

## I. HOUSING DEVELOPMENTS IN THE FISCAL YEAR 1946

The fiscal year 1946, which began about 2 months after the defeat of Germany and 2 months before the surrender of Japan, is significant as a period of domestic readjustment and of change from wartime to peacetime production. As part of this change, under the pressure of pent-up demand and a severe housing shortage, the volume of residential construction rose rapidly. While the Nation had been at war, in order to mobilize labor and critical materials for war production, residential construction was permitted only where it was needed to house war workers. With the coming of peace, the limitations on residential construction were ended almost immediately.

In consequence, the number of new nonfarm dwelling units started, rose rapidly from 65,500 in the first quarter of the 1946 fiscal year to 246,000 in the last quarter. Despite this increase, new construction was far below obvious needs.

### *The veterans' emergency housing program*

The present housing crisis has been developing since the depression of 1932 and 1933, when residential construction dropped sharply. Since 1932, the production of new dwelling units has been less than the growth in number of families. Families have been increasing more rapidly than dwelling units, because, as the number of families increased, many who normally would have sought new dwellings did not have the economic power to translate their wants into an effective demand. Moreover, existing dwellings deteriorated during the thirties because millions of home owners were unable to afford the upkeep needed to keep these homes in first-class condition. This deterioration and increased occupancy put a new and additional strain upon our housing supply.

During the war, the number of nonfarm families continued to grow. Moreover, millions of married couples with increased income found they could afford to buy new homes or older homes in good condition. The increased pressure of this demand in a market of short supply aggravated the shortage of housing throughout the wartime period.

At the end of the war, with a housing shortage seriously acute, millions of veterans and war workers returned to start new households or to reestablish homes broken by wartime conditions. During the reporting period, a total of more than 11 million men and women were discharged from the armed services.

In large part because of the return of these millions of men and women to civil life, the number of marriage licenses issued during the reporting period rose to 2,079,000, or 43.4 percent more than the number issued during the preceding fiscal year. During the last quarter of the 1946 fiscal year alone, 637,000 marriage licenses were issued, as compared with 382,359 during the last quarter of the previous fiscal year. In comparison, the number of marriages in the United States during the depression decade of the thirties averaged less than one and a quarter million a year.

Many of these newly married couples were unable to find separate living quarters, and in consequence were forced to double up with relatives or friends. This solution quickly became unsatisfactory, especially when families increased in size. During the fiscal year, an estimated 2,743,000 babies were born, and the total population increased by 1,643,000. In comparison, throughout the entire decade of the thirties, the population of the United States increased by less than 900,000 a year. With this expansion, occurring after several years of similar growth during which there had been relatively little new construction, the housing shortage became acute.

To meet the Nation's critical housing requirements, a Veterans' Emergency Housing Program was developed to provide housing for veterans as promptly as possible. Under this program, 1,200,000 moderate and low-priced family units were to be started in 1946, and 1,500,000 in 1947. Of the 2,700,000 units, 250,000 were to be of publicly financed temporary construction and the remaining 2,450,000 were to be of permanent construction. Conventional site building methods were to be used in erecting 1,600,000 permanent units, and prefabrication techniques were to be used for the remaining 850,000 permanent units. A price limitation of \$10,000 was placed upon these homes, but it was hoped that most would be constructed in the price range up to \$6,000.

To carry out this program, controls were imposed once more upon construction. Unless authorized specifically by the Government, new construction and extensive remodeling were prohibited, in order to direct as much construction activity as possible into homes for veterans. At least half of this construction was to be of low-cost homes priced below a "dividing line" established in each area. To stimulate rental housing, at least one-fourth of the units were required to be rental units. Because the shortage of building materials was a serious bottleneck, the Congress authorized premium payments of \$400,000,000 to increase production of critical building materials. Priorities were used to direct the stimulated flow of construction materials into low-cost homes for veterans.

This program would have required an enormous volume of financing. It was estimated in the spring of 1946 that the 2,450,000 of permanent units would have required 13.8 billion dollars of permanent mortgage financing and, in addition, a revolving fund of about 2½ billion dollars for construction financing. Since the permanent mortgage loans would have been placed on newly constructed dwellings, these loans would have represented an increase in the outstanding volume of mortgage loans.

It was obvious that, in any event, the next few years would see a greater volume of residential construction accompanied by an intensified demand for mortgage funds. For this reason, the Federal Home Loan Bank Administration during the reporting period made a study of the probable demand for funds in order to make sure that, as far as possible, financial difficulties would not delay meeting the Nation's urgent need for millions of new dwellings.

### ***Price inflation in real estate***

In addition to the financial demands imposed by the construction of millions of new homes, lending institutions were also faced with

the problem of limiting individual loans to an amount which, in later years, will bear a reasonable relationship to the value of the properties and to the borrowers' ability to pay. This is now a serious problem, because the intensity of the demand for the limited supply of homes available has resulted in a rapid increase in home prices. Every survey which has been made recently of the price of residential properties indicates that these prices are substantially higher than prewar prices.

Throughout the wartime period, the average amount of new residential loans has been increasing. To some extent, therefore, lending institutions have followed the market in making loans. However, it is important that mortgage loans should not be made on the basis of inflated valuations which cause difficulties later to borrowers, to lenders, and to the entire real estate field.

In view of this situation, the Federal Home Loan Bank Administration expressed a warning that the Nation is in the midst of the most serious inflation of real estate prices in our history and that many thousands of veterans and others are being forced to buy homes they cannot afford and will be unable to pay for. This is a repetition of the conditions which caused the unprecedented mortgage panic of the thirties with its attendant obliteration of thousands of lending institutions and the loss of billions of dollars to millions of people of small means.

#### ***Loans under the Servicemen's Readjustment Act of 1944***

During the fiscal year 1946, GI lending grew rapidly and became an important factor in the home-financing field. In July of 1945, about 700 to 800 applications a week were being submitted. By the end of the fiscal year, about 12,000 applications a week were being submitted. As of June 28, 1946, a total of 165,737 loans had been closed and disbursed for a total principal amount of \$804,907,000. The average size of these loans was \$4,857.

As the volume of residential construction available for veterans continues to increase, it is probable that GI lending will become an increasingly important part of the market and, for a few years, may continue at a rate several times that of the 1946 fiscal year.

#### ***Residential construction and the real estate market***

*Residential construction.*—A measure of the number of nonfarm dwelling units started may be obtained by adding the permits issued by local authorities for private residential construction, and the contracts awarded for publicly financed construction. This total fell to a wartime low of 161,900 in the 1945 fiscal year. With the resumption of large-scale postwar production, the total rose to 584,600 in the fiscal year 1946. The change in the number of nonfarm dwelling units started during each quarter of the last 3 fiscal years is shown in exhibit 1, attached.

The number of publicly financed units started during the fiscal year 1944 was 69,248, which dropped to 25,989 during the fiscal year 1945, and then rose to 73,103 during the fiscal year 1946. In comparison, a total of 177,800 privately financed units were started during the fiscal year 1944, decreasing to 135,900 during 1945 and rising again to a total of 511,500 during the fiscal year 1946.

*Building costs.*—The wholesale price index of building materials, adjusted from the index of the Bureau of Labor Statistics, rose from

## 4 REPORT OF FEDERAL HOME LOAN BANK ADMINISTRATION

131.1 in June 1945 to 145.1 in June of 1946. This increase of 14 points was substantially greater than the increase of 1.7 points during the fiscal year 1945 and the increase of 5.9 points during the fiscal year 1944.

The index of labor and material costs for constructing a standard six-room frame house also rose during the same period. According to this index, retail material prices rose from 133.5 on June 30, 1945, to 141.6 one year later. This was an increase of 8.1 points compared with an increase of 2.1 points during the previous year. Similarly, labor costs rose from 143.9 in June 1945 to 153.8 in June of 1946. This was an increase of 9.9 points compared with an increase of 4.5 points in the preceding fiscal year. The index of total building costs, which includes both labor and materials, increased from 137 to 145.7 during the reporting period. The increase of 8.7 points in the total index during this period compared with an increase of only 2.9 points during the preceding year. These indexes are presented in exhibit 2 for each month of the 1945 and 1946 fiscal years.

*Foreclosures.*—The number of nonfarm foreclosures continued to drop during the reporting period. The decline in recent years is shown in the following table.

<i>Fiscal year:</i>	<i>Number of nonfarm foreclosures</i>
1941 -----	69, 169
1942 -----	49, 890
1943 -----	33, 402
1944 -----	20, 710
1945 -----	16, 142
1946 -----	12, 674

Foreclosures during the 1946 fiscal year were 21.5 percent less than during the preceding year. However, the decrease was not shared by all Bank Districts. Foreclosures rose 19.6 and 9.1 percent, respectively, in the San Francisco and Topeka Districts. The greatest decrease in foreclosures was that occurring in the Boston (40.1 percent decrease), Little Rock (39.5 percent decrease), and Indianapolis Districts (38 percent). The number of nonfarm real-estate foreclosures during the last two fiscal years is presented in exhibit 3 by Federal Home Loan Bank Districts and by States.

*Real-estate overhang.*—During the depression of the thirties, mortgage-lending institutions were forced to take over a large number of residential properties in order to protect their interests. Because these institutions wished to dispose of these properties, they hung over the real-estate market and represented a serious weakness of the market at that time. If real-estate prices rose rapidly, the institutions owning this real estate might have dumped their holdings, a procedure which would have represented a depressing influence upon the market.

Because of the tremendous demand for residential property in recent years, lending institutions have been able to dispose of practically their entire overhang. Of the \$2,628,940,000 of residential properties owned by lending institutions at the end of 1938, only \$142,916,000 was still held by the end of 1945. The decrease, for each type of institutional lender, is shown in exhibit 4. The most complete liquidation during this period was that effected by the Home Owners' Loan Corporation, which held \$1,367,000 of properties on December 31, 1945, as compared with \$488,997,000 of properties 7 years before. The most important volume of residential properties owned by insti-

tutional lenders was that still held by the life-insurance companies, whose holdings of \$85,242,000 on December 31, 1945, represented more than half of the outstanding total at that time.

This reduction in the residential real estate held by institutional lenders has strengthened the real-estate market substantially. However, this overhang of real estate held by institutional lenders has, perhaps, simply been replaced by what is, in effect, a similar overhang of real estate insecurely held by new home owners.

During the wartime period from 1940 to 1945, the rise of almost 40 percent in owner-occupied, nonfarm, dwelling units was the sharpest gain ever recorded in the census series which started in 1890. The proportion of owner-occupied, nonfarm homes for the first time became more than one-half of the total when this proportion reached 51 percent in 1945 as compared with 41 percent in April of 1940.

This rapid rise in home ownership in part resulted from the great increase in family incomes occurring throughout this period. In part, however, the increase was caused by the acute shortage of residential units which became more and more critical during this period.

Under conditions of free enterprise, a growing shortage of residential units would be accompanied by rising rents. This was impossible in the wartime period because of rent controls. Because there were no controls on real estate sales prices, the increasing demand for homes could become effective only by forcing sales prices up. A large number of families who normally would have continued to rent their homes were forced to purchase in order to protect themselves from eviction by other possible purchasers.

As a result, home ownership was forced upon a large number of individual purchasers, many of whom were, perhaps, financially or otherwise unprepared for such ownership. Because of the financial obligations which they were forced to assume in purchasing homes during the period of high prices, the residential properties owned by many of these individuals may be forced into the market in a period of economic deflation. In a sense, this may be considered as a real estate overhang which constitutes a possible technical weakness of the real estate market similar to that resulting from the overhang of residential properties held by lending institutions during the latter part of the thirties.

Of course, if the level of individual incomes remains high, most of these purchasers can probably continue to meet carrying charges on the homes which they have bought. There would then be no widespread liquidation of residential properties to force down market values. In any event, however, it is advisable for those home owners who have purchased their homes in recent years to increase their equities as soon as possible. This will improve their security and insure that the gains in home ownership since 1940 will continue.

## II. FEDERAL HOME LOAN BANK ADMINISTRATION

The Federal Home Loan Bank Administration functions in the field of thrift and home finance. The four components of the Federal Home Loan Bank Administration are the following:

*Federal Home Loan Bank System.*—The Federal Home Loan Banks were established under the Federal Home Loan Bank Act, approved on July 22, 1932. These Banks were placed under the regulation of