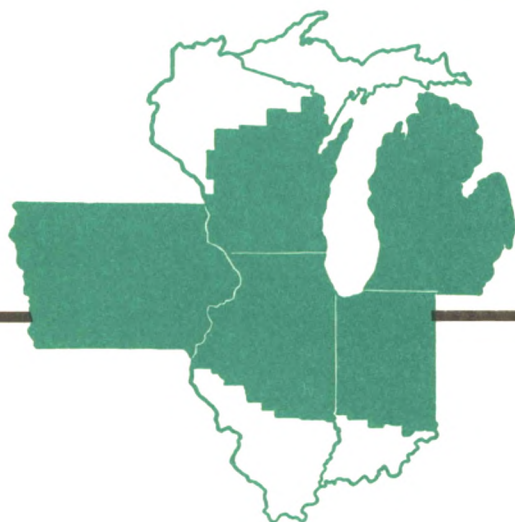


Business Conditions

March 1972



Contents

Credit rise boosts consumption	2
FHA mortgage insurance and subsidies	8

Credit rise boosts consumption

If total outstanding instalment credit were evenly distributed among the nation's 63 million households, the average family would owe more than \$1,700 in this form. Because almost half of the families are believed to have no instalment debt, the average indebtedness of those families that do have such obligations probably is more than \$3,000. When total consumer debt outstanding in 1971 is considered—instalment debt plus noninstalment debt—the sum is almost half as large as the home mortgage debt of all U. S. families.

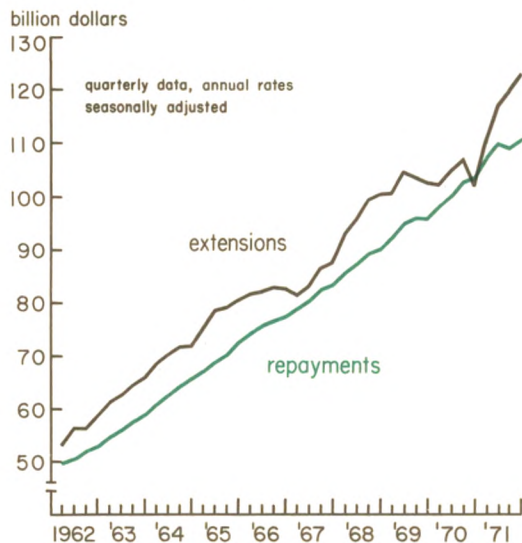
Instalment credit extended to consumers totaled almost \$118 billion in 1971. This is a record, and equal to 18 percent of the total amount of money spent on consumer goods and services in the United States last year. Repayments of instalment credit were more than \$109 billion, also a record. Outstanding instalment credit rose by \$8.4 billion during the year, less than the increase in 1968, but sharply higher than the \$3.0 billion rise in 1970. The General Motors strike that reduced the supply of new cars was a major factor holding down instalment credit growth that year.

Instalment credit outstanding totaled about \$110 billion at the end of 1971. If one were to add to this the \$28 billion outstanding in noninstalment credit—primarily single-payment loans, retail charge accounts, oil company credit, nonbank credit card

accounts (food and lodging), and "service" credit (mainly public utilities)—total consumer debt would equal \$138 billion at the end of 1971.

The ability and willingness of consumers to incur and service instalment credit play a large role in the expansion of the general economy, especially for purchases of big ticket items, such as autos and household

Extensions of instalment credit increased sharply in 1971



Note: Quarterly data at seasonally adjusted annual rates.

durables. Continued rapid growth in consumer instalment credit will be necessary in 1972 if substantial improvement in business activity is to be achieved. Early indications suggest consumer borrowing is continuing at a high level.

Uses of instalment credit

At the end of 1971, instalment credit outstanding equaled 14.5 percent of fourth-quarter disposable personal income (after-tax income) on an annual rate basis. This ratio was near the average for the 1965-71 period. From World War II to 1965, instalment credit had increased more rapidly than income. In 1955, the ratio of outstanding instalment credit to disposable income was 10 percent; in 1950, less than 7 percent.

The long-term growth pattern of instalment credit reflects the general availability of such loans from banks and other lenders, a willingness of consumers to incur debt to

increase spending, and a rising number of families. Year-to-year fluctuations in outstanding instalment credit usually have been associated with changes in consumer demand for durable goods, especially autos.

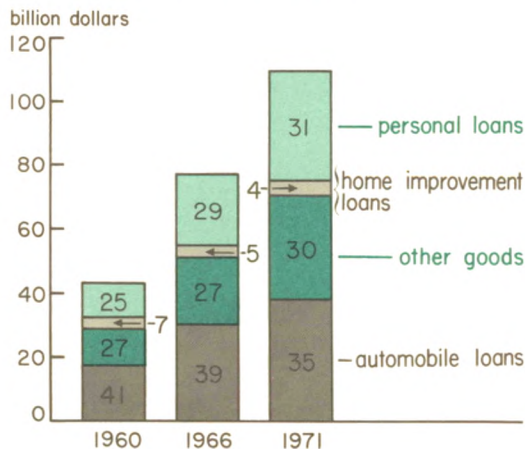
Of total instalment credit outstanding at the end of 1971, as tabulated and published by the Federal Reserve Board staff, 35 percent was classified as auto paper, 30 percent as "other consumer goods" paper, 31 percent as "personal loans," and 4 percent as home repair and modernization loans.

Auto loans, with \$38.3 billion outstanding at the end of 1971, have comprised the largest category of instalment credit ever since World War II. At least 60 percent of all new cars, and about 50 percent of all used cars, are purchased on instalment contracts. In addition, a substantial portion of other car purchases probably involve credit.

Although auto loans continue to make up the largest category of instalment credit, their share of the total has declined gradually since the mid-1950s. In 1955, auto loans accounted for more than 46 percent of all instalment credit, whereas in 1971 they represented 35 percent. In 1958, 1961, and 1970, auto credit outstanding declined in absolute terms because of reduced sales.

For the past decade, the amount of the typical new car auto loan has been almost as large as the dealer's cost. Total "credit extended" is even larger because finance charges are added to the amount of the loan, as in other instalment contracts. Typical maturities on new car auto loans have been 36 months for many years. Twenty years ago the typical maturity was 24 months. In late 1971, about 85 percent of all purchased paper and 70 percent of all direct loans held by commercial banks carried initial maturities of more than 30 months (usually 36 months). In scattered instances, loans

Growth in auto loans has lagged total instalment credit



Note: Outstandings at year-end. Figures in bars represent percent.

with maturities of 42 months or more have been reported.

Other consumer goods loans (instalment contracts for goods other than autos), amounting to \$32.5 billion at the end of 1971, have been increasing in recent years as a proportion of the total. Accounting for 26 percent of all instalment credit in 1965, this group accounted for 30 percent in 1971.

"Other consumer goods paper" traditionally has involved loans to purchase household durable goods. Since the late 1960s, there has been a rapid increase in mobile home and bank credit card loans, also included in this category.

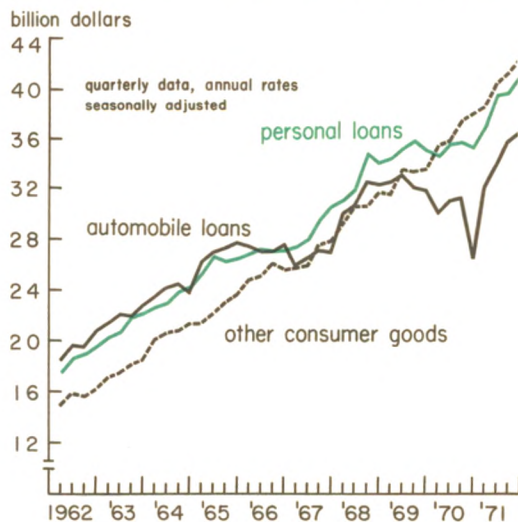
Personal loans outstanding totaled \$34.4 billion at the end of 1971. Personal loans have increased in relative importance in most years since World War II, rising from 19 percent of total instalment credit in 1950, to 25 percent in 1960, to more than 31 percent currently. While many of these loans are used to purchase autos or other consumer durables, a large percentage are used for medical expenses, education, debt consolidation, and other purposes.

Home repair and modernization loans outstanding were \$4.4 billion at the end of 1971. These loans have increased almost every year since World War II, but outstandings have declined to 4 percent of the total instalment credit from more than 7 percent in 1960. Doubtless many personal loans are used for home improvements.

Lenders of instalment credit

The great bulk of instalment credit is extended by commercial banks, finance companies, credit unions, and retailers. A large share of the loans originated by auto dealers and other retailers are sold to banks or finance companies. Some large retailers have their own finance company subsidiaries

Extensions of instalment credit on personal loans and "other goods" now exceed auto paper



Note: Quarterly data at seasonally adjusted annual rates.

which carry customer paper. Savings and loan associations, a negligible factor in instalment credit until recently, have been empowered to finance mobile homes and doubtless will increase their share of this market substantially in the future. In any discussion of consumer credit it is important to recall that credit outstanding on retail 30-day charge accounts, oil cards, food and lodging cards, and service credit is included in the data on noninstalment credit.

Commercial banks held 42 percent of the outstanding instalment credit at the end of 1971, and accounted for 49 percent of the increase during the year. The share held by banks has increased gradually, but irregularly, since the mid-1950s, when they held 37 percent of outstandings. In the late 1950s, commercial banks passed finance companies

as the largest holders of instalment credit, mainly because of their vigorous expansion in the auto credit field.

Of the \$46 billion of instalment credit held by commercial banks at year-end, 47 percent was in auto loans. This ratio has declined steadily since 1965, when it was 55 percent. In the tight credit period of 1969, some commercial banks stopped purchases of auto paper and made only selected direct loans to their own customers. Purchased paper declined from 65 percent of auto paper held by banks in 1965 to 60 percent at the end of 1971. With the rise in bank liquidity in 1971 and continued sluggish demand for business loans, some banks resumed their purchases of dealer auto paper.

The second largest type of instalment credit extended by banks is personal loans. This category, at \$11.6 billion in 1971, has increased gradually relative to the total, and now accounts for 25 percent of bank

holdings of instalment credit. Within this category are bank check credit plans of various sorts with total outstandings of \$1.3 billion at year-end.

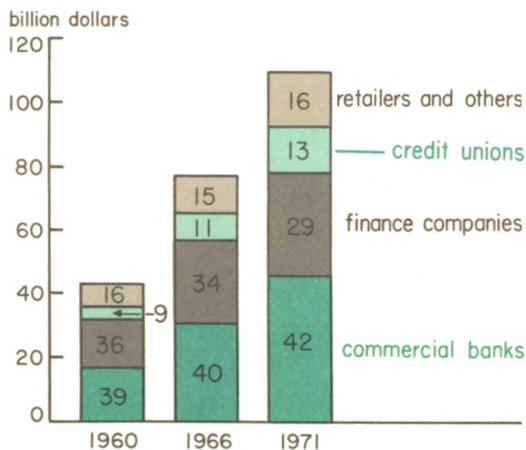
"Other consumer goods" credit held by banks at the end of 1971 totaled \$9.8 billion. The bulk of this consisted of mobile home loans (\$4.4 billion) and bank credit card loans (\$3.5 billion). Because of the growth of these newer types of instalment credit, this category of loans now accounts for more than 21 percent of bank holdings, after rising steadily from 14 percent in 1965.

Bank holdings of home improvement loans have continued to creep up in dollar amount, while declining continuously as a proportion of outstandings. From 14 percent of bank instalment loans in 1950, home improvement loans have declined to 6 percent of the total today.

Finance companies holding consumer paper are of three major types: (1) "Independent" sales finance companies that "floor-plan" dealers and purchase customer retail paper. (Although called "independent" to differentiate them from the "captives," these companies may be controlled by financial holding companies.) (2) "Captive" sales finance companies that are subsidiaries of auto manufacturers, appliance manufacturers, and large retailers. (3) Consumer or "personal" finance companies that mainly make personal loans, sometimes called "small loan" companies. Frequently, finance companies engage in both consumer finance and sales finance activities.

Separate data are not available for instalment credit holdings of the various types of finance companies. But some of the largest sales finance companies announced within the past two years that they were withdrawing from the field of auto credit, their main business historically. This gap has been

Banks and credit unions have a growing share of instalment credit



Note: Outstandings at year-end. Figures in bars represent percent.

filled mainly by the banks, the captive finance companies, and credit unions.

Taken as a group, finance companies held \$32 billion in instalment loans at year-end. Of this total, \$10 billion were in auto loans, \$7 billion in other consumer goods paper, and \$15 billion in personal loans. Finance companies held 53 percent of outstanding auto loans in 1955. This share has dropped to less than 27 percent currently, mainly holdings of the captives.

Credit unions held \$14 billion in instalment loans at the end of 1971. Their share of the total has increased steadily for more than two decades—from 4 percent in 1950 to 9 percent in 1960, and to 13 percent currently. They accounted for 20 percent of the rise in outstandings in 1971.

More than one-third of credit union instalment loans are auto loans. Most of the rest of their loan portfolio consisted of personal loans with no purpose stated. Because most credit unions are sponsored by private employers for the benefit of their employees, they are less likely to take title to autos or other goods. They often require the same type of wage assignments that are used to some degree by most lenders to secure loans to consumers.

Retailers held \$15.5 billion in instalment loans at the end of 1971, about 14 percent of total outstandings. The retailers' share was larger in the 1950s, but has not changed significantly in recent years. Auto dealers hold less than 1 percent of auto credit. The bulk of instalment credit held by retailers is held by sellers of general merchandise, furniture, and appliances. Often their instalment loans are in the form of revolving credit plan charge accounts.

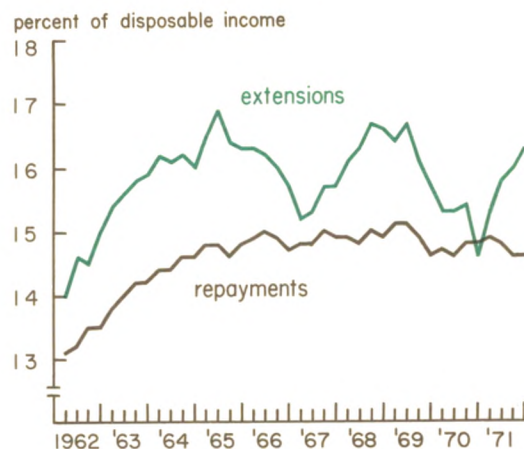
The recent credit surge

Instalment credit outstanding, seasonally

adjusted, rose about \$1 billion in September, and set a record monthly increase. After a moderate decline in the rate of increase in October, another record was set in November, when outstanding credit rose \$1.3 billion. For the three months September-November, instalment credit rose \$3.2 billion, seasonally adjusted, half again as much as in the June-August period.

The surge in instalment credit in late 1971 was associated with record sales of new cars—more than 11 million on an annual rate basis—that followed the price freeze and the President's recommendation that the auto excise be eliminated. But auto credit accounted for only 40 percent of the rise in total instalment credit in the final third of 1971. Consumers were also borrowing substantial sums to buy household durables and mobile homes and for other purposes. Slower growth in auto credit in December was partially offset by a larger increase for other consumer goods.

Instalment credit is below past peaks relative to after-tax income



Despite spectacular growth in instalment credit since last August, total instalment debt is not high by historical standards relative to consumer income. Outstandings at year-end were 14.5 percent of fourth-quarter disposable income. This ratio was equaled or exceeded for comparable periods in each of the years 1965 through 1969.

Fourth-quarter repayments of instalment credit, on an annual rate basis, were 14.6 percent of disposable income, less than a year earlier and less than in several previous years. Fourth-quarter extensions of instalment credit were 16.3 percent of disposable income, up sharply from a year earlier, but less than in the same period of 1968. In a similar comparison for auto credit, both extensions and repayments have been at higher rates relative to disposable income in a number of years starting in the mid-1950s.

In short, the rate of instalment credit use in late 1971 was quite strong, particularly when compared with the auto strike period, but was not especially high in a broader perspective.

Instalment credit in 1972

Financial institutions and retailers are prepared to expand instalment credit in 1972 to the extent that creditworthy consumers wish to exploit their potential to

borrow. A number of lenders have reduced rates on various classes of instalment loans in their desire to compete actively for consumer loans.

Many families remain cautious concerning the outlook for the security of their jobs and income, and are reluctant to incur additional debt. In most years since World War II, the rate of personal savings has declined when use of instalment credit increased. This is because personal savings are a residual obtained by subtracting spending from disposable income. More extensive use of instalment credit increases spending, but it does not directly increase income. In 1971, however, despite the faster rise in instalment credit, the saving rate was 8.1 percent, the highest since 1946 and well above the long-term average of about 6 percent. The savings rate did decline in the fourth quarter, when instalment credit growth was rapid, but only to 7.8 percent.

The bulk of the increase in consumer savings in 1971 was in the form of bank deposits and other liquid assets. Incomes have continued to increase at about 8 percent annually. Many families that would like to purchase new homes, autos, and other durable goods are holding back awaiting clarification of the economic future. Many of those who decide to increase spending in 1972 will rely, in part, on instalment credit.

FHA mortgage insurance and subsidies

The Federal Housing Administration (FHA) has helped to finance the purchase of more than 10 million homes and the construction of more than 1.6 million apartment units since the agency was authorized by the National Housing Act of 1934. During the last two decades, a long series of amendments to the original act have greatly broadened the scope of FHA operations. Today, mortgages are insured, and rental and mortgage payments are subsidized, under 16 sections of the National Housing Act. These programs may be simplified and consolidated if pending legislation is enacted.

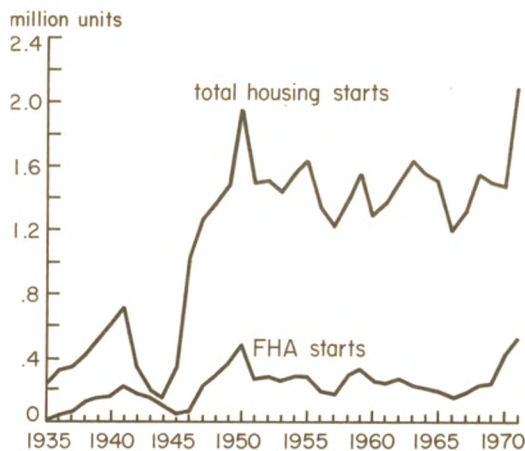
FHA programs are now classified officially into two broad categories—unsubsidized and subsidized. Under subsidized programs, in addition to insuring mortgages, the federal government assumes a portion of required monthly payments. First introduced in 1961, subsidized programs have grown rapidly since 1966. They accounted for about two-thirds of all FHA insurance written on new construction in 1970 and 1971. Unsubsidized programs, however, accounted for 90 percent of insurance written on existing properties.

FHA programs in outline

FHA insurance is provided for loans on homes and apartments that meet stipulated requirements regarding qualifications of the

borrower and the nature of the property. The maximum amount of a loan is determined by the value of the property, as indicated by an FHA appraisal, minus a required downpayment. In addition, the borrower must pay an insurance premium amounting to one-half of one percent of the outstanding value of the loan. Because of insurance against loss on loan principle in the event of foreclosure, lenders that make FHA loans are willing to offer lower downpayments and longer maturities on these loans than on conventional mortgages.

Housing starts in 1971 broke record set in 1950



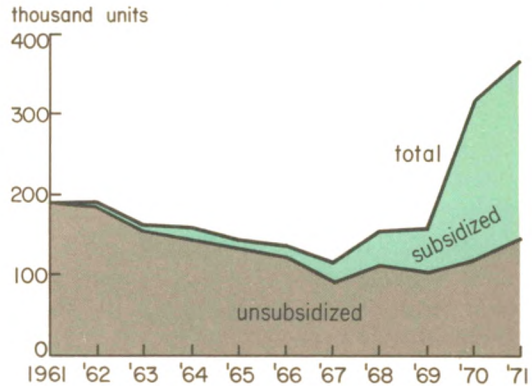
The maximum interest rate on new FHA loans is set by the Secretary of Housing and Urban Development (HUD). This rate is changed periodically to maintain it at a level competitive with rates on alternative investments. The current FHA rate of 7 percent was set in February 1971. The contract rate on conventional mortgages averaged around 60 basis points above the FHA rate during 1971.

Sometimes there is a serious lag in adjusting the FHA rate to market rates. During periods of "tight money," when the spread between the FHA rate and market rates widens substantially, loanable funds are diverted to conventional mortgages or to other investments. Lenders may compensate for this spread by charging "points"; that is they may purchase FHA loans at a discount. But sellers of new houses may have to absorb the discount by lowering their profit margins, which they can do only to a limited extent. Moreover, many lenders are reluctant to make loans at deep discounts, believing this an unsound practice.

Of the total amount of FHA loans outstanding at the end of 1970, 23 percent were held by mutual savings banks, 20 percent by federal credit agencies, including the Federal National Mortgage Association (FNMA), 19 percent by insurance companies, 15 percent by commercial banks, and 14 percent by savings and loan associations. In 1970, approximately 70 percent of all FHA home mortgages and 55 percent of all FHA rental project mortgages were originated by mortgage companies, who sell these obligations to investors.

In the years 1939-41, FHA programs accounted for almost 30 percent of total housing starts in the United States. During the Second World War, when civilian construction was severely restricted by material

Subsidized housing now accounts for more than half of FHA mortgages on new construction



allocations, the proportion of FHA starts rose sharply, reaching a peak of 76 percent in 1943. Immediately following the war, conventional housing starts increased rapidly, and many veterans were able to qualify for mortgages under the new Veterans Administration (VA) loan guarantee program. The result was a sharp decline in FHA activity. In 1946, FHA starts accounted for less than 7 percent of the total.

Since the late 1940s, FHA-financed housing starts have fluctuated between 12 and 30 percent of the total. In 1949, FHA starts represented about 24 percent of total starts. The proportion declined steadily to about 14 percent in 1957. In 1958, influenced by a reduction of almost 30 basis points in the spread between the FHA ceiling rate and conventional mortgage rates, the proportion of FHA starts rose to over 21 percent of the total. Starting in 1959, however, the proportion again began to decline and bottomed out at 12 percent in 1964. Since 1965, FHA starts have experienced a resurgence, primarily because of the growth in FHA

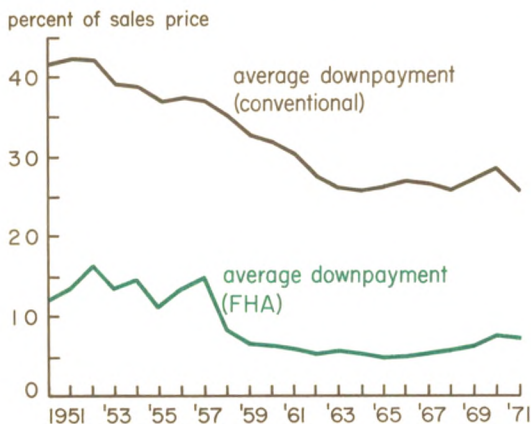
subsidy programs. In 1970, FHA starts accounted for over 28 percent of total starts. In 1971, when a record 2.1 million housing units were started, the proportion was about 25 percent of the total.

The 203 program

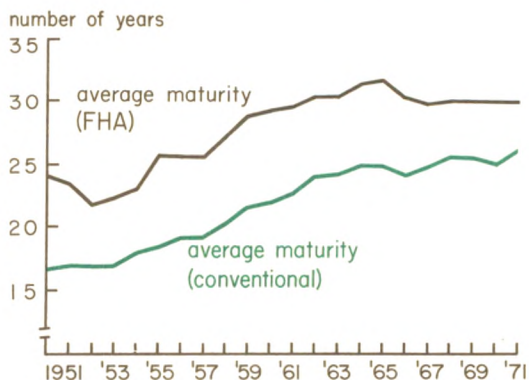
By far the most important FHA program that does not involve government subsidies is the Section 203 program which covers one- to four-family owner-occupied housing. Almost 9 million homes, representing some 80 percent of all FHA mortgages, have been insured through this program. Virtually all Section 203 homes are single-family units. Approximately two-thirds of the mortgages insured have been on existing structures.

Insurance on a 203 loan is underwritten through a "mutual" mortgage insurance fund which pools the risks of individual lenders. The mutual fund is self-supporting, and from previously collected premiums the FHA has paid dividends to borrowers after the termination of their mortgage contract.

Downpayments on FHA mortgages are much lower . . .



. . . and average maturities are longer than on conventional mortgages



Loan terms under 203 are determined by statute. The minimum downpayment on a new home currently is 3 percent of the first \$15,000 of appraised property value, 10 percent of the value between \$15,000 and \$25,000, and 20 percent of the value over \$25,000; mortgages can carry maturities of up to 35 years; the maximum loans allowable are \$33,000 for a one-family property, \$35,750 for a two- or three-family property, and \$41,200 for a four-family property. In 1934, when the 203 program was established, the minimum downpayment was 20 percent, the maximum maturity 20 years, and the maximum loan allowable \$16,000.

Over the years, average loan terms under 203 have been more liberal than those on conventional mortgages. In 1971, downpayments averaged 8 percent of the total purchase price of an FHA home, while for a conventionally financed home the average was 26 percent. In addition, FHA loans bore original maturities of 30 years, four years longer than the average on conventional mortgages.

The typical 203 family had four members, a gross annual income of \$12,900, a \$21,000 mortgage, and a monthly mortgage payment of \$210 in 1970. The family's cash investment in the home, which includes the downpayment plus closing costs, amounted to \$2,250.

In addition to Section 203, the FHA insures mortgages under a variety of other programs that do not involve subsidies. Some of the programs cover specialized types of housing, such as condominiums and cooperatives. Others cover housing in geographical areas where the loan risk is unusually high, such as in urban renewal areas. Still others cover housing for specific groups of individuals, such as the elderly, the handicapped, or servicemen. Many of the programs have terms which are more liberal than under the 203 program. Through 1971, loans on approximately 1.8 million units had been insured under these programs.

FHA-subsidized programs

Prior to 1961, subsidized housing in the United States was almost exclusively public housing. Under the conventional public housing program, started in 1937, local governments construct low-cost rental units using funds provided through the federal government. Today, public housing also includes a number of programs—such as the Turnkey and leasing programs—under which private groups may construct and manage projects. The number of units provided under these programs has expanded rapidly since 1968, while the number of units under conventional public housing has been declining gradually. There are now close to 1 million public housing units in the United States.

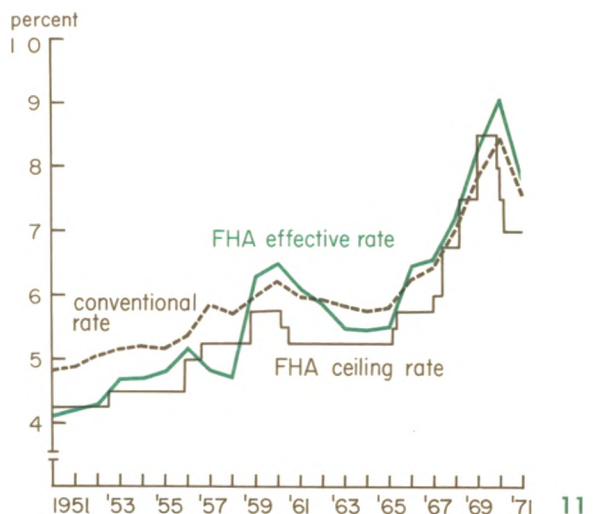
In 1961, legislation enabled the FHA to enter the subsidized housing field under

the Below Market Interest Rate program (BMIR). The BMIR program, which allows private developers to obtain subsidized insured mortgage loans, operates by insuring loans made directly by the federal government to builders at less than market rates of interest. Like public housing, the program is restricted to rental units.

During construction of a BMIR project, the mortgagor pays a market rate of interest on his loan. Once construction is completed, however, and the units are occupied, the interest rate is reduced to 3 percent.

The availability of a 3 percent loan permits the landlord to charge rents which are \$30 to \$40 per unit below the levels that would have been required had the units been financed at the market rate. Annual income limits for admission to a BMIR project are several thousand dollars higher than the income limits for public housing, which currently average between \$4,000 and

Mortgage rates have declined from record highs of 1970



\$5,000 for a family of four. Approximately 200,000 units have been constructed under the BMIR program.

In 1965, another FHA subsidy technique, rent supplements, was introduced. Under the rent supplement program, tenants are required to pay 25 percent of their income toward rent. The difference between this amount and the "fair market" rental value of the apartment is paid to the landlord by the FHA as a rent supplement. Should the family's income rise to a point where this difference is zero, the family loses the subsidy but may continue to live in the unit. Under public housing regulations, the family is supposed to move out if its income rises above maximum permissible levels.

Mortgages on rent supplement projects are insured through unsubsidized FHA programs since the subsidy is not related to the mortgagor's interest payments. Income limits for admission to the program are comparable to those for public housing. To be eligible, a prospective tenant must be elderly, handicapped, displaced by government action, or currently living in substandard housing. The typical tenant of a rent supplement unit pays \$50 per month in rent and receives a monthly government subsidy of \$85.

A significant development in FHA-subsidized housing occurred when the Housing and Urban Redevelopment Act of 1968 established two new programs for low- and moderate-income families. These programs were authorized under Sections 236 and 235 of the National Housing Act.

The 236 program—rental subsidies

Under the Section 236 program, called the rental subsidy program, tenants pay 25 percent of their "adjusted" income towards rent. "Adjusted" income is defined as gross

annual family income, less a 5 percent deduction for various withholdings, less any earnings of children, and less a \$300 deduction per child. The FHA pays a subsidy, amounting to the difference between the tenant's payment and the "fair market" rent for the unit, to the mortgage lender in the form of an interest payment. The maximum subsidy permitted on an entire project is limited to an amount which reduces the mortgagor's interest rate to 1 percent. To qualify for the interest subsidy, the landlord must agree to reduce rents below "fair market" levels. Program regulations stipulate that rental payments to the landlord in excess of an amount that would be charged under a 1 percent mortgage must be returned to the Secretary of Housing and Urban Development.

Income limits for admission to a 236 project range up to 135 percent of the income limits for public housing. The typical 236 family had three members, a gross annual income of \$5,300, and a \$115 monthly rental payment in 1970. The average per-unit subsidy, paid to the mortgagee by the federal government, was \$75 a month. Every two years the family's income must be reexamined for the purpose of adjusting the rental and subsidy payments. Up to 20 percent of the units in a 236 project can be occupied by tenants receiving rent supplement payments. Eventually, the 236 program is expected to replace the BMIR program. In fact, since mid-1970, no new BMIR projects have been approved.

The 235 program—home subsidies

The Section 235 program, called the homeowner assistance program, is the first major subsidized ownership program in the United States. Covering new and existing one- and two-family houses, the homeowner

Characteristics of three FHA programs in 1970

Characteristic	Program		
	203 Unsubsidized ownership	235 subsidized ownership	236 subsidized rental
Structure eligible	one- to four-family	one- and two-family	five or more units
Mortgages insured	300,000	105,000	100,000
new construction	56,000	78,000	93,000
existing structures	244,000	27,000	7,000
Average mortgage (new construction)	\$21,300	\$16,745	\$16,400 ^a
Average mortgagor investment ^b	\$ 2,250	\$ 125	n.a.
Average length of mortgage	30 years	35 years	n.a.
Median monthly gross family income	\$ 1,080	\$ 500	\$ 440
Average monthly payment by tenant	\$ 210	\$ 90	\$ 115
Average monthly subsidy	—	\$ 75	\$ 75

n.a.—Not available.

^aPer unit.

^bIncludes required downpayment plus closing costs.

makes a mortgage payment equal to 20 percent of his family's "adjusted" income. The maximum subsidy payment by the federal government is equal to an amount that would reduce the rate of interest on the homeowner's mortgage to 1 percent. Mortgages are limited to \$21,000 for a four-person household. The "downpayment," including closing costs, averaged only \$125 per family in 1970. As in the rental assistance program, the subsidy payment is made to the mortgage lender, and income limits for eligibility range up to 135 percent of the income limits for public housing.

The typical 235 family had four members, a gross annual income of \$6,000, and a mortgage of \$17,000 in 1970. The mortgage

lender received a \$90 monthly payment from the family and a \$75 monthly subsidy from the federal government. Owners' incomes must be reexamined every two years for the purpose of making adjustments in the assistance payments.

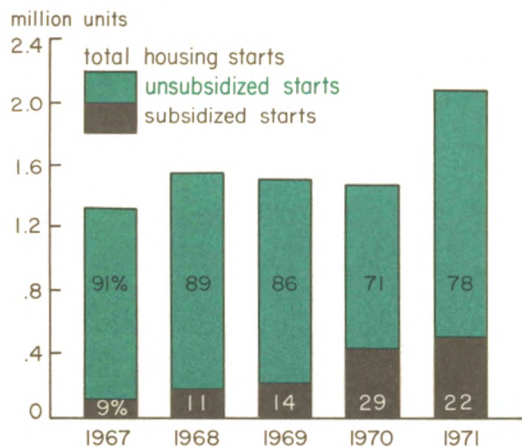
Subsidized housing grows

In 1968, units provided by FHA subsidized programs accounted for approximately one-third of total new subsidized housing. The remaining two-thirds came under various other programs, primarily public housing and programs admin-

istered by the United States Department of Agriculture. Almost all the FHA housing was provided under the BMIR and rent supplement programs. The grand total for all new subsidized housing in 1968 amounted to 175,000 units, or just over 10 percent of total housing starts.

In 1971, total new subsidized housing amounted to about 450,000 units, or about 22 percent of total housing starts. FHA-subsidized programs accounted for roughly three-fifths of all new subsidized housing, and virtually all the FHA-subsidized units were provided under the 235 and 236 programs. From only a few units in 1968, almost 260,000 new units were provided by the 235 and 236 programs in 1971.

More than one-fifth of last year's record-level housing starts were subsidized



Note: Figures in bars represent percent.

Despite the rapid expansion of FHA subsidy programs, some serious problems have arisen in their implementation. First, substandard units have been constructed as the result of questionable practices of contractors and appraisers. Second, widespread resistance in many areas to site selection procedures has led to conflicts between residents and the builders proposing the construction of FHA-subsidized housing. Finally, it is maintained that the programs have disproportionately benefited moderate-income families at the expense of low-income families.

Housing analysts have projected that as many as 600,000 subsidized units may be constructed for the year 1972. However, the Secretary of Housing and Urban Development has recently indicated that fewer units would be approved, perhaps only 350,000, unless the abuses are corrected.

Pending legislation

The administration of FHA insurance has become increasingly complex in recent years, particularly since the advent of the subsidy programs. To alleviate this problem, the Senate recently passed the proposed Housing and Urban Development Act of 1972, a bill that would simplify and consolidate FHA programs. Under the proposed act, there would be four basic programs. Two would involve mortgage insurance only, and two would involve government subsidies in addition to mortgage insurance.

Besides the four basic programs, there would be a number of specialized programs, including ones for health care facilities and for mortgages designated as "special risks." The "mutual" mortgage insurance fund, currently associated with the 203 program, would be eliminated, and all FHA insurance premiums, except for those in the "special risk" category, would be placed in a general insurance fund. In addition, the proposed legislation would permit FHA rates to vary among programs and would set up an experimental dual interest rate structure—one a fixed rate with discounts allowed and the other a floating rate without discounts.

Conclusion

Although established to operate a mortgage insurance program without government subsidies, the Federal Housing Administration in recent years has become increasingly involved in subsidized housing. Moreover, an increase in the number of private companies insuring mortgage loans and the establishment of a "secondary market" for conventional mortgages have combined to reduce lender risks normally associated with conventional mortgages. Conventional loans also have been encouraged by recent changes in regulations which permit savings and loan

associations to make low downpayment conventional loans.

Recognizing the changing role of mortgage insurance programs, the Department of Housing and Urban Development has been reorganized to combine all housing subsidy operations of the department, including public housing, with those of mortgage insurance. Mortgage insurance pro-

grams are now officially referred to as HUD-FHA programs.

Subsidized housing played a decisive role in making 1971 a record year for construction. It seems certain that subsidized housing will be a permanent, and probably growing, factor in the nation's attempt to provide adequate housing for its growing population in the years ahead.

Agricultural Letter

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