NEWS RELEASE

FEDERAL DEPOSIT INSURANCE CORPORATION

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Financing the coming boom in the mortgage market by "borrowing short and lending long" will require the soundest possible individual judgments on the part of the nation's bankers, Joseph W. Barr, Chairman of the Federal Deposit Insurance Corporation, said today.

Addressing the Regional Mortgage Workshop of the American Bankers Association in Monterey, California, Mr. Barr pointed to post-war developments in the thrift and mortgage fields, including substantial Government programs, which have developed new techniques of financing which have the full confidence of the public. He pointed out that several factors project a substantial increase in mortgage demands in the next fifteen years, and said.

"The continuing shift of a larger and larger portion of the nation's savings into long-term credits with easy terms exposes us to ever-increasing risks -- if past historical benchmarks are of any significance. And yet unquestionably this is the direction in which many want to move and the direction for which others are prepared to save.

"This public attitude undoubtedly results in part from the 30-year participation of the Federal Government in areas that had previously been left to market forces," Mr. Barr added. Citing programs of bank deposit insurance, guarantee of mortgages, and the Employment Act of 1946, Mr. Barr continued:

"The Government's role in guaranteeing private long-term credit instruments, its own programs of direct lending, and the structural problems of the financial community would seem to be proper subjects for our discussion

(more)

and for Congressional review next year."

He urged "a public airing of the issues involved and an opportunity for all of us to ponder whether or not you in the financial community and we in the Government are prepared to meet the risks and demands that surely will face us in an increased order of magnitude in the years ahead."

At the same time, he warned, "I do not believe that any Government program, either of guarantees or of direct lending, can be designed which will eliminate the necessity for sound banking judgment. If I am correct in my assumption that bankers increasingly will be called upon to'borrow short and lend long', then I would caution you to prepare yourselves to practice a difficult art. Government can assume only a marginal portion of the risk, and the nation's response to the challenge will rest, in the main, on the accuracy of your individual judgments."

Mr. Barr concluded, "The public's confidence in existing financial arrangements has been well-founded to this point. We must make sure that it continues to be justified."

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RELEASE TO NEWS MEDIA
MONDAY P.M., SEPT. 28, 1964

"MORTGAGE CREDIT - A BOON OR A THREAT?"

Address of

JOSEPH W. BARR, CHAIRMAN

FEDERAL DEPOSIT INSURANCE CORPORATION
Washington, D. C.

at the

AMERICAN BANKERS ASSOCIATION'S

Regional Mortgage Workshop

at the

MARK THOMAS INN
Monterey, California

Luncheon Meeting

Monday, September 28, 1964

"MORTGAGE CREDIT - A BOON OR A THREAT?"

I would like to talk to you this morning on a subject that I know is familiar to all of you -- mortgage credit. But I think it is appropriate, before entering into a discussion of mortgage credit, to say something first about a subject very closely associated with it -- housing and its social implications.

The elimination of substandard housing for all of our citizens is an important cornerstone of the President's program of "War on Poverty." The provision of a decent home in a suitable environment for every American family, ever since the Housing Act of 1949, has been a major objective of public policy. A great many important things have been done in the housing field in recent years with the result that few, if any, of our people actually lack a roof over their heads. But an unfortunately large proportion of the housing units of the nation -- probably somewhere around one-fifth -- are substandard. Even a dwelling that provides adequate protection against the elements may be a serious hazard to the mental and physical health of its occupants; it may lack adequate heating, hot and cold running water, plumbing, or be over-crowded. A secure, healthy, comfortable home is, beyond question, a first essential and among the most important benefits that a strong, prosperous society can produce.

Americans are better housed than citizens of most other nations, thanks to the concerted and cooperative efforts of private financial institutions and government in a free enterprise environment. Nevertheless, there are troublesome areas that require the continuing attention of us all. We cannot neglect the decayed parts of our cities, urban planning, low-rent public housing, special housing for the aged. Neither can we overlook the possible impact of such future problems as the development of megalopolis -- a growing-together of our already concentrated metropolitan centers up and down our coastlines, for example. As land becomes scarcer in such areas, with ever-increasing pressure on real estate prices, the requirements for home and commercial mortgage credit may well increase.

So when we think of mortgage credit and the many perplexing technical questions relating to it that concern us individually each day, we must keep in the back of our minds the total setting and the larger social issues. These problems will not go away but will continue to gnaw at our society, however prosperous it may be in the aggregate, until they are solved, wisely and responsibly.

In order to analyze recent developments in the area of mortgage credit in proper perspective, it is necessary to go back at least to the winter of 1960-61. Although the continuing buoyancy of our economy at the present time serves to dim our memories, the fact remains that the country as recently as then was in recession. Nearly seven percent of the labor force was unemployed, and almost one-fifth of our manufacturing capacity lay idle. Total output was about $50 billion short of potential. To add to our troubles, our basic international accounts were running annual deficits of almost $4 billion. To complicate matters even further, policies that were normally indicated to deal with the recession were generally inconsistent with those indicated to deal with our balance of payments difficulties.

Most of you are familiar with the things that were done, and the general economic policies that were invoked. Stimulative, non-inflationary, domestic policies were followed. Positive monetary and debt management actions insured an ample supply of credit. Techniques were designed to stabilize long-term interest rates to encourage domestic recovery, while permitting short-term rates to rise to assist in our balance of payments problems. Overall, efforts were concentrated on stimulating private investment. The results speak for themselves. Today, we are far into the fourth year of economic expansion. Our prices are stable, and the effects of this year's tax cut are working their way through all facets of the economy in an orderly fashion.

But what specifically has taken place in the area of mortgage credit? The Administration has sought to make credit readily available at liberal terms through varied programs. Federal Reserve open market operations and Treasury debt management policies maintained monetary ease. Changes in FDIC's Regulation 329 and the corresponding Regulation Q of the Federal Reserve accelerated the flow of savings into commercial banks, which substantially increased their investments in mortgages, as have all major groups of lenders, in contrast with earlier post-war expansions. These flows of funds, together with reductions in FHA interest ceilings and FNMA purchases, have exerted downward pressures on mortgage and other long-term yields. At the same time, the Administration shifted its emphasis from pure stimulation of housing as such into more social approaches. New programs were launched for middle-income housing in the Housing Act of 1961, and new FHA programs for insurance of long-term housing improvements were created. The Senior Citizens Housing Act of 1962 was another major social step forward, authorizing an additional $200 million in loans to provide housing for the aged, including two new programs for the rural elderly.

The aggregate effect of all the various actions taken has been that the period since early 1961 marks one of the longest upswings in residential building since World War II. Mortgage debt on all types of property increased to $287 billion in the first quarter of this year from $206.8 billion at the end of 1960--an increase of almost 40 percent. Of this

$287 billion outstanding, over $70 billion is insured and guaranteed by the Federal Government. Throughout the period, lending terms have generally eased, and the cost of borrowing has declined appreciable. Interest rates on conventional first mortgages dropped from 5.94 percent in the last six months of 1961 to 5.76 percent in June of this year. FHA insured yields, correspondingly, have declined from 5.69 percent to 5.45 percent. These decreases have brought the yield spread between mortgage and high-grade corporate bonds to one of the narrowest in the post-war period. Not only have mortgage interest rates and yields leveled off, but non-rate terms have been liberalized further as well. Inflows of savings into time and savings deposits at commercial banks and savings and loan associations have in recent months slackened somewhat, but insurance companies have increased their participation in the market, thus helping to offset any tightening of mortgage credit that might otherwise have occurred.

What is the outlook for the future? Legislative authorizations enacted in this session should provide continued impetus in residential and other building. The impact of the recent cut in income taxes on both savings and mortgage demand will certainly be an important influence on the mortgage market in the period ahead. But current statistics indicate that perhaps residential building has tended to peak out and will probably move sideways through most of 1965 and 1966.

Beginning in about 1967, the most significant considerations, as I view it, will be demographic. A substantial increase in the number of young families will take place during the next decade. You can see from Table I that the age group 20-24 by 1970 will increase 53.9 percent over the 1960 level and by 1980 will increase another 20.6 percent.

Increased concentration of the population in younger age groups is significant from the point of view of mortgage credit. Younger families at first buoy the market for apartments and mortgages on multifamily property, and as they reach their late twenties and early thirties they will buy homes that require even larger aggregates of mortgage credit.

Table I

U. S. Population Estimates by Age for 1965, 1970, 1975 and 1980
(Thousands)

Age	Actual 1960	1965	1970	Per Cent Change 1960-70	1975	1980	Per Cent Change 1970-80
20-24	11,112	13,623	17,104	+53.9%	19,057	20,624	+20.6%
25-29	10,931	11,319	13,795	+26.2	17,254	19,195	+39.1
30-34	11,978	11,055	11,425	- 4.6	13,885	17,322	+51.6
35-44	24,223	24,462	22,996	- 5.1	22,458	25,267	+ 9.9
45-54	20,581	22,068	23,360	+13.5	23,574	22,194	- 5.0
55-64	15,627	16,974	18,500	+18.4	19,845	21,056	+13.8
65-74	11,033	11,496	12,131	+10.0	13,227	14,489	+19.4
& over	5,625	6,607	7,440	+32.3	7,945	8,597	+15.6
	111,110	117,604	126,751	+14.1	137,245	148,744	+17.4

Source: Bureau of the Census, U. S. Department of Commerce.

Demographic factors are also at work on savings. I have reproduced in my prepared text another table (Table II) showing the relationship between age and liquid asset holdings. Above age 45, the level of liquid assets is sharply higher. People in these age brackets are, of course, prime savers. Table I shows that there will be a smaller but still significant increase in the numbers in these age brackets in the 2nd half of the 1960's and during the 1970's. These people should be supplying much of the savings needed by the young new families.

All of these factors, it seems to me, suggest that we are in for substantial expansion both in savings and in mortgage debt in the next 10-15 years.

There is one final consideration, however, that I think we must take into account in our projections. This has to do with qualitative, rather than quantitative, shifts that might be in store. Studies recently conducted at the University of Michigan throw some light on these problems. One finding--which is somewhat surprising in view of widespread discussions of back-to-town migration and the recent apartment boom--is that a

Table II

Liquid Asset Holdings, By Age Group, 1963
(Percentage distribution of spending units)

Amount of liquid assets[a]	All units	Age of Spending Unit Head 18-24	25-34	35-44	45-54	55-64	65 or older
None	24	27	22	20	20	28	26
$1-99	9	20	13	8	9	4	4
$100-199	7	13	12	6	7	4	3
$200-499	13	17	15	19	10	10	9
$500-999	10	9	12	12	11	9	6
$1000-1999	11	9	11	12	11	8	9
$2000-4999	13	4	11	14	13	15	20
$5000-9999	7	*	3	6	11	12	11
$10,000 or more	6	1	1	3	8	10	12
Total	100	100	100	100	100	100	100
Median for all spending units[b]	$440	$145	$255	$450	$710	$765	$1215

* Less than one-half of one per cent.

[a] Liquid assets include checking accounts, savings accounts and nonmarketable U. S. savings bonds.

[b] Medians were estimated by interpolation.

Source: 1963 Survey of Consumer Finances, Survey Research Center, University of Michigan.

large proportion of people considering moving would like to move to less urban locations. The number of people wanting to move from an apartment to a single-family house is much larger than the number interested in the opposite change. Thus, we find that in spite of all the recent talk, there has not been a shift away from consumer preference for suburban living. What does this signify for mortgage credit? It can only mean increased demand and perhaps increased risk. Suburban single-family dwellings are the most expensive type of housing, but it is the very type of home that more people prefer.

There are those who look at recent developments, at the increasing volume of mortgage credit and the easing of terms, who feel constrained to hoist warning signals. In my opinion, it is perfectly appropriate that they should do so. My good friend, Mr. William McChesney Martin, Chairman of the Federal Reserve Board, began voicing just such warnings as long ago as December 1962. Now most bankers to whom I talk agree with him that in terms of customary past standards there has been a relative deterioration in the quality of credit extended. From where I sit I would agree. But from my experience in the Congress and in politics I would argue that this trend will not be reversed but will continue for the very simple reason that this is what most people in the country want. It is what they think they can afford and it is a trend that others are willing to support with real savings. So we in Government and you in the financial community are faced with a conundrum. The continuing shift of a larger and larger portion of the nation's savings into long-term credits with easy terms exposes us to ever-increasing risks--if past historical benchmarks are of any significance. And yet unquestionably this is the direction in which many want to move and the direction for which others are prepared to save.

This public attitude undoubtedly results in part from the 30-year participation of the Federal Government in areas that had previously been left to market forces. In the 'Thirties the guarantee of mortgages, bank deposits and share accounts produced a shift in the public evaluation of the acceptability of long-term risks. In the 'Forties the passage of the Employment Act of 1946 placed responsibility on the Federal Government to do what it could to encourage an orderly and growing private economy. These two developments seem to have played a significant part in changing investor and consumer attitudes towards an acceptance of long and easy term credits as a normal risk.

The Government's responsibility for the implementation of the Employment Act of 1946 is probably involved in the political debate that is occupying the nation's attention in this presidential election year, and I do not think it appropriate for me to comment on this subject. But the Government's role in guaranteeing private long-term credit instruments, its own programs of direct lending, and the structural problems of the financial community would seem to be proper subjects for our discussion and for Congressional review next year. The Heller Committee and the Commission on Money and Credit have done useful and productive work in this area. Now I would like to see a public airing of the issues involved and an opportunity for all of us to ponder whether or not you in the financial community and we in the Government are prepared to meet the risks and demands that surely will face us in an increased order of magnitude in the years ahead.

While I believe that it is high time to re-examine the Government's role in the future I have projected, to make certain that we are doing what the people think that we are doing, still it is only appropriate to inject an advance note of caution. I do not believe that any Government program, either of guarantees or of direct lending, can be designed which will eliminate the necessity for sound banking judgment. If I am correct in my assumption that bankers increasingly will be called upon to "borrow short and lend long," then I would caution you to prepare yourselves to practice a difficult art. Government can assume only a marginal portion of the risk, and the nation's response to the challenge will rest, in the main, on the accuracy of your individual judgments.

The public's confidence in existing financial arrangements has been well-founded to this point. We must make sure that it continues to be justified.