STATEMENT OF CHAIRMAN ECCLES ON HOUSING FINANCE
BEFORE THE
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One of the most inflationary factors -- perhaps the most inflationary single factor -- in the present situation is excessively easy mortgage credit for housing. During the past two years the amount of such mortgage debt has increased by more than 9 billion dollars and the rate of current mortgage lending has risen from about 550 million dollars per month to about 1 billion dollars per month. Terms of lending have eased substantially as compared with prewar. A large proportion of recent loans has been made on an instalment basis at 4 per cent interest on the unpaid balance for a period of between 20 and 25 years. Most of these loans have been made for a very high percentage of current sale price which is greatly inflated.

More than half of the current unprecedented volume of mortgage lending is sponsored by the Federal Government under legislation enacted by Congress. The Government must therefore assume much of the responsibility for any adverse effects of this type of lending. Prices of houses have advanced from 25 to 35 per cent during the past two years. A large number of families of moderate and low income have been encouraged to assume mortgage debt which will be beyond their means when the present inflationary period is over, and is becoming increasingly burdensome as the cost of living goes up. Sellers and builders of houses have been enabled to make exorbitant profits. The Government has assumed and continues to assume contingent liabilities of great proportions.

It is entirely inconsistent to restrict credit terms on automobiles and other consumer durable goods, partly to reduce the inflationary pressures, and partly to protect the buying public, and at the same time to make housing credit terms so easy as to stimulate inflation and encourage people to go too deeply in debt. Any anti-inflationary program of the Government will lose much of its effectiveness so long as the Government sponsors the present inflationary housing credit program.

Easy credit has greatly increased the effective demand for both old and new housing far beyond the supply and this has greatly inflated prices. In an effort to meet the demand and take advantage of this profitable market, builders have undertaken to construct a larger volume of housing than there are resources readily available to finish. As a result, published prices of materials have advanced and, in addition, a gray or premium market has developed for many building materials. In this competitive market, the services of labor are also being actively bid for and bonuses and other extras have become common.

The predominant feeling in the building industry is that only by building at current rates or even higher can the housing shortage be met and only by keeping demand high can the current levels of production be maintained. The prices that are being established now, however, are too high for long-sustained building. At inflated prices of materials and labor and inflated profits for builders a few more houses may be produced than would be the case if prices and profits were lower, but that condition makes it less likely that the market next year, and the year after that, will be able to pay the prices necessary to keep building going at the rate needed to overcome the housing shortage and stabilize this segment of the economy. An increasing number of families are being priced out of the market now, in spite of the extremely easy financing terms, even though their need for housing is very great.

If the easy credit situation were producing a substantial additional volume of housing at supportable values in the long run, it would be justified, but because of the limitations of labor and materials it produces, instead, a dangerously inflated market which cannot be sustained for both new and old houses. I believe that by curtailment of credit for housing in closer relationship to the supply of labor and materials, the price trend would be reversed and a market for houses assured over a long period of years. Good low-cost housing cannot be built with high-cost materials and high-cost labor. Neither Government nor private industry can produce this miracle.

For the reasons which I have stated, Congress should reconsider in the longer term interest of the country the present policy and program of the Federal Government in the field of housing credit. I shall be glad to be of any assistance I can in making suggestions for changes in the present housing credit programs. At this time I am merely indicating the nature of some of the changes that seem desirable.

Operations under the National Housing Act and "The G. I. Bill of Rights" are closely related in practice but not in law or in administration. These two programs sponsored by the Federal Government should be brought together so that appraisals are made by only one agency.

The "100 per cent loans" under the program of the Veterans' Administration for both old and new houses and the nominal 90 per cent loans on new houses under Title VI of the National Housing Act should be revised so as to reduce the demand for housing and thus bring prices down. This means that both buyers and builders should have more equity in their properties than under the prevailing lending policies so long as present inflationary prices continue for housing.

Lending by members of the Federal Home Loan Bank System should be subject to greater restraints by the use of a conservative, uniform appraisal system, and by selective restriction on the terms of their loans.

Finally, from the long-range standpoint it is vitally important to prevent inflation in the housing field from getting any worse than it is. The greater the inflation, the more severe will be the aftermath of defaults, foreclosures, liquidations, and bankruptcy. Over the years the construction industry, which is a major outlet for investment and supports a wide variety of related manufacturing, transportation and distributing activity, has been characterized by violent upswings and downturns. If greater stability could be introduced into this field, it would go far towards achieving the national objective of stabilizing production and employment at high levels. The more the backlog of demand for housing is filled at exorbitant prices now, the smaller will be the cushion under the entire industry when prices come down .

and, therefore, the more intense the deflation in the industry will be. Manifestly, this is not in the best interest of the general economy, and what is not good for the country as a whole is not good for any group -- veterans, or otherwise. As has been well said, there is no such thing as easy credit -- true, it is easy to get into debt but the easier it is to get in, the harder it is to get out. That applies to all of us, including war veterans.