JOHNS-MANVILLE CORPORATION
TWENTY-TWO EAST FORTIETH STREET
NEW YORK 16, N.Y.

LEWIS H. BROWN
CHAIRMAN OF THE BOARD

April 8, 1947

Hon. Marriner S. Eccles, Chairman
The Board of Governors
Federal Reserve System
Washington, D. C.

Dear Mr. Eccles:

As you undoubtedly know, the housing shortage in some of the areas where my Company has plants was so acute that I took steps to encourage substantial housing developments for veterans in these areas.

These are not company developments of the usual type, since we are not in favor of the so-called "industrial villages." They have been developments of a normal character to which we have made certain contributions of land. The buyers of the homes have not been limited to our own employees.

Fifty-seven homes in the first of these developments have been completed and have been purchased. Some of our people recently gave me a study of the incomes of the purchasers, and related these to the cost of the homes which they have bought.

From my knowledge of what is going on throughout the country, I am sure this study represents a very typical situation.

It points up a problem which the administration is going to face as soon as we have an economic recession, and it seems to me it is one of sufficient magnitude to start thinking now about how it might best be handled.

While this study does not go into details, I am sure you will recognize the implications.

Sincerely,

Lewis H. Brown

April 17, 1947.

Mr. Lewis H. Brown
Chairman of the Board
Johns-Manville Corporation
22 East 40th Street
New York 16, New York.

Dear Mr. Brown:

I read with great interest the "Economic Study of First 57 Purchasers of Single Family Homes" which you sent with your letter of April 8.

After reading it I asked Mr. Wood of the Board's Research Division, who handles such matters, to comment on the study. I am enclosing a copy of the memorandum which he sent me, with the feeling that you will be interested in his comments and conclusions.

I appreciate your sending me the study, which is concrete evidence of a situation which is of grave concern to me.

Sincerely yours,

M. S. Eccles,
Chairman.

RW:elh

ECONOMIC STUDY OF FIRST 57 PURCHASES
OF SINGLE FAMILY HOMES AND
TYPICAL INDUSTRIAL DEVELOPMENT

This is a study of the relationship of income level of the house buyers and the purchase price of their homes classified by various occupations:

The assumption is made that a wage earner can safely obligate himself to the extent of 2-1/2 times his annual income to purchase a home. Some conservative bankers hold this to 2 times, others use 2-1/4, but some, especially in the Middle West, are willing to extend this to 2-1/2 times. Since all these purchasers are veterans, they are eligible for a 90% loan guaranteed by the F. H. A., and the remaining 10% can be secured through a Veterans Administration guaranteed loan. Few of these purchasers are making any down payment.

Nine men have been excluded whose family income is over $4,000 per annum. These men obviously can well afford to purchase the houses and are not in the income level of factory labor. In some cases there may be two wage earners in the family. Also eliminated is one widow of a veteran whose income is given as $2,265 per year, but her job and future earning capacities are not known.

The average income of the remaining group of 47 is $2,975 per year and of the known factory workers it is $2,765 per year, so that these people are actually the class of workers we have been trying to aid in housing.

Of these 47, 23 are classed as having a reasonably secure income, not likely to be reduced appreciably in case of a return to a normal, 40-hour week or a moderate recession in industry. The jobs include machine designer, chemist, clerks, accountants, a policeman, a garage mechanic, cooks, etc.

Thirteen of these 23 have obligated themselves for less than 2-1/2 times their income, and are presumably safe risks. Ten have gone beyond this limit, four by $500 to $1,000, and six by $1,000 to $1,500. These last six may be considered in the "dangerous" class as regards risk. They are shown in Table I.

The second group of purchasers consists of 24 men whose income is somewhat unstable. They are skilled and semi-skilled labor whose income is quickly affected by ups and downs of industrial production. On the basis of present annual income, eleven of these men are in the safe category, having obligated themselves for less than 2-1/2 times their earnings, and thirteen have gone beyond. Three of these have gone above 2-1/2 times for small amounts under $500, six between $500 and $1,000, and four are in the "dangerous" group over $1,000. These are shown in Table II.

Let us assume that a minor recession occurs and hours are reduced to forty a week and overtime is lost. To be conservative, the earnings

TABLE I

Stable Income

Position	Income	2-1/2 X Income	House Price	Over 2-1/2 X *
Machine Designer	3,600	9,000	8,250	
Chemist	3,392	8,580	8,350	
Clerk	2,656	6,640	6,525	
Jr. Accountant	2,040	5,100	7,450	3
Clerk	2,640	7,600	8,350	2
Accountant	3,780	9,450	8,250	
Structural Draftsman	2,660	6,650	7,475	2
Bus Driver	3,000	7,500	8,350	2
Clerk	2,900	7,250	8,350	3
Garage Owner	3,380	8,450	7,450	
Laboratory Technician	3,440	8,600	7,500	
Purchasing Agent	3,850	9,625	6,700	
Shipping Clerk	3,580	8,950	7,350	
Jr. Cost Accountant	3,600	9,000	7,475	
Psychiatrist Aid	2,818	7,035	8,350	3
Policeman	2,400	6,000	7,350	3
Research Assistant	2,206	6,615	7,475	2
Secretary (Female)	2,288	5,720	7,475	3
Garage Mechanic	2,340	5,850	7,475	3
Warehouse Man	2,548	7,370	6,225	
Cook	3,380	8,450	8,250	
Cook	3,328	8,320	7,475	
Utility Man	3,266	8,165	7,475	

*	Below 2-1/2 X Annual Income	13
1.	Above 2-1/2 X Annual Income - Less than $500	0
2.	Above 2-1/2 X Annual Income - $500 to $1000	4
3.	Above 2-1/2 X Annual Income - $1000 and $1,500	6
		23

TABLE II

Unstable Income

Position	Annual Income	2-1/2 X Income	House Price	Over 2-1/2 X *
Shipping Checker	3,380	8,450	8,350	
Inspector	3,020	7,550	7,350	
Inspector	2,728	6,820	6,575	
Millwright	3,540	8,850	7,350	
Packer	2,808	7,020	7,475	1
Carpenter	2,800	7,000	7,350	1
Service Man	3,100	7,750	7,500	
Laborer	2,340	5,850	6,525	2
Inspector	3,125	7,812	8,350	2
Jeweler	3,596	8,985	8,350	
Still Operator	3,640	9,100	8,350	
Truck Driver	3,000	7,500	8,250	2
App. Carpenter	3,380	8,450	8,350	
Weaver	3,100	7,750	8,350	2
Mechanic	2,800	7,000	8,350	3
Electrician	3,068	7,730	8,350	2
Shipper	2,860	7,150	8,250	3
Still Operator	2,556	6,390	7,500	3
RR Repairman	2,600	6,500	6,525	1
Laborer	2,644	6,610	7,475	2
Operator - Drugs	3,220	8,050	7,350	
Truck Driver	3,000	7,500	7,350	
Shipper	3,025	7,562	7,475	
Lift Driver	2,100	5,250	6,525	3

*	Below 2-1/2 X Annual Income	11
1.	Above 2-1/2 X Annual Income -Less than $500	3
2.	Above 2-1/2 X Annual Income -$500 to $1000	6
3.	Above 2-1/2 X Annual Income -$1000 & $1500	4
		24

of these 24 men have been reduced by 15% although there might be a greater reduction. The picture has now entirely changed. Only one man in this group is left who is obligated for less than 2-1/2 times his annual income, while two are now over this limit by small amounts up to $500, and six between $500 and $1000. Fifteen of these men are now in the "dangerous" class, five being obligated for $1,000 to $1,500 more than the limit, seven for $1,500 to $2,000, and three for more than $2,000. This is shown in Table III.

Consolidating the stable income group with the unstable income group, (earnings reduced 15%), we get the following:

Obligation less than 2-1/2 times annual income	14	30%
Above normal obligation, but reasonable hopes of carrying (up to $1,000 excess)	12	25%
Excessive obligation, not likely to be able to carry ($1,000 to $2,500 excess)	21	45%
Total	47	100%

The unsound economics of the above is obvious. The individual veteran purchaser is not likely to lose, since he is paying less than rent at the present time and there is probably little likelihood that either the Veterans Administration or the F.H.A. will attempt to get a deficiency judgment against him if he defaults. If this example is at all typical, the liability of the government in the veterans' housing program must be enormous.

TABLE III

Unstable Income Group - Income Reduced 15%
100% Mortgage

Position	Income Reduced 15%	2-1/2 X Income	House Price	Over 2-1/2 X *
Shipping Checker	2,873	7,182	8,350	3
Inspector	2,567	6,417	7,350	2
Inspector	2,318	5,795	6,575	2
Millwright	3,009	7,522	7,350	
Packer	2,387	5,967	7,475	1
Carpenter	2,380	5,950	7,350	3
Service Man	2,635	6,587	7,500	2
Laborer	1,989	4,972	6,525	4
Inspector	2,656	6,640	8,350	4
Jeweler	3,056	7,640	8,350	2
Still Operator	3,094	7,735	8,350	2
Truck Driver	2,550	6,375	8,350	4
App. Carpenter	2,873	7,182	8,350	3
Weaver	2,635	6,587	8,350	4
Mechanic	2,380	5,950	8,350	5
Electrician	2,608	6,520	8,350	4
Shipper	2,431	6,077	8,250	5
Still Operator	2,172	5,430	7,500	4
RR Repairman	2,210	5,525	6,525	3
Laborer	2,247	5,617	7,475	4
Operator-Drugs	2,737	6,842	7,350	2
Truck Driver	2,550	6,375	7,350	1
Shipper	2,571	6,427	7,475	3
Lift Driver	1,785	4,462	6,525	5

*	Below 2-1/2 X Annual Income	1
1.	Above 2-1/2 X Annual Income - Less than $500	2
2.	Above 2-1/2 X Annual Income - $500 to $1000	6
3.	Above 2-1/2 X Annual Income - $1000 to $1500	5
4.	Above 2-1/2 X Annual Income - $1500 & $2000	7
5.	Above 2-1/2 X Annual Income - $2000 & $2500	3
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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date April 15, 1947

To Chairman Eccles

From Ramsay Wood

Subject: Study of 47 recent purchasers of new houses

The study of 47 purchasers of single-family houses, their incomes, and the prices paid for their houses, sent to you by Mr. Lewis H. Brown of the Johns-Manville Corporation, shows that these purchasers have committed themselves to obligations greater than they can comfortably carry. This is true even of the group classified in the study as having "stable" incomes, and is still more clearly true of the group whose incomes are "unstable." Unless the incomes of these workers rise appreciably, or their debts are scaled down in some fashion, it seems likely that many of them will face financial difficulties in the future.

Conditions found in the study

Table I classifies the purchasers according to the relation of the purchase price of the house to the income of the purchaser. It will be noted that only one of the workers paid less than twice his annual income, although many students of family budgets agree that carrying a house costing more than twice the annual income does not leave enough to be spent for other living expenses, especially in families with children.

The extent to which expensive houses reduce the income available for other things may be seen more clearly from Table II which classifies the purchasers by the proportion of income required to carry the debt. The annual cost of the debt has been calculated on the assumption that all of the borrowers made the fullest use possible of the borrowing rights of veterans -- that is, that they made no down-payments, and obtained 25-year mortgages at 4 per cent interest.

Before the war, borrowers on mortgages insured by the Federal Housing Administration obligated themselves to pay roughly 12 per cent of their incomes for debt service, compared with between 15 and 20 per cent which seems to be common for the purchasers shown in Table II. Furthermore, before the war, debt service amounted to slightly more than half the cost of carrying a house with an FHA mortgage. Allowing for the fact that taxes, insurance, heating, utilities, repairs and maintenance have not risen as much as real estate prices, it seems likely that these items still amount to three-fourths as much as the debt service. This means that these purchasers are paying from one-third to two-fifths of their incomes for housing, compared with the one-fifth to one-fourth which has generally been considered the maximum desirable.

General conditions

The situation disclosed by the Johns-Manville study is fairly typical of the situation throughout the country, except that the subjects of this study, being veterans and buyers of new houses, are probably further over-extended than many other recent buyers of similarly-priced houses. On the other hand, a great many families with similar incomes, particularly in metropolitan areas, have bought houses very much more expensive than the 47 in the Johns-Manville study.

During 1946, probably about twice as many houses changed hands as in 1939, and the transfers took place at prices which were from 70 to 100 per cent higher than in 1939. The great increase in transfers started immediately after V-J Day and continued through the spring of 1946. Since October there has been a decline which is probably greater than seasonal, but the level of activity is still high compared with any other recent period.

The slowing down in real estate transfers -- even though activity is still high -- undoubtedly reflects in part high real estate prices. Such data as are available suggest that prices rose rapidly during most of 1946 and have been relatively stable since early fall. The average size of mortgage recorded followed this pattern and is now about 60 per cent higher than in 1939, and 50 per cent higher than at V-J Day.

Government policy has aided these developments in large measure. To the active real estate market which followed the demobilization of the armed forces, the mortgage guarantee features of the Servicemen's Readjustment Act and the Patman Amendment to the National Housing Act added further inflationary pressure. Veterans have been enabled to buy with little or no down-payment on very attractive terms of maturity and interest rates. In recent months, the number of mortgage loans guaranteed to veterans has amounted to one-fourth of all mortgages recorded, and the amount of mortgage debt written with Government insurance or guarantee -- FHA and GI -- was very close to two-fifths of the total amount of mortgages recorded. These proportions have been rising throughout the past year.

In view of these developments, recent purchasers are vulnerable to adverse economic developments, but lenders are protected in large part. The Government has a commitment to make good a sizeable part of the losses of lenders, but the borrowers are on their own.

RW

Attachments

TABLE I

Number of Purchasers Whose Houses Cost Specified Multiples of Annual Income

Relation of house price to annual income	All purchasers	Purchasers with "stable" incomes	Purchasers with "unstable" incomes
Under 2 times	1	1	-
2 - 2-1/4 times	6	5	1
2-1/4 - 2-1/2 times	16	7	9
2-1/2 - 2-3/4 times	7	-	7
2-3/4 - 3 times	10	4	6
Over 3 times	7	6	1
All purchasers	47	23	24

Source: Data contained in Johns-Manville study recomputed.

TABLE II

Number of Purchasers Whose
Mortgage Debt Service Takes
Specified Proportions of Income

Debt service as per cent of income	All Purchasers	Purchasers with "stable" incomes	Purchasers with "unstable" incomes
10 - 12-1/2 per cent	1	1	-
12-1/2 - 15 per cent	6	5	1
15 - 17-1/2 per cent	18	7	11
17-1/2 - 20 per cent	13	3	10
20 - 22-1/2 per cent	7	5	2
Over 22-1/2 per cent	2	2	-
All purchasers	47	23	24

Source: Data contained in Johns-Manville study. Debt service has been computed assuming no down-payment, and a mortgage for 25 years at 4 per cent interest. Mortgage insurance premium on 95-per cent mortgage insured by the Federal Housing Administration has been included.