sound business methods. Ground for considerable encouragement is found in such developments as the improvement in appraisal standards, more critical and careful loan analysis, more realistic lending terms, and the increasing realization on the part of individual institutions that the job of lending on home mortgage credit is a business which requires training, skill, and specialized knowledge. Only time will tell whether recovery so far made in the home mortgage lending field and the structural improvements brought about both by the industry and the Federal Government will prove adequate to meet the inevitable strain to which it will be subjected. Undoubtedly, however, there is a general awareness, which stems perhaps from recent experience, of the possible dangers ahead and the need for careful, farsighted planning. This attitude in itself is a healthy one and gives promise that a determined effort will be made to avoid the unsound type of lending which has always, in the past, caused ultimate trouble.